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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 19, 2018
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: 001-36197

DEL TACO RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

46-3340980
(I.R.S. Employer
Identification Number)

25521 Commercentre Drive
Lake Forest, California
(Address of principal executive offices)

92630
(Zip Code)

(949) 462-9300
(Registrant's telephone number, including area code)

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

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

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

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

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

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 July 25, 2018 , there were 38,299,842 shares of the registrant's common stock issued and outstanding.

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Del Taco Restaurants, Inc.

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Del Taco Restaurants, Inc.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	June 19, 2018	January 2, 2018
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,146	\$ 6,559
Accounts and other receivables, net	3,269	3,828
Inventories	2,710	2,712
Prepaid expenses and other current assets	2,667	6,784
Total current assets	21,792	19,883
Property and equipment, net	161,883	156,124
Goodwill	320,638	320,638
Trademarks	220,300	220,300
Intangible assets, net	20,006	21,498
Other assets, net	4,498	3,881
Total assets	\$ 749,117	\$ 742,324
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 17,608	\$ 18,759
Other accrued liabilities	37,319	35,257
Current portion of capital lease obligations and deemed landlord financing liabilities	1,194	1,415
Total current liabilities	56,121	55,431
Long-term debt, capital lease obligations and deemed landlord financing liabilities, excluding current portion, net	170,324	170,639
Deferred income taxes	68,896	68,574
Other non-current liabilities	32,604	31,431
Total liabilities	327,945	326,075
Commitments and contingencies (<i>Note 13</i>)		
Shareholders' equity:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.0001 par value; 400,000,000 shares authorized; 38,091,165 shares issued and outstanding at June 19, 2018; 38,434,274 shares issued and outstanding at January 2, 2018	4	4
Additional paid-in capital	347,220	349,334
Accumulated other comprehensive income	319	14
Retained earnings	73,629	66,897
Total shareholders' equity	421,172	416,249
Total liabilities and shareholders' equity	\$ 749,117	\$ 742,324

See accompanying notes to consolidated financial statements.

Del Taco Restaurants, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands, except share and per share data)

	12 Weeks Ended		24 Weeks Ended	
	June 19, 2018	June 20, 2017	June 19, 2018	June 20, 2017
Revenue:				
Company restaurant sales	\$ 109,800	\$ 104,022	\$ 214,909	\$ 205,244
Franchise revenue	4,149	3,903	7,941	7,516
Franchise advertising contributions	3,136	—	6,072	—
Franchise sublease income	728	656	1,445	1,166
Total revenue	117,813	108,581	230,367	213,926
Operating expenses:				
Restaurant operating expenses:				
Food and paper costs	30,082	28,770	59,055	56,688
Labor and related expenses	35,422	33,185	70,240	66,406
Occupancy and other operating expenses	22,627	20,918	44,613	41,636
General and administrative	10,321	9,055	20,750	18,360
Franchise advertising expenses	3,136	—	6,072	—
Depreciation and amortization	5,847	5,278	11,761	10,381
Occupancy and other - franchise subleases	651	602	1,289	1,083
Pre-opening costs	199	151	641	177
Impairment of long-lived assets	1,661	—	1,661	—
Restaurant closure charges, net	(24)	6	(37)	15
Loss on disposal of assets, net	87	340	180	291
Total operating expenses	110,009	98,305	216,225	195,037
Income from operations	7,804	10,276	14,142	18,889
Other expense				
Interest expense	2,012	1,627	3,922	3,170
Total other expense	2,012	1,627	3,922	3,170
Income from operations before provision for income taxes	5,792	8,649	10,220	15,719
Provision for income taxes	1,582	3,319	2,781	6,151
Net income	4,210	5,330	7,439	9,568
Other comprehensive income (loss):				
Change in fair value of interest rate cap, net of tax	115	(148)	289	(236)
Reclassification of interest rate cap amortization included in net income	10	—	16	—
Total other comprehensive income (loss)	125	(148)	305	(236)
Comprehensive income	\$ 4,335	\$ 5,182	\$ 7,744	\$ 9,332
Earnings per share:				
Basic	\$ 0.11	\$ 0.14	\$ 0.19	\$ 0.25
Diluted	\$ 0.11	\$ 0.13	\$ 0.19	\$ 0.24
Weighted-average shares outstanding				
Basic	38,299,483	38,535,855	38,370,595	38,769,895
Diluted	38,643,873	39,808,485	38,938,106	40,094,476

See accompanying notes to consolidated financial statements.

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Del Taco Restaurants, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	24 Weeks Ended	
	June 19, 2018	June 20, 2017
Operating activities		
Net income	\$ 7,439	\$ 9,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,761	10,381
Amortization of favorable and unfavorable lease assets and liabilities, net	(250)	(292)
Amortization of deferred financing costs and debt discount	194	178
Stock-based compensation	2,634	2,149
Impairment of long-lived assets	1,661	—
Deferred income taxes	471	792
Loss on disposal of assets, net	180	291
Restaurant closure charges	65	85
Changes in operating assets and liabilities:		
Accounts and other receivables, net	1,272	1,023
Inventories	2	133
Prepaid expenses and other current assets	4,117	1,075
Other assets	(41)	(60)
Accounts payable	(2,867)	35
Other accrued liabilities	1,890	(304)
Other non-current liabilities	1,195	(240)
Net cash provided by operating activities	29,723	24,814
Investing activities		
Purchases of property and equipment	(17,504)	(14,814)
Proceeds from disposal of property and equipment, net	573	7,733
Purchases of other assets	(743)	(470)
Proceeds from sale of company-operated restaurants	—	2,192
Net cash used in investing activities	(17,674)	(5,359)
Financing activities		
Repurchase of common stock and warrants	(4,791)	(9,517)
Payment of tax withholding related to restricted stock vesting	(79)	(59)
Payments on capital leases and deemed landlord financing	(714)	(759)
Proceeds from revolving credit facility	5,000	6,000
Payments on revolving credit facility	(5,000)	(19,000)
Proceeds from exercise of stock options	122	10
Net cash used in financing activities	(5,462)	(23,325)
Increase (decrease) in cash and cash equivalents	6,587	(3,870)
Cash and cash equivalents at beginning of period	6,559	8,795
Cash and cash equivalents at end of period	\$ 13,146	\$ 4,925
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 3,412	\$ 2,688
Cash paid during the period for income taxes	666	4,733
Supplemental schedule of non-cash activities:		
Accrued property and equipment purchases	\$ 1,833	\$ 4,114
Write-offs of accounts receivables	6	—
Amortization of interest rate cap into net income, net of tax	16	—
Change in other asset for fair value of interest rate cap recorded to other comprehensive income (loss), net of tax	289	(236)

See accompanying notes to consolidated financial statements

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Description of Business

Del Taco Restaurants, Inc. is a Delaware corporation headquartered in Lake Forest, California. The consolidated financial statements include the accounts of Del Taco Restaurants, Inc. and its wholly owned subsidiaries (collectively, the “Company” or “Del Taco”). The Company develops, franchises, owns, and operates Del Taco quick-service Mexican-American restaurants. At June 19, 2018, there were 315 company-operated and 251 franchise-operated Del Taco restaurants located in 14 states, including one franchise-operated unit in Guam. At June 20, 2017, there were 304 company-operated and 251 franchise-operated Del Taco restaurants located in 15 states, including one franchise-operated unit in Guam.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”). For additional information, these unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 2, 2018 (“2017 Form 10-K”).

The Company’s fiscal year ends on the Tuesday closest to December 31. Fiscal year 2018 is a fifty-two week period ending January 1, 2019. Fiscal year 2017 is the fifty-two week period ended January 2, 2018. In a fifty-two week fiscal year, the first, second and third quarters each include twelve weeks of operations and the fourth quarter includes sixteen weeks of operations. For fiscal year 2018, the Company’s accompanying financial statements reflect the twelve weeks ended June 19, 2018. For fiscal year 2017, the Company’s accompanying financial statements reflect the twelve weeks ended June 20, 2017.

Effective January 3, 2018 (the first day of fiscal year 2018), the Company adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as discussed below in Note 2, using the modified retrospective method of transition. Current year results have been prepared in accordance with the new standards.

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments which are necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. The results of operations for such interim periods are not necessarily indicative of results of operations to be expected for the full fiscal year.

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that such estimates have been based on reasonable and supportable assumptions and the resulting estimates are reasonable for use in the preparation of the consolidated financial statements. Actual results could differ from these estimates. The Company’s significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, valuations provided in business combinations, insurance reserves, restaurant closure reserves, stock-based compensation, contingent liabilities, certain leasing activities and income tax valuation allowances.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance will result in key changes to lease accounting and will aim to bring leases onto balance sheets to give investors, lenders, and other financial statement users a more comprehensive view of a company's long-term financial obligations as well as the assets it owns versus leases. The new leasing standard will be effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The new guidance requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with certain practical expedients available. The Company is in the process of implementing changes to its systems and processes in conjunction with its review of existing lease agreements. The cumulative effect of adoption will be recorded to retained earnings in the period of adoption. Based on a preliminary assessment, the Company expects that substantially all of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a material increase in the assets and liabilities on the Company's consolidated balance sheets. The Company is continuing its evaluation, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures. The Company will adopt ASU No. 2016-02 during the first quarter of fiscal 2019.

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customers. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU No. 2014-09, also known as FASB Accounting Standards Codification ("ASC") Topic 606 ("Topic 606") supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition ("Topic 605"). On January 3, 2018 (the first day of fiscal year 2018), the Company adopted the requirements of Topic 606, utilizing the modified retrospective method of transition. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, as detailed below. Topic 606 does not materially impact the recognition of company restaurant sales or franchise royalty income from franchisees included in franchise revenue. Franchise sublease income is not within the scope of this new guidance.

Franchise Fees

The adoption of Topic 606 changed the timing of the recognition of initial franchise fees, including franchise and development fees, and renewal fees, both included in franchise revenue in the consolidated statements of comprehensive income. Under Topic 605, initial franchise fees were recognized when all material obligations had been performed and conditions had been satisfied, typically when operations of a new franchise restaurant had commenced, and renewal fees were recognized when a renewal agreement became effective. Topic 606 requires franchise and renewal fees to be deferred and recognized over the term of the related franchise agreement for the respective restaurant. Franchise agreements typically have a term of 20 years. The impact of the deferral of initial franchise and renewal fees received in a given year may be offset by the recognition of revenue from fees retrospectively deferred from prior years. Upon adoption, the Company recorded approximately \$0.7 million as a cumulative effect adjustment to opening retained earnings comprised of \$1.0 million of deferred franchise fees included in other non-current liabilities on the consolidated balance sheet as of January 3, 2018 (the first day of fiscal year 2018) related to franchise and renewal fees previously recognized since the business combination with Levy Acquisition Corp. on June 30, 2015, partially offset by an adjustment of \$0.3 million to deferred taxes related to the \$1.0 million of deferred franchise fees.

During the twelve and twenty-four weeks ended June 19, 2018, the Company recognized approximately \$15,000 and \$28,000, respectively, in franchise revenue related to the amortization of the deferred franchise fees recognized at January 2, 2018 as a result of the adoption of Topic 606.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Deferred franchise fees are recognized straight-line over the term of the underlying agreement and the amount expected to be recognized in franchise revenue for amounts in deferred franchise fees as of June 19, 2018 is as follows (in thousands):

FY 2018	\$	35
FY 2019		65
FY 2020		65
FY 2021		63
FY 2022		64
Thereafter		775
Total Deferred Franchise Fees	\$	<u>1,067</u>

Advertising

The adoption of the new guidance changed the reporting of advertising contributions from franchisees and the related advertising expenses, which were not previously included in the consolidated statements of comprehensive income. Topic 606 requires these franchise advertising contributions and expenses to be reported on a gross basis in the consolidated statements of comprehensive income, which impacted our total revenues and expenses. However, the franchise advertising contributions and expenses are expected to be largely offsetting and therefore does not have a significant impact on reported net income. The current year impact to revenue for franchise advertising contributions and to expenses for franchise advertising expenses for the twelve and twenty-four weeks ended June 19, 2018 was an increase of \$3.1 million and \$6.1 million, respectively, for both revenue and expenses as a result of applying Topic 606.

Other Revenue Transactions

Certain other franchise expenses have previously been recorded net of the related fees received from franchisees. Under Topic 606, the Company is now including these revenues and expenditures on a gross basis within the consolidated statements of comprehensive income. While this change materially impacted the gross amount of reported franchise revenue and related expenses on the consolidated statements of comprehensive income, the impact is an offsetting increase to both revenue and expense such that there is not a significant, if any, impact on operating income and net income. The current year impact to revenues for the twelve and twenty-four weeks ended June 19, 2018 was an increase of approximately \$0.2 million and \$0.3 million, respectively, as a result of applying Topic 606, with an offsetting increase in expenses.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Comparison to Amounts if Previous Standards Had Been in Effect

The following tables reflect the impact of the adoption of Topic 606 on the Company's consolidated balance sheet as of June 19, 2018 and on the Company's consolidated statements of comprehensive income and cash flows from operating activities for the twenty-four weeks ended June 19, 2018 and the amounts as if Topic 605 was in effect ("Amounts Under Previous Standards") (in thousands):

	June 19, 2018		
	As Reported	Adjustments for Prior Revenue Recognition Standards	Amounts Under Previous Standards
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	\$ 17,608	\$ —	\$ 17,608
Other accrued liabilities	37,319	—	37,319
Current portion of capital lease obligations and deemed landlord financing liabilities	1,194	—	1,194
Total current liabilities	56,121	—	56,121
Long-term debt, capital lease obligations and deemed landlord financing liabilities, excluding current portion, net	170,324	—	170,324
Deferred income taxes	68,896	289	69,185
Other non-current liabilities	32,604	(1,067)	31,537
Total liabilities	327,945	(778)	327,167
Shareholders' equity:			
Preferred stock	—	—	—
Common stock	4	—	4
Additional paid-in capital	347,220	—	347,220
Accumulated other comprehensive income	319	—	319
Retained earnings	73,629	778	74,407
Total shareholders' equity	421,172	778	421,950
Total liabilities and shareholders' equity	\$ 749,117	\$ —	\$ 749,117

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

	12 Weeks Ended June 19, 2018			24 Weeks Ended June 19, 2018		
	As Reported	Adjustments for Prior Revenue Recognition Standards	Amounts Under Previous Standards	As Reported	Adjustments for Prior Revenue Recognition Standards	Amounts Under Previous Standards
Revenue:						
Company restaurant sales	\$ 109,800	\$ —	\$ 109,800	\$ 214,909	\$ —	\$ 214,909
Franchise revenue	4,149	(86)	4,063	7,941	(247)	7,694
Franchise advertising contributions	3,136	(3,136)	—	6,072	(6,072)	—
Franchise sublease income	728	—	728	1,445	—	1,445
Total revenue	117,813	(3,222)	114,591	230,367	(6,319)	224,048
Operating expenses:						
Restaurant operating expenses:						
Food and paper costs	30,082	—	30,082	59,055	—	59,055
Labor and related expenses	35,422	—	35,422	70,240	—	70,240
Occupancy and other operating expenses	22,627	—	22,627	44,613	—	44,613
General and administrative	10,321	(191)	10,130	20,750	(344)	20,406
Franchise advertising expenses	3,136	(3,136)	—	6,072	(6,072)	—
Depreciation and amortization	5,847	—	5,847	11,761	—	11,761
Occupancy and other - franchise subleases	651	—	651	1,289	—	1,289
Pre-opening costs	199	—	199	641	—	641
Impairment of long-lived assets	1,661	—	1,661	1,661	—	1,661
Restaurant closure charges, net	(24)	—	(24)	(37)	—	(37)
Loss on disposal of assets, net	87	—	87	180	—	180
Total operating expenses	110,009	(3,327)	106,682	216,225	(6,416)	209,809
Income from operations	7,804	105	7,909	14,142	97	14,239
Other expense						
Interest expense	2,012	—	2,012	3,922	—	3,922
Total other expense	2,012	—	2,012	3,922	—	3,922
Income from operations before provision for income taxes	5,792	105	5,897	10,220	97	10,317
Provision for income taxes	1,582	29	1,611	2,781	26	2,807
Net income	4,210	76	4,286	7,439	71	7,510
Other comprehensive income:						
Change in fair value of interest rate cap, net of tax	115	—	115	289	—	289
Reclassification of interest rate cap amortization included in net income	10	—	10	16	—	16
Total other comprehensive income	125	—	125	305	—	305
Comprehensive income	\$ 4,335	\$ 76	\$ 4,411	\$ 7,744	\$ 71	\$ 7,815
Earnings per share:						
Basic	\$ 0.11	\$ —	\$ 0.11	\$ 0.19	\$ —	\$ 0.19
Diluted	\$ 0.11	\$ —	\$ 0.11	\$ 0.19	\$ —	\$ 0.19

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

	24 Weeks Ended June 19, 2018		
	As Reported	Adjustments for Prior Revenue Recognition Standards	Amounts Under Previous Standards
Operating activities			
Net income	\$ 7,439	\$ 71	\$ 7,510
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,761	—	11,761
Amortization of favorable and unfavorable lease assets and liabilities, net	(250)	—	(250)
Amortization of deferred financing costs and debt discount	194	—	194
Stock-based compensation	2,634	—	2,634
Impairment of long-lived assets	1,661	—	1,661
Deferred income taxes	471	26	497
Loss on disposal of assets, net	180	—	180
Restaurant closure charges	65	—	65
Changes in operating assets and liabilities:			
Accounts and other receivables, net	1,272	—	1,272
Inventories	2	—	2
Prepaid expenses and other current assets	4,117	—	4,117
Other assets	(41)	—	(41)
Accounts payable	(2,867)	—	(2,867)
Other accrued liabilities	1,890	—	1,890
Other non-current liabilities	1,195	(97)	1,098
Net cash provided by operating activities	\$ 29,723	\$ —	\$ 29,723

Summary of Significant Accounting Policies

Except for the accounting policies for revenue recognition discussed below that were updated as a result of adopting ASU No. 2014-09, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended January 2, 2018, filed with the SEC on March 15, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

Revenue Recognition

Company restaurant sales from the operation of company-operated restaurants are recognized when food and service is delivered to customers. Franchise revenue is comprised of (i) development fees, (ii) franchise fees, (iii) on-going royalties, (iv) renewal fees and (v) other franchise revenue. Development and franchise fees, portions of which are collected in advance and are non-refundable, received pursuant to individual development agreements, grant the right to develop franchise-operated restaurants in future periods in specific geographic areas. Both development fees and franchise fees are deferred and recognized as revenue over the term of the franchise agreement and renewal fees are deferred and recognized over the term of the renewal agreement. Development fees and franchise fees are also generally recognized as revenue upon the termination of the development agreement with the franchisee. Royalties from franchise-operated restaurants are based on a percentage of franchise restaurant sales and are recognized in the period the related franchise-operated restaurant sales occur. The Company reports revenue net of sales taxes collected from customers and remitted to governmental taxing authorities. Franchise sublease income is comprised of rental income associated with properties leased or subleased to franchisees and is recognized as revenue on an accrual basis.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Advertising Costs

Franchisees pay a monthly fee to the Company typically equal to 4% of their restaurants' net sales as contributions for advertising and promotional services that the Company provides and are included in revenue in franchise advertising contributions on the consolidated statements of comprehensive income. Company-operated restaurants contribute to the advertising fund on the same basis as franchise-operated restaurants.

Production costs for radio and television advertising are expensed when the commercials are initially aired. Costs of distribution of advertising are charged to expense on the date the advertising is aired or distributed. The portion of these costs related to company-operated restaurants, as well as other marketing-related expenses for advertising are included in occupancy and other operating expenses in the consolidated statements of comprehensive income. The portion of these costs related to franchise-operated restaurants for advertising are included in franchise advertising expenses on the consolidated statements of comprehensive income.

3. Impairment of Long-Lived Assets and Restaurant Closure Charges***Impairment of Long-Lived Assets***

The company evaluates long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company considers a triggering event to have occurred related to a specific restaurant if the restaurant's cash flows are less than a minimum threshold or if consistent levels of undiscounted cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. During the twenty-four weeks ended June 19, 2018, the Company evaluated certain restaurants having indicators of impairment based on operating performance and recorded an impairment charge totaling \$1.7 million related to two restaurants. The Company wrote-off the value of leasehold improvements and other equipment based on the estimate of future recoverable cash flows. No such impairment charges were recorded during the twenty-four weeks ended June 20, 2017.

Restaurant Closure Charges, Net

At June 19, 2018 and January 2, 2018, the restaurant closure liability is \$2.3 million and \$2.8 million, respectively. The details of the restaurant closure activities are discussed below.

Restaurant Closures and Lease Reserves

The following table represents other restaurant closure liability activity related to restaurant closures prior to 2015 and sublease income shortfalls (in thousands):

	Total
Balance at January 2, 2018	\$ 1,213
Charges for accretion in current period	33
Cash payments	(370)
Balance at June 19, 2018	\$ 876

The current portion of the restaurant closure liability is \$0.2 million at June 19, 2018 and \$0.5 million at January 2, 2018, respectively, and is included in other accrued liabilities in the consolidated balance sheets. The non-current portion of the restaurant closure liability is \$0.7 million at both June 19, 2018 and January 2, 2018 and is included in other non-current liabilities in the consolidated balance sheets.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Restaurant Closure and Other Related Charges for 12 Underperforming Restaurants

During the fourth fiscal quarter of 2015, the Company closed 12 company-operated restaurants. During the twenty-four weeks ended June 19, 2018, the Company recorded accretion expense related to the closures, offset by \$0.1 million of sublease income from leases which are treated as deemed landlord financing. A summary of the restaurant closure liability activity, all of which relates to contract termination costs, for these 12 closed restaurants consisted of the following (in thousands):

	Total
Balance at January 2, 2018	\$ 1,611
Charges for accretion in current period	32
Cash payments	(168)
Balance at June 19, 2018	<u>\$ 1,475</u>

The current portion of the restaurant closure liability is \$0.2 million at June 19, 2018 and \$0.3 million at January 2, 2018, respectively, and is included in other accrued liabilities in the consolidated balance sheets. The non-current portion of the restaurant closure liability is \$1.2 million and \$1.3 million at June 19, 2018 and January 2, 2018, respectively, and is included in other non-current liabilities in the consolidated balance sheets.

4. Goodwill and other Intangible Assets

Goodwill was \$320.6 million at both June 19, 2018 and January 2, 2018.

There have been no changes in the carrying amount of trademarks since January 2, 2018.

The Company's other intangible assets at June 19, 2018 and January 2, 2018 consisted of the following (in thousands):

	June 19, 2018			January 2, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Favorable lease assets	\$ 13,677	\$ (5,181)	\$ 8,496	\$ 13,744	\$ (4,442)	\$ 9,302
Franchise rights	15,203	(3,867)	11,336	15,284	(3,282)	12,002
Reacquired franchise rights	243	(69)	174	243	(49)	194
Total amortized other intangible assets	<u>\$ 29,123</u>	<u>\$ (9,117)</u>	<u>\$ 20,006</u>	<u>\$ 29,271</u>	<u>\$ (7,773)</u>	<u>\$ 21,498</u>

During the twenty-four weeks ended June 19, 2018, the Company wrote-off \$0.1 million of favorable lease assets related to the termination of two leases and \$0.1 million of franchise rights associated with the closure of one franchise-operated restaurant.

5. Debt, Obligations Under Capital Leases and Deemed Landlord Financing Liabilities

The Company's long-term debt, capital lease obligations and deemed landlord financing liabilities at June 19, 2018 and January 2, 2018 consisted of the following (in thousands):

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

	June 19, 2018	January 2, 2018
2015 Senior Credit Facility, net of debt discount of \$614 and \$747 and deferred financing costs of \$207 and \$252 at June 19, 2018 and January 2, 2018, respectively	\$ 152,179	\$ 152,001
Total outstanding indebtedness	152,179	152,001
Obligations under capital leases and deemed landlord financing liabilities	19,339	20,053
Total debt	171,518	172,054
Less: amounts due within one year	1,194	1,415
Total amounts due after one year, net	\$ 170,324	\$ 170,639

At June 19, 2018 and January 2, 2018, the Company assessed the amounts recorded under the 2015 Senior Credit Facility and determined that such amounts approximated fair value.

2015 Revolving Credit Facility

On August 4, 2015, the Company refinanced its existing senior credit facility and entered into a new credit agreement (the "Credit Agreement"). The Credit Agreement, which matures on August 4, 2020, provides for a \$250 million revolving credit facility (the "2015 Senior Credit Facility").

The Credit Agreement contains certain financial covenants, including the maintenance of a consolidated total lease adjusted leverage ratio and a consolidated fixed charge coverage ratio. The Company was in compliance with the financial covenants as of June 19, 2018. Substantially all of the assets of the Company are pledged as collateral under the 2015 Senior Credit Facility.

At June 19, 2018, the weighted-average interest rate on the outstanding balance of the 2015 Senior Credit Facility was 3.7%. At June 19, 2018, the Company had a total of \$79.1 million of availability for additional borrowings under the 2015 Senior Credit Facility as the Company had \$153.0 million of outstanding borrowings and letters of credit outstanding of \$17.9 million which reduce availability under the 2015 Senior Credit Facility.

6. Derivative Instruments

In June 2016, the Company entered into an interest rate cap agreement that became effective July 1, 2016, to hedge cash flows associated with interest rate fluctuations on variable rate debt, with a termination date of March 31, 2020 ("2016 Interest Rate Cap Agreement"). The 2016 Interest Rate Cap Agreement had an initial notional amount of \$70.0 million of the 2015 Senior Credit Facility that effectively converted that portion of the outstanding balance of the 2015 Senior Credit Facility from variable rate debt to capped variable rate debt, resulting in a change in the applicable interest rate from an interest rate of one-month LIBOR plus the applicable margin (as provided by the 2015 Senior Credit Facility) to a capped interest rate of 2.00% plus the applicable margin. During the period from July 1, 2016 through June 19, 2018, the 2016 Interest Rate Cap Agreement had no hedge ineffectiveness.

2016 Interest Rate Cap Agreement

To ensure the effectiveness of the 2016 Interest Rate Cap Agreement, the Company elected the one-month LIBOR rate option for its variable rate interest payments on term balances equal to or in excess of the applicable notional amount of the interest rate cap agreement as of each reset date. The reset dates and other critical terms on the term loans perfectly match with the interest rate cap reset dates and other critical terms during the twelve weeks ended June 19, 2018.

During the twelve weeks and twenty-four weeks ended June 19, 2018, the Company reclassified approximately \$10,000 and \$16,000, respectively, of interest expense related to the hedges of these transactions into earnings. As of June 19, 2018, the Company was hedging forecasted transactions expected to occur through March 31, 2020. Assuming interest rates at June 19, 2018 remain constant, \$0.3 million of interest expense related to hedges of these transactions is expected to be reclassified into earnings over the next 21 months. The Company intends to ensure that this hedge remains effective, therefore, approximately \$0.1 million is expected to be reclassified into interest expense over the next 12 months.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The effective portion of the 2016 Interest Rate Cap Agreement through June 19, 2018 was included in accumulated other comprehensive income.

7. Fair Value Measurements

The fair values of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximate their carrying amounts due to their short maturities. The carrying value of the 2015 Senior Credit Facility approximated fair value. The 2016 Interest Rate Cap Agreement is recorded at fair value in the Company's consolidated balance sheets.

As of June 19, 2018 and January 2, 2018, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. For both periods, this included a derivative instrument related to interest rates. The Company determined the fair value of the interest rate cap contract based on counterparty quotes, with appropriate adjustments for any significant impact of nonperformance risk of the parties to the interest rate cap contract. Therefore, the Company categorized this interest rate cap contract as Level 2 fair value measurements. The fair value of the 2016 Interest Rate Cap Agreement was \$0.7 million and \$0.3 million at June 19, 2018 and January 2, 2018, respectively, and is included in other assets in the consolidated balance sheets.

The Company's assets and liabilities measured at fair value on a recurring basis as of June 19, 2018 and January 2, 2018 were as follows (in thousands):

	June 19, 2018 (Unaudited)	Markets for Identical Assets		
		(Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2016 Interest Rate Cap Agreement	\$ 734	\$ —	\$ 734	\$ —
Total assets measured at fair value	\$ 734	\$ —	\$ 734	\$ —

	January 2, 2018	Markets for Identical Assets		
		(Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2016 Interest Rate Cap Agreement	\$ 332	\$ —	\$ 332	\$ —
Total assets measured at fair value	\$ 332	\$ —	\$ 332	\$ —

8. Other Accrued Liabilities and Other Non-current Liabilities

A summary of other accrued liabilities follows (in thousands):

	June 19, 2018	January 2, 2018
Employee compensation and related items	\$ 11,766	\$ 12,945
Accrued insurance	6,573	7,232
Accrued sales tax	5,669	3,987
Accrued advertising	2,743	728
Accrued real property tax	1,375	1,331
Restaurant closure liability	422	794
Other	8,771	8,240
	\$ 37,319	\$ 35,257

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A summary of other non-current liabilities follows (in thousands):

	June 19, 2018	January 2, 2018
Unfavorable lease liabilities	\$ 13,413	\$ 14,469
Insurance reserves	7,164	5,965
Deferred rent liability	3,400	2,972
Deferred development and initial franchise fees	2,684	1,335
Restaurant closure liability	1,929	2,030
Unearned trade discount, non-current	961	1,149
Deferred gift card income	721	1,234
Other	2,332	2,277
	<u>\$ 32,604</u>	<u>\$ 31,431</u>

9. Stock-Based Compensation

In connection with the approval of the Business Combination, the Del Taco Restaurants, Inc. 2015 Omnibus Incentive Plan (the “2015 Plan”) was approved by shareholders to offer eligible employees, directors and consultants cash and stock-based incentive awards. Awards under the 2015 Plan are generally not restricted to any specific form or structure and could include, without limitation, stock options, stock appreciation rights, restricted stock, other stock-based awards, other cash-based compensation and performance awards. Under the plan, there were 3,300,000 shares of common stock reserved and authorized. At June 19, 2018, there were 1,320,345 shares of common stock available for grant under the 2015 Plan.

Stock-Based Compensation Expense

The total compensation expense related to the 2015 Plan was \$1.4 million and \$1.1 million for the twelve weeks ended June 19, 2018 and June 20, 2017, respectively, and \$2.6 million and \$2.1 million for the twenty-four weeks ended June 19, 2018 and June 20, 2017, respectively.

Restricted Stock Awards

A summary of outstanding and unvested restricted stock activity as of June 19, 2018 and changes during the period from January 2, 2018 through June 19, 2018 are as follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 2, 2018	1,088,910	\$ 11.92
Granted	68,499	11.62
Vested	(58,820)	12.74
Forfeited	—	—
Nonvested at June 19, 2018	<u>1,098,589</u>	<u>\$ 11.86</u>

For both the twenty-four weeks ended June 19, 2018 and June 20, 2017, the Company made payments of \$0.1 million related to tax withholding obligations for the vesting of restricted stock awards in exchange for 6,358 and 4,686 shares withheld, respectively. As of June 19, 2018, there was \$7.3 million of unrecognized stock compensation expense, net of estimated forfeitures, related to restricted stock awards which is expected to be recognized over a weighted-average remaining period of 2.1 years. The fair value of these awards was determined based on the Company’s stock price on the grant date.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Stock Options

A summary of stock option activity as of June 19, 2018 and changes during the period from January 2, 2018 through June 19, 2018 are as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 2, 2018	417,000	\$ 11.04	5.5	\$ 641
Granted	10,000	12.70		
Exercised	(12,250)	10.00		
Forfeited/Expired	(30,500)	11.14		
Options outstanding at June 19, 2018	384,250	\$ 11.11	4.9	\$ 842
Options exercisable at June 19, 2018	105,998	\$ 10.13	4.4	\$ 316
Options exercisable and expected to vest at June 19, 2018	361,321	\$ 11.05	4.9	\$ 809

The aggregate intrinsic value in the table above is the amount by which the current market price of the Company's stock exceeds the exercise price on January 2, 2018 and June 19, 2018, respectively.

As of June 19, 2018, there was \$0.7 million of unrecognized stock compensation expense, net of estimated forfeitures, related to stock option grants which is expected to be recognized over a weighted-average remaining period of 2.2 years.

10. Shareholders' Equity

On February 26, 2016, the Company's Board of Directors authorized a share repurchase program covering up to \$25.0 million in the aggregate of the Company's common stock and warrants which was effective immediately and expires upon completion of the repurchase program, unless terminated earlier by the Board of Directors. On August 23, 2016, the Company announced that the Board of Directors increased the repurchase program by \$25.0 million, to \$50.0 million. The Board of Directors authorized an additional increase for the repurchase program effective July 23, 2018 of another \$25.0 million, to a total of \$75.0 million. Purchases under the program may be made in open market or privately negotiated transactions. During the twelve weeks ended June 19, 2018, the Company repurchased (1) 407,821 shares of common stock for an average price per share of \$11.57 for an aggregate cost of approximately \$4.7 million, including incremental direct costs to acquire the shares, and (2) 11,132 warrants for an average price per warrant of \$2.68 for an aggregate cost of approximately \$30,000, including incremental direct costs to acquire the warrants. During the twenty-four weeks ended June 19, 2018, the Company repurchased (1) 407,821 shares of common stock for an average price per share of \$11.57 for an aggregate cost of approximately \$4.7 million, including incremental direct costs to acquire the shares, and (2) 20,943 warrants for an average price per warrant of \$3.00 for an aggregate cost of approximately \$0.1 million, including incremental direct costs to acquire the warrants. The Company expects to retire the repurchased shares and therefore has accounted for them as constructively retired as of June 19, 2018. As of June 19, 2018 and July 23, 2018, there was approximately \$16.2 million and \$41.2 million, respectively, remaining under the share repurchase program. The Company has no obligations to repurchase shares or warrants under this authorization, and the timing and value of shares and warrants purchased will depend on the Company's stock price, warrant price, market conditions and other factors.

11. Earnings per Share

Basic income per share is calculated by dividing net income attributable to Del Taco's common shareholders for the period by the weighted average number of common shares outstanding for the period. In computing dilutive income per share, basic income per share is adjusted for the assumed issuance of all applicable potentially dilutive share-based awards, including warrants, restricted stock, common stock options and restricted stock units.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Below are basic and diluted net income per share for the periods indicated (amounts in thousands except share and per share data):

	12 Weeks Ended		24 Weeks Ended	
	June 19, 2018	June 20, 2017	June 19, 2018	June 20, 2017
Numerator:				
Net income	\$ 4,210	\$ 5,330	\$ 7,439	\$ 9,568
Denominator:				
Weighted-average shares outstanding - basic	38,299,483	38,535,855	38,370,595	38,769,895
Dilutive effect of unvested restricted stock	321,331	492,065	318,329	476,284
Dilutive effect of stock options	5,875	23,550	13,427	23,226
Dilutive effect of warrants	17,184	757,015	235,755	825,071
Weighted-average shares outstanding - diluted	38,643,873	39,808,485	38,938,106	40,094,476
Net income per share - basic	0.11	\$ 0.14	\$ 0.19	\$ 0.25
Net income per share - diluted	0.11	\$ 0.13	\$ 0.19	\$ 0.24
Antidilutive stock options and unvested restricted stock awards excluded from the computations	143,226	36,500	125,577	36,500

12. Income Taxes

The effective income tax rates were 27.3% and 38.4% for the twelve weeks ended June 19, 2018 and June 20, 2017, respectively. The provision for income taxes was \$1.6 million and \$3.3 million for the twelve weeks ended June 19, 2018 and June 20, 2017, respectively. The effective income tax rates were 27.2% and 39.1% for the twenty-four weeks ended June 19, 2018 and June 20, 2017, respectively. The provision for income taxes was \$2.8 million and \$6.2 million for the twenty-four weeks ended June 19, 2018 and June 20, 2017, respectively.

The income tax expense for the twelve weeks ended June 19, 2018 is driven by the estimated effective income tax rate of 27.3% which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits. The income tax expense for the twelve weeks ended June 20, 2017 is driven by the estimated effective income tax rate of 38.4% which primarily consists of statutory federal and state tax rates based on apportioned income, partially offset by federal targeted job credits.

The income tax expense for the twenty-four weeks ended June 19, 2018 is driven by the estimated effective income tax rate of 27.2% which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits. The income tax expense for the twenty-four weeks ended June 20, 2017 is driven by the estimated effective income tax rate of 39.1% which primarily consists of statutory federal and state tax rates based on apportioned income, partially offset by federal targeted job credits.

On December 22, 2017, the Tax Cuts and Jobs Act, (the "Act") was enacted, reducing the U.S. federal corporate income tax rate from 35% to 21%, among other changes, for tax years beginning after December 31, 2017.

The SEC staff issued Staff Accounting Bulletin 118, ("SAB 118") which provides guidance on accounting for the tax effects of the Act for which the accounting under ASC 740, Income Taxes ("ASC 740") is incomplete. To the extent that a company's accounting for certain income tax effects of the Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before enactment of the Act.

The Company re-measured the applicable deferred tax assets and liabilities based on the rates at which they are expected to reverse. However, the Company is still analyzing certain aspects of the Act and refining its calculations, which could potentially

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

affect the measurement of these balances or potentially give rise to new deferred tax amounts. The Company will continue to analyze additional information and guidance related to the Act as supplemental legislation, regulatory guidance, or evolving technical interpretations become available. The final impacts may differ from the recorded amounts as of June 19, 2018, and the Company will continue to refine such amounts within the measurement period provided by SAB 118. The Company expects to complete its analysis no later than the fourth quarter of 2018.

Management believes it is more likely than not that all deferred tax assets will be realized and therefore no valuation allowance as of June 19, 2018 and January 2, 2018 is required.

13. Commitments and Contingencies

The primary claims in the Company's business are workers' compensation and general liabilities. These insurance programs are self-insured or high deductible programs with excess coverage that management believes is sufficient to adequately protect the Company. In the opinion of management, adequate provision has been made for all incurred claims up to the self-insured or high deductible limits, including provision for estimated claims incurred but not reported. Because of the uncertainty of the ultimate resolution of outstanding claims, as well as the uncertainty regarding claims incurred but not reported, it is possible that management's provision for these losses could change materially. However, no estimate can currently be made of the range of additional losses.

Purchasing Commitments

The Company enters into various purchase obligations in the ordinary course of business, generally of short term nature. Those that are binding primarily relate to commitments for food purchases and supplies, amounts owed under contractor and subcontractor agreements, orders submitted for equipment for restaurants under construction, information technology service agreements and marketing initiatives, some of which are related to both company-operated and franchise-operated locations. The Company also has a long-term beverage supply agreement with a major beverage vendor whereby marketing rebates are provided to the Company and its franchisees based upon the volumes of purchases for system-wide restaurants which vary according to demand for beverage syrup. This contract has terms extending into 2021. The Company's future estimated cash payments under existing contractual purchase obligations for goods and services as of June 19, 2018, are approximately \$62.4 million. The Company has excluded agreements that are cancelable without penalty.

Litigation

In March 2014, a former Del Taco employee filed a purported class action complaint alleging that Del Taco has not appropriately provided meal breaks and failed to pay wages to its California hourly employees. Discovery is in process and Del Taco intends to assert all of its defenses to this threatened class action and the individual claims. Del Taco has several defenses to the action that it believes could prevent the certification of the class, as well as the potential assessment of any damages on a class basis. Legal proceedings are inherently unpredictable, and the Company is not able to predict the ultimate outcome or cost of the unresolved matter. However, based on management's current understanding of the relevant facts and circumstances, the Company does not believe that these proceedings give rise to a probable or estimable loss and should not have a material adverse effect on the Company's financial position, operations or cash flows. Therefore, Del Taco has not recorded any amount for the claim as of June 19, 2018.

The Company and its subsidiaries are parties to other legal proceedings incidental to their businesses, including claims alleging the Company's restaurants do not comply with the Americans with Disabilities Act of 1990. In the opinion of management, based upon information currently available, the ultimate liability with respect to those other actions will not have a material effect on the operating results, cash flows or the financial position of the Company. However, due to the risks and uncertainties inherent in legal proceedings and litigation, actual results could differ from expectations.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended January 2, 2018, and related notes thereto, along with the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 15, 2018.

In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties such as the number of restaurants we intend to open and estimates of our effective tax rates. We use words such as "estimates," "projected," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," "future," "propose," "preliminary," "guidance" and variations of these words or similar expressions (or the negative versions of such words or expressions) to identify forward-looking statements. These statements are based on assumptions and information available to us as of the date any such statements are made and are subject to risks and uncertainties. These risks and uncertainties include, without limitation, consumer demand, our inability to successfully open company-operated or franchise-operated restaurants or establish new markets, competition in our markets, our inability to grow and manage growth profitably, adverse changes in food and supply costs, our inability to access additional capital, changes in applicable laws or regulations, food safety and foodborne illness concerns, our inability to manage existing and to obtain additional franchisees, our inability to attract and retain qualified personnel, our inability to profitably expand into new markets, and the possibility that we may be adversely affected by other economic, business, and/or competitive factors. Our actual results may differ materially from those anticipated in these forward-looking statements due to these risks and uncertainties, as well as others, including, without limitation, those discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended January 2, 2018. We assume no obligation to update or revise these forward-looking statements as a result of new information, future events or any other reason.

Fiscal Year

We operate on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal year 2017 is the 52-week period ended January 2, 2018 ("Fiscal 2017"). Fiscal year 2018 will be a 52-week period ended January 1, 2019 ("Fiscal 2018").

Overview

We are a nationwide operator and franchisor of restaurants featuring fresh and fast cuisine, including both Mexican inspired and American classic dishes. As of June 19, 2018, we have 566 Del Taco restaurants, a majority of these in the Pacific Southwest. In each of our restaurants, our food is made to order in working kitchens. We serve our customers fresh and high-quality food typical of fast casual restaurants but with the speed, convenience and value associated with traditional quick service restaurants ("QSRs"). With attributes of both a fast casual restaurant and a QSR — a combination we call QSR+ — we occupy a place in the restaurant market distinct from our competitors. With a menu designed to appeal to a wide variety of budgets and tastes and recently updated interior and exterior designs across most of our entire system, we believe that we are poised for growth, operating within the fastest growing segment of the restaurant industry, the limited service restaurant ("LSR") segment. With an average system check of \$7.41 during Fiscal 2017, we offer a compelling value proposition relative to both QSR and fast casual peers.

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Highlights and Trends

Second Quarter 2018 Highlights

Our second quarter 2018 results and highlights include the following:

- Total revenues increased 8.5% for the twelve weeks ended June 19, 2018 to \$117.8 million compared to \$108.6 million for the twelve weeks ended June 20, 2017 primarily due to growth in company-operated and franchise-operated same store sales and additional restaurants open during 2018 compared to 2017, as well as the impact of adopting new revenue recognition standards. Total revenues increased 7.7% for the twenty-four weeks ended June 19, 2018 to \$230.4 million compared to \$213.9 million for the twenty-four weeks ended June 20, 2017 primarily due to growth in company-operated and franchise-operated same store sales and additional restaurants open during 2018 compared to 2017, as well as the impact of adopting new revenue recognition standards.
- During the twelve weeks ended June 19, 2018, we opened one new company-operated restaurant and one new franchise-operated restaurant and closed one company-operated restaurant and one franchise-operated restaurant. During the twenty-four weeks ended June 19, 2018, we opened a total of four new company-operated restaurants and one new franchise-operated restaurant and closed one company-operated restaurant and two franchise-operated restaurants. During the twelve weeks ended June 20, 2017, we opened one new company-operated restaurant and two new franchise-operated restaurants and closed two company-operated restaurants. During the twenty-four weeks ended June 20, 2017, we opened one new company-operated restaurant and five new franchise-operated restaurants and closed two company-operated restaurants.

Same Store Sales

Same store sales growth reflects the change in year-over-year sales for the same store base. We include a restaurant in the same store base in the accounting period following its 18th full month of operations and exclude restaurant closures. The following table shows the same store sales growth for the twelve and twenty-four weeks ended June 19, 2018 and June 20, 2017:

	12 Weeks Ended		24 Weeks Ended	
	June 19, 2018	June 20, 2017	June 19, 2018	June 20, 2017
Company-operated same store sales	2.5%	6.9%	2.6%	5.4%
Franchise-operated same store sales	4.2%	7.5%	4.7%	6.0%
System-wide same store sales	3.3%	7.1%	3.5%	5.7%

The increase in company-operated same store sales in the twelve weeks ended June 19, 2018 was driven by an increase in average check size of 3.7% offset by a decrease in traffic of 1.2% compared to the twelve weeks ended June 20, 2017. The increase in company-operated same store sales in the twelve weeks ended June 20, 2017 was driven by an increase in average check size of 5.4% and an increase in traffic of 1.5% compared to the twelve weeks ended June 14, 2016.

The increase in company-operated same store sales in the twenty-four weeks ended June 19, 2018 was driven by an increase in average check size of 3.2% offset by a decrease in traffic of 0.6% compared to the twenty-four weeks ended June 20, 2017. The increase in company-operated same store sales in the twenty-four weeks ended June 20, 2017 was driven by an increase in average check size of 4.5% and an increase in traffic of 0.9% compared to the twenty-four weeks ended June 14, 2016.

Restaurant Development

Del Taco restaurant counts at the end of the twelve weeks and twenty-four weeks ended June 19, 2018 and June 20, 2017, are as follows:

	12 Weeks Ended		24 Weeks Ended	
	June 19, 2018	June 20, 2017	June 19, 2018	June 20, 2017
Company-operated restaurant activity:				
Beginning of period	315	305	312	310
Openings	1	1	4	1
Closures	(1)	(2)	(1)	(2)
Sold to franchisees	—	—	—	(5)
Restaurants at end of period	315	304	315	304
Franchise-operated restaurant activity:				
Beginning of period	251	249	252	241
Openings	1	2	1	5
Closures	(1)	—	(2)	—
Purchased from Company	—	—	—	5
Restaurants at end of period	251	251	251	251
Total restaurant activity:				
Beginning of period	566	554	564	551
Openings	2	3	5	6
Closures	(2)	(2)	(3)	(2)
Restaurants at end of period	566	555	566	555

Since 2012, we have focused on repositioning our brand, increasing brand awareness, re-imaging our restaurants, strengthening operational capabilities and refinancing indebtedness to build a foundation for future organic and new unit growth. New restaurant development is expected to contribute to our growth strategy. We currently plan to open an estimated 25 to 28 system-wide restaurants in Fiscal 2018. From time to time, we and our franchisees may close restaurants.

Key Performance Indicators

In assessing the performance of our business, management utilizes a variety of financial and performance measures. These key measures include company restaurant sales, same store sales, company-operated average unit volumes, restaurant contribution and restaurant contribution margin, number of new restaurant openings, EBITDA and Adjusted EBITDA.

Company Restaurant Sales

Company restaurant sales consists of sales of food and beverages in company-operated restaurants net of promotional allowances, employee meals and other discounts. Company restaurant sales in any period is directly influenced by the number of operating weeks in such period, the number of open restaurants, same store sales and per restaurant sales.

Seasonal factors and the timing of holidays cause revenue to fluctuate from quarter to quarter. Revenue per restaurant is typically lower in the first quarter due to reduced January traffic. As a result of seasonality, quarterly and annual results of operations and key performance indicators such as company restaurant sales and same store sales may fluctuate.

Same Store Sales Growth

We regularly monitor company, franchise and total system same store sales. Same store sales growth reflects the change in year-over-year sales for the comparable company, franchise and total system restaurant base. We include a restaurant in the same store base in the accounting period following its 18th full month of operations and exclude restaurant closures. As of June 19, 2018 and June 20, 2017, there were 292 and 293 restaurants, respectively, in the comparable company-operated restaurant base. As of June 19, 2018 and June 20, 2017, there were 241 and 240 restaurants, respectively, in the comparable franchise-operated restaurant base. This measure highlights the performance of existing restaurants as the impact of new restaurant openings is excluded. Same store sales growth can be generated by an increase in the number of transactions and/or by increases in the average check resulting from a shift in menu mix and/or higher prices resulting from new products, promotions or price increases.

Company-Operated Average Unit Volumes

We measure company-operated average unit volumes (AUVs) on both a weekly and an annual basis. Weekly AUVs are calculated by dividing the sales from comparable company-operated restaurants over a seven day period from Wednesday to Tuesday by the number of comparable restaurants. Annual AUVs are calculated by dividing sales for the trailing 52-week period for all company-operated restaurants that are in the comparable base by the total number of restaurants in the comparable base for such period. This measurement allows management to assess changes in consumer traffic and spending patterns at our company-operated restaurants and the overall performance of the restaurant base.

Restaurant Contribution and Restaurant Contribution Margin

Restaurant contribution and restaurant contribution margin are neither required by, nor presented in accordance with U.S. GAAP. Restaurant contribution is defined as company restaurant sales less restaurant operating expenses, which are food and paper costs, labor and related expenses and occupancy and other operating expenses. Restaurant contribution margin is defined as restaurant contribution as a percentage of company restaurant sales. Restaurant contribution and restaurant contribution margin are supplemental measures of operating performance of restaurants and the calculations thereof may not be comparable to those reported by other companies. Restaurant contribution and restaurant contribution margin have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of results as reported under U.S. GAAP. Management believes that restaurant contribution and restaurant contribution margin are important tools for investors because they are widely-used metrics within the restaurant industry to evaluate restaurant-level productivity, efficiency and performance. Management uses restaurant contribution and restaurant contribution margin as key performance indicators to evaluate the profitability of incremental sales at Del Taco restaurants, to evaluate restaurant performance across periods and to evaluate restaurant financial performance compared with competitors. See the heading entitled "Management's Use of Non-GAAP Financial Measures" for the reconciliation of restaurant contribution to company restaurant sales.

Number of New Restaurant Openings

The number of restaurant openings reflects the number of new restaurants opened by us and our franchisees during a particular reporting period. Before a new restaurant opens, we and our franchisees incur pre-opening costs, as described below. Some new restaurants open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. Typically new restaurants experience normal inefficiencies in the form of higher food and paper, labor and other direct operating expenses and, as a result, restaurant contribution margins are generally lower during the start-up period of operation. Typically, the average start-up period after which new company restaurant sales and restaurant operating expenses normalize is approximately 26 to 52 weeks. In new markets, the length of time before average company restaurant sales and restaurant operating expenses for new restaurants stabilize is less predictable and can be longer as a result of limited knowledge of these markets and consumers' limited awareness of our brand. When we enter new markets, we may be exposed to start-up times that are longer and restaurant contribution margins that are lower than typical historical experience, and these new restaurants may not be profitable and their sales performance may not follow historical patterns.

EBITDA and Adjusted EBITDA

EBITDA represents net income (loss) before interest expense, provision for income taxes, depreciation and amortization. Adjusted EBITDA represents net income (loss) before interest expense, provision for income taxes, depreciation, amortization and items that we do not consider representative of ongoing operating performance, as identified in the reconciliation table under the heading entitled "Management's Use of Non-GAAP Financial Measures."

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EBITDA and Adjusted EBITDA as presented in this quarterly report are supplemental measures of performance that are neither required by, nor presented in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA are not measurements of financial performance under U.S. GAAP and should not be considered as alternatives to net income (loss), income from operations or any other performance measures derived in accordance with U.S. GAAP or as alternatives to cash flow from operating activities as a measure of liquidity. In addition, in evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we may incur expenses or charges such as those added back to calculate EBITDA and Adjusted EBITDA. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that future results will be unaffected by unusual or nonrecurring items.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of results as reported under U.S. GAAP. Some of these limitations include but are not limited to:

- (i) they do not reflect cash expenditures, or future requirements for capital expenditures or contractual commitments;
- (ii) they do not reflect changes in, or cash requirements for, working capital needs;
- (iii) they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on debt;
- (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;
- (v) they do not adjust for all non-cash income or expense items that are reflected in the statements of cash flows;
- (vi) they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of ongoing operations; and
- (vii) other companies in the industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by providing specific information regarding the U.S. GAAP amounts excluded from such non-GAAP financial measures. We further compensate for the limitations in the use of non-GAAP financial measures by presenting comparable U.S. GAAP measures more prominently.

We believe EBITDA and Adjusted EBITDA facilitate operating performance comparisons from period to period by isolating the effects of some items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. These potential differences may be caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense). We also present EBITDA and Adjusted EBITDA because (i) we believe these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in their industry, (ii) we believe investors will find these measures useful in assessing our ability to service or incur indebtedness, and (iii) we use EBITDA and Adjusted EBITDA internally as benchmarks to compare performance to that of competitors. See the heading entitled "Management's Use of Non-GAAP Financial Measures" for the reconciliation of EBITDA and Adjusted EBITDA to net income (loss).

Key Financial Definitions

Company Restaurant Sales

Company restaurant sales represents sale of food and beverages in company-operated restaurants, net of promotional allowances, employee meals and other discounts. Company restaurant sales in any period is directly influenced by the number of operating weeks in such period, the number of open restaurants, same store sales performance and per restaurant sales.

Franchise Revenue

Franchise revenue consists of franchise royalty income from the franchisee and, to a lesser extent, renewal fees and franchise fees from franchise owners for new franchise restaurant openings, as well as other franchise fees. Franchise fees are collected upon signing a franchise agreement and deferred and recognized as revenue over the term of the franchise agreement and renewal fees are deferred and recognized over the term of the renewal agreement.

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Franchise Advertising Contributions

Franchise advertising contributions consist of a percentage of franchise restaurant's net sales, typically 4%, paid to the Company for advertising and promotional services that the Company provides.

Franchise Sublease Income

Franchise sublease income consists of rental income received from franchisees related to properties where we have subleased a leasehold interest to the franchisee but remain primarily liable to the landlord.

Food and Paper Costs

Food and paper costs include the direct costs associated with food, beverage and packaging of menu items. The components of food and paper costs are variable in nature, change with sales volume and are impacted by menu mix and are subject to increases or decreases based on fluctuations in commodity costs. Other important factors causing fluctuations in food and paper costs include seasonality, promotional activity and restaurant level management of food and paper waste. Food and paper are a significant expense and can be expected to grow proportionally as company restaurant sales grows.

Labor and Related Expenses

Labor and related expenses include all restaurant-level management and hourly labor costs, including wages, benefits, bonuses, workers' compensation expense, group health insurance, paid leave and payroll taxes. Like other expense items, we expect labor and related expenses to grow proportionately as company restaurant sales grows. Factors that influence fluctuations in labor and related expenses include minimum wage, paid sick leave and payroll tax legislation, health care and workers compensation costs and the performance of Del Taco restaurants.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses include all other restaurant-level operating expenses, such as rent, utilities, restaurant supplies, repairs and maintenance, credit and debit card processing fees, advertising, insurance, common area maintenance, real estate taxes and other restaurant operating costs.

General and Administrative Expenses

General and administrative expenses are comprised of expenses associated with corporate and regional supervision functions that support the operations of existing restaurants and development of new restaurants, including compensation and benefits, travel expenses, stock-based compensation expenses, legal and professional fees, information systems, corporate office occupancy costs and other related corporate costs. Also included are expenses above the restaurant level, including salaries for field management, such as area and regional managers, and franchise operational support. General and administrative expenses are expected to grow as we grow, including incremental legal, accounting, insurance, investor relations and other expenses that will be incurred as a public company.

Franchise Advertising Expenses

Franchise advertising expenses consist of the franchise portion of advertising expense.

Depreciation and Amortization

Depreciation and amortization expenses are periodic non-cash charges that consist of depreciation of fixed assets, including leasehold improvements and equipment, and amortization of various intangible assets primarily including franchise rights.

Occupancy and Other – Franchise Subleases

Occupancy and other – franchise subleases includes rent, property taxes and common area maintenance paid on properties subleased to franchisees where we remain primarily liable to the landlord.

Pre-opening Costs

Pre-opening costs are incurred in connection with opening of new restaurants and incurred prior to opening, including restaurant labor related to the hiring and training of restaurant employees, as well as supplies, occupancy and other operating expenses associated with the opening of new restaurants. Pre-opening costs are expensed as incurred.

Impairment of Long-Lived Assets

We review long-lived assets such as leasehold improvements, equipment and intangible assets on a unit-by unit basis for impairment. When events or circumstances indicate the carrying value of the assets may not be recoverable, an appropriate impairment charge is recorded. Impairments could increase if performance of company-operated restaurants is not sufficient to recover the carrying amount of the related long-lived assets.

Restaurant Closure Charges, Net

Restaurant closure charges, net, consists primarily of the future obligations associated with the closure or net sublease shortfall of a restaurant, including the present value of future lease obligations net of estimated sublease income, if any, accretion of the liability during the reporting period, any positive or negative adjustments to the liability as more information becomes available, sublease income from leases which are treated as deemed landlord financing as well as direct costs related to the restaurant closure.

Loss on Disposal of Assets, Net

Loss on disposal of assets, net includes the loss on disposal of assets related to sales, retirements and replacement or write-off of leasehold improvements, furniture, fixtures or equipment in the ordinary course of business, net of amortization of deferred gains on asset sales associated with sale-leaseback transactions and gains or losses recorded associated with the sale of company-operated stores to franchisees.

Interest Expense

Interest expense consists primarily of interest expense on outstanding debt including capital lease obligations and deemed landlord financing liabilities. Deferred financing costs and debt discount are amortized at cost over the life of the related debt.

Provision for Income Taxes

Provision for income taxes consists of federal and state current and deferred income tax expense.

Results of Operations

Comparison of Results of Operations for the Twelve Weeks Ended June 19, 2018 and Twelve Weeks Ended June 20, 2017

The following table presents operating results for the twelve weeks ended June 19, 2018 and twelve weeks ended June 20, 2017, in absolute terms and expressed as a percentage of total revenue (or company restaurant sales), as compared below:

(Dollar amounts in thousands)	12 Weeks Ended					
	June 19, 2018		June 20, 2017		Increase / (Decrease)	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Statement of Operations Data:						
Revenue:						
Company restaurant sales	\$ 109,800	93.2%	\$ 104,022	95.8%	\$ 5,778	5.6 %
Franchise revenue	4,149	3.5	3,903	3.6	246	6.3
Franchise advertising contributions	3,136	2.7	—	—	3,136	*
Franchise sublease income	728	0.6	656	0.6	72	11.0
Total revenue	117,813	100.0	108,581	100.0	9,232	8.5
Operating expenses						
Restaurant operating expenses:						
Food and paper costs	30,082	27.4 ⁽¹⁾	28,770	27.7 ⁽¹⁾	1,312	4.6
Labor and related expenses	35,422	32.3 ⁽¹⁾	33,185	31.9 ⁽¹⁾	2,237	6.7
Occupancy and other operating expenses	22,627	20.6 ⁽¹⁾	20,918	20.1 ⁽¹⁾	1,709	8.2
Total restaurant operating expenses	88,131	80.3 ⁽¹⁾	82,873	79.7 ⁽¹⁾	5,258	6.3
General and administrative	10,321	8.8	9,055	8.3	1,266	14.0
Franchise advertising expenses	3,136	2.7	—	—	3,136	*
Depreciation and amortization	5,847	5.0	5,278	4.9	569	10.8
Occupancy and other-franchise subleases	651	0.6	602	0.6	49	8.1
Pre-opening costs	199	0.2	151	0.1	48	31.8
Impairment of long-lived assets	1,661	1.4	—	—	1,661	*
Restaurant closure charges, net	(24)	*	6	*	(30)	*
Loss on disposal of assets, net	87	0.1	340	0.3	(253)	(74.4)
Total operating expenses	110,009	93.4	98,305	90.5	11,704	11.9
Income from operations	7,804	6.6	10,276	9.5	(2,472)	(24.1)
Other expense						
Interest expense	2,012	1.7	1,627	1.5	385	23.7
Total other expense	2,012	1.7	1,627	1.5	385	23.7
Income from operations before provision for income taxes	5,792	4.9	8,649	8.0	(2,857)	(33.0)
Provision for income taxes	1,582	1.3	3,319	3.1	(1,737)	(52.3)
Net income	\$ 4,210	3.6%	\$ 5,330	4.9%	\$ (1,120)	(21.0)%

(1) As a percentage of company restaurant sales.

* Immaterial/not meaningful

Company Restaurant Sales

Company restaurant sales increased \$5.8 million, or 5.6%, for the twelve weeks ended June 19, 2018, primarily due to an increase in company-operated same store sales of 2.5% as well as additional restaurants open during 2018 compared to 2017. The growth in company-operated same store sales was primarily the result of an increase in average check size of 3.7% offset by a decrease in traffic of 1.2% compared to the prior period.

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Franchise Revenue

Franchise revenue increased \$0.2 million , or 6.3% , for the twelve weeks ended June 19, 2018 , primarily due to an increase in franchise-operated same store sales of 4.2% , additional restaurants open during 2018 compared to 2017 as well as the impact of adopting new revenue recognition standards, partially offset by a reduction in initial fees.

Franchise Advertising Contributions

Franchise advertising contributions were \$3.1 million for the twelve weeks ended June 19, 2018 . There were no franchise advertising contributions for the twelve weeks ended June 20, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See footnote 2 to our Consolidated Financial Statements for more information regarding the requirements for the new revenue recognition standards.

Franchise Sublease Income

Franchise sublease income increased \$0.1 million , or 11.0% , for the twelve weeks ended June 19, 2018 , primarily due to increased rental income.

Food and Paper Costs

Food and paper costs increased \$1.3 million , or 4.6% for the twelve weeks ended June 19, 2018 due to an increase in company restaurant sales and the impact of modest commodity cost inflation. As a percentage of company restaurant sales, food and paper costs were 27.4% for the twelve weeks ended June 19, 2018 compared to 27.7% for the twelve weeks ended June 20, 2017 . This percentage decrease was the result of menu price increases partially offset by the impact of modest commodity inflation.

Labor and Related Expenses

Labor and related expenses increased \$2.2 million , or 6.7% for the twelve weeks ended June 19, 2018 , primarily due to increased labor costs resulting from a California minimum wage increase on January 1, 2018, a Los Angeles minimum wage increase on July 1, 2017 and an increase in payroll related taxes, partially offset by a reduction in workers compensation expense based on lower payments and reserves related to underlying claims activity. As a percentage of company restaurant sales, labor and related expenses were 32.3% for the twelve weeks ended June 19, 2018 compared to 31.9% for the twelve weeks ended June 20, 2017 . This percentage increase resulted primarily from the impact of the increased California minimum wage and Los Angeles minimum wage and increased payroll tax expense discussed above, mostly offset by the impact of modest menu price increases and reduced workers compensation expense.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased \$1.7 million , or 8.2% for the twelve weeks ended June 19, 2018 , primarily due to increases in advertising, occupancy costs, utilities and credit and debit card processing fees, partially offset by a decrease in repairs and maintenance expense. As a percentage of company restaurant sales, occupancy and other operating expenses were 20.6% for the twelve weeks ended June 19, 2018 compared to 20.1% for the twelve weeks ended June 20, 2017 . This percentage increase resulted primarily from increased advertising based on the timing of expenditures.

General and Administrative Expenses

General and administrative expenses increased \$1.3 million , or 14.0% for the twelve weeks ended June 19, 2018 , primarily due to an increase in stock-based compensation, legal and related expenses, incremental public company costs to support Sarbanes-Oxley Section 404(b) compliance in 2018 and the expense side of the other franchise revenues that are now reported on a gross basis, partially offset by a reduction in performance-based management incentive compensation. As a percentage of total revenue, general and administrative expense was 8.8% for the twelve weeks ended June 19, 2018 compared to 8.3% for the twelve weeks ended June 20, 2017 . The increase as a percent of total revenue was due to the increases described above, partially offset by the decrease discussed above and the impact of increased revenues.

Franchise Advertising Expenses

Franchise advertising expenses were \$3.1 million for the twelve weeks ended June 19, 2018 and directly related to franchise advertising expenses. These amounts offset against franchise advertising contributions included in revenue. There were no

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franchise advertising expenses for the twelve weeks ended June 20, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See footnote 2 to our Consolidated Financial Statements for more information regarding the requirements for the new revenue recognition standards.

Depreciation and Amortization

Depreciation and amortization expenses increased \$0.6 million, or 10.8% for the twelve weeks ended June 19, 2018, primarily due to the addition of new property and equipment. As a percentage of total revenue, depreciation and amortization expenses was 5.0% for the twelve weeks ended June 19, 2018 compared to 4.9% for the twelve weeks ended June 20, 2017.

Occupancy and Other – Franchise Sublease

Occupancy and other – franchise sublease was \$0.7 million and \$0.6 million for the twelve weeks ended June 19, 2018 and June 20, 2017, respectively.

Pre-opening Costs

Pre-opening costs were \$0.2 million for both the twelve weeks ended June 19, 2018 and June 20, 2017 due to a similar level of pre-opening activity in each year.

Impairment of Long-Lived Assets

We recorded impairment charges of \$1.7 million during the twelve weeks ended June 19, 2018 related to our evaluation of long-lived assets underlying two restaurants, in California and Georgia, which had indicators of impairment. No such impairment charges were recorded during the twelve weeks ended June 20, 2017.

Restaurant Closure Charges, Net

Restaurant closure charges, net, were approximately \$(24,000) for the twelve weeks ended June 19, 2018 compared to approximately \$6,000 for the twelve weeks ended June 20, 2017. The current quarter activity primarily includes sublease income from leases which are treated as deemed landlord financing, partially offset by accretion expense. The twelve weeks ended June 20, 2017 includes accretion expense, partially offset by sublease income from leases which are treated as deemed landlord financing.

Loss on Disposal of Assets, Net

Loss on disposal of assets, net was \$0.1 million and \$0.3 million for the twelve weeks ended June 19, 2018 and June 20, 2017, respectively. Current year net loss on disposal of assets was primarily related to the closure of one company-operated restaurant. Prior year net loss on disposal of assets was primarily related to the closure of two company-operated restaurants, a loss on the sale of owned land and building for an existing company-operated restaurant and the replacement of certain leasehold improvements and restaurant equipment.

Interest Expense

Interest expense was \$2.0 million and \$1.6 million for the twelve weeks ended June 19, 2018 and June 20, 2017, respectively. The increase is primarily due to an increase in interest rates and a higher level of debt outstanding compared to the prior year.

Provision for Income Taxes

The effective income tax rates were 27.3% for the twelve weeks ended June 19, 2018 compared to 38.4% for the twelve weeks ended June 20, 2017. The provision for income taxes was \$1.6 million for the twelve weeks ended June 19, 2018 and \$3.3 million for the twelve weeks ended June 20, 2017. The income tax expense related to the twelve weeks ended June 19, 2018 is driven by our estimated annual effective income tax rate which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits. The income tax expense related to the twelve weeks ended June 20, 2017 is driven by our estimated annual effective income tax rate which primarily consists of statutory federal and state tax rates based on apportioned income, partially offset by federal targeted job credits.

Results of Operations
Comparison of Results of Operations for the Twenty-Four Weeks Ended June 19, 2018 and Twenty-Four Weeks Ended June 20, 2017

The following table presents operating results for the twenty-four weeks ended June 19, 2018 and twenty-four weeks ended June 20, 2017, in absolute terms and expressed as a percentage of total revenue (or company restaurant sales), as compared below:

(Dollar amounts in thousands)	24 Weeks Ended					
	June 19, 2018		June 20, 2017		Increase / (Decrease)	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Statement of Operations Data:						
Revenue:						
Company restaurant sales	\$ 214,909	93.3%	\$ 205,244	95.9%	\$ 9,665	4.7 %
Franchise revenue	7,941	3.5	7,516	3.5	425	5.7
Franchise advertising contributions	6,072	2.6	—	—	6,072	*
Franchise sublease income	1,445	0.6	1,166	0.5	279	23.9
Total revenue	230,367	100.0	213,926	100.0	16,441	7.7
Operating expenses						
Restaurant operating expenses:						
Food and paper costs	59,055	27.5 ⁽¹⁾	56,688	27.6 ⁽¹⁾	2,367	4.2
Labor and related expenses	70,240	32.7 ⁽¹⁾	66,406	32.4 ⁽¹⁾	3,834	5.8
Occupancy and other operating expenses	44,613	20.8 ⁽¹⁾	41,636	20.3 ⁽¹⁾	2,977	7.2
Total restaurant operating expenses	173,908	80.9 ⁽¹⁾	164,730	80.3 ⁽¹⁾	9,178	5.6
General and administrative	20,750	9.0	18,360	8.6	2,390	13.0
Franchise advertising expenses	6,072	2.6	—	—	6,072	*
Depreciation and amortization	11,761	5.1	10,381	4.9	1,380	13.3
Occupancy and other-franchise subleases	1,289	0.6	1,083	0.5	206	19.0
Pre-opening costs	641	0.3	177	0.1	464	*
Impairment of long-lived assets	1,661	0.7	—	—	1,661	*
Restaurant closure charges, net	(37)	*	15	*	(52)	*
Loss on disposal of assets, net	180	0.1	291	0.1	(111)	(38.1)
Total operating expenses	216,225	93.9	195,037	91.2	21,188	10.9
Income from operations	14,142	6.1	18,889	8.8	(4,747)	(25.1)
Other expense						
Interest expense	3,922	1.7	3,170	1.5	752	23.7
Total other expense	3,922	1.7	3,170	1.5	752	23.7
Income from operations before provision for income taxes	10,220	4.4	15,719	7.3	(5,499)	(35.0)
Provision for income taxes	2,781	1.2	6,151	2.9	(3,370)	(54.8)
Net income	\$ 7,439	3.2%	\$ 9,568	4.5%	\$ (2,129)	(22.3)%

(1) As a percentage of company restaurant sales.

* Immaterial/not meaningful

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Company Restaurant Sales

Company restaurant sales increased \$9.7 million , or 4.7% , for the twenty-four weeks ended June 19, 2018 , primarily due to an increase in company-operated same store sales of 2.6% as well as additional restaurants open during 2018 compared to 2017. The growth in company-operated same store sales was primarily the result of an increase in average check size of 3.2% offset by a decrease in traffic of 0.6% compared to the prior period.

Franchise Revenue

Franchise revenue increased \$0.4 million , or 5.7% , for the twenty-four weeks ended June 19, 2018 , primarily due to an increase in franchise-operated same store sales of 4.7% and additional restaurants open during 2018 compared to 2017 as well as the impact of adopting new revenue recognition standards, partially offset by a reduction in initial fees.

Franchise Advertising Contributions

Franchise advertising contributions were \$6.1 million for the twenty-four weeks ended June 19, 2018 . There were no franchise advertising contributions for the twenty-four weeks ended June 20, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See footnote 2 to our Consolidated Financial Statements for more information regarding the requirements for the new revenue recognition standards.

Franchise Sublease Income

Franchise sublease income increased \$0.3 million , or 23.9% , for the twenty-four weeks ended June 19, 2018 , primarily due to the sale of company-operated stores to franchisees during the first quarter of 2017 in which we retained the leasehold interest to the real estate.

Food and Paper Costs

Food and paper costs increased \$2.4 million , or 4.2% for the twenty-four weeks ended June 19, 2018 due to an increase in company restaurant sales and the impact of modest commodity cost inflation. As a percentage of company restaurant sales, food and paper costs were 27.5% for the twenty-four weeks ended June 19, 2018 compared to 27.6% for the twenty-four weeks ended June 20, 2017 . This percentage decrease was the result of menu price increases that were mostly offset by the impact of modest commodity inflation.

Labor and Related Expenses

Labor and related expenses increased \$3.8 million , or 5.8% for the twenty-four weeks ended June 19, 2018 , primarily due to increased labor costs resulting from a California minimum wage increase on January 1, 2018, a Los Angeles minimum wage increase on July 1, 2017 and an increase in payroll related taxes, partially offset by a reduction in workers compensation expense based on lower payments and reserves related to underlying claims activity. As a percentage of company restaurant sales, labor and related expenses were 32.7% for the twenty-four weeks ended June 19, 2018 compared to 32.4% for the twenty-four weeks ended June 20, 2017 . This percentage increase resulted primarily from the impact of the increased California minimum wage and Los Angeles minimum wage and increased payroll tax expense discussed above, mostly offset by the impact of modest menu price increases and reduced workers compensation expense.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased \$3.0 million , or 7.2% for the twenty-four weeks ended June 19, 2018 , primarily due to increases in advertising, occupancy costs, utilities, supplies and credit and debit card processing fees. As a percentage of company restaurant sales, occupancy and other operating expenses were 20.8% for the twenty-four weeks ended June 19, 2018 compared to 20.3% for the twenty-four weeks ended June 20, 2017 . This percentage increase resulted primarily from increased advertising based on the timing of expenditures, as well as the increased occupancy costs and credit and debit card processing fees discussed above.

General and Administrative Expenses

General and administrative expenses increased \$2.4 million , or 13.0% for the twenty-four weeks ended June 19, 2018 , primarily due to an increase in stock-based compensation, legal and related expenses, incremental public company costs to support Sarbanes-Oxley Section 404(b) compliance in 2018 and the expense side of the other franchise revenues that are now

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reported on a gross basis, partially offset by a reduction in performance-based management incentive compensation. As a percentage of total revenue, general and administrative expense was 9.0% for the twenty-four weeks ended June 19, 2018 compared to 8.6% for the twenty-four weeks ended June 20, 2017. The increase as a percent of total revenue was due to the increases described above, partially offset by the decrease discussed above and the impact of increased revenues.

Franchise Advertising Expenses

Franchise advertising expenses were \$6.1 million for the twenty-four weeks ended June 19, 2018 and directly related to franchise advertising expenses. These amounts offset against franchise advertising contributions included in revenue. There were no franchise advertising expenses for the twenty-four weeks ended June 20, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See footnote 2 to our Consolidated Financial Statements for more information regarding the requirements for the new revenue recognition standards.

Depreciation and Amortization

Depreciation and amortization expenses increased \$1.4 million, or 13.3% for the twenty-four weeks ended June 19, 2018, primarily due to the addition of new property and equipment and the write-off of a franchise right asset related to the franchise restaurant that closed in the first quarter. As a percentage of total revenue, depreciation and amortization expenses was 5.1% for the twenty-four weeks ended June 19, 2018 compared to 4.9% for the twenty-four weeks ended June 20, 2017.

Occupancy and Other – Franchise Sublease

Occupancy and other – franchise sublease was \$1.3 million and \$1.1 million for the twenty-four weeks ended June 19, 2018 and June 20, 2017, respectively. The increase was primarily due to sublease expense related to the sale of company-operated restaurants to franchisees during the first quarter of 2017.

Pre-opening Costs

Pre-opening costs were \$0.6 million for the twenty-four weeks ended June 19, 2018 compared to \$0.2 million for the twenty-four weeks ended June 20, 2017. The increase was due to an increased level of pre-opening activity compared to the prior year.

Impairment of Long-Lived Assets

We recorded impairment charges of \$1.7 million during the twenty-four weeks ended June 19, 2018 related to our evaluation of long-lived assets underlying two restaurants, in California and Georgia, which had indicators of impairment. No such impairment charges were recorded during the twenty-four weeks ended June 20, 2017.

Restaurant Closure Charges, Net

Restaurant closure charges, net, were approximately \$(37,000) for the twenty-four weeks ended June 19, 2018 compared to approximately \$15,000 for the twenty-four weeks ended June 20, 2017. The current year activity primarily includes sublease income from leases which are treated as deemed landlord financing, partially offset by accretion expense. The twenty-four weeks ended June 20, 2017 includes accretion expense, partially offset by sublease income from leases which are treated as deemed landlord financing.

Loss on Disposal of Assets, Net

Loss on disposal of assets, net was \$0.2 million and \$0.3 million for the twenty-four weeks ended June 19, 2018 and June 20, 2017, respectively. Current year net loss was primarily related to the closure of one company-operated restaurant and the write-off of leasehold improvements associated with two temporary company restaurant closures, mostly offset by insurance recovery and a gain on the disposal of assets. The two temporary closures were related to a fire at one restaurant and a construction defect matter at another restaurant. We expect to record future gains related to additional insurance proceeds and legal recoveries and expect the temporary closures will impact per week operating results until the restaurants reopen in the fourth quarter of 2018 or first half of 2019. Prior year loss was primarily related to the closure of two company-operated restaurants, a loss on the sale of owned land and building for an existing company-operated restaurant and the replacement of certain leasehold improvements and restaurant equipment, partially offset by net gains recorded associated with the sale of company-operated stores to franchisees.

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Interest Expense

Interest expense was \$3.9 million and \$3.2 million for the twenty-four weeks ended June 19, 2018 and June 20, 2017, respectively. The increase is primarily due to an increase in interest rates and a higher level of debt outstanding compared to the prior year.

Provision for Income Taxes

The effective income tax rates were 27.2% for the twenty-four weeks ended June 19, 2018 compared to 39.1% for the twenty-four weeks ended June 20, 2017. The provision for income taxes was \$2.8 million for the twenty-four weeks ended June 19, 2018 and \$6.2 million for the twenty-four weeks ended June 20, 2017. The income tax expense related to the twenty-four weeks ended June 19, 2018 is driven by our estimated annual effective income tax rate which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits. The income tax expense related to the twenty-four weeks ended June 20, 2017 is driven by our estimated annual effective income tax rate which primarily consists of statutory federal and state tax rates based on apportioned income, partially offset by federal targeted job credits.

Liquidity and Capital Resources

Potential Impacts of Market Conditions on Capital Resources

In recent years, we have experienced increases in same store sales and restaurant contribution. However, the restaurant industry is highly competitive and uncertainty exists as to the sustainability of these favorable trends.

We believe that expected cash flow from operations, available cash of \$13.1 million at June 19, 2018 and available borrowing capacity of \$79.1 million at June 19, 2018 will be adequate to fund debt service requirements, operating lease obligations, capital expenditures and working capital obligations for at least the next 12 months. However, the ability to continue to meet these requirements and obligations will depend on, among other things, the ability to achieve anticipated levels of revenue and cash flow and the ability to manage costs and working capital successfully.

Summary of Cash Flows

Our primary sources of liquidity and capital resources have been cash provided from operations, cash and cash equivalents, and our senior secured credit facilities. Our primary requirements for liquidity and capital are new restaurants, existing restaurant capital investments (primarily maintenance and roll-out of equipment related to our strategy to emphasize freshness and speed), investments in infrastructure and information technology, interest payments on debt, lease obligations, income tax payments, purchases under our share and warrant repurchase program and working capital and general corporate needs. The working capital requirements are not significant since customers pay for their purchases in cash or by payment card (credit or debit) at the time of sale. Thus, we are able to sell many inventory items before we have to pay suppliers for such items since we typically have payment terms for our food and paper suppliers. Our company-operated restaurants do not require significant inventories.

The following table presents summary cash flow information for the periods indicated (in thousands).

	24 Weeks Ended	
	June 19, 2018	June 20, 2017
Net cash provided by (used in)		
Operating activities	\$ 29,723	\$ 24,814
Investing activities	(17,674)	(5,359)
Financing activities	(5,462)	(23,325)
Net increase (decrease) in cash	\$ 6,587	\$ (3,870)

Cash Flows Provided by Operating Activities

In the twenty-four weeks ended June 19, 2018 , cash flows provided by operating activities were \$29.7 million . The cash flows provided by operating activities resulted from net income of \$7.4 million , non-cash adjustments for asset depreciation and amortization of \$11.7 million , stock-based compensation of \$2.6 million , deferred income taxes of \$0.5 million, restaurant closure charges of \$0.1 million, a loss on disposal of assets of \$0.2 million , impairment of long-lived assets of \$1.7 million and net working capital requirements of \$5.5 million .

In the twenty-four weeks ended June 20, 2017 , cash flows provided by operating activities were \$24.8 million . The cash flows provided by operating activities resulted from net income of \$9.6 million , non-cash adjustment for asset depreciation and amortization of \$10.3 million, stock-based compensation of \$2.1 million, deferred income taxes of \$0.8 million, loss on disposal of assets of \$0.3 million and net working capital requirements of \$1.7 million.

Cash Flows Used in Investing Activities

In the twenty-four weeks ended June 19, 2018 , cash flows used in investing activities were \$17.7 million , which were primarily the result of purchase of property and equipment and other assets of \$18.3 million , partially offset by proceeds from the disposal of property and equipment for \$0.6 million .

In the twenty-four weeks ended June 20, 2017 , cash flows used in investing activities were \$5.4 million, which were primarily the result of the purchase of property and equipment and other assets of \$15.3 million, partially offset by proceeds from the disposal of property and equipment of \$7.7 million and proceeds from the sale of five company-operated restaurants for \$2.2 million.

Cash Flows Used in Financing Activities

In the twenty-four weeks ended June 19, 2018 , cash flows used in financing activities were \$5.5 million . The cash flows used in financing activities were primarily the result of the repurchase of 407,821 shares of our common stock and 20,943 warrants for an aggregate purchase price of \$4.8 million , including incremental direct costs to acquire the shares and warrants, payments of tax withholding of \$0.1 million related to restricted stock vesting and payments on capital lease and deemed landlord financing totaling \$0.7 million , offset by proceeds from exercise of stock options of \$0.1 million. In addition, during the twenty-four weeks ended June 19, 2018 , we borrowed \$5.0 million on the revolving credit facility and made payments of \$5.0 million on the revolving credit facility.

In the twenty-four weeks ended June 20, 2017 , cash flows used in financing activities were \$23.3 million. The cash flows used in financing activities were primarily the result of the repurchase of approximately 641,165 shares of our common stock and 400,000 warrants for an aggregate purchase price of \$9.5 million, including incremental direct costs to acquire the shares and warrants, payments on capital lease and deemed landlord financing totaling \$0.7 million and payments of tax withholding of \$0.1 million related to restricted stock vesting. During the twenty-four weeks ended June 20, 2017, we borrowed \$6.0 million on the revolving credit facility and made payments of \$19.0 million on the revolving credit facility.

Debt and Other Obligations

Senior Credit Facility

On August 4, 2015, we refinanced our existing senior credit facility and entered into the 2015 Senior Credit Facility which matures on August 4, 2020, and provides for a \$250 million revolving credit facility. The 2015 Senior Credit Facility contains certain financial covenants, including the maintenance of a consolidated total lease adjusted leverage ratio and a consolidated fixed charge coverage ratio. We were in compliance with the financial covenants as of June 19, 2018 .

The 2015 Senior Credit Facility does not have scheduled principal payments until its maturity on August 4, 2020.

At June 19, 2018 , the weighted-average interest rate on the outstanding balance of the 2015 Senior Credit Facility was 3.7% . As of June 19, 2018 there were \$153.0 million of borrowings under the 2015 Senior Credit Facility and letters of credit outstanding of \$17.9 million . Unused borrowing capacity at June 19, 2018 was \$79.1 million .

Hedging Arrangements

In June 2016, we entered into an interest rate cap agreement that became effective July 1, 2016, to hedge cash flows associated with interest rate fluctuations on variable rate debt, with a termination date of March 31, 2020 ("2016 Interest Rate Cap Agreement"). The 2016 Interest Rate Cap Agreement had an initial notional amount of \$70.0 million of the 2015 Senior Credit Facility that effectively converted that portion of the outstanding balance of the 2015 Senior Credit Facility from variable rate debt to capped variable rate debt, resulting in a change in the applicable interest rate from an interest rate of one-month LIBOR plus the applicable percentage (as provided by the 2015 Senior Credit Facility) to a capped interest rate of 2.00% plus the applicable percentage.

Stock Repurchase Program

In February 2016, the Board of Directors authorized a share repurchase program under which we may purchase up to \$25.0 million in the aggregate of our common stock and warrants, which expires upon completion of the repurchase program, unless terminated earlier by the Board of Directors. On August 23, 2016, we announced that the Board of Directors increased the repurchase program by \$25.0 million, to \$50.0 million. The Board of Directors authorized an additional increase for the repurchase program effective July 23, 2018 of another \$25.0 million, to a total of \$75.0 million. Purchases under the program may be made in open market or privately negotiated transactions. During the twelve weeks ended June 19, 2018, we repurchased (1) 407,821 shares of common stock for an average purchase price per share of \$11.57 for an aggregate cost of approximately \$4.7 million, including incremental direct costs to acquire the shares, and (2) 11,132 warrants for an average price per warrant of \$2.68 for an aggregate cost of approximately \$30,000, including incremental direct costs to acquire the warrants. During the twenty-four weeks ended June 19, 2018, we repurchased (1) 407,821 shares of common stock for an average purchase price per share of \$11.57 for an aggregate cost of approximately \$4.7 million, including incremental direct costs to acquire the shares, and (2) 20,943 warrants for an average price per warrant of \$3.00 for an aggregate cost of approximately \$0.1 million, including incremental direct costs to acquire the warrants. As of June 19, 2018 and July 23, 2018, there was approximately \$16.2 million and \$41.2 million, respectively, remaining under the share repurchase program. We have no obligations to repurchase shares or warrants under this authorization, and the timing and value of shares and warrants purchased will depend on our stock price, warrant price, market conditions and other factors.

Management's Use of Non-GAAP Financial Measures

A reconciliation of company restaurant sales to restaurant contribution is provided below (in thousands):

	12 Weeks Ended		24 Weeks Ended	
	June 19, 2018	June 20, 2017	June 19, 2018	June 20, 2017
Company restaurant sales	\$ 109,800	\$ 104,022	\$ 214,909	\$ 205,244
Restaurant operating expenses	88,131	82,873	173,908	164,730
Restaurant contribution	\$ 21,669	\$ 21,149	\$ 41,001	\$ 40,514
Restaurant contribution margin	19.7%	20.3%	19.1%	19.7%

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The following table sets forth reconciliations of net income to EBITDA and Adjusted EBITDA (in thousands):

	12 Weeks Ended		24 Weeks Ended	
	June 19, 2018	June 20, 2017	June 19, 2018	June 20, 2017
Net income	\$ 4,210	\$ 5,330	\$ 7,439	\$ 9,568
Non-GAAP adjustments:				
Provision for income taxes	1,582	3,319	2,781	6,151
Interest expense	2,012	1,627	3,922	3,170
Depreciation and amortization	5,847	5,278	11,761	10,381
EBITDA	13,651	15,554	25,903	29,270
Stock-based compensation expense (a)	1,360	1,080	2,634	2,149
Loss on disposal of assets, net (b)	87	340	180	291
Restaurant closure charges, net (c)	(24)	6	(37)	15
Amortization of favorable and unfavorable lease assets and liabilities, net (d)	(132)	(145)	(250)	(292)
Pre-opening costs (e)	199	151	641	177
Impairment of long-lived assets (f)	1,661	—	1,661	—
Adjusted EBITDA	\$ 16,802	\$ 16,986	\$ 30,732	\$ 31,610

(a) Includes non-cash, stock-based compensation.

(b) Loss on disposal of assets, net includes the loss or gain on disposal of assets related to sales, retirements and replacement or write-off of leasehold improvements or equipment in the ordinary course of business, net of amortization of deferred gains on asset sales associated with sale-leaseback transactions, gains or losses recorded associated with the sale of company-operated restaurants to franchisees.

(c) Includes sublease income from leases which are treated as deemed landlord financing, partially offset by costs related to future obligations associated with the closure or net sublease shortfall of a restaurant.

(d) Includes amortization of favorable lease assets and unfavorable lease liabilities.

(e) Pre-opening costs consist of costs directly associated with the opening of new restaurants and incurred prior to opening, including restaurant labor, supplies, cash and non-cash rent expense and other related pre-opening costs. These are generally incurred over the three to five months prior to opening.

(f) Includes costs related to impairment of long-lived assets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to market risk from changes in interest rates on our senior credit facility, which currently bears interest at variable rates. However, we seek to mitigate our variable interest rate risk on our senior credit facility by entering into an interest rate derivative on a portion of the senior credit facility, as discussed above under “—Liquidity and Capital Resources—Debt and Other Obligations—Hedging Arrangements” As of June 19, 2018, we had outstanding variable rate borrowings of \$153.0 million. A 100 basis point increase in the effective interest rate applied to this borrowing would result in a pre-tax interest expense increase of approximately \$1.5 million on an annualized basis, excluding the effect of our existing 2016 Interest Rate Cap Agreement.

Commodity Price Risk

We purchase certain products that are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions, potential cross-border taxes and tariffs and other factors which are not considered predictable or within our control. Although these products are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements used contain risk management techniques designed to minimize price volatility. In many cases, we believe we will be able to address material commodity cost increases by adjusting menu pricing or making other operational adjustments that increase productivity. However, increases in commodity prices, without adjustments to menu prices, could increase restaurant operating costs as a percentage of restaurant sales.

Inflation

Inflation has an impact on food, paper, construction, utility, labor and benefits, rent, general and administrative and other costs, all of which can materially impact operations. We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state or local minimum wage and increases in the minimum wage will increase labor costs.

On July 1, 2014, the State of California (where most of our restaurants are located) increased its minimum wage to \$9.00 per hour (from \$8.00 per hour), and it increased to \$10.00 per hour on January 1, 2016 and \$10.50 per hour on January 1, 2017. On March 31, 2016, the California Legislature passed legislation which was designed to raise the statewide minimum wage gradually until it reaches \$15.00 per hour in 2022 and it was signed into law on April 4, 2016. Under the new California law, minimum wage increased to \$10.50 per hour in 2017, increased to \$11.00 in 2018 and will then increase by an additional dollar each calendar year through 2022 when it reaches \$15.00 per hour. Based on our current number of restaurants in California, this is expected to impact 332 restaurants in California of which 223 are company-operated and 109 are franchise-operated (does not include those restaurants in special jurisdictions noted below).

In addition, in September 2015, the Los Angeles County Board of Supervisors approved increases to the minimum wage to \$15.00 per hour by 2020 with the first phase of the wage increase to \$10.50 effective on July 1, 2016, followed by an increase to \$12.00 per hour on July 1, 2017, \$13.25 on July 1, 2018, and \$14.25 on July 1, 2019 until it reaches \$15.00 per hour on July 1, 2020. Also, in June 2016, the Los Angeles City Council approved a sick paid leave ordinance to provide six days of paid sick leave per year, with carry-over of 72 hours, effective July 1, 2016. These local ordinances impacted 25 company-owned restaurants and eight franchise-owned restaurants in the City of Los Angeles and in the unincorporated areas of the County of Los Angeles.

On March 14, 2016, the Pasadena City Council adopted an ordinance to increase Pasadena’s minimum wage. Beginning on July 1, 2016, employers with 26 or more employees must pay a minimum wage of \$10.50 per hour to all employees who work at least 2 hours per week within Pasadena’s geographic bounds. The minimum wage increased to \$12.00 per hour on July 1, 2017, and \$13.25 per hour on July 1, 2018. This impacted two company-operated restaurants.

On June 7, 2016, San Diego voters voted in favor of an ordinance to increase San Diego's minimum wage rate and allow employees working within the San Diego city limits to earn one hour of paid sick leave for every 30 hours worked. The San Diego City Council certified this minimum wage increase on July 11, 2016 with the increase taking effect on July 11, 2016. Under this ordinance, for any employee who works at least two hours within San Diego city limits, minimum wage increased to \$10.50 per hour on July 11, 2016, \$11.50 per hour in 2017 and beginning 2019, the minimum wage rate will increase annually to an amount that corresponds to the prior year's increase, if any, in the cost of living. In addition, the ordinance provides up to five days of paid sick leave and allows unused sick leave to be carried over to the following year. This ordinance impacted three company-operated restaurants and two franchise-operated restaurants.

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On July 1, 2016, the Santa Monica minimum wage rates increased to \$10.50 per hour and allow employees working within the Santa Monica city limits to earn one hour of paid sick leave for every 30 hours worked. The minimum wage increased to \$12.00 on July 1, 2017 and \$13.25 per hour on July 1, 2018. The minimum wage will increase every year to \$15.00 per hour on July 1, 2020. This ordinance impacted one company-operated restaurant.

On November 8, 2016, Arizona voters voted in favor to increase the state minimum wage to \$10.00 per hour effective January 1, 2017 (from \$8.05 per hour) and to allow employees to earn one hour of paid sick leave for every 30 hours worked effective July 1, 2017. The minimum wage will increase to \$10.50 per hour in 2018, \$11.00 per hour in 2019, and \$12.00 per hour in 2020. The law provides up to five days of paid sick leave per year. The new law impacted three company-operated restaurants and 33 franchise-operated restaurants.

Other municipalities may set minimum wages above the applicable federal or state standards. The federal minimum wage has been \$7.25 per hour since July 24, 2009. Additional federally-mandated, state-mandated or locally mandated minimum wages may be raised in the future. Furthermore, on July 1, 2015, the Healthy Workplaces, Healthy Families Act of 2014 went into effect for California employees, which provides up to three days of paid sick leave for employees who work more than 30 days within a year.

We may be unable to increase our menu prices in order to pass future increased labor costs on to our customers, in which case our margins would be negatively affected, which could have a material adverse effect on our business, financial condition and results of operations. In addition, if our menu prices are increased to cover increased labor costs, the higher prices could adversely affect sales and thereby reduce our margins and profitability.

Critical Accounting Policies and Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that such estimates have been based on reasonable and supportable assumptions and the resulting estimates are reasonable for use in the preparation of the consolidated financial statements. Actual results could differ from these estimates. Our significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, insurance reserves, restaurant closure reserves, stock-based compensation, contingent liabilities and income tax valuation allowances.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. Management believes that the critical accounting policies and estimates involve the most difficult management judgments due to the sensitivity of the methods and assumptions used. For a description of our critical accounting policies, refer to “Critical Accounting Policies and Use of Estimates” in Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended January 2, 2018 filed with the SEC on March 15, 2018. There have been no material changes in any of our critical accounting policies during the twelve week period ended June 19, 2018, except as described in Note 2 of the notes to the accompanying unaudited consolidated financial statements, included elsewhere in this quarterly report on Form 10-Q.

Recently Issued Accounting Standards

See Note 2, *Basis of Presentation*, of the notes to the accompanying unaudited consolidated financial statements, included elsewhere in this quarterly report on Form 10-Q, for a description of the recently issued accounting standards.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our senior management, consisting of our chief executive officer and our chief financial officer, we conducted an evaluation 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) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report (the “Evaluation Date”). Based on that evaluation, the Company’s management, including our chief executive officer and chief financial officer, concluded that as of the Evaluation Date our disclosure controls and procedures were effective.

Our controls and procedures are based on assumptions. Additionally, even effective controls and procedures only provide reasonable assurance of achieving their objectives. Accordingly, we cannot guarantee that our controls and procedures will succeed or be adhered to in all circumstances.

We have evaluated our disclosure controls and procedures with the participation, and under the supervision, of our management, including our chief executive and chief financial officers. Based on this evaluation, our chief executive and chief financial officers have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the period covered by this report that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

See Note 13, Commitments and Contingencies, of the notes to the unaudited consolidated financial statements for a discussion of our legal matters.

Item 1A. Risk Factors

See “Item 1A. Risk Factors” included in the Annual Report on Form 10-K for the fiscal year ended January 2, 2018 filed with the SEC on March 15, 2018 for a discussion of our risk factors. There have been no material changes to our risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On March 7, 2016, we announced that our Board of Directors authorized a share repurchase program under which we may purchase up to \$25.0 million in the aggregate of our common stock and warrants. On August 23, 2016, we announced the Board of Directors increased the repurchase program by \$25.0 million, to \$50.0 million. The Board of Directors authorized an additional increase for the repurchase program effective July 23, 2018 of another \$25.0 million, to a total of \$75.0 million. Purchases under the program may be made in open market or privately negotiated transactions and expires upon completion of the program, unless earlier terminated by our Board of Directors. During the twelve weeks ended June 19, 2018, the Company repurchased (1) 407,821 shares of common stock for an average price per share of \$11.57 for an aggregate cost of approximately \$4.7 million, including incremental direct costs to acquire the shares, and (2) 11,132 warrants for an average price per warrant of \$2.68 for an aggregate cost of approximately \$30,000, including incremental direct costs to acquire the warrants. During the twenty-four weeks ended June 19, 2018, the Company repurchased (1) 407,821 shares of common stock for an average price per share of \$11.57 for an aggregate cost of approximately \$4.7 million, including incremental direct costs to acquire the shares, and (2) 20,943 warrants for an average price per warrant of \$3.00 for an aggregate cost of approximately \$0.1 million, including incremental direct costs to acquire the warrants. The Company expects to retire the repurchased shares and therefore has accounted for them as constructively retired as of June 19, 2018. As of June 19, 2018 and July 23, 2018, there was approximately \$16.2 million and \$41.2 million, respectively, remaining under the share repurchase program.

The following table summarizes shares and warrants repurchased during the quarter ended June 19, 2018. The average price paid per share and warrant in column (b) below does not include the cost of brokerage fees or the incremental direct costs to acquire the shares.

	(a)		(b)		(c)		(d)
	Total number of shares/warrants purchased		Average price paid per share	Average price paid per warrant	Total number of shares purchased as part of publicly announced programs	Total number of warrants purchased as part of publicly announced programs	Maximum dollar value that may yet be purchased under these programs
Common Stock	Warrants						
March 28, 2018 - April 24, 2018	—	—	\$ —	\$ —	—	—	\$ 20,903,780
April 25, 2018 - May 22, 2018	332,670	3,368	\$ 11.53	\$ 2.45	332,670	3,368	\$ 17,059,843
May 23, 2018 - June 19, 2018	75,151	7,764	\$ 11.74	\$ 2.78	75,151	7,764	\$ 16,155,987
Total	407,821	11,132	\$ 11.57	\$ 2.68	407,821	11,132	\$ 16,155,987

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Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
10.1	<u>First Amendment to Del Taco Restaurants, Inc. Omnibus Incentive Plan.</u>
10.2	<u>First Amendment dated February 29, 2016 to Credit Agreement dated as of August 4, 2015.</u>
10.3	<u>Second Amendment dated August 22, 2016 to Credit Agreement dated as of August 4, 2015.</u>
10.4	<u>Third Amendment dated July 23, 2018 to Credit Agreement dated as of August 4, 2015.</u>
31.1	<u>Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).</u>
31.2	<u>Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).</u>
32.1	<u>Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.</u>
32.2	<u>Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Document.

SIGNATURES

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

DEL TACO RESTAURANTS, INC.

Date: July 26, 2018

/s/ John D. Cappasola, Jr.

Name: John D. Cappasola, Jr.

Title: President and Chief Executive Officer

(principal executive officer)

/s/ Steven L. Brake

Name: Steven L. Brake

Title: Executive Vice President and Chief Financial Officer

(principal financial officer)

FIRST AMENDMENT TO DEL TACO RESTAURANTS, INC.**OMNIBUS INCENTIVE PLAN**

WHEREAS, Del Taco Restaurants, Inc. (previously known as Levy Acquisition Corp.), a Delaware corporation (the “Company”), previously established the Del Taco Restaurants, Inc. Omnibus Incentive Plan (the “Plan”);

WHEREAS, FASB Accounting Standards Update 2016-09 allows for favorable financial accounting treatment for equity awards provided that the number of shares that are withheld pursuant to net share settlement (and the taxes paid in cash) does not exceed a number of shares having a value equal to tax withholding obligations calculated using rates of up to the maximum statutory tax rates in the applicable jurisdiction;

WHEREAS, the Board has determined it is in the Company’s best interest to provide for net share settlement under the Plan subject to the terms and conditions set forth below; and

WHEREAS, Section 11.3 of the Plan authorizes the Board to amend the Plan.

NOW, THEREFORE, the Plan shall be amended as follows:

1. Section 10.7(b) shall be deleted in its entirety and replaced with the following:

“(b) **Withholding Arrangements** . The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant or Beneficiary to satisfy tax withholding obligations with respect to an Award, in whole or in part by (without limitation) (i) paying cash, check or other cash equivalents, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the amount required to be withheld or other greater amount up to the maximum statutory rate under Applicable Laws, as applicable to the Participant, if such other greater amount would not result in adverse financial accounting consequences for the Company, as determined by the Company, (iii) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld or such other greater amount, provided the delivery of such Shares will not result in any adverse financial accounting consequences for the Company, (iv) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld or a greater amount if it would not result in adverse financial accounting consequences for the Company, or (v) retaining from salary or other amounts payable to the Participant cash having a sufficient value to satisfy the amount required to be withheld or a greater amount if it would not result in adverse financial accounting consequences for the Company. For avoidance of doubt, a Participant who is permitted to use a method of withholding set forth in clauses (ii), (iii) or (iv) above with respect to a particular Award shall only have a continuing right to use that method of withholding as permitted by the Committee in its sole discretion. The amount of the withholding requirement will be deemed to include any amount which the Committee agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant or Beneficiary with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

2. Capitalized terms used in this First Amendment and not otherwise defined herein shall have the meanings assigned to such terms in the Plan (including its Appendix).

Executed this 21st day of June, 2018 by a duly authorized officer of the Company.

DEL TACO RESTAURANTS, INC.

By: /s/Jack Tang
Name: Jack Tang
Title: General Counsel

AMENDMENT NO. 1 TO
CREDIT AGREEMENT

This **AMENDMENT NO. 1** dated as of February 29, 2016 (this “Amendment”) is by and among

(a) SAGITTARIUS RESTAURANTS LLC, a Delaware limited liability company (the “Borrower”), (b) each of the Guarantors signatory hereto, (c) BANK OF AMERICA, N.A., as administrative agent (the “Administrative Agent”) and (d) the lenders signatory hereto and amends that certain Credit Agreement dated as of August 4, 2015 (as amended, restated, extended, supplemented, modified and otherwise in effect from time to time, the “Credit Agreement”) by and among the Borrower, the other Loan Parties party thereto, the Lenders party thereto, the Administrative Agent, BANK OF AMERICA, N.A. as L/C Issuer and Swing Line Lender, JPMORGAN CHASE BANK, N.A. and BANK OF MONTREAL, as Co- Syndication Agents and REGIONS BANK, as Documentation Agent. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower has requested that the Administrative Agent and the Required Lenders agree to amend certain of the terms and provisions of the Credit Agreement, as specifically set forth in this Amendment; and

WHEREAS, the Borrower, the Administrative Agent and the Required Lenders have agreed to amend certain provisions of the Credit Agreement as provided more fully herein below.

NOW THEREFORE, in consideration of the mutual agreements contained in the Credit Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

§1. Amendment to Section 1.01 of the Credit Agreement. The definition of “Consolidated Fixed Charge Coverage Ratio” in Section 1.01 of the Credit Agreement is hereby amended by adding the following proviso immediately following “(to the extent not already deducted in the calculation of Consolidated Net Income),” in clause (a)(ii) thereof:

“excluding any Restricted Payment made pursuant to Section 7.06(h) in connection with the repurchase by Parent of Parent’s Equity Interests and warrants pursuant to a repurchase plan approved by the board of directors of Parent on February 26, 2016, provided that the aggregate amount of all such Restricted Payments shall not exceed \$25,000,000,”

§2. Affirmation and Acknowledgment. Each Loan Party hereby ratifies and confirms all of its Obligations to the Lenders and the Administrative Agent, and the Borrower hereby affirms its absolute and unconditional promise to pay to the Lenders the Loans, the other Obligations, and all other amounts due under the Credit Agreement as amended hereby. Each Loan Party hereby ratifies and reaffirms the validity and enforceability of all of the Liens and security interests heretofore granted and pledged by such Loan Party pursuant to the Loan Documents to the Administrative Agent, on behalf and for the benefit of the Secured Parties, as collateral security for the Obligations, and acknowledges that all of such Liens and security interests, and all Collateral heretofore granted, pledged or otherwise created as security for the Obligations continue to be and remain collateral security for the Obligations from and after the date hereof. Each of the Guarantors party to the Guaranty hereby acknowledges and consents to this Amendment and agrees that the Guaranty and all other Loan Documents to which each of the Guarantors are a party remain in full force and effect, and each of the Guarantors confirms and ratifies all of its Obligations thereunder.

§3. Representations and Warranties. Each Loan Party hereby represents and warrants to the Lenders and the Administrative Agent as follows:

(a) The execution, delivery and performance by each Loan Party of this Amendment and the performance by such Loan Party of its obligations and agreements under this Amendment and the Credit Agreement, as amended hereby, have been duly authorized by all necessary corporate or other organizational action, and do not (i) contravene the terms of any of such Person's Organization Documents, (ii) conflict with or result in any breach or contravention of any Material Contract, any Lease or any Franchise Agreement to which such Person is a party, (iii) conflict with or result in any breach or contravention of any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject, or (iv) violate any Law, in each case under clauses (ii) through (iv) in a way that has or could reasonably be expected to have a Material Adverse Effect.

(b) This Amendment has been duly executed and delivered by such Loan Party. Each of this Amendment and the Credit Agreement, as amended hereby, constitutes a legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with their respective terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, whether enforcement is sought by a proceeding in equity or at law.

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is required in connection with the execution, delivery or performance by or enforcement against such Loan Party of this Amendment or the Credit Agreement as amended hereby.

(d) The representations and warranties of such Loan Party contained in Article V of the Credit Agreement or in any other Loan Document, or which are contained in any document furnished at any time under or in connection therewith, are true and correct in all material respects (without duplication of any materiality qualifier contained therein) on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of such earlier date, and except that the representations and warranties contained in Sections 5.05(a) and 5.05(b) of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Sections 6.01(a) and 6.01(b) of the Credit Agreement, respectively.

(e) As of the date hereof, after giving effect to the provisions hereof, there exists no Default or Event of Default.

§4. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent or concurrent on February 29, 2016 (the "First Amendment Effective Date"):

(a) This Amendment shall have been duly executed and delivered by each Loan Party, the Administrative Agent and the Required Lenders.

(b) The representations and warranties set forth in Section 3 hereof shall be true and correct.

(c) The Administrative Agent shall have been reimbursed for all reasonable and documented fees and out-of-pocket charges and other expenses incurred in connection with this Amendment, including, without limitation, the reasonable and documented fees and disbursements of counsel for the Administrative Agent, to the extent documented prior to or on the date hereof (for the

avoidance of doubt, a summary statement of such fees, charges and disbursements shall be sufficient documentation for the obligations set forth in this Section 4(c)).

§5. Miscellaneous Provisions.

§5.1. Except as expressly amended or otherwise modified by this Amendment, the Credit Agreement and all documents, instruments and agreements related thereto, including, but not limited to the other Loan Documents, are hereby ratified and confirmed in all respects and shall continue in full force and effect. No amendment, consent or waiver herein granted or agreement herein made shall extend beyond the terms expressly set forth herein for such amendment, consent, waiver or agreement, as the case may be, nor shall anything contained herein be deemed to imply any willingness of the Administrative Agent or the Lenders to agree to, or otherwise prejudice any rights of the Administrative Agent or the Lenders with respect to, any similar amendments, consents, waivers or agreements that may be requested for any future period, and this Amendment shall not be construed as a waiver of any other provision of the Loan Documents or to permit the Borrower or any other Loan Party to take any other action which is prohibited by the terms of the Credit Agreement and the other Loan Documents. The Credit Agreement and this Amendment shall be read and construed as a single agreement. All references in the Credit Agreement, or any related agreement or instrument, to the Credit Agreement shall hereafter refer to the Credit Agreement, as amended hereby. This Amendment shall constitute a Loan Document.

§5.2. THIS AMENDMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AMENDMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

§5.3. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT IT WILL NOT COMMENCE ANY ACTION, LITIGATION OR PROCEEDING OF ANY KIND OR DESCRIPTION, WHETHER IN LAW OR EQUITY, WHETHER IN CONTRACT OR IN TORT OR OTHERWISE, AGAINST THE ADMINISTRATIVE AGENT, ANY LENDER, THE L/C ISSUER, OR ANY RELATED PARTY OF THE FOREGOING IN ANY WAY RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS RELATING HERETO OR THERETO, IN ANY FORUM OTHER THAN THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF SUCH COURTS AND AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION, LITIGATION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION, LITIGATION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AMENDMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER OR THE L/C ISSUER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

§5.4. This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or other electronic imaging means (e.g., “pdf” or “tif”) shall be effective as delivery of a manually executed counterpart of this Amendment.

§5.5. The provisions of this Amendment are solely for the benefit of the Loan Parties, the Administrative Agent and the Lenders and no other Person shall have rights as a third party beneficiary of any of such provisions.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as a document under seal as of the date first above written.

SAGITTARIUS RESTAURANTS LLC

By : /s/Steven L. Brake
Name: Steven L. Brake
Title : Executive Vice President and Chief Financial Officer

**DEL TACO HOLDINGS, INC.
F&C RESTAURANT HOLDING CO. KERRY FOODS INTERNATIONAL LLC
DEL TACO LLC**

By: /s/Steven L. Brake
Name: Steven L. Brake
Title: Executive Vice President and Chief Financial Officer

[Del Taco- Signature Page to Amendment No. I to Credit Agreement]

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/Erik M. Truette
Name: Erik M. Truette
Title: Vice President

[Del Taco- Signature Page to Amendment No. I to Credit Agreement]

BANK OF AMERICA, N.A.,
as a Lender, L/C Issuer and Swing Line Lender

By: /s/John Coppedge
Name: John Coppedge
Title: SVP

[Del Taco- Signature Page to Amendment No . I to Credit Agreement]

JPMORGAN CHASE BANK, N.A., as a Lender

By: /s/Nathan Smith

Name: Nathan Smith

Title: Authorized Officer

BANK OF MONTREAL , as a Lender

By ; /s/ Todd Maldonado

Name: Todd Maldonado

Title : Director

REGIONS BANK, as a Lender

By: /s/Scott C. Tocci

Name: Scott C. Tocci

Title: Managing Director

MUFG UNION BANK, N.A., as a Lender

By : /s/Lance Zediker
Name: Lance Zediker, Director

WEBSTER BANK, N.A., as a Lender

By: /s/Carol A. Pirek
Name: Carol A. Pirek
Title: Vice President

AMENDMENT NO. 2 TO
CREDIT AGREEMENT

This **AMENDMENT NO. 2** dated as of August 22, 2016 (this “Amendment”) is by and among

(a) SAGITTARIUS RESTAURANTS LLC, a Delaware limited liability company (the “Borrower”), (b) each of the Guarantors signatory hereto, (c) BANK OF AMERICA, N.A., as administrative agent (the “Administrative Agent”) and (d) the lenders signatory hereto and amends that certain Credit Agreement dated as of August 4, 2015 (as amended, restated, extended, supplemented, modified and otherwise in effect from time to time, the “Credit Agreement”) by and among the Borrower, the other Loan Parties party thereto, the Lenders party thereto, the Administrative Agent, BANK OF AMERICA, N.A. as L/C Issuer and Swing Line Lender, JPMORGAN CHASE BANK, N.A. and BANK OF MONTREAL, as Co- Syndication Agents and REGIONS BANK, as Documentation Agent. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower has requested that the Administrative Agent and the Required Lenders agree to amend certain of the terms and provisions of the Credit Agreement, as specifically set forth in this Amendment; and

WHEREAS, the Borrower, the Administrative Agent and the Required Lenders have agreed to amend certain provisions of the Credit Agreement as provided more fully herein below.

NOW THEREFORE, in consideration of the mutual agreements contained in the Credit Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

§1. Amendments to the Credit Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 4 below, the Credit Agreement is hereby amended as follows:

(a) The following definitions are hereby added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“EEA Financial Institution” means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a Subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.



“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

(b) The definition of “Arrangers” in Section 1.01 of the Credit Agreement is hereby amended by restating such definition in its entirety as follows:

“Arrangers” means, collectively, (a) Merrill Lynch, Pierce, Fenner & Smith Incorporated, (or any other registered broker-dealer wholly-owned by Bank of America Corporation to which all or substantially all of Bank of America Corporation’s or any of its subsidiaries’ investment banking, commercial lending services or related businesses may be transferred following the date of this Agreement) and (b) J.P. Morgan Securities LLC, each in their respective capacities as joint lead arrangers and joint bookrunners.

(c) The definition of “Consolidated Fixed Charge Coverage Ratio” in Section 1.01 of the Credit Agreement is hereby amended by deleting the proviso immediately following “(to the extent not already deducted in the calculation of Consolidated Net Income),” in clause (a)(ii) thereof and replacing it with the following:

“excluding any Restricted Payment made pursuant to Section 7.06(h) in connection with the repurchase by Parent of Parent’s Equity Interests and warrants pursuant to repurchase plans approved by the board of directors of Parent on February 26, 2016 and August 22, 2016, provided that the aggregate amount of all such Restricted Payments shall not exceed \$50,000,000,”

(d) amending and restating clause (d) of the definition of “Defaulting Lender” in Section 1.01 of the Credit Agreement as follows:

“(d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity or (iii) become the subject of a Bail-In Action; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any Equity Interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.”

(e) Section 2.16 of the Credit Agreement is hereby amended by restating the last sentence of clause (a)(iv) of such Section in its entirety as follows:

“Subject to Section 11.19, no reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender’s increased exposure following such reallocation.”

(f) Article V of the Credit Agreement is hereby amended by adding a new Section 5.26 to the end of such Article thereof as follows:

“5.26. EEA Financial Institution. No Loan Party is an EEA Financial Institution.”

(g) Section 7.06 of the Credit Agreement is hereby amended by restating clause (h) in its entirety as follows:

“(h) so long as no Default or Event of Default shall have occurred and be continuing or would result therefrom, Holdings and each of its Subsidiaries may make Restricted Payments; provided that (i) in the event such Restricted Payment is in the form of a repurchase of Parent’s Equity Interests, Administrative Agent shall have received evidence that the applicable Loan Party’s or Subsidiary’s board of directors or equivalent governing body has approved such Restricted Payment, (ii) after giving effect to such Restricted Payment, on a pro forma basis as of the last day of the most recently ended Measurement Period for which financial statements have been delivered (or were required to be delivered) pursuant to Section 6.01, the Loan Parties are in compliance with the covenants set forth in Section 7.11, and (iii) the aggregate amount of such Restricted Payments shall not exceed \$7,500,000 per fiscal year; provided, further, that this clause (iii) (x) shall not apply if the Consolidated Total Lease Adjusted Leverage Ratio is not greater than 4.25 to 1.00 as of the most recently ended Measurement Period for which financial statements have been delivered (or were required to be delivered) pursuant to Section 6.01 and (y) shall not apply retroactively to any such Restricted Payments that were made at a time when the Consolidated Total Lease Adjusted Leverage Ratio was 4.25 to 1.00 or less; and”

(h) Article XI of the Credit Agreement is hereby amended by adding a new Section 11.19 to the end of such Article thereof as follows:

“11.19 Acknowledgement and Consent to Bail-In of EEA Financial Institutions.

Solely to the extent any Lender or L/C Issuer that is an EEA Financial Institution is a party to this Agreement and notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Lender or L/C Issuer that is an EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any Lender or L/C Issuer that is an EEA Financial Institution; and

- (b) the effects of any Bail-In Action on any such liability, including, if applicable:
 - (i) a reduction in full or in part or cancellation of any such liability;
 - (ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or
 - (iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.”

§2. Affirmation and Acknowledgment . Each Loan Party hereby ratifies and confirms all of its Obligations to the Lenders and the Administrative Agent, and the Borrower hereby affirms its absolute and unconditional promise to pay to the Lenders the Loans, the other Obligations, and all other amounts due under the Credit Agreement as amended hereby. Each Loan Party hereby ratifies and reaffirms the validity and enforceability of all of the Liens and security interests heretofore granted and pledged by such Loan Party pursuant to the Loan Documents to the Administrative Agent, on behalf and for the benefit of the Secured Parties, as collateral security for the Obligations, and acknowledges that all of such Liens and security interests, and all Collateral heretofore granted, pledged or otherwise created as security for the Obligations continue to be and remain collateral security for the Obligations from and after the date hereof. Each of the Guarantors party to the Guaranty hereby acknowledges and consents to this Amendment and agrees that the Guaranty and all other Loan Documents to which each of the Guarantors are a party remain in full force and effect, and each of the Guarantors confirms and ratifies all of its Obligations thereunder.

§3. Representations and Warranties . Each Loan Party hereby represents and warrants to the Lenders and the Administrative Agent as follows:

(a) The execution, delivery and performance by each Loan Party of this Amendment and the performance by such Loan Party of its obligations and agreements under this Amendment and the Credit Agreement, as amended hereby, have been duly authorized by all necessary corporate or other organizational action, and do not (i) contravene the terms of any of such Person’s Organization Documents, (ii) conflict with or result in any breach or contravention of any Material Contract, any Lease or any Franchise Agreement to which such Person is a party, (iii) conflict with or result in any breach or contravention of any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject, or (iv) violate any Law, in each case under clauses (ii) through (iv) in a way that has or could reasonably be expected to have a Material Adverse Effect.

(b) This Amendment has been duly executed and delivered by such Loan Party. Each of this Amendment and the Credit Agreement, as amended hereby, constitutes a legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with their respective terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors’ rights generally and by general equitable principles, whether enforcement is sought by a proceeding in equity or at law.

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is required in connection with the execution, delivery or performance

by or enforcement against such Loan Party of this Amendment or the Credit Agreement as amended hereby.

(d) The representations and warranties of such Loan Party contained in Article V of the Credit Agreement or in any other Loan Document, or which are contained in any document furnished at any time under or in connection therewith, are true and correct in all material respects (without duplication of any materiality qualifier contained therein) on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of such earlier date, and except that the representations and warranties contained in Sections 5.05(a) and 5.05(b) of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Sections 6.01(a) and 6.01(b) of the Credit Agreement, respectively.

(e) As of the date hereof, after giving effect to the provisions hereof, there exists no Default or Event of Default.

§4. Conditions . The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent or concurrent on August 22, 2016 (the “Second Amendment Effective Date”):

(a) This Amendment shall have been duly executed and delivered by each Loan Party, the Administrative Agent and the Required Lenders.

(b) The representations and warranties set forth in Section 3 hereof shall be true and correct.

(c) The Administrative Agent shall have been reimbursed for all reasonable and documented fees and out-of-pocket charges and other expenses incurred in connection with this Amendment, including, without limitation, the reasonable and documented fees and disbursements of counsel for the Administrative Agent, to the extent documented prior to or on the date hereof (for the avoidance of doubt, a summary statement of such fees, charges and disbursements shall be sufficient documentation for the obligations set forth in this Section 4(c)).

§5. Miscellaneous Provisions .

(a) Except as expressly amended or otherwise modified by this Amendment, the Credit Agreement and all documents, instruments and agreements related thereto, including, but not limited to the other Loan Documents, are hereby ratified and confirmed in all respects and shall continue in full force and effect. No amendment, consent or waiver herein granted or agreement herein made shall extend beyond the terms expressly set forth herein for such amendment, consent, waiver or agreement, as the case may be, nor shall anything contained herein be deemed to imply any willingness of the Administrative Agent or the Lenders to agree to, or otherwise prejudice any rights of the Administrative Agent or the Lenders with respect to, any similar amendments, consents, waivers or agreements that may be requested for any future period, and this Amendment shall not be construed as a waiver of any other provision of the Loan Documents or to permit the Borrower or any other Loan Party to take any other action which is prohibited by the terms of the Credit Agreement and the other Loan Documents. The Credit Agreement and this Amendment shall be read and construed as a single agreement. All references in the Credit Agreement, or any related agreement or instrument, to the Credit Agreement shall hereafter refer to the Credit Agreement, as amended hereby. This Amendment shall constitute a Loan Document.

(b) THIS AMENDMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING

OUT OF OR RELATING TO THIS AMENDMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(c) THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT IT WILL NOT COMMENCE ANY ACTION, LITIGATION OR PROCEEDING OF ANY KIND OR DESCRIPTION, WHETHER IN LAW OR EQUITY, WHETHER IN CONTRACT OR IN TORT OR OTHERWISE, AGAINST THE ADMINISTRATIVE AGENT, ANY LENDER, THE L/C ISSUER, OR ANY RELATED PARTY OF THE FOREGOING IN ANY WAY RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS RELATING HERETO OR THERETO, IN ANY FORUM OTHER THAN THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF SUCH COURTS AND AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION, LITIGATION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION, LITIGATION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AMENDMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER OR THE L/C ISSUER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(d) This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or other electronic imaging means (e.g., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Amendment.

(e) The provisions of this Amendment are solely for the benefit of the Loan Parties, the Administrative Agent and the Lenders and no other Person shall have rights as a third party beneficiary of any of such provisions.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment as a document under seal as of the date first above written.

SAGITTARIUS RESTAURANTS LLC

By: /s/Steven L. Brake

Name: Steven L. Brake

Title: Executive Vice President and Chief Financial Officer

DEL TACO HOLDINGS, INC.

F&C RESTAURANT HOLDING CO. KERRY FOODS INTERNATIONAL LLC

DEL TACO LLC

By: /s/Steven L. Brake

Name: Steven L. Brake

Title: Executive Vice President and Chief Financial Officer

[Del Taco- Signature Page to Amendment No. 2 to Credit Agreement]

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/Erik M. Truette

Name: Erik
M. Truette
Title: Vice
President

BANK OF AMERICA, N.A.,

as a Lender, L/C Issuer and Swing Line Lender

By: /s/John Coppedge
Name: John Coppedge
Title: SVP

JPMORGAN CHASE BANK, N.A., as a Lender

By: /s/Nathan Smith
Name: Nathan Smith
Title: Authorized Officer

BANK OF MONTREAL , as a Lender

By: /s/Todd Maldonado

Name: Todd Maldonado -

Title : Director

REGIONS BANK, as a Lender

By: /s/Scott C. Tocci

Name: Scott C. Tocci
Title: Managing Director

MUFG UNION BANK, N.A., as a Lender

By: /s/Lance Zediker

Name: Lance Zediker

Title: Director

WEBSTER BANK, N .A., as a Lender

By: /s/Carol A. Pirek
Name: Carol A. Pirek
Title . V ice President

AMENDMENT NO. 3 TO
CREDIT AGREEMENT

This **AMENDMENT NO. 3** dated as of July 23, 2018 (this “Amendment”) is by and among (a) SAGITTARIUS RESTAURANTS LLC, a Delaware limited liability company (the “Borrower”), (b) each of the Guarantors signatory hereto, (c) BANK OF AMERICA, N.A., as administrative agent (the “Administrative Agent”) and (d) the lenders signatory hereto and amends that certain Credit Agreement dated as of August 4, 2015 (as amended, restated, extended, supplemented, modified and otherwise in effect from time to time, the “Credit Agreement”) by and among the Borrower, the other Loan Parties party thereto, the Lenders party thereto, the Administrative Agent, BANK OF AMERICA, N.A. as L/C Issuer and Swing Line Lender, JPMORGAN CHASE BANK, N.A. and BANK OF MONTREAL, as Co- Syndication Agents and REGIONS BANK, as Documentation Agent. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower has requested that the Administrative Agent and the Required Lenders agree to amend certain of the terms and provisions of the Credit Agreement, as specifically set forth in this Amendment; and

WHEREAS, the Borrower, the Administrative Agent and the Required Lenders have agreed to amend certain provisions of the Credit Agreement as provided more fully herein below.

NOW THEREFORE, in consideration of the mutual agreements contained in the Credit Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

§1. Amendments to the Credit Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 4 below, the Credit Agreement is hereby amended as follows:

(a) The following definitions are hereby added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

“Beneficial Ownership Certification” means a certification regarding beneficial ownership required by the Beneficial Ownership Regulation.

“Beneficial Ownership Regulation” means 31 C.F.R. § 1010.230.

“Benefit Plan” means any of (a) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (b) a “plan” as defined in Section 4975 of the Code or (c) any Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such “employee benefit plan” or “plan”.

“LIBOR Screen Rate” means the LIBOR quote on the applicable screen page the Administrative Agent designates to determine LIBOR (or such other commercially available source providing such quotations as may be designated by the Administrative Agent from time to time).

“ LIBOR Successor Rate Conforming Changes ” means, with respect to any proposed LIBOR Successor Rate, any conforming changes to the definition of Base Rate, Interest Period, timing and frequency of determining rates and making payments of interest and

other administrative matters as may be appropriate, in the discretion of the Administrative Agent, to reflect the adoption of such LIBOR Successor Rate and to permit the administration thereof by the Administrative Agent in a manner substantially consistent with market practice (or, if the Administrative Agent determines that adoption of any portion of such market practice is not administratively feasible or that no market practice for the administration of such LIBOR Successor Rate exists, in such other manner of administration as the Administrative Agent determines in consultation with the Borrower).

“PTE” means a prohibited transaction class exemption issued by the U.S. Department of Labor, as any such exemption may be amended from time to time.

(b) The definition of “Consolidated Fixed Charge Coverage Ratio” in Section 1.01 of the Credit Agreement is hereby amended by deleting the proviso immediately following “(to the extent not already deducted in the calculation of Consolidated Net Income),” in clause (a)(ii) thereof and replacing it with the following:

excluding any Restricted Payment made pursuant to Section 7.06(h) in connection with the repurchase by Parent of Parent’s Equity Interests and warrants pursuant to repurchase plans approved by the board of directors of Parent on February 26, 2016, August 22, 2016, and July 23, 2018 provided that the aggregate amount of all such Restricted Payments shall not exceed \$75,000,000,

(c) The definition of “ERISA” in Section 1.01 of the Credit Agreement is hereby amended by amending and restating such definition in its entirety as follows:

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

(d) The definition of “Eurodollar Rate” in Section 1.01 of the Credit Agreement is hereby amended by adding the following provisions immediately following the last paragraph thereof:

Notwithstanding anything to the contrary in this Agreement or any other Loan Documents, if the Administrative Agent determines (which determination shall be conclusive absent manifest error), or the Borrower or Required Lenders notify the Administrative Agent (with, in the case of the Required Lenders, a copy to Borrower) that the Borrower or Required Lenders (as applicable) have determined, that:

- (i) adequate and reasonable means do not exist for ascertaining LIBOR for any requested Interest Period, including, without limitation, because the LIBOR Screen Rate is not available or published on a current basis and such circumstances are unlikely to be temporary;
 - (ii) the administrator of the LIBOR Screen Rate or a Governmental Authority having jurisdiction over the Administrative Agent has made a public statement identifying a specific date after which LIBOR or the LIBOR Screen Rate shall no longer be made available, or used for determining the interest rate of loans (such specific date, the “Scheduled Unavailability Date”); or
-

- (iii) syndicated loans currently being executed, or that include language similar to that contained in this Section, are being executed or amended (as applicable) to incorporate or adopt a new benchmark interest rate to replace LIBOR;

then, reasonably promptly after such determination by the Administrative Agent or receipt by the Administrative Agent of such notice, as applicable, the Administrative Agent and the Borrower may amend this Agreement to replace LIBOR with an alternate benchmark rate (including any mathematical or other adjustments to the benchmark (if any) incorporated therein), giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities for such alternative benchmarks (any such proposed rate, a “LIBOR Successor Rate”), together with any proposed LIBOR Successor Rate Conforming Changes (as defined below) and any such amendment shall become effective at 5:00 p.m. (New York time) on the fifth Business Day after the Administrative Agent shall have posted such proposed amendment to all Lenders and the Borrower unless, prior to such time, Lenders comprising the Required Lenders have delivered to the Administrative Agent written notice that such Required Lenders do not accept such amendment.

If no LIBOR Successor Rate has been determined and the circumstances under clause (i) above exist or the Scheduled Unavailability Date has occurred (as applicable), the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter,

- (x) the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended (to the extent of the affected Eurodollar Rate Loans or Interest Periods), and
- (y) the Eurodollar Rate component shall no longer be utilized in determining the Base Rate. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans (to the extent of the affected Eurodollar Rate Loans or Interest Periods) or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans (subject to the foregoing clause (y)) in the amount specified therein.

(e) follows: Article V of the Credit Agreement is hereby amended by adding a new Section 5.27 to the end of such Article thereof as follows:

5.27 Use of Plan Assets .

(a) Borrower represents and warrants, as of the date hereof and throughout the term of this Agreement, at least one of the following is and will be true with respect to the Borrower:

(i) the Borrower is not using “plan assets” (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA) of one or more Benefit Plans as a source of payment with respect to the Loans, the Letters of Credit or the Revolving Credit Commitments;

(ii) the transaction exemption set forth in one or more PTEs, such as PTE 84- 14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91- 38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in-

house asset managers), is applicable with respect to the Borrower's entering into and performance of this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder;

(iii) (A) the Borrower is an investment fund managed by a "Qualified Professional Asset Manager" (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Borrower to enter into and perform this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder, (C) the entering into and performance of this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder, each satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (D) to the best knowledge of the Borrower, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to the Borrower's entering into and performance of this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder; or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and the Borrower.

(b) In addition, unless sub-clause (i) in the immediately preceding clause (a) is true with respect to the Borrower or the Borrower has not provided another representation, warranty and covenant as described in sub-clause (iv) in the immediately preceding clause (a), the Borrower further represents and warrants, as of the date hereof and throughout the term of this Agreement, that:

(i) none of the Administrative Agent, any Lender, the Arrangers or any Affiliate of the foregoing is a fiduciary with respect to the assets of the Borrower (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Loan Document or any documents related hereto or thereto);

(ii) the Person making the investment decision on behalf of the Borrower with respect to the entrance into and performance of this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder is independent (within the meaning of 29 CFR § 2510.3-21) and is a bank, an insurance carrier, an investment adviser, a broker-dealer or other person that holds, or has under management or control, total assets of at least \$50 million, in each case as described in 29 CFR § 2510.3-21(c)(1)(i)(A)-(E);

(iii) the Person making the investment decision on behalf of the Borrower with respect to the entrance into and performance of this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies (including in respect of the Obligations);

(iv) the Person making the investment decision on behalf of the Borrower with respect to the entrance into and performance of this Agreement, any documents related to this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder is a fiduciary under ERISA or the Code, or both, with respect to this Agreement, the other Loan Documents, the Loans, the Letters of Credit or the Revolving Credit Commitments and each action or obligation hereunder and thereunder; and

(v) no fee or other compensation is being paid directly to the to the Administrative Agent, the Arrangers or any Lender or any Affiliates of the foregoing for investment advice (as opposed to other services) in connection with the transactions contemplated hereby or by any Loan Document.

(c) The Administrative Agent, the Arrangers and each Lender hereby informs the Borrower that such Person is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the transactions contemplated hereby, and that such Person or its Affiliates has a financial interest in the transactions contemplated hereby in that such Person or its Affiliates (i) may receive interest or other payments with respect to the Loans, the Letters of Credit or the Revolving Credit Commitments, (ii) may recognize a gain if it purchased the Loans, the Letters of Credit or the Revolving Credit Commitments for an amount less than the par amount thereof or sells the Loans, the Letters of Credit or the Revolving Credit Commitments for an amount in excess of what it paid therefor or extended to the Borrower hereunder and/or (iii) may receive fees or other payments in connection with the transactions contemplated hereby, the Loan Documents or otherwise, including structuring fees, commitment fees, arrangement fees, facility fees, upfront fees, underwriting fees, ticking fees, agency fees, administrative agent or collateral agent fees, utilization fees, minimum usage fees, letter of credit fees, fronting fees, deal-away or alternate transaction fees, amendment fees, processing fees, term out premiums, banker's acceptance fees, breakage or other early termination fees or fees similar to the foregoing.

(f) Article IX of the Credit Agreement is hereby amended by adding a new Section 9.12 to the end of such Article thereof as follows:

9.12 ERISA Representations.

(a) Each Lender (x) represents and warrants, as of the date such Person became a Lender party hereto, and (y) covenants, from the date such Person became a Lender party hereto, in each case, to the date such Person ceases being a Lender party hereto, for the benefit of the Administrative Agent, the Arrangers, and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Loan Party, that at least one of the following is and will be true:

(i) such Lender is not using "plan assets" (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA) of one or more Benefit Plans in connection with the Loans, the Letters of Credit or the Revolving Credit Commitments;

(ii) the transaction exemption set forth in one or more PTEs, such as PTE 84- 14 (a class exemption for certain transactions determined by independent qualified

professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91- 38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in- house asset managers), is applicable with respect to such Lender's entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement;

(iii) (A) such Lender is an investment fund managed by a "Qualified Professional Asset Manager" (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Lender to enter into, participate in, administer and perform the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement, (C) the entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (D) to the best knowledge of such Lender, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Lender's entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement; or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Lender.

(b) In addition, unless sub-clause (i) in the immediately preceding clause (a) is true with respect to a Lender or such Lender has not provided another representation, warranty and covenant as provided in sub-clause (iv) in the immediately preceding clause (a), such Lender further (x) represents and warrants, as of the date such Person became a Lender party hereto, and (y) covenants, from the date such Person became a Lender party hereto, in each case, to the date such Person ceases being a Lender party hereto, for the benefit of the Administrative Agent, the Arrangers, and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Loan Party, that:

(i) none of the Administrative Agent, the Arrangers, or any of their respective Affiliates is a fiduciary with respect to the assets of such Lender (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Loan Document or any documents related to hereto or thereto);

(ii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement is independent (within the meaning of 29 CFR § 2510.3-21) and is a bank, an insurance carrier, an investment adviser, a broker-dealer or other person that holds, or has under management or control, total assets of at least \$50 million, in each case as described in 29 CFR § 2510.3-21(c)(1)(i)(A)-(E);

(iii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the

Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies (including in respect of the Obligations);

(iv) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement is a fiduciary under ERISA or the Code, or both, with respect to the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement and is responsible for exercising independent judgment in evaluating the transactions hereunder; and

(v) no fee or other compensation is being paid directly to the Administrative Agent, the Arrangers, or any their respective Affiliates for investment advice (as opposed to other services) in connection with the Loans, the Letters of Credit, the Revolving Credit Commitments or this Agreement.

(c) The Administrative Agent and each Arranger hereby informs the Lenders that each such Person is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the transactions contemplated hereby, and that such Person has a financial interest in the transactions contemplated hereby in that such Person or its Affiliates (i) may receive interest or other payments with respect to the Loans, the Letters of Credit, the Revolving Credit Commitments and this Agreement, (ii) may recognize a gain if it extended the Loans, the Letters of Credit or the Revolving Credit Commitments for an amount less than the amount being paid for an interest in the Loans, the Letters of Credit or the Revolving Credit Commitments by such Lender or (iii) may receive fees or other payments in connection with the transactions contemplated hereby, the Loan Documents or otherwise, including structuring fees, commitment fees, arrangement fees, facility fees, upfront fees, underwriting fees, ticking fees, agency fees, administrative agent or collateral agent fees, utilization fees, minimum usage fees, letter of credit fees, fronting fees, deal-away or alternate transaction fees, amendment fees, processing fees, term out premiums, banker's acceptance fees, breakage or other early termination fees or fees similar to the foregoing.

(g) Section 11.18 of the Credit Agreement is hereby amended by amending and restating such section in its entirety as follows:

11.18 USA PATRIOT Act/KYC Regulations. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Loan Party in accordance with the Act. The Borrower shall, promptly following any request therefor, provide information and documentation reasonably requested by the Administrative Agent or any Lender for purposes of compliance with applicable "know your customer" and anti-money-laundering rules and regulations, including, without limitation, the Act and the Beneficial Ownership Regulation.

§2. Affirmation and Acknowledgment. Each Loan Party hereby ratifies and confirms all of its Obligations to the Lenders and the Administrative Agent, and the Borrower hereby affirms its absolute and unconditional promise to pay to the Lenders the Loans, the other Obligations, and all other amounts due under the Credit Agreement as amended hereby. Each Loan Party hereby ratifies and reaffirms the validity and enforceability of all of the Liens and security interests heretofore granted and pledged by such Loan Party pursuant to the Loan Documents to the Administrative Agent, on behalf and for the benefit of the Secured Parties, as collateral security for the Obligations, and acknowledges that all of such Liens and security interests, and all Collateral heretofore granted, pledged or otherwise created as security for the Obligations continue to be and remain collateral security for the Obligations from and after the date hereof. Each of the Guarantors party to the Guaranty hereby acknowledges and consents to this Amendment and agrees that the Guaranty and all other Loan Documents to which each of the Guarantors are a party remain in full force and effect, and each of the Guarantors confirms and ratifies all of its Obligations thereunder.

§3. Representations and Warranties. Each Loan Party hereby represents and warrants to the Lenders and the Administrative Agent as follows:

(a) The execution, delivery and performance by each Loan Party of this Amendment and the performance by such Loan Party of its obligations and agreements under this Amendment and the Credit Agreement, as amended hereby, have been duly authorized by all necessary corporate or other organizational action, and do not (i) contravene the terms of any of such Person's Organization Documents, (ii) conflict with or result in any breach or contravention of any Material Contract, any Lease or any Franchise Agreement to which such Person is a party, (iii) conflict with or result in any breach or contravention of any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject, or (iv) violate any Law, in each case under clauses (ii) through (iv) in a way that has or could reasonably be expected to have a Material Adverse Effect.

(b) This Amendment has been duly executed and delivered by such Loan Party. Each of this Amendment and the Credit Agreement, as amended hereby, constitutes a legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with their respective terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, whether enforcement is sought by a proceeding in equity or at law.

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is required in connection with the execution, delivery or performance by or enforcement against such Loan Party of this Amendment or the Credit Agreement as amended hereby.

(d) The representations and warranties of such Loan Party contained in Article V of the Credit Agreement or in any other Loan Document, or which are contained in any document furnished at any time under or in connection therewith, are true and correct in all material respects (without duplication of any materiality qualifier contained therein) on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of such earlier date, and except that the representations and warranties contained in Sections 5.05(a) and 5.05(b) of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Sections 6.01(a) and 6.01(b) of the Credit Agreement, respectively.

(e) As of the Third Amendment Effective Date, the information included in the Beneficial Ownership Certification, if applicable, is true and correct in all respects.

(f) As of the date hereof, after giving effect to the provisions hereof, there exists no Default or Event of Default.

§4. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent or concurrent on July 23, 2018 (the “Third Amendment Effective Date”):

(a) This Amendment shall have been duly executed and delivered by each Loan Party, the Administrative Agent and the Required Lenders.

(b) At least five (5) days prior to the Third Amendment Effective Date, if the Borrower qualifies as a “legal entity customer” under the Beneficial Ownership Regulation, it shall deliver, to each Lender that so requests, a Beneficial Ownership Certification.

(c) The representations and warranties set forth in Section 3 hereof shall be true and correct.

(d) The Administrative Agent shall have been reimbursed for all reasonable and documented fees and out-of-pocket charges and other expenses incurred in connection with this Amendment, including, without limitation, the reasonable and documented fees and disbursements of counsel for the Administrative Agent, to the extent documented prior to or on the date hereof (for the avoidance of doubt, a summary statement of such fees, charges and disbursements shall be sufficient documentation for the obligations set forth in this Section 4(e)).

§5. Miscellaneous Provisions.

(a) Except as expressly amended or otherwise modified by this Amendment, the Credit Agreement and all documents, instruments and agreements related thereto, including, but not limited to the other Loan Documents, are hereby ratified and confirmed in all respects and shall continue in full force and effect. No amendment, consent or waiver herein granted or agreement herein made shall extend beyond the terms expressly set forth herein for such amendment, consent, waiver or agreement, as the case may be, nor shall anything contained herein be deemed to imply any willingness of the Administrative Agent or the Lenders to agree to, or otherwise prejudice any rights of the Administrative Agent or the Lenders with respect to, any similar amendments, consents, waivers or agreements that may be requested for any future period, and this Amendment shall not be construed as a waiver of any other provision of the Loan Documents or to permit the Borrower or any other Loan Party to take any other action which is prohibited by the terms of the Credit Agreement and the other Loan Documents. The Credit Agreement and this Amendment shall be read and construed as a single agreement. All references in the Credit Agreement, or any related agreement or instrument, to the Credit Agreement shall hereafter refer to the Credit Agreement, as amended hereby. This Amendment shall constitute a Loan Document.

(b) THIS AMENDMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AMENDMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(c) THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT IT WILL NOT COMMENCE ANY ACTION, LITIGATION OR PROCEEDING OF ANY KIND OR DESCRIPTION, WHETHER IN LAW OR EQUITY, WHETHER IN CONTRACT OR IN TORT OR OTHERWISE, AGAINST THE ADMINISTRATIVE AGENT, ANY

LENDER, THE L/C ISSUER, OR ANY RELATED PARTY OF THE FOREGOING IN ANY WAY RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT OR THE

TRANSACTIONS RELATING HERETO OR THERETO, IN ANY FORUM OTHER THAN THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF SUCH COURTS AND AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION, LITIGATION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION, LITIGATION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AMENDMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER OR THE L/C ISSUER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(d) This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or other electronic imaging means (e.g., “pdf” or “tif”) shall be effective as delivery of a manually executed counterpart of this Amendment.

(e) The provisions of this Amendment are solely for the benefit of the Loan Parties, the Administrative Agent and the Lenders and no other Person shall have rights as a third party beneficiary of any of such provisions.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment as a document under seal as of the date first above written.

SAGITTARIUS RESTAURANTS LLC

By: /s/Steven L. Brake

Name: Steven L. Brake

Title: Executive Vice President and Chief Financial Officer

DEL TACO HOLDINGS, INC.

**F&C RESTAURANT HOLDING CO. KERRY FOODS INTERNATIONAL LLC DEL
TACO LLC**

By: /s/Steven L. Brake

Name: Steven L. Brake

Title: Executive Vice President and Chief Financial Officer

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/Priscilla Ruffin
Name: Priscilla Ruffin

Title: AVP

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/John Coppedge
Name: John Coppedge
Title: Sr. Vice President

JPMORGAN CHASE BANK, N.A., as a Lender

By: /s/Jennifer Tang

Name: Jennifer Tang

Title: VP

BANK OF MONTREAL, as a Lender

By: /s/Elizabeth Kurtti
Name : El i za b et h Kurtti
T i t l e: Di recto r

REGIONS BANK, as a Lender

By: /s/Scott C. Tocci
Name: Scott C. Tocci
Title: Managing Director

MUFG UNION BANK, N.A., as a Lender

By: /s/Judy Vodhanel
Name: Judy Vodhanel
Title: Director

WEBSTER BANK, N.A. , as a Lender

By: /s/Carol Pirek Name: Carol Pirek
Title: Vice President

CERTIFICATIONS

I, John D. Cappasola, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Del Taco Restaurants, 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 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; and
5. The registrant's other certifying officer 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: July 26, 2018

/s/ John D. Cappasola, Jr.
John D. Cappasola, Jr.
President and Chief Executive Officer
(principal executive officer)

CERTIFICATIONS

I, Steven L. Brake, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Del Taco Restaurants, 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 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; and
5. The registrant's other certifying officer 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: July 26, 2018

/s/ Steven L. Brake

Steven L. Brake

Executive Vice President and Chief Financial Officer

(principal financial officer)

CERTIFICATION OF PERIOD REPORT

I, John D. Cappasola, Jr., President and Chief Executive Officer of Del Taco Restaurants, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 19, 2018 (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.

Date: July 26, 2018

/s/ John D. Cappasola, Jr.

John D. Cappasola, Jr.

President and Chief Executive Officer

(principal executive officer)

CERTIFICATION OF PERIOD REPORT

I, Steven L. Brake, Executive Vice President and Chief Financial Officer of Del Taco Restaurants, Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 19, 2018 (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.

Date: July 26, 2018

/s/ Steven L. Brake

Steven L. Brake

Executive Vice President and Chief Financial Officer
(principal financial officer)