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

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**FORM 10-Q**

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(Mark one)

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

For the quarterly period ended September 11, 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

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**DEL TACO RESTAURANTS, INC.**

(Exact name of registrant as specified in its charter)

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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)

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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 October 17, 2018 , there were 37,764,159 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)**

	September 11, 2018	January 2, 2018
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,628	\$ 6,559
Accounts and other receivables, net	3,565	3,828
Inventories	2,596	2,712
Prepaid expenses and other current assets	4,793	6,784
Total current assets	17,582	19,883
Property and equipment, net	172,094	156,124
Goodwill	321,531	320,638
Trademarks	220,300	220,300
Intangible assets, net	19,450	21,498
Other assets, net	4,562	3,881
Total assets	\$ 755,519	\$ 742,324
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 20,172	\$ 18,759
Other accrued liabilities	40,706	35,257
Current portion of capital lease obligations and deemed landlord financing liabilities	1,109	1,415
Total current liabilities	61,987	55,431
Long-term debt, capital lease obligations and deemed landlord financing liabilities, excluding current portion, net	169,174	170,639
Deferred income taxes	69,137	68,574
Other non-current liabilities	31,945	31,431
Total liabilities	332,243	326,075
Commitments and contingencies ( <i>Note 14</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; 38,066,801 shares issued and outstanding at September 11, 2018; 38,434,274 shares issued and outstanding at January 2, 2018	4	4
Additional paid-in capital	343,412	349,334
Accumulated other comprehensive income	357	14
Retained earnings	79,503	66,897
Total shareholders' equity	423,276	416,249
Total liabilities and shareholders' equity	\$ 755,519	\$ 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		36 Weeks Ended	
	September 11, 2018	September 12, 2017	September 11, 2018	September 12, 2017
<b>Revenue:</b>				
Company restaurant sales	\$ 109,559	\$ 106,298	\$ 324,468	\$ 311,542
Franchise revenue	4,308	3,978	12,249	11,494
Franchise advertising contributions	3,155	—	9,227	—
Franchise sublease income	808	712	2,253	1,878
Total revenue	117,830	110,988	348,197	324,914
<b>Operating expenses:</b>				
Restaurant operating expenses:				
Food and paper costs	29,601	29,648	88,656	86,336
Labor and related expenses	35,301	33,635	105,541	100,041
Occupancy and other operating expenses	22,844	22,608	67,457	64,243
General and administrative	9,606	8,817	30,356	27,177
Franchise advertising expenses	3,155	—	9,227	—
Depreciation and amortization	5,855	5,522	17,616	15,903
Occupancy and other - franchise subleases	762	654	2,051	1,738
Pre-opening costs	259	354	900	531
Impairment of long-lived assets	—	—	1,661	—
Restaurant closure charges, net	672	(16)	635	(1)
Loss on disposal of assets, net	580	233	760	524
Total operating expenses	108,635	101,455	324,860	296,492
Income from operations	9,195	9,533	23,337	28,422
Other expense, net				
Interest expense	2,062	1,628	5,984	4,798
Other income	(523)	—	(523)	—
Total other expense, net	1,539	1,628	5,461	4,798
Income from operations before provision for income taxes	7,656	7,905	17,876	23,624
Provision for income taxes	1,782	2,804	4,563	8,955
Net income	5,874	5,101	13,313	14,669
<b>Other comprehensive income (loss):</b>				
Change in fair value of interest rate cap, net of tax	23	(35)	312	(271)
Reclassification of interest rate cap amortization included in net income	15	—	31	—
Total other comprehensive income (loss)	38	(35)	343	(271)
Comprehensive income	\$ 5,912	\$ 5,066	\$ 13,656	\$ 14,398
<b>Earnings per share:</b>				
Basic	\$ 0.15	\$ 0.13	\$ 0.35	\$ 0.38
Diluted	\$ 0.15	\$ 0.13	\$ 0.34	\$ 0.37
<b>Weighted-average shares outstanding</b>				
Basic	38,191,335	38,695,099	38,310,842	38,744,963
Diluted	39,391,284	39,839,571	39,108,573	40,016,062

*See accompanying notes to consolidated financial statements.*

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

	36 Weeks Ended	
	September 11, 2018	September 12, 2017
<b>Operating activities</b>		
Net income	\$ 13,313	\$ 14,669
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,616	15,903
Amortization of favorable and unfavorable lease assets and liabilities, net	(602)	(521)
Amortization of deferred financing costs, debt discount and interest rate cap	297	267
Stock-based compensation	4,079	3,340
Impairment of long-lived assets	1,661	—
Deferred income taxes	698	2,607
Loss on disposal of assets, net	760	524
Restaurant closure charges	604	125
Changes in operating assets and liabilities:		
Accounts and other receivables, net	263	788
Inventories	116	76
Prepaid expenses and other current assets	1,993	(69)
Other assets	9	(84)
Accounts payable	649	3,633
Other accrued liabilities	1,732	2,319
Other non-current liabilities	1,120	283
Net cash provided by operating activities	44,308	43,860
<b>Investing activities</b>		
Purchases of property and equipment	(30,575)	(30,122)
Proceeds from disposal of property and equipment, net	1,323	7,733
Purchases of other assets	(1,107)	(705)
Acquisition of franchisees	(1,841)	—
Proceeds from sale of company-operated restaurants	—	2,192
Net cash used in investing activities	(32,200)	(20,902)
<b>Financing activities</b>		
Repurchase of common stock and warrants	(7,810)	(10,711)
Payment of tax withholding related to restricted stock vesting	(2,378)	(1,923)
Payments on capital leases and deemed landlord financing	(1,038)	(1,133)
Proceeds from revolving credit facility	17,000	19,000
Payments on revolving credit facility	(18,000)	(30,000)
Proceeds from exercise of stock options	187	36
Net cash used in financing activities	(12,039)	(24,731)
Increase (decrease) in cash and cash equivalents	69	(1,773)
Cash and cash equivalents at beginning of period	6,559	8,795
Cash and cash equivalents at end of period	\$ 6,628	\$ 7,022
<b>Supplemental cash flow information:</b>		
Cash paid during the period for interest	\$ 5,513	\$ 4,355
Cash paid during the period for income taxes	675	4,743
<b>Supplemental schedule of non-cash activities:</b>		
Accrued property and equipment purchases	\$ 3,967	\$ 5,552
Write-offs of accounts receivables	26	—
Amortization of interest rate cap into net income, net of tax	31	—
Change in other asset for fair value of interest rate cap recorded to other comprehensive income (loss), net of tax	312	(271)



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 September 11, 2018, there were 317 company-operated and 250 franchise-operated Del Taco restaurants located in 14 states, including one franchise-operated unit in Guam. At September 12, 2017, there were 305 company-operated and 253 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 September 11, 2018. For fiscal year 2017, the Company’s accompanying financial statements reflect the twelve weeks ended September 12, 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 plans to adopt the requirements of the new lease standard effective January 2, 2019, the first day of fiscal year 2019, and apply a modified retrospective adoption method. The Company anticipates taking advantage of the practical expedient options which allow an entity to not reassess whether any existing or expired contracts contain leases, not reassess lease classifications for existing or expired leases, and an entity does not need to reassess initial direct costs for any existing leases, and we are further evaluating other optional practical expedients and policy elections. 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 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 thirty-six weeks ended September 11, 2018, the Company recognized approximately \$12,000 and \$40,000, 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 September 11, 2018 is as follows (in thousands):

FY 2018	\$	21
FY 2019		69
FY 2020		67
FY 2021		65
FY 2022		65
Thereafter		805
Total Deferred Franchise Fees	\$	<u>1,092</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 thirty-six weeks ended September 11, 2018 was an increase of \$3.1 million and \$9.2 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 thirty-six weeks ended September 11, 2018 was an increase of approximately \$0.2 million and \$0.5 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 September 11, 2018 and on the Company's consolidated statements of comprehensive income and cash flows from operating activities for the thirty-six weeks ended September 11, 2018 and the amounts as if Topic 605 was in effect ("Amounts Under Previous Standards") (in thousands):

	September 11, 2018		
	As Reported	Adjustments for Prior Revenue Recognition Standards	Amounts Under Previous Standards
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 20,172	\$ —	\$ 20,172
Other accrued liabilities	40,706	—	40,706
Current portion of capital lease obligations and deemed landlord financing liabilities	1,109	—	1,109
<b>Total current liabilities</b>	<b>61,987</b>	<b>—</b>	<b>61,987</b>
Long-term debt, capital lease obligations and deemed landlord financing liabilities, excluding current portion, net	169,174	—	169,174
Deferred income taxes	69,137	296	69,433
Other non-current liabilities	31,945	(1,092)	30,853
<b>Total liabilities</b>	<b>332,243</b>	<b>(796)</b>	<b>331,447</b>
<b>Shareholders' equity:</b>			
Preferred stock	—	—	—
Common stock	4	—	4
Additional paid-in capital	343,412	—	343,412
Accumulated other comprehensive income	357	—	357
Retained earnings	79,503	796	80,299
<b>Total shareholders' equity</b>	<b>423,276</b>	<b>796</b>	<b>424,072</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 755,519</b>	<b>\$ —</b>	<b>\$ 755,519</b>

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

	12 Weeks Ended September 11, 2018			36 Weeks Ended September 11, 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	\$ 109,559	\$ —	\$ 109,559	\$ 324,468	\$ —	\$ 324,468
Franchise revenue	4,308	(176)	4,132	12,249	(423)	11,826
Franchise advertising contributions	3,155	(3,155)	—	9,227	(9,227)	—
Franchise sublease income	808	—	808	2,253	—	2,253
Total revenue	117,830	(3,331)	114,499	348,197	(9,650)	338,547
Operating expenses:						
Restaurant operating expenses:						
Food and paper costs	29,601	—	29,601	88,656	—	88,656
Labor and related expenses	35,301	—	35,301	105,541	—	105,541
Occupancy and other operating expenses	22,844	—	22,844	67,457	—	67,457
General and administrative	9,606	(201)	9,405	30,356	(545)	29,811
Franchise advertising expenses	3,155	(3,155)	—	9,227	(9,227)	—
Depreciation and amortization	5,855	—	5,855	17,616	—	17,616
Occupancy and other - franchise subleases	762	—	762	2,051	—	2,051
Pre-opening costs	259	—	259	900	—	900
Impairment of long-lived assets	—	—	—	1,661	—	1,661
Restaurant closure charges, net	672	—	672	635	—	635
Loss on disposal of assets, net	580	—	580	760	—	760
Total operating expenses	108,635	(3,356)	105,279	324,860	(9,772)	315,088
Income from operations	9,195	25	9,220	23,337	122	23,459
Other expense, net						
Interest expense	2,062	—	2,062	5,984	—	5,984
Other income	(523)	—	—	(523)	—	(523)
Total other expense, net	1,539	—	2,062	5,461	—	5,461
Income from operations before provision for income taxes	7,656	25	7,158	17,876	122	17,998
Provision for income taxes	1,782	7	1,789	4,563	33	4,596
Net income	5,874	18	5,369	13,313	89	13,402
Other comprehensive income:						
Change in fair value of interest rate cap, net of tax	23	—	23	312	—	312
Reclassification of interest rate cap amortization included in net income	15	—	15	31	—	31
Total other comprehensive income	38	—	38	343	—	343
Comprehensive income	\$ 5,912	\$ 18	\$ 5,407	\$ 13,656	\$ 89	\$ 13,745
Earnings per share:						
Basic	\$ 0.15	\$ (0.01)	\$ 0.14	\$ 0.35	\$ —	\$ 0.35
Diluted	\$ 0.15	\$ (0.01)	\$ 0.14	\$ 0.34	\$ —	\$ 0.34

## Del Taco Restaurants, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

	36 Weeks Ended September 11, 2018		
	As Reported	Adjustments for Prior Revenue Recognition Standards	Amounts Under Previous Standards
<b>Operating activities</b>			
Net income	\$ 13,313	\$ 89	\$ 13,402
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,616	—	17,616
Amortization of favorable and unfavorable lease assets and liabilities, net	(602)	—	(602)
Amortization of deferred financing costs and debt discount	297	—	297
Stock-based compensation	4,079	—	4,079
Impairment of long-lived assets	1,661	—	1,661
Deferred income taxes	698	33	731
Loss on disposal of assets, net	760	—	760
Restaurant closure charges	604	—	604
Changes in operating assets and liabilities:			
Accounts and other receivables, net	263	—	263
Inventories	116	—	116
Prepaid expenses and other current assets	1,993	—	1,993
Other assets	9	—	9
Accounts payable	649	—	649
Other accrued liabilities	1,732	—	1,732
Other non-current liabilities	1,120	(122)	998
Net cash provided by operating activities	\$ 44,308	\$ —	\$ 44,308

**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 thirty-six weeks ended September 11, 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 thirty-six weeks ended September 12, 2017.

***Restaurant Closure Charges, Net***

At both September 11, 2018 and January 2, 2018, the restaurant closure liability is \$2.8 million. 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):

	<b>Total</b>
Balance at January 2, 2018	\$ 1,213
Charges for accretion in current period	49
Cash payments	(406)
Balance at September 11, 2018	\$ 856

The current portion of the restaurant closure liability is \$0.2 million at September 11, 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 September 11, 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 thirty-six weeks ended September 11, 2018, the Company recorded accretion expense related to the closures and net adjustments of \$0.5 million to the lease termination liability for two restaurants due to changes in estimates, offset by \$0.2 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):

	<b>Total</b>
Balance at January 2, 2018	\$ 1,611
Charges for accretion in current period	45
Cash payments	(246)
Adjustments to estimates based on current activity	510
Balance at September 11, 2018	<u>\$ 1,920</u>

The current portion of the restaurant closure liability is \$0.5 million at September 11, 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 \$1.4 million and \$1.3 million at September 11, 2018 and January 2, 2018, respectively, and is included in other non-current liabilities in the consolidated balance sheets.

**4. Franchise Acquisitions**

The Company acquired four franchise-operated restaurants during the thirty-six weeks ended September 11, 2018, of which one closed prior to the completion of the purchase. The Company accounts for the acquisition of franchise-operated restaurants using the acquisition method of accounting for business combinations. The purchase price allocations were based on fair value estimates determined using significant unobservable inputs (Level 3). The goodwill recorded primarily relates to the market position and future growth potential of the markets acquired and is expected to be deductible for income tax purposes. There were no franchise acquisitions during the thirty-six weeks ended September 12, 2017. The following table provides detail of the combined acquisitions for the thirty-six weeks ended September 11, 2018 (dollars in thousands):

	<b>September 11, 2018</b>
Franchise-operated restaurants acquired from franchisees	4
Goodwill	\$ 893
Property and equipment	798
Reacquired franchise rights	150
Total Consideration	<u>\$ 1,841</u>

During the thirty-six weeks ended September 11, 2018, the Company wrote-off \$0.6 million of unfavorable lease liabilities related to franchise subleases, offset by \$0.1 million of straight line deferred rent assets (included in other assets) which were terminated in connection with the Company's acquisition of the related franchise-operated restaurants.

**5. Goodwill and other Intangible Assets**

Goodwill was \$321.5 million at September 11, 2018 compared to \$320.6 million at January 2, 2018. The change is due to the purchase of four franchise-operated restaurants as described in more detail in Note 4.

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

## Del Taco Restaurants, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

The Company's other intangible assets at September 11, 2018 and January 2, 2018 consisted of the following (in thousands):

	September 11, 2018			January 2, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Favorable lease assets	\$ 13,591	\$ (5,494)	\$ 8,097	\$ 13,744	\$ (4,442)	\$ 9,302
Franchise rights	15,162	(4,146)	11,016	15,284	(3,282)	12,002
Reacquired franchise rights	417	(80)	337	243	(49)	194
Total amortized other intangible assets	\$ 29,170	\$ (9,720)	\$ 19,450	\$ 29,271	\$ (7,773)	\$ 21,498

During the thirty-six weeks ended September 11, 2018, the Company wrote-off \$0.2 million of favorable lease assets related to the termination of three leases and \$0.1 million of franchise rights associated with the closure of one franchise-operated restaurant. The Company reclassified \$24,000 of franchise rights as reacquired franchise rights related to the Company's acquisition of one franchise-operated restaurant and acquired \$0.2 million of reacquired franchise rights in connection with the Company's purchase of three franchise-operated restaurants (see Note 4).

#### 6. 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 September 11, 2018 and January 2, 2018 consisted of the following (in thousands):

	September 11, 2018	January 2, 2018
2015 Senior Credit Facility, net of debt discount of \$547 and \$747 and deferred financing costs of \$185 and \$252 at September 11, 2018 and January 2, 2018, respectively	\$ 151,268	\$ 152,001
Total outstanding indebtedness	151,268	152,001
Obligations under capital leases and deemed landlord financing liabilities	19,015	20,053
Total debt	170,283	172,054
Less: amounts due within one year	1,109	1,415
Total amounts due after one year, net	\$ 169,174	\$ 170,639

At September 11, 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 September 11, 2018. Substantially all of the assets of the Company are pledged as collateral under the 2015 Senior Credit Facility.

At September 11, 2018, the weighted-average interest rate on the outstanding balance of the 2015 Senior Credit Facility was 3.8%. At September 11, 2018, the Company had a total of \$80.7 million of availability for additional borrowings under the 2015 Senior Credit Facility as the Company had \$152.0 million of outstanding borrowings and letters of credit outstanding of \$17.3 million which reduce availability under the 2015 Senior Credit Facility.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

**7. Derivative Instruments**

**2016 Interest Rate Cap Agreement**

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. As of September 11, 2018, one-month LIBOR was 2.1%. During the twelve weeks ended September 11, 2018, the Company received payments totaling approximately \$10,000 related to the 2016 Interest Rate Cap Agreement. During the period from July 1, 2016 through September 11, 2018, the 2016 Interest Rate Cap Agreement had no hedge ineffectiveness.

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 September 11, 2018.

During the twelve weeks and thirty-six weeks ended September 11, 2018, the Company reclassified approximately \$15,000 and \$31,000, respectively, of interest expense related to the hedges of these transactions into earnings. As of September 11, 2018, the Company was hedging forecasted transactions expected to occur through March 31, 2020. Assuming interest rates at September 11, 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 18 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.

The effective portion of the 2016 Interest Rate Cap Agreement through September 11, 2018 was included in accumulated other comprehensive income.

**8. 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 September 11, 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 \$0.8 million and \$0.3 million at September 11, 2018 and January 2, 2018, respectively, and is included in other assets in the consolidated balance sheets.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The Company's assets and liabilities measured at fair value on a recurring basis as of September 11, 2018 and January 2, 2018 were as follows (in thousands):

	September 11, 2018 (Unaudited)	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2016 Interest Rate Cap Agreement	\$ 770	\$ —	\$ 770	\$ —
Total assets measured at fair value	<u>\$ 770</u>	<u>\$ —</u>	<u>\$ 770</u>	<u>\$ —</u>

  

	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	<u>\$ 332</u>	<u>\$ —</u>	<u>\$ 332</u>	<u>\$ —</u>

**9. Other Accrued Liabilities and Other Non-current Liabilities**

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

	September 11, 2018	January 2, 2018
Employee compensation and related items	\$ 12,268	\$ 12,945
Accrued insurance	6,417	7,232
Accrued sales tax	4,811	3,987
Accrued real property tax	2,186	1,331
Accrued advertising	1,324	728
Accrued income tax payable	1,200	—
Restaurant closure liability	658	794
Other	11,842	8,240
	<u>\$ 40,706</u>	<u>\$ 35,257</u>

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

	September 11, 2018	January 2, 2018
Unfavorable lease liabilities	\$ 12,661	\$ 14,469
Insurance reserves	7,647	5,965
Deferred rent liability	3,607	2,972
Deferred development and initial franchise fees	2,600	1,335
Restaurant closure liability	2,118	2,030
Unearned trade discount, non-current	863	1,149
Deferred gift card income	589	1,234
Other	1,860	2,277
	<u>\$ 31,945</u>	<u>\$ 31,431</u>

During the thirty-six weeks ended September 11, 2018, the Company wrote-off \$0.6 million of unfavorable lease liabilities related to franchise subleases which were terminated in connection with the Company's acquisition of the related franchise-operated restaurants (see Note 4 for more information).

## Del Taco Restaurants, Inc.

## Notes to Consolidated Financial Statements (continued)

(Unaudited)

**10. 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, restricted stock units, 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 September 11, 2018, there were 878,601 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 \$1.5 million and \$1.2 million for the twelve weeks ended September 11, 2018 and September 12, 2017, respectively, and \$4.1 million and \$3.3 million for the thirty-six weeks ended September 11, 2018 and September 12, 2017, respectively.

**Restricted Stock Awards**

A summary of outstanding and unvested restricted stock activity as of September 11, 2018 and changes during the period from January 2, 2018 through September 11, 2018 are as follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 2, 2018	1,088,910	\$ 11.92
Granted	594,619	13.88
Vested	(425,873)	11.85
Forfeited	(8,750)	13.56
Nonvested at September 11, 2018	1,248,906	\$ 12.87

For the thirty-six weeks ended September 11, 2018 and September 12, 2017, the Company made payments of \$2.4 million and \$1.9 million, respectively, related to tax withholding obligations for the vesting of restricted stock awards in exchange for 168,484 and 140,209 shares withheld, respectively. As of September 11, 2018, there was \$11.9 million of unrecognized stock compensation expense, net of estimated forfeitures, related to restricted stock awards that is expected to be recognized over a weighted-average remaining period of 2.8 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 September 11, 2018 and changes during the period from January 2, 2018 through September 11, 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	106,000	14.04		
Exercised	(18,000)	10.36		
Forfeited/Expired	(40,000)	11.18		
Options outstanding at September 11, 2018	465,000	\$ 11.74	5.3	\$ 672
Options exercisable at September 11, 2018	191,496	\$ 10.53	4.4	\$ 422
Options exercisable and expected to vest at September 11, 2018	430,834	\$ 11.64	5.2	\$ 650

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 September 11, 2018, respectively.

As of September 11, 2018, there was \$1.0 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 2.7 years.

**11. 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 September 11, 2018, the Company repurchased (1) 235,041 shares of common stock for an average price per share of \$12.74 for an aggregate cost of approximately \$3.0 million, including incremental direct costs to acquire the shares, and (2) 5,972 warrants for an average price per warrant of \$3.07 for an aggregate cost of approximately \$18,000, including incremental direct costs to acquire the warrants. During the thirty-six weeks ended September 11, 2018, the Company repurchased (1) 642,862 shares of common stock for an average price per share of \$12.00 for an aggregate cost of approximately \$7.7 million, including incremental direct costs to acquire the shares, and (2) 26,915 warrants for an average price per warrant of \$3.02 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 September 11, 2018. As of September 11, 2018, there was approximately \$38.1 million 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.

**12. 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		36 Weeks Ended	
	September 11, 2018	September 12, 2017	September 11, 2018	September 12, 2017
Numerator:				
Net income	\$ 5,874	\$ 5,101	\$ 13,313	\$ 14,669
Denominator:				
Weighted-average shares outstanding - basic	38,191,335	38,695,099	38,310,842	38,744,963
Dilutive effect of unvested restricted stock	309,973	319,624	333,815	430,589
Dilutive effect of stock options	43,829	30,477	24,697	25,673
Dilutive effect of warrants	846,147	794,371	439,219	814,837
Weighted-average shares outstanding - diluted	39,391,284	39,839,571	39,108,573	40,016,062
Net income per share - basic	\$ 0.15	\$ 0.13	\$ 0.35	\$ 0.38
Net income per share - diluted	\$ 0.15	\$ 0.13	\$ 0.34	\$ 0.37
Antidilutive stock options and unvested restricted stock awards excluded from the computations	664,760	469,691	307,718	188,369

### 13. Income Taxes

The effective income tax rates were 23.3% and 35.5% for the twelve weeks ended September 11, 2018 and September 12, 2017, respectively. The provision for income taxes was \$1.8 million and \$2.8 million for the twelve weeks ended September 11, 2018 and September 12, 2017, respectively. The effective income tax rates were 25.5% and 37.9% for the thirty-six weeks ended September 11, 2018 and September 12, 2017, respectively. The provision for income taxes was \$4.6 million and \$9.0 million for the thirty-six weeks ended September 11, 2018 and September 12, 2017, respectively.

The income tax expense for the twelve weeks ended September 11, 2018 is driven by the estimated effective income tax rate of 23.3% which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, reduced by higher stock compensation expense deductible for tax related to the June 30, 2018 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as federal targeted job credits. The income tax expense for the twelve weeks ended September 12, 2017 is driven by the estimated effective income tax rate of 35.5% which primarily consists of statutory federal and state tax rates based on apportioned income, reduced by higher stock compensation expense deductible for tax related to the June 30, 2017 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as federal targeted job credits.

The income tax expense for the thirty-six weeks ended September 11, 2018 is driven by the estimated effective income tax rate of 25.5% which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, reduced by higher stock compensation expense deductible for tax related to the June 30, 2018 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as federal targeted job credits. The income tax expense for the thirty-six weeks ended September 12, 2017 is driven by the estimated effective income tax rate of 37.9% which primarily consists of statutory federal and state tax rates based on apportioned income, reduced by higher stock compensation expense deductible for tax related to the June 30, 2017 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as 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.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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 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 September 11, 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 September 11, 2018 and January 2, 2018 is required.

#### 14. 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 September 11, 2018, are approximately \$57.9 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 September 11, 2018.

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

In September 2018, the Equal Employment Opportunity Commission (“EEOC”) filed a complaint on behalf of an individual complainant and an additional class of individuals alleging that Del Taco engaged in unlawful employment practices on the basis of sex and retaliation in violation of Title VII and are seeking an unspecified amount of damages. Del Taco has several defenses to the action that it believes could prevent a finding of liability in the case. Legal proceedings are inherently unpredictable, and Del Taco 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, Del Taco does not believe that these proceedings give rise to a probable or estimable loss and should not have a material adverse effect on Del Taco’s financial position, operations or cash flows. Therefore, Del Taco has not recorded any amount for the claim as of September 11, 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 September 11, 2018, we have 567 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

#### Third Quarter 2018 Highlights

Our third quarter 2018 results and highlights include the following:

- Total revenues increased 6.2% for the twelve weeks ended September 11, 2018 to \$117.8 million compared to \$111.0 million for the twelve weeks ended September 12, 2017 primarily due to growth in company-operated and franchise-operated same store sales and additional company-operated restaurants open during 2018 compared to 2017, as well as the impact of adopting new revenue recognition standards. Total revenues increased 7.2% for the thirty-six weeks ended September 11, 2018 to \$348.2 million compared to \$324.9 million for the thirty-six weeks ended September 12, 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 September 11, 2018, we opened two new company-operated restaurants and three new franchise-operated restaurants and closed three company-operated restaurants and one franchise-operated restaurant. During the thirty-six weeks ended September 11, 2018, we opened a total of six new company-operated restaurants and four new franchise-operated restaurants and closed four company-operated restaurants and three franchise-operated restaurants. During the twelve weeks ended September 12, 2017, we opened two new company-operated restaurants and two new franchise-operated restaurants and closed one company-operated restaurant. During the thirty-six weeks ended September 12, 2017, we opened three new company-operated restaurants and seven new franchise-operated restaurants and closed three 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 18<sup>th</sup> full month of operations and exclude restaurant closures. The following table shows the same store sales growth for the twelve and thirty-six weeks ended September 11, 2018 and September 12, 2017:

	12 Weeks Ended		36 Weeks Ended	
	September 11, 2018	September 12, 2017	September 11, 2018	September 12, 2017
Company-operated same store sales	0.3%	3.7%	1.8%	4.8%
Franchise-operated same store sales	3.0%	4.6%	4.1%	5.5%
System-wide same store sales	1.4%	4.1%	2.8%	5.1%

The increase in company-operated same store sales in the twelve weeks ended September 11, 2018 was driven by an increase in average check size of 2.9% offset by a decrease in traffic of 2.6% compared to the twelve weeks ended September 12, 2017. The increase in company-operated same store sales in the twelve weeks ended September 12, 2017 was driven by an increase in average check size of 4.0%, partially offset by a decrease in traffic of 0.3% compared to the twelve weeks ended September 6, 2016.

The increase in company-operated same store sales in the thirty-six weeks ended September 11, 2018 was driven by an increase in average check size of 3.1% offset by a decrease in traffic of 1.3% compared to the thirty-six weeks ended September 12, 2017. The increase in company-operated same store sales in the thirty-six weeks ended September 12, 2017 was driven by an increase in average check size of 4.3% and an increase in traffic of 0.5% compared to the thirty-six weeks ended September 6, 2016.

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### **Restaurant Development**

Del Taco restaurant counts at the end of the twelve weeks and thirty-six weeks ended September 11, 2018 and September 12, 2017, are as follows:

	12 Weeks Ended		36 Weeks Ended	
	September 11, 2018	September 12, 2017	September 11, 2018	September 12, 2017
<b>Company-operated restaurant activity:</b>				
Beginning of period	315	304	312	310
Openings	2	2	6	3
Closures	(3)	(1)	(4)	(3)
Purchased from franchisees	3	—	3	—
Sold to franchisees	—	—	—	(5)
Restaurants at end of period	317	305	317	305
<b>Franchise-operated restaurant activity:</b>				
Beginning of period	251	251	252	241
Openings	3	2	4	7
Closures	(1)	—	(3)	—
Purchased from Company	—	—	—	5
Sold to Company	(3)	—	(3)	—
Restaurants at end of period	250	253	250	253
<b>Total restaurant activity:</b>				
Beginning of period	566	555	564	551
Openings	5	4	10	10
Closures	(4)	(1)	(7)	(3)
Restaurants at end of period	567	558	567	558

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 18<sup>th</sup> full month of operations and exclude restaurant closures. As of both September 11, 2018 and September 12, 2017, there were 294 restaurants in the comparable company-operated restaurant base. As of both September 11, 2018 and September 12, 2017, there were 240 restaurants 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.

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### ***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 (1) 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; (2) accretion of the liability during the reporting period; (3) any positive or negative adjustments to the liability as more information becomes available; (4) sublease income from leases which are treated as deemed landlord financing; and (5) direct costs related to restaurant closures including lease termination costs.

### ***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 restaurants 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.

### ***Other Income***

Other income consists of a gain related to the write-off of unfavorable lease liabilities related to franchise subleases which were terminated in connection with the Company's acquisition of the related franchise-operated restaurants (see Note 4 to our unaudited consolidated financial statements for more information).

### ***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 September 11, 2018 and Twelve Weeks Ended September 12, 2017**

The following table presents operating results for the twelve weeks ended September 11, 2018 and twelve weeks ended September 12, 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					
	September 11, 2018		September 12, 2017		Increase / (Decrease)	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
<b>Statement of Operations Data:</b>						
Revenue:						
Company restaurant sales	\$ 109,559	93.0 %	\$ 106,298	95.8%	\$ 3,261	3.1 %
Franchise revenue	4,308	3.7	3,978	3.6	330	8.3
Franchise advertising contributions	3,155	2.7	—	—	3,155	*
Franchise sublease income	808	0.6	712	0.6	96	13.5
Total revenue	117,830	100.0	110,988	100.0	6,842	6.2
Operating expenses						
Restaurant operating expenses:						
Food and paper costs	29,601	27.0 <sup>(1)</sup>	29,648	27.9 <sup>(1)</sup>	(47)	(0.2)
Labor and related expenses	35,301	32.2 <sup>(1)</sup>	33,635	31.6 <sup>(1)</sup>	1,666	5.0
Occupancy and other operating expenses	22,844	20.9 <sup>(1)</sup>	22,608	21.3 <sup>(1)</sup>	236	1.0
Total restaurant operating expenses	87,746	80.1 <sup>(1)</sup>	85,891	80.8 <sup>(1)</sup>	1,855	2.2
General and administrative	9,606	8.2	8,817	7.9	789	8.9
Franchise advertising expenses	3,155	2.7	—	—	3,155	*
Depreciation and amortization	5,855	5.0	5,522	5.0	333	6.0
Occupancy and other-franchise subleases	762	0.6	654	0.6	108	16.5
Pre-opening costs	259	0.2	354	0.3	(95)	(26.9)
Restaurant closure charges, net	672	0.6	(16)	*	688	*
Loss on disposal of assets, net	580	0.5	233	0.2	347	—
Total operating expenses	108,635	92.2	101,455	91.4	7,180	7.1
Income from operations	9,195	7.8	9,533	8.6	(338)	(3.5)
Other expense						
Interest expense	2,062	1.7	1,628	1.5	434	26.7
Other income	(523)	(0.4)	—	—	(523)	*
Total other expense	1,539	1.3	1,628	1.5	(89)	(5.5)
Income from operations before provision for income taxes	7,656	6.5	7,905	7.1	(249)	(3.1)
Provision for income taxes	1,782	1.5	2,804	2.5	(1,022)	(36.4)
Net income	\$ 5,874	5.0 %	\$ 5,101	4.6%	\$ 773	15.2 %

(1) As a percentage of company restaurant sales.

\* Immaterial/not meaningful

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### *Company Restaurant Sales*

Company restaurant sales increased \$3.3 million , or 3.1% , for the twelve weeks ended September 11, 2018 , primarily due to an increase in company-operated same store sales of 0.3% 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 2.9% offset by a decrease in traffic of 2.6% compared to the prior period.

### *Franchise Revenue*

Franchise revenue increased \$0.3 million , or 8.3% , for the twelve weeks ended September 11, 2018 , primarily due to an increase in franchise-operated same store sales of 3.0% and the impact of adopting new revenue recognition standards.

### *Franchise Advertising Contributions*

Franchise advertising contributions were \$3.2 million for the twelve weeks ended September 11, 2018 . There were no franchise advertising contributions for the twelve weeks ended September 12, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See Note 2 to our unaudited 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 13.5% , for the twelve weeks ended September 11, 2018 , primarily due to the sale of one company-operated restaurant to a franchisee during the fourth quarter of 2017 in which we retained the leasehold interest to the real estate, partially offset by a reduction in sublease income due to the purchase of three franchise-operated restaurants during the third quarter of 2018.

### *Food and Paper Costs*

Food and paper costs decreased \$47,000 , or 0.2% for the twelve weeks ended September 11, 2018 due to a slight decrease in commodity prices. As a percentage of company restaurant sales, food and paper costs were 27.0% for the twelve weeks ended September 11, 2018 compared to 27.9% for the twelve weeks ended September 12, 2017 . This percentage decrease was the result of menu price increases and slight commodity deflation.

### *Labor and Related Expenses*

Labor and related expenses increased \$1.7 million , or 5.0% for the twelve weeks ended September 11, 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, 2018 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 32.2% for the twelve weeks ended September 11, 2018 compared to 31.6% for the twelve weeks ended September 12, 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, as well as a loss of leverage due to negative traffic, partially offset by the impact of menu price increases and reduced workers compensation expense.

### *Occupancy and Other Operating Expenses*

Occupancy and other operating expenses increased \$0.2 million , or 1.0% for the twelve weeks ended September 11, 2018 , primarily due to increases in occupancy costs, utilities and credit and debit card processing fees, partially offset by a decrease in repairs, maintenance, supplies and advertising expense. As a percentage of company restaurant sales, occupancy and other operating expenses were 20.9% for the twelve weeks ended September 11, 2018 compared to 21.3% for the twelve weeks ended September 12, 2017 . This percentage decrease resulted primarily from decreased advertising based on the timing of expenditures.

### *General and Administrative Expenses*

General and administrative expenses increased \$0.8 million , or 8.9% for the twelve weeks ended September 11, 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

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on a gross basis. As a percentage of total revenue, general and administrative expense was 8.2% for the twelve weeks ended September 11, 2018 compared to 7.9% for the twelve weeks ended September 12, 2017 . The increase as a percent of total revenue was due to the increases described above, partially offset by the impact of increased revenues.

### *Franchise Advertising Expenses*

Franchise advertising expenses were \$3.2 million for the twelve weeks ended September 11, 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 twelve weeks ended September 12, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See Note 2 to our unaudited consolidated financial statements for more information regarding the requirements for the new revenue recognition standards.

### *Depreciation and Amortization*

Depreciation and amortization expenses increased \$0.3 million , or 6.0% for the twelve weeks ended September 11, 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 both the twelve weeks ended September 11, 2018 and the twelve weeks ended September 12, 2017 .

### *Occupancy and Other – Franchise Sublease*

Occupancy and other – franchise sublease was \$0.8 million and \$0.7 million for the twelve weeks ended September 11, 2018 and September 12, 2017 , respectively.

### *Pre-opening Costs*

Pre-opening costs were \$0.3 million and \$0.4 million for the twelve weeks ended September 11, 2018 and September 12, 2017 , respectively, due to slightly less pre-opening activity compared to last year.

### *Restaurant Closure Charges, Net*

Restaurant closure charges, net, were approximately \$0.7 million for the twelve weeks ended September 11, 2018 compared to approximately \$(16,000) for the twelve weeks ended September 12, 2017 . The current quarter activity primarily includes an adjustment of \$0.5 million to increase the lease termination liability for two restaurants due to a change in estimate, lease termination costs of \$0.2 million and accretion expense, partially offset by sublease income from leases which are treated as deemed landlord financing. The twelve weeks ended September 12, 2017 includes sublease income from leases which are treated as deemed landlord financing, partially offset by accretion expense.

### *Loss on Disposal of Assets, Net*

Loss on disposal of assets, net was \$0.6 million and \$0.2 million for the twelve weeks ended September 11, 2018 and September 12, 2017 , respectively. Current year net loss on disposal of assets was primarily related to the closure of three company-operated restaurants. Prior year net loss on disposal of assets was primarily related to the closure of one company-operated restaurant and the disposal and replacement of certain restaurant equipment.

### *Interest Expense*

Interest expense was \$2.1 million and \$1.6 million for the twelve weeks ended September 11, 2018 and September 12, 2017 , respectively. The increase is primarily due to an increase in interest rates and a slightly higher level of debt outstanding compared to the prior year.

### *Other Income*

Other income was \$0.5 million for the twelve weeks ended September 11, 2018 and consists of a gain related to the write-off of unfavorable lease liabilities related to franchise subleases which were terminated in connection with the Company's acquisition of the related franchise-operated restaurants (see Note 4 to our unaudited consolidated financial statements for more information). There was no other income for the twelve weeks ended September 12, 2017 .

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*Provision for Income Taxes*

The effective income tax rates were 23.3% for the twelve weeks ended September 11, 2018 compared to 35.5% for the twelve weeks ended September 12, 2017 . The provision for income taxes was \$1.8 million for the twelve weeks ended September 11, 2018 and \$2.8 million for the twelve weeks ended September 12, 2017 . The reduced effective income tax rate in 2018 compared to 2017 is primarily due to the Tax Cuts and Jobs Act enacted on December 22, 2017 which reduced the United States federal corporate income tax rate from 35% to 21%. The income tax expense related to the twelve weeks ended September 11, 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, reduced by higher stock compensation expense deductible for tax related to the June 30, 2018 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as federal targeted job credits. The income tax expense related to the twelve weeks ended September 12, 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, reduced by higher stock compensation expense deductible for tax related to the June 30, 2017 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as federal targeted job credits.

**Results of Operations**
**Comparison of Results of Operations for the Thirty-Six Weeks Ended September 11, 2018 and Thirty-Six Weeks Ended September 12, 2017**

The following table presents operating results for the thirty-six weeks ended September 11, 2018 and thirty-six weeks ended September 12, 2017, in absolute terms and expressed as a percentage of total revenue (or company restaurant sales), as compared below:

(Dollar amounts in thousands)	36 Weeks Ended				Increase / (Decrease)	
	September 11, 2018		September 12, 2017		(\$)	(%)
	(\$)	(%)	(\$)	(%)		
<b>Statement of Operations Data:</b>						
Revenue:						
Company restaurant sales	\$ 324,468	93.2 %	\$ 311,542	95.9%	\$ 12,926	4.1 %
Franchise revenue	12,249	3.6	11,494	3.5	755	6.6
Franchise advertising contributions	9,227	2.6	—	—	9,227	*
Franchise sublease income	2,253	0.6	1,878	0.6	375	20.0
Total revenue	348,197	100.0	324,914	100.0	23,283	7.2
Operating expenses						
Restaurant operating expenses:						
Food and paper costs	88,656	27.3 <sup>(1)</sup>	86,336	27.7 <sup>(1)</sup>	2,320	2.7
Labor and related expenses	105,541	32.5 <sup>(1)</sup>	100,041	32.1 <sup>(1)</sup>	5,500	5.5
Occupancy and other operating expenses	67,457	20.8 <sup>(1)</sup>	64,243	20.6 <sup>(1)</sup>	3,214	5.0
Total restaurant operating expenses	261,654	80.6 <sup>(1)</sup>	250,620	80.4 <sup>(1)</sup>	11,034	4.4
General and administrative	30,356	8.7	27,177	8.4	3,179	11.7
Franchise advertising expenses	9,227	2.6	—	—	9,227	*
Depreciation and amortization	17,616	5.1	15,903	4.9	1,713	10.8
Occupancy and other-franchise subleases	2,051	0.6	1,738	0.5	313	18.0
Pre-opening costs	900	0.3	531	0.2	369	69.5
Impairment of long-lived assets	1,661	0.5	—	—	1,661	*
Restaurant closure charges, net	635	0.2	(1)	*	636	*
Loss on disposal of assets, net	760	0.2	524	0.2	236	44.8
Total operating expenses	324,860	93.3	296,492	91.3	28,368	9.6
Income from operations	23,337	6.7	28,422	8.7	(5,085)	(17.9)
Other expense						
Interest expense	5,984	1.7	4,798	1.5	1,186	24.7
Other income	(523)	(0.2)	—	—	(523)	*
Total other expense	5,461	1.6	4,798	1.5	663	13.8
Income from operations before provision for income taxes						
	17,876	5.1	23,624	7.3	(5,748)	(24.3)
Provision for income taxes	4,563	1.3	8,955	2.8	(4,392)	(49.0)
Net income	\$ 13,313	3.8 %	\$ 14,669	4.5%	\$ (1,356)	(9.2)%

(1) As a percentage of company restaurant sales.

\* Immaterial/not meaningful

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### *Company Restaurant Sales*

Company restaurant sales increased \$12.9 million , or 4.1% , for the thirty-six weeks ended September 11, 2018 , primarily due to an increase in company-operated same store sales of 1.8% . The growth in company-operated same store sales was primarily the result of an increase in average check size of 3.1% offset by a decrease in traffic of 1.3% compared to the prior period.

### *Franchise Revenue*

Franchise revenue increased \$0.8 million , or 6.6% , for the thirty-six weeks ended September 11, 2018 , primarily due to an increase in franchise-operated same store sales of 4.1% 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 \$9.2 million for the thirty-six weeks ended September 11, 2018 . There were no franchise advertising contributions for the thirty-six weeks ended September 12, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See Note 2 to our unaudited consolidated financial statements for more information regarding the requirements for the new revenue recognition standards.

### *Franchise Sublease Income*

Franchise sublease income increased \$0.4 million , or 20.0% , for the thirty-six weeks ended September 11, 2018 , primarily due to the sale of five company-operated restaurants sold to franchisees during the first quarter of 2017 and one company-operated restaurant sold to a franchisee in the fourth quarter of 2017 in which we retained the leasehold interest to the real estate, partially offset by a reduction in sublease income due to the purchase of three franchise-operated restaurants during the third quarter of 2018.

### *Food and Paper Costs*

Food and paper costs increased \$2.3 million , or 2.7% for the thirty-six weeks ended September 11, 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 27.3% for the thirty-six weeks ended September 11, 2018 compared to 27.7% for the thirty-six weeks ended September 12, 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 \$5.5 million , or 5.5% for the thirty-six weeks ended September 11, 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, 2018 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 32.5% for the thirty-six weeks ended September 11, 2018 compared to 32.1% for the thirty-six weeks ended September 12, 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, partially offset by the increase in company restaurant sales, the impact of modest menu price increases and reduced workers compensation expense.

### *Occupancy and Other Operating Expenses*

Occupancy and other operating expenses increased \$3.2 million , or 5.0% for the thirty-six weeks ended September 11, 2018 , primarily due to increases in advertising expense, utilities, occupancy costs, supplies and credit and debit card processing fees, partially offset by reduced repair and maintenance expense. As a percentage of company restaurant sales, occupancy and other operating expenses were 20.8% for the thirty-six weeks ended September 11, 2018 compared to 20.6% for the thirty-six weeks ended September 12, 2017 . This percentage increase resulted from increased occupancy costs, credit and debit card processing fees and advertising expense based on the timing of expenditures discussed above.

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### *General and Administrative Expenses*

General and administrative expenses increased \$3.2 million , or 11.7% for the thirty-six weeks ended September 11, 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 8.7% for the thirty-six weeks ended September 11, 2018 compared to 8.4% for the thirty-six weeks ended September 12, 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 \$9.2 million for the thirty-six weeks ended September 11, 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 thirty-six weeks ended September 12, 2017 since we adopted new revenue recognition standards at the start of fiscal 2018. See Note 2 to our unaudited consolidated financial statements for more information regarding the requirements for the new revenue recognition standards.

### *Depreciation and Amortization*

Depreciation and amortization expenses increased \$1.7 million , or 10.8% for the thirty-six weeks ended September 11, 2018 , primarily due to the addition of new property and equipment and the write-off of franchise right assets related to the franchise restaurants that closed during 2018. As a percentage of total revenue, depreciation and amortization expenses was 5.1% for the thirty-six weeks ended September 11, 2018 compared to 4.9% for the thirty-six weeks ended September 12, 2017 .

### *Occupancy and Other – Franchise Sublease*

Occupancy and other – franchise sublease was \$2.1 million and \$1.7 million for the thirty-six weeks ended September 11, 2018 and September 12, 2017 , respectively. The increase was primarily due to sublease expense related to the sale of five company-operated restaurants sold to franchisees during the first quarter of 2017 and one company-operated restaurant sold to a franchisee during the fourth quarter of 2017, partially offset by a reduction in sublease expense due to the purchase of three franchise-operated restaurants during the third quarter 2018.

### *Pre-opening Costs*

Pre-opening costs were \$0.9 million for the thirty-six weeks ended September 11, 2018 compared to \$0.5 million for the thirty-six weeks ended September 12, 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 thirty-six weeks ended September 11, 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 thirty-six weeks ended September 12, 2017 .

### *Restaurant Closure Charges, Net*

Restaurant closure charges, net, were approximately \$0.6 million for the thirty-six weeks ended September 11, 2018 compared to approximately \$(1,000) for the thirty-six weeks ended September 12, 2017 . The current year activity primarily includes an adjustment of \$0.5 million to increase the lease termination liability for two restaurants due to a change in estimate, lease termination costs of \$0.2 million and accretion expense, partially offset by sublease income from leases which are treated as deemed landlord financing. The thirty-six weeks ended September 12, 2017 includes sublease income from leases which are treated as deemed landlord financing, partially offset by accretion expense.

### *Loss on Disposal of Assets, Net*

Loss on disposal of assets, net was \$0.8 million and \$0.5 million for the thirty-six weeks ended September 11, 2018 and September 12, 2017 , respectively. Current year net loss was primarily related to the closure of four company-operated restaurants and the write-off of leasehold improvements associated with two temporary company-operated restaurant closures,

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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 both restaurants reopen. One restaurant reopened in the fourth quarter of 2018 and the other restaurant is expected to open in the first half of 2019. Prior year loss was primarily related to the closure of three company-operated restaurants, a loss on the sales leaseback 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 restaurants to franchisees.

### *Interest Expense*

Interest expense was \$6.0 million and \$4.8 million for the thirty-six weeks ended September 11, 2018 and September 12, 2017, respectively. The increase is primarily due to an increase in interest rates compared to the prior year.

### *Other Income*

Other income was \$0.5 million for the thirty-six weeks ended September 11, 2018 and consists of a gain related to the write-off of unfavorable lease liabilities related to franchise subleases which were terminated in connection with the Company's acquisition of the related franchise-operated restaurants (see Note 4 to our unaudited consolidated financial statements for more information). There was no other income for the thirty-six weeks ended September 12, 2017.

### *Provision for Income Taxes*

The effective income tax rates were 25.5% for the thirty-six weeks ended September 11, 2018 compared to 37.9% for the thirty-six weeks ended September 12, 2017. The provision for income taxes was \$4.6 million for the thirty-six weeks ended September 11, 2018 and \$9.0 million for the thirty-six weeks ended September 12, 2017. The reduced effective income tax rate in 2018 compared to 2017 is primarily due to the Tax Cuts and Jobs Act enacted on December 22, 2017 which reduced the United States federal corporate income tax rate from 35% to 21%. The income tax expense related to the thirty-six weeks ended September 11, 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, reduced by higher stock compensation expense deductible for tax related to the June 30, 2018 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as federal targeted job credits. The income tax expense related to the thirty-six weeks ended September 12, 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, reduced by higher stock compensation expense deductible for tax related to the June 30, 2017 vesting of certain restricted stock awards as compared to the cumulative amount recorded as stock-based compensation expense, as well as 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 \$6.6 million at September 11, 2018 and available borrowing capacity of \$80.7 million at September 11, 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).

	36 Weeks Ended	
	September 11, 2018	September 12, 2017
Net cash provided by (used in)		
Operating activities	\$ 44,308	\$ 43,860
Investing activities	(32,200)	(20,902)
Financing activities	(12,039)	(24,731)
Net increase (decrease) in cash	\$ 69	\$ (1,773)

#### **Cash Flows Provided by Operating Activities**

In the thirty-six weeks ended September 11, 2018, cash flows provided by operating activities were \$44.3 million. The cash flows provided by operating activities resulted from net income of \$13.3 million, non-cash adjustments for asset depreciation and amortization of \$17.3 million, stock-based compensation of \$4.1 million, deferred income taxes of \$0.7 million, restaurant closure charges of \$0.6 million, a loss on disposal of assets of \$0.7 million, impairment of long-lived assets of \$1.7 million and net working capital requirements of \$5.9 million.

In the thirty-six weeks ended September 12, 2017, cash flows provided by operating activities were \$43.9 million. The cash flows provided by operating activities resulted from net income of \$14.7 million, non-cash adjustments for asset depreciation and amortization of \$15.7 million, stock-based compensation of \$3.3 million, deferred income taxes of \$2.6 million, loss on disposal of assets of \$0.5 million, restaurant closure charges of \$0.1 million and net working capital requirements of \$7.0 million.

#### **Cash Flows Used in Investing Activities**

In the thirty-six weeks ended September 11, 2018, cash flows used in investing activities were \$32.2 million, which were primarily the result of purchase of property and equipment and other assets of \$31.7 million and the acquisition of four franchise-operated restaurants of \$1.8 million, partially offset by proceeds from the disposal of property and equipment for \$1.3 million.

In the thirty-six weeks ended September 12, 2017, cash flows used in investing activities were \$20.9 million, which were primarily the result of the purchase of property and equipment and other assets of \$30.8 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 thirty-six weeks ended September 11, 2018, cash flows used in financing activities were \$12.0 million. The cash flows used in financing activities were primarily the result of the repurchase of 642,862 shares of our common stock and 26,915 warrants for an aggregate purchase price of \$7.8 million, including incremental direct costs to acquire the shares and warrants, payments of tax withholding of \$2.4 million related to restricted stock vesting and payments on capital lease and deemed landlord financing totaling \$1.0 million, offset by proceeds from exercise of stock options of \$0.2 million. In addition, during the thirty-six weeks ended September 11, 2018, we borrowed \$17.0 million on the revolving credit facility and made payments of \$18.0 million on the revolving credit facility.

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In the thirty-six weeks ended September 12, 2017, cash flows used in financing activities were \$24.7 million. The cash flows used in financing activities were primarily the result of the repurchase of approximately 737,287 shares of our common stock and 401,186 warrants for an aggregate purchase price of \$10.7 million, including incremental direct costs to acquire the shares and warrants, payments on capital lease and deemed landlord financing totaling \$1.1 million and payments of tax withholding of \$1.9 million related to restricted stock vesting. During the thirty-six weeks ended September 12, 2017, we borrowed \$19.0 million on the revolving credit facility and made payments of \$30.0 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 September 11, 2018.

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

At September 11, 2018, the weighted-average interest rate on the outstanding balance of the 2015 Senior Credit Facility was 3.8%. As of September 11, 2018 there were \$152.0 million of borrowings under the 2015 Senior Credit Facility and letters of credit outstanding of \$17.3 million. Unused borrowing capacity at September 11, 2018 was \$80.7 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. As of September 11, 2018, one-month LIBOR was 2.1%. During the twelve weeks ended September 11, 2018, the Company received payments of approximately \$10,000 related to the 2016 Interest Rate Cap Agreement.

#### *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 September 11, 2018, we repurchased (1) 235,041 shares of common stock for an average purchase price per share of \$12.74 for an aggregate cost of approximately \$3.0 million, including incremental direct costs to acquire the shares, and (2) 5,972 warrants for an average price per warrant of \$3.07 for an aggregate cost of approximately \$18,000, including incremental direct costs to acquire the warrants. During the thirty-six weeks ended September 11, 2018, we repurchased (1) 642,862 shares of common stock for an average purchase price per share of \$12.00 for an aggregate cost of approximately \$7.7 million, including incremental direct costs to acquire the shares, and (2) 26,915 warrants for an average price per warrant of \$3.02 for an aggregate cost of approximately \$0.1 million, including incremental direct costs to acquire the warrants. As of September 11, 2018, there was approximately \$38.1 million 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		36 Weeks Ended	
	September 11, 2018	September 12, 2017	September 11, 2018	September 12, 2017
Company restaurant sales	\$ 109,559	\$ 106,298	\$ 324,468	\$ 311,542
Restaurant operating expenses	87,746	85,891	261,654	250,620
Restaurant contribution	\$ 21,813	\$ 20,407	\$ 62,814	\$ 60,922
Restaurant contribution margin	19.9%	19.2%	19.4%	19.6%

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

	12 Weeks Ended		36 Weeks Ended	
	September 11, 2018	September 12, 2017	September 11, 2018	September 12, 2017
<b>Net income</b>	\$ 5,874	\$ 5,101	\$ 13,313	\$ 14,669
Non-GAAP adjustments:				
Provision for income taxes	1,782	2,804	4,563	8,955
Interest expense	2,062	1,628	5,984	4,798
Depreciation and amortization	5,855	5,522	17,616	15,903
<b>EBITDA</b>	15,573	15,055	41,476	44,325
Stock-based compensation expense (a)	1,445	1,191	4,079	3,340
Loss on disposal of assets, net (b)	580	233	760	524
Restaurant closure charges, net (c)	672	(16)	635	(1)
Amortization of favorable and unfavorable lease assets and liabilities, net (d)	(352)	(229)	(602)	(521)
Pre-opening costs (e)	259	354	900	531
Impairment of long-lived assets (f)	—	—	1,661	—
Other income (g)	(523)	—	(523)	—
<b>Adjusted EBITDA</b>	\$ 17,654	\$ 16,588	\$ 48,386	\$ 48,198

(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 gains or losses recorded associated with the sale of company-operated restaurants to franchisees.

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

(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.

(g) Other income consists of a gain related to the write-off of unfavorable lease liabilities related to franchise subleases which were terminated in connection with the Company's acquisition of the related franchise-operated restaurants.

### **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 September 11, 2018, we had outstanding variable rate borrowings of \$152.0 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. 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 222 are company-operated and 110 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 26 company-owned restaurants and seven 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 increased to \$10.50 per hour in 2018, and will increase to \$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 September 11, 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 14, *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 September 11, 2018, the Company repurchased (1) 235,041 shares of common stock for an average price per share of \$12.74 for an aggregate cost of approximately \$3.0 million, including incremental direct costs to acquire the shares, and (2) 5,972 warrants for an average price per warrant of \$3.07 for an aggregate cost of approximately \$18,000, including incremental direct costs to acquire the warrants. During the thirty-six weeks ended September 11, 2018, the Company repurchased (1) 642,862 shares of common stock for an average price per share of \$12.00 for an aggregate cost of approximately \$7.7 million, including incremental direct costs to acquire the shares, and (2) 26,915 warrants for an average price per warrant of \$3.02 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 September 11, 2018. As of September 11, 2018, there was approximately \$38.1 million remaining under the share repurchase program.

The following table summarizes shares and warrants repurchased during the quarter ended September 11, 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						
June 20, 2018 - July 17, 2018	162,126 <sup>(1)</sup>	—	\$ 14.18	\$ —	—	—	\$ 16,155,987
July 18, 2018 - August 14, 2018	170,351	2,013	\$ 12.77	\$ 3.11	170,351	2,013	\$ 38,974,344
August 15, 2018 - September 11, 2018	64,690	3,959	\$ 12.67	\$ 3.06	64,690	3,959	\$ 38,142,607
Total	397,167 <sup>(1)</sup>	5,972			235,041	5,972	\$ 38,142,607

(1) Includes 162,126 shares withheld upon vesting of restricted stock awards in satisfaction of withholding tax obligations pursuant to the 2015 Omnibus Incentive Plan. These shares do not reduce the repurchase authorization discussed above.

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### **Item 6. Exhibits**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
31.1	<a href="#">Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).</a>
31.2	<a href="#">Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).</a>
32.1	<a href="#">Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.</a>
32.2	<a href="#">Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.</a>
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: October 18, 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)

## 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: October 18, 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: October 18, 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 September 11, 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: October 18, 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 September 11, 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: October 18, 2018

/s/ Steven L. Brake

Steven L. Brake

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