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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 27, 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: 001-36556

EL POLLO LOCO HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-3563182**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3535 Harbor Blvd., Suite 100, Costa Mesa, California	**92626**
(Address of principal executive offices)	**(Zip Code)**

(714) 599-5000
(Registrant’s telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☒

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

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

As of July 23, 2018, there were 38,608,810 shares of the issuer’s common stock outstanding.

Table of Contents **Page**

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

EL POLLO LOCO HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Amounts in thousands, except share data)

	June 27, 2018	December 27, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 13,085	$ 8,550
Accounts and other receivables, net	7,612	7,212
Inventories	2,077	2,289
Prepaid expenses and other current assets	3,232	2,679
Total current assets	26,006	20,730
Property and equipment owned, net	103,937	102,794
Property held under capital leases, net	28	40
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Other intangible assets, net	329	377
Deferred tax assets	6,713	7,167
Other assets	1,073	1,041
Total assets	**$ 448,648**	**$ 442,711**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under capital leases	$ 121	$ 132
Accounts payable	9,053	12,307
Accrued salaries and vacation	6,652	7,339
Accrued insurance	6,297	5,851
Accrued income taxes payable	90	35
Accrued interest	350	110
Current portion of income tax receivable agreement payable	12,887	8,281
Other accrued expenses and current liabilities	15,172	13,270
Total current liabilities	50,622	47,325
Revolver loan	86,000	93,000
Obligations under capital leases, net of current portion	131	184
Deferred taxes	895	—
Other intangible liabilities, net	711	786
Income tax receivable agreement payable, net of current portion	8,883	13,694
Other noncurrent liabilities	21,278	12,772
Total liabilities	168,520	167,761
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value—200,000,000 shares authorized; 38,608,810 and 38,661,850 shares issued and outstanding	387	387
Additional paid-in-capital	374,081	372,990
Accumulated deficit	(94,340)	(98,427)
Total stockholders' equity	280,128	274,950
Total liabilities and stockholder's equity	**$ 448,648**	**$ 442,711**

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2018	June 28, 2017	June 27, 2018	June 28, 2017
Revenue				
Company-operated restaurant revenue	$ 99,627	$ 98,885	$ 194,180	$ 192,334
Franchise revenue	6,553	6,688	12,659	13,010
Franchise advertising fee revenue	5,453	—	10,550	—
Total revenue	111,633	105,573	217,389	205,344
Cost of operations				
Food and paper cost	28,681	29,146	55,916	56,218
Labor and related expenses	27,856	26,592	55,518	53,425
Occupancy and other operating expenses	22,913	21,574	44,832	42,116
Company restaurant expenses	79,450	77,312	156,266	151,759
General and administrative expenses	12,474	9,576	25,676	19,309
Franchise expenses	6,250	1,006	12,082	1,823
Depreciation and amortization	4,344	4,632	8,556	8,949
(Gain) loss on disposal of assets	(8)	434	53	659
Recovery of securities lawsuits related legal expenses	(2,429)	(511)	(4,063)	(511)
Asset impairment and closed-store reserves	3,963	384	6,782	1,255
Total expenses	104,044	92,833	205,352	183,243
Income from operations	7,589	12,740	12,037	22,101
Interest expense, net of interest income of $7 and $6 for the quarters ended June 27, 2018 and June 28, 2017, respectively, and $15 and $11 for year-to-date ended June 27, 2018 and June 28, 2017, respectively.	960	778	1,848	1,568
Income tax receivable agreement expense (income)	712	(101)	(206)	126
Income before provision for income taxes	5,917	12,063	10,395	20,407
Provision for income taxes	865	4,244	2,814	7,711
Net income	$ 5,052	$ 7,819	$ 7,581	$ 12,696
Net income per share				
Basic	$ 0.13	$ 0.20	$ 0.20	$ 0.33
Diluted	$ 0.13	$ 0.20	$ 0.19	$ 0.32
Weighted-average shares used in computing net income per share				
Basic	38,482,074	38,449,240	38,473,641	38,443,130
Diluted	39,043,434	39,123,961	39,015,259	39,102,501

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Twenty-Six Weeks Ended	
	June 27, 2018	June 28, 2017
Cash flows from operating activities:		
Net income	$ 7,581	$ 12,696
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	8,556	8,949
Stock-based compensation expense	1,170	414
Income tax receivable agreement (income) expense	(206)	126
Loss on disposal of assets	53	659
Impairment of property and equipment	1,708	445
Closed-store reserve expense	5,074	810
Amortization of deferred financing costs	152	152
Amortization of favorable and unfavorable leases, net	(27)	(57)
Deferred income taxes, net	1,349	7,562
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(400)	(1,398)
Inventories	212	(18)
Prepaid expenses and other current assets	(553)	(624)
Other assets	117	37
Accounts payable	(1,051)	(1,187)
Accrued salaries and vacation	(687)	2,110
Accrued insurance	446	271
Income taxes payable	55	14
Other accrued expenses and liabilities	2,081	(353)
Restricted cash	—	125
Net cash flows provided by operating activities	25,630	30,733
Cash flows from investing activities:		
Purchase of property and equipment	(13,952)	(19,040)
Net cash flows used in investing activities	(13,952)	(19,040)
Cash flows from financing activities:		
Minimum tax withholdings related to net share settlements	(79)	—
Payments on revolver loan	(13,000)	(9,500)
Borrowings on revolver loan	6,000	—
Proceeds from issuance of common stock upon exercise of stock options, net of expenses	—	93
Payment of obligations under capital leases	(64)	(83)
Net cash flows used in financing activities	(7,143)	(9,490)
Increase in cash and cash equivalents	4,535	2,203
Cash and cash equivalents, beginning of period	8,550	2,168
Cash and cash equivalents, end of period	$ 13,085	$ 4,371

Supplemental cash flow information	Twenty-Six Weeks Ended June 27, 2018	June 28, 2017
Cash paid during the period for interest	$ 1,593	$ 1,650
Cash paid during the period for income taxes	$ 125	$ 135
Unpaid purchases of property and equipment	$ 2,295	$ 4,321

See notes to the condensed consolidated financial statements (unaudited).

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

El Pollo Loco Holdings, Inc. (“Holdings”) is a Delaware corporation headquartered in Costa Mesa, California. Holdings and its direct and indirect subsidiaries are collectively known as “we,” “us” or the “Company.” The Company's activities are conducted principally through its indirect wholly-owned subsidiary, El Pollo Loco, Inc. (“EPL”), which develops, franchises, licenses, and operates quick-service restaurants under the name El Pollo Loco® and operates under one operating segment. At June 27, 2018, the Company operated 211 and franchised 269 El Pollo Loco restaurants.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the Company's consolidated financial position and results of operations and cash flows for the periods presented. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The condensed consolidated financial statements and related notes do not include all information and footnotes required by GAAP for annual reports. This quarterly report should be read in conjunction with the consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 27, 2017.

The Company uses a 52- or 53-week fiscal year ending on the last Wednesday of the calendar year. In a 52-week fiscal year, each quarter includes 13 weeks of operations; in a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations, and the fourth quarter includes 14 weeks of operations. Every six or seven years, a 53-week fiscal year occurs. Fiscal 2017 and 2018 are both 52-week years, ending on December 27, 2017 and December 26, 2018, respectively. Revenues, expenses, and other financial and operational figures may be elevated in a 53-week year.

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), guaranteed EPL’s 2014 Revolver (see Note 4) (and guarantee the 2018 Revolver) on a full and unconditional basis, and Intermediate has no subsidiaries other than EPL. EPL is a separate and distinct legal entity and has no obligation to make funds available to Intermediate. EPL and Intermediate may pay dividends to Intermediate and to Holdings, respectively.

Under the 2014 Revolver, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under its income tax receivable agreement (the “TRA”), and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5.0 million in other restricted payments per year, and (d) make other restricted payments, subject to its compliance, on a pro forma basis, with (x) a lease-adjusted consolidated leverage ratio not to exceed 4.25 times and (y) the financial covenants applicable to the 2014 Revolver.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and revenue and expenses during the periods reported. Actual results could materially differ from those estimates. The Company’s significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, insurance reserves, lease termination liabilities, closed-store reserves, stock-based compensation, income tax receivable agreement liability, and income tax valuation allowances.

Cash and Cash Equivalents

The Company considers all highly-liquid instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Liquidity

The Company's principal liquidity requirements are to service its debt and to meet capital expenditure needs. At June 27, 2018, the Company's total debt (including capital lease liabilities) was $86.3 million. The Company's ability to make payments on its indebtedness and to fund planned capital expenditures depends on available cash and its ability to generate adequate cash flows in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond the Company's control. Based on current operations, the Company believes that its cash flow from operations, available cash of $13.1 million at June 27, 2018, and available borrowings under the 2018 Revolver will be adequate to meet the Company's liquidity needs for the next twelve months from the filing of the condensed consolidated financial statements.

Recovery of Securities Class Action Legal Expense

During the thirteen and twenty-six weeks ended June 27, 2018, the Company received insurance proceeds of $2.4 million and $4.1 million, respectively, related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See Note 7, Commitments and Contingencies, Legal Matters.

Recently Adopted Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09 "Compensation—Stock Compensation (Topic 718)—Scope of Modification Accounting", which provides clarity, reduces diversity in practice, and reduces cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, regarding a change to the terms or conditions of a share-based payment award. Specifically, an entity is to account for the effects of a modification, unless all of the following are satisfied: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or as a liability instrument is the same as the classification of the original award immediately before the original award is modified. The Company adopted ASU 2017-09 in the first quarter of fiscal 2018, and this adoption did not result in any impact on the Company's consolidated financial position or results of operations.

In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805)—Clarifying the Definition of a Business", clarifying the definition of a business. ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with the evaluation of whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted ASU 2017-01 in the first quarter of fiscal 2018, and this adoption did not result in any impact on the Company's consolidated financial position or results of operations.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash." ASU 2016-18 addresses the diversity in practice that exists regarding the classification and the presentation of changes in restricted cash on the statements of cash flows under Topic 230, Statements of Cash Flow, and other Topics. The amendments in ASU No. 2016-18 require that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period total amounts set forth on the statements of cash flows. The Company adopted ASU 2016-18 in the first quarter of fiscal 2018, and this adoption did not result in any impact on the Company's consolidated financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statements of cash flows under Topic 230, Statements of Cash Flow. The Company adopted ASU 2016-15 in the first quarter of fiscal 2018, and this adoption did not result in any impact on the Company's consolidated financial position or results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company adopted ASU 2016-01 in the first quarter of fiscal 2018, and this adoption did not result in any impact on the Company’s consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (ASU 2014-09)”, which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP.

The revised revenue standard is effective for public entities for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

In addition, the FASB has issued the following Technical Corrections, Practical Expedients and Improvements to Topic 606, Revenue from Contracts with Customers: ASU 2017-13 in September 2017, ASU No. 2016-20, in December 2016, ASU No. 2016-12, in May 2016, and ASU No. 2016-10, in April 2016.

The Company adopted ASU 2014-09, and all related ASU's in the first quarter of 2018. See "Changes in Accounting Policies," below and Note 10 for further details.

Recent Accounting Pronouncements Not Yet Adopted

In June 2018, the FASB issued ASU 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU 2018-07 is effective for financial statements issued for annual periods beginning after December 15, 2018, and for the interim periods therein. The adoption of ASU 2018-07 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

In March 2018, the FASB issued ASU 2018-05 "Income Taxes (Topic 740)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118", which adds various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118. In particular, ASU 2018-05 amends Subtopic 740-10, Income Taxes, overall, to add information regarding income tax accounting implications of the Tax Cuts and Jobs Act, as well as other paragraphs and sections related to the income tax accounting implications of the Tax Cuts and Jobs Act. There is no transition date related to this ASU, and there is no impact on the Company's consolidated financial position or results of operations.

In January 2017, the FASB issued ASU 2017-04 "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment", simplifying the manner in which an entity is required to test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. The Company will apply the provisions of this standard when assessing impairment of goodwill upon adoption. ASU 2017-04 is effective for financial statements issued for annual periods beginning after December 15, 2019. The adoption of ASU 2017-04 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, “Leases.” The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods therein. Although early adoption is permitted, the Company will adopt these provisions in the first quarter of 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company has $282.3 million of operating lease obligations as of June 27, 2018, and upon adoption of this standard will record a ROU asset and lease liability equal to the present value of the lease payments, which will have a material impact on the consolidated balance sheet. However, the recognition of lease expense in the consolidated statement of operations is not expected to change from the current methodology.

Subsequent Events

Subsequent to June 27, 2018, the Company opened one restaurant in California and one of our franchisees opened one restaurant in California and another franchisee opened one restaurant in Utah. Additionally, the Company approved the closure of one restaurant in Arizona.

Furthermore, the Company's Board of Directors, on July 30, 2018, as part of the Company's focus on shareholder returns, approved a share repurchase program under which it authorized the Company, at its discretion, to repurchase up to $20.0 million of its common stock outstanding through June 26, 2019. Repurchases of the Company's outstanding common stock will be made in accordance with applicable securities laws and may be made at management's discretion from time to time in the open market, through privately negotiated transactions or otherwise, including pursuant to Rule 10b5-1 trading plans. There is no guarantee as to the exact number of shares to be repurchased by the Company. The timing and extent of repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, and repurchases may be discontinued at any time.

2018 Credit Agreement

On July 13, 2018, the Company refinanced the 2014 Revolver, pursuant to a credit agreement (the "2018 Credit Agreement") among EPL, as borrower, the Company and Intermediate, as guarantors, Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a $150 million five-year senior secured revolving facility (the "2018 Revolver"). The 2018 Revolver includes a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. The proceeds of the 2018 Revolver were used to refinance the 2014 Revolver and may also be used from time to time for general corporate purposes. The 2018 Revolver will mature on July 13, 2023. The obligations of EPL under the 2018 Credit Agreement and related loan documents are guaranteed by the Company and Intermediate and the obligations of each of the Company, EPL and Intermediate under the 2018 Credit Agreement and related loan documents are secured by a first priority (subject to permitted liens) lien on substantially all of their respective assets (subject to customary exceptions).

Borrowings under the 2018 Credit Agreement (other than any swingline loans) bear interest, at the borrower's option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the published of Bank of America prime rate, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.25% to 2.25%, and for base rate loans the margin is in a range of 0.25% to 1.25%. Borrowings under the 2018 Revolver may be repaid and reborrowed.

The 2018 Credit Agreement includes negative covenants and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on (among others) indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, negative pledges, transactions with affiliates, sale-leaseback transactions and prepayments of certain debt. The 2018 Credit Agreement also includes certain affirmative covenants and events of default.

The Company evaluated subsequent events that have occurred after June 27, 2018, and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in the condensed consolidated financial statements.

Concentration of Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally-insured limits. The Company has never experienced any losses related to these balances.

The Company had no supplier for which amounts due totaled more than 10.0% of the Company's accounts payable at June 27, 2018. As of December 27, 2017, the Company had one supplier for which amounts due totaled 14.0% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 29.1% and 28.6% of total expenses for the thirteen and twenty-six weeks ended June 27, 2018, respectively, and 33.0% and 32.0% of total expenses for the thirteen and twenty-six weeks ended June 28, 2017, respectively.

Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 68.5% and 68.8% of total revenue for the thirteen and twenty-six weeks ended June 27, 2018, respectively, and 73.0% of total revenue for both the thirteen and twenty-six weeks ended June 28, 2017.

Revenue Recognition

In the first quarter of 2018 the Company implemented ASU 2014-09. Revenue is measured based on a consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. ASU 2014-09 defines a five-step process to achieve this core principle. Refer to Note 10 for further details on the Company's revenue recognition policy.

Goodwill and Indefinite Lived Intangible Assets

The Company's indefinite-lived intangible assets consist of trademarks. Goodwill represents the excess of cost over fair value of net identified assets acquired in business combinations accounted for under the purchase method. The Company does not amortize its goodwill and indefinite-lived intangible assets. Goodwill resulted from the acquisition of certain franchise locations.

Upon the sale of a restaurant, the Company evaluates whether there is a decrement of goodwill. The amount of goodwill included in the cost basis of the asset sold is determined based on the relative fair value of the portion of the reporting unit disposed of compared to the fair value of the reporting unit retained.

The Company performs annual impairment tests for goodwill during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise.

The Company reviews goodwill for impairment utilizing either a qualitative assessment or a two-step process. If the Company decides that it is appropriate to perform a qualitative assessment and concludes that the fair value of a reporting unit more likely than not exceeds its carrying value, no further evaluation is necessary. If the Company performs the two-step process, the first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure the amount of impairment by comparing the carrying amount of the goodwill to a determination of the implied value of the goodwill. If the carrying amount of goodwill is greater than the implied value, an impairment charge is recognized for the difference.

The Company performs annual impairment tests for indefinite-lived intangible assets during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. An impairment test consists of either a qualitative assessment or a comparison of the fair value of an intangible asset with its carrying amount. The excess of the carrying amount of an intangible asset over its fair value is recognized as an impairment loss.

The assumptions used in the estimate of fair value are generally consistent with the past performance of the Company's reporting segment and are also consistent with the projections and assumptions that are used in current operating plans. These assumptions are subject to change as a result of changing economic and competitive conditions.

The Company did not identify any indicators of potential impairment of its goodwill or indefinite-lived intangible assets during the thirteen and twenty-six weeks ended June 27, 2018 or June 28, 2017, and therefore did not record any impairment during the respective periods.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable.
- Level 3: Unobservable inputs used when little or no market data is available.

As of June 27, 2018 and December 27, 2017, the Company had no assets or liabilities measured at fair value on a recurring basis.

Certain assets and liabilities are measured at fair value on a nonrecurring basis. In other words, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment).

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the thirteen and twenty-six weeks ended June 27, 2018, reflecting certain property and equipment assets for which an impairment loss was recognized during the corresponding periods, as discussed immediately below under "Impairment of Long-Lived Assets:"

		Fair Value Measurements at June 27, 2018 Using			Thirteen Weeks Ended June 27, 2018	Twenty-Six Weeks Ended June 27, 2018
	Total	Level 1	Level 2	Level 3	Impairment Losses	Impairment Losses
Property and equipment owned, net	$ —	$ —	$ —	$ —	$ 1,708	1,708

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the thirteen and twenty-six weeks ended June 28, 2017, reflecting certain property and equipment assets for which an impairment loss was recognized during the corresponding periods, as discussed immediately below under "Impairment of Long-Lived Assets:"

		Fair Value Measurements at June 28, 2017 Using			Thirteen Weeks Ended June 28, 2017	Twenty-Six Weeks Ended June 28, 2017
	Total	Level 1	Level 2	Level 3	Impairment Losses	Impairment Losses
Property and equipment owned, net	$ 302	$ —	$ —	$ 302	$ 387	387

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying value of certain assets may not be recoverable. The Company considers a triggering event to have occurred related to a specific restaurant if the restaurant's cash flows for the last twelve months 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. If the Company concludes that the carrying value of certain assets will not be recovered based on expected undiscounted future cash flows, an impairment loss is recorded to reduce the assets to their estimated fair value. The fair value is measured on a nonrecurring basis using unobservable (Level 3) inputs. There is uncertainty in the projected undiscounted future cash flows used in the Company's impairment review analysis, which requires the use of estimates and assumptions. If actual performance does not achieve the projections, or if the assumptions used change in the future, the Company may be required to recognize impairment charges in future periods, and such charges could be material. Based on the results of the analysis, the Company recorded a non-cash impairment charge of $1.7 million for the thirteen and twenty-six weeks ended June 27, 2018, primarily related to the carrying value of the assets of one restaurant in Arizona. The Company recorded a non-cash impairment charge of $0.4 million for the thirteen and twenty-six weeks ended June 28, 2017, primarily related to the partial carrying value of the assets of one restaurant in Texas. Given the difficulty in projecting results for newer restaurants in newer markets, we are monitoring the recoverability of the carrying value of the assets of several restaurants on an ongoing basis, including those in the Arizona and Northern California markets. For these restaurants, if expected performance improvements are not realized, an impairment charge may be recognized in future periods, and such charge could be material.

Closed-Store Reserves

When the Company closes a restaurant, it reviews the future minimum lease payments and related ancillary costs from the date of the restaurant closure to the end of the remaining lease term and records a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries. There is uncertainty in the estimates of future lease costs and sublease recoveries. In addition an impairment charge is recognized for any remaining carrying value of certain restaurant assets. During the thirteen weeks ended June 27, 2018, the Company closed two restaurants in Texas, both of which were previously impaired during the third quarter of 2017. During the twenty-six weeks ended June 27, 2018, the Company closed four restaurants in Texas, all of which were previously impaired during the third quarter of 2017, and decided not to move forward with the development of a third location in Texas. This resulted in a closed-store reserve expense of $2.3 million and $5.1 million for the thirteen and twenty-six weeks ended June 27, 2018, respectively. During the twenty-six weeks ended June 28, 2017, we closed one restaurant in Arizona and one restaurant in Texas, resulting in a closed store reserve expense of $0.8 million.

Income Taxes

The provision for income taxes, income taxes payable and deferred income taxes is determined using the asset and liability method. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. On a periodic basis, the Company assesses the probability that its net deferred tax assets, if any, will be recovered. If, after evaluating all of the positive and negative evidence, a conclusion is made that it is more likely than not that some portion or all of the net deferred tax assets will not be recovered, a valuation allowance is provided by charging to tax expense to reserve the portion of deferred tax assets which are not expected to be realized.

The Company reviews its filing positions for all open tax years in all U.S. federal and state jurisdictions where the Company is required to file.

When there are uncertainties related to potential income tax benefits, in order to qualify for recognition, the position the Company takes has to have at least a “more likely than not” chance of being sustained (based on the position’s technical merits) upon challenge by the respective authorities. The term “more likely than not” means a likelihood of more than 50 percent. Otherwise, the Company may not recognize any of the potential tax benefit associated with the position. The Company recognizes a benefit for a tax position that meets the “more likely than not” criterion at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon its effective resolution. Unrecognized tax benefits involve management’s judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect the Company's consolidated financial position, results of operations, and cash flows.

The Company’s policy is to recognize interest and penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at June 27, 2018 or at December 27, 2017, and did not recognize interest or penalties during the thirteen or twenty-six weeks ended June 27, 2018 or June 28, 2017, since there were no material unrecognized tax benefits. Management believes no material changes to the amount of unrecognized tax benefits will occur within the next twelve months.

In fiscal 2017, President Trump signed into law "the Tax Cuts and Jobs Act”. The Tax Cuts and Jobs Act provides for significant changes in the U.S. Internal Revenue Code of 1986, as amended (the "Code"). The Tax Cuts and Jobs Act contains provisions with separate effective dates but is generally effective for tax years beginning after December 31, 2017. Among other changes, the Tax Cuts and Jobs Act lowers the corporate income tax rate from 35% to21%, repeals the corporate alternative minimum tax ("AMT"), limits the deductibility of interest expense and performance based incentive compensation, allows for 100% bonus depreciation on qualified fixed asset additions placed in service on or after September 27, 2017 and implements a modified territorial tax system. For tax years beginning in 2018, 2019 and 2020, to the extent AMT credit carryovers exceed regular tax liability, 50% of the excess of AMT credit carryovers would be refundable. Any remaining AMT credits would be fully refundable in 2021. The Tax Cuts and Jobs Act impacted the Company's consolidated results of operations in the current period, and is expected to continue to impact its consolidated results of operations in future periods. Impacts from the Tax Cuts and Jobs Act include the reduction in the corporate income tax rate from 35% to 21% and additional meals subject to the 50% disallowance that were previously 100% deductible. The Company may also be subject to future disallowance of deductions for certain executive compensation as a result of the changes to the Code section 162(m). We may make further refinements to our deferred tax assets related to executive compensations based upon technical guidance that may be published and changes to current interpretations of certain provisions of the Tax Cuts and Jobs Act. Any impacts to our provision as the result of additional guidance will be recorded in the period in which the guidance is issued.

On July 30, 2014, the Company entered into the TRA, which calls for the Company to pay to its pre-IPO stockholders 85% of the savings in cash that the Company realizes in its taxes as a result of utilizing its net operating losses and other tax attributes attributable to preceding periods. For the thirteen and twenty-six weeks ended June 27, 2018, we recorded income tax receivable agreement expense of $0.7 million and tax receivable agreement income $0.2 million, respectively, and for the thirteen and twenty-six weeks ended June 28, 2017, we recorded income tax receivable agreement income of $0.1 million and income tax receivable expense of $0.1 million, respectively, related to the amortization of interest expense related to our total expected TRA payments and changes in estimates for actual tax returns filed and future forecasted taxable income.

Changes in Accounting Policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements.

The Company adopted ASU 2014-09, with a date of initial application of December 28, 2017. As a result, the Company has changed its accounting policy for revenue recognition as detailed below.

The Company generates a substantial amount of its revenues from company-operated restaurants. This revenue stream was not impacted by the adoption of ASU No. 2014-09, or any of the subsequent related ASU’s.

The Company applied ASU 2014-09 using the modified retrospective method - by recognizing the cumulative effect of initially applying ASU 2014-09 as an adjustment to the opening balance of equity at December 28, 2017. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. The details of the significant changes and quantitative impact of the changes are set out below.

Franchise Revenue

Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees and IT support services. Rental income for leases and subleases to franchisees are outside of the scope of the revenue standard and are within the scope of lease guidance. Franchise royalties are based upon a percentage of net sales of the franchisee and were previously recorded as income as such sales are earned by the franchisees, which will not change with the adoption of ASU 2014-09.

For franchise and development agreement fees, the Company's previous accounting policy was to recognize initial franchise fees, development fees, and franchise agreement renewals when all material obligations had been performed and conditions had been satisfied, typically when operations of the franchised restaurant had commenced. In accordance with the new guidance, the initial franchise services, or exclusivity of the development agreements, are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will therefore be treated as a single performance obligation. As such, initial franchise and development fees received, and subsequent renewal fees, will be recognized over the franchise or renewal term typically twenty years.

Franchise Advertising Fee Revenue

The Company's previous accounting policy is to recognize advertising funded by franchisees on a net basis in the consolidated statements of income, and as a liability within our consolidated balance sheets. Under the new guidance, we will present advertising contributions received from franchisees as franchise advertising fee revenue and record all expenses of the advertising fund within franchise expenses, resulting in an increase in revenues and expenses on our consolidated statements of income, with no change to the consolidated balance sheets.

The adoption of this guidance did not have a material change on revenue from Company-operated restaurant revenue, gift cards or the Company's loyalty program.

The following tables summarize the impacts of adopting ASU 2014-09 on the Company’s consolidated financial statements as of and for the thirteen and twenty-six weeks ended June 27, 2018:

June 27, 2018 (in thousands)	Impact of changes in accounting policies As Reported	 Adjustments	 Balances without adoption of ASU 2014-09
Assets			
Current assets:			
Deferred tax assets	$ 6,713	$ 1,285	$ 5,428
Total assets	448,648	1,285	447,363
Liabilities and Stockholders' Equity			
Current liabilities:			
Other accrued expenses and current liabilities	15,172	347	14,825
Total current liabilities	50,622	347	50,275
Other noncurrent liabilities	21,278	4,364	16,914
Total liabilities	168,520	4,711	163,809
Stockholders' Equity			
Accumulated deficit	(94,340)	(3,426)	(90,914)
Total stockholders' equity	280,128	(3,426)	283,554
Total liabilities and stockholder's equity	448,648	1,285	447,363

	Thirteen Weeks Ended June 27, 2018			Twenty-Six Weeks Ended June 27, 2018		
	As Reported	Adjustments	Balances without adoption of ASU 2014-09	As Reported	Adjustments	Balances without adoption of ASU 2014-09
Revenue						
Franchise revenue	6,553	(56)	6,609	12,659	(68)	12,727
Franchise advertising fee revenue	5,453	5,453	—	10,550	10,550	—
Total revenue	111,633	5,397	106,236	217,389	10,482	206,907
Cost of operations						
Franchise expenses	6,250	5,453	797	12,082	10,550	1,532
Total expenses	104,044	5,453	98,591	205,352	10,550	194,802
Income from operations	7,589	(56)	7,645	12,037	(68)	12,105
Income before provision for income taxes	5,917	(56)	5,973	10,395	(68)	10,463
Net income	5,052	(56)	5,108	7,581	(68)	7,649

2. PROPERTY AND EQUIPMENT

The costs and related accumulated depreciation and amortization of major classes of property and equipment are as follows (in thousands):

	June 27, 2018	December 27, 2017
Land	$ 12,323	$ 12,323
Buildings and improvements	149,218	124,056
Other property and equipment	73,530	64,712
Construction in progress	4,817	8,225
	239,888	209,316
Less: accumulated depreciation and amortization	(135,951)	(106,522)
	$ 103,937	$ 102,794

The gross value of assets under capital leases for buildings and improvements was $1.6 million as of June 27, 2018 and December 27, 2017. Accumulated depreciation for assets under capital leases was $1.5 million as of June 27, 2018 and December 27, 2017.

Depreciation expense was $4.3 million and $4.6 million for the thirteen weeks ended June 27, 2018 and June 28, 2017, respectively, and $8.6 million and $8.9 million for the twenty-six weeks ended June 28, 2017, respectively.

Based on the Company's review of its long-lived assets for impairment, the Company recorded non-cash impairment charges of $1.7 million for the thirteen and twenty-six weeks ended June 27, 2018, and $0.4 million for the thirteen and twenty-six weeks ended June 28, 2017.

3. STOCK-BASED COMPENSATION

At June 27, 2018, options to purchase 2,196,744 shares of common stock were outstanding, including 1,980,301 vested and 216,443 unvested. Unvested options vest over time; however, upon a change in control, the board may accelerate vesting. At June 27, 2018, 1,599,944 premium options, options granted above the stock price at date of grant, remained outstanding. There were no stock option exercises during the thirteen and twenty-six weeks ended June 27, 2018. For the thirteen and twenty-six ended June 28, 2017, there were stock option exercises of 17,661. For the thirteen and twenty-six weeks ended June 27, 2018, there were 120,752 stock options granted at the fair market value on the date of grant. For the thirteen and twenty-six weeks ended June 28, 2017, there were 128,252 stock options granted at the fair market value on the date of grant. At June 27, 2018, the Company had total unrecognized compensation expense of $0.7 million related to unvested stock options, which it expects to recognize over a weighted-average period of 3.3 years.

For the thirteen and twenty-six weeks ended June 27, 2018, there were no restricted shares granted. For the thirteen and twenty-six weeks ended June 28, 2017, there were 169,676 restricted shares granted at the fair market value on date of grant. At June 27, 2018, there were 113,741 unvested restricted shares outstanding. At June 27, 2018, the Company had total unrecognized compensation expense of $1.4 million related to unvested restricted shares, which it expects to recognize over a weighted-average period of 2.7 years.

For the thirteen and twenty-six weeks ended June 27, 2018, there were 72,116 performance stock units granted at the fair market value on date of grant. These awards are subject to service-based and market-based vesting conditions. The service period is from May 2018 to May 2019 and the market-based conditions are based on stock price. There were no performance stock units granted for the thirteen and twenty-six weeks ended June 28, 2017. At June 27, 2018, there were 72,116 unvested performance stock units outstanding. At June 27, 2018, the Company had total unrecognized compensation expense of $0.4 million related to performance stock units, which it expects to recognize over a weighted-average period of 4.9 years.

For the thirteen and twenty-six weeks ended June 27, 2018, there were 96,156 restricted units granted at the fair market value on date of grant. There were no restricted units granted for the thirteen and twenty-six weeks ended June 28, 2017. At June 27, 2018, there were 96,156 unvested restricted units outstanding. At June 27, 2018, the Company had total unrecognized compensation expense of $0.9 million related to unvested restricted units, which it expects to recognize over a weighted-average period of 3.9 years.

In connection with the retirement of our former President and CEO, the Company has modified his previously granted equity awards to accelerate the vesting of 33,545 shares, which would have otherwise vested in May 2018, and extended the exercise ability of all his vested and outstanding options until the expiration of the original term of such options. As a result, the Company incurred incremental stock-based compensation expense of $0.3 million and $0.8 million for the thirteen and twenty-six weeks ended June 27, 2018, respectively. Total stock-based compensation expense was $0.6 million and $1.2 million for the thirteen and twenty-six weeks ended June 27, 2018, respectively, and $0.3 million and $0.4 million for the thirteen and twenty-six weeks ended June 28, 2017, respectively.

4. CREDIT AGREEMENTS

On December 11, 2014, the Company refinanced its debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provided for a $200.0 million five-year senior secured revolving facility (the “2014 Revolver”). The 2014 Revolver included a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. At June 27, 2018, $7.7 million of letters of credit, and $86.0 million of the revolving line of credit were outstanding. The amount available under the revolving line of credit was $106.3 million at June 27, 2018. The 2014 Revolver will mature on or about December 11, 2019.

Borrowings under the 2014 Revolver (other than any swingline loans) bear interest, at the borrower’s option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.75% to 2.50%, and for base rate loans the margin is in the range of 0.75% to 1.50%. The interest rate range was 3.6% to 3.7% and 3.3% to 3.7% for the thirteen and twenty-six weeks ended June 27, 2018, respectively, and 2.7% to 3.0% and 2.4% to 3.0% for the thirteen and twenty-six weeks ended June 28, 2017, respectively.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also includes certain customary affirmative covenants and events of default. The Company was in compliance with all such covenants at June 27, 2018. See Note 1 for restrictions on the payment of dividends under the 2014 Revolver.

On July 13, 2018, the 2014 Revolver was refinanced pursuant to a new credit agreement (the “2018 Credit Agreement”) among EPL, as borrower, the Company and Intermediate, as guarantors, the lenders and other parties party thereto and Bank of America, N.A., as administrative agent, swingline lender and letters of credit issuer, which provides for a $150.0 million five-year senior secured revolving facility (the “2018 Revolver”). For more information regarding the 2018 Credit Agreement, see “Subsequent Events — 2018 Credit Agreement.”

Maturities

There are no required principal payments prior to maturity for the 2014 Revolver. During the thirteen and twenty-six weeks ended June 27, 2018, the Company elected to pay down $5.0 million and $13.0 million of outstanding borrowings on the Company's 2014 Revolver, respectively, primarily from its cash flow from operations. During the thirteen and twenty-six weeks ended June 28, 2017, the Company elected to pay down $6.5 million and $9.5 million, respectively, of outstanding borrowings on the Company's 2014 Revolver. On July 13, 2018, the Company refinanced the 2014 Revolver pursuant to the 2018 Credit Agreement.

5. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

Other accrued expenses and current liabilities consist of the following (in thousands):

	June 27, 2018	December 27, 2017
Accrued sales and property taxes	$ 3,974	$ 4,792
Gift card liability	2,065	2,319
Accrued legal fees	4,052	1,544
Other	5,081	4,615
Total other accrued expenses and current liabilities	$ 15,172	$ 13,270

6. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consist of the following (in thousands):

	June 27, 2018	December 27, 2017
Deferred rent	$ 9,982	$ 9,403
Franchise contract liability	5,408	620
Other	5,888	2,749
Total other noncurrent liabilities	$ 21,278	$ 12,772

7. COMMITMENTS AND CONTINGENCIES

Legal Matters

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, under the caption Elliott Olvera, et al v. El Pollo Loco, Inc., et al (Case No. 30-2014-00707367-CU-OE-CXC) on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. The parties executed a Stipulation of Class Settlement and Release which the court refused to approve on the grounds that it did not provide sufficient compensation for the putative class members. Further settlement discussions were not successful, and the court recently certified two class of plaintiffs - one class encompasses restaurant employees who were not provided proper rest breaks because they were not allowed to leave the premises during their breaks and the other class encompasses restaurant employees who were required to wait at the restaurant after they finished working for the night until the manager set the alarm for safety purposes. Purported class actions alleging wage and hour violations are commonly filed against California employers. The Company has similar cases pending that overlap in part with the Olvera action and fully expects to have to defend against similar lawsuits in the future.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016, on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, LLC, Trimaran Capital Partners, and Freeman Spogli & Co. (collectively, the "Controlling Shareholder Defendants"). Among other things, Plaintiffs allege that, in 2014 and early 2015, Holdings suffered losses due to rising labor costs in California and, in an attempt to mitigate the effects of such rising costs, removed a $5 value option from the Company's menu, which resulted in a decrease in traffic from value-conscious consumers. Plaintiffs further allege that during the Class Period, Holdings and the Individual Defendants made a series of materially false and misleading statements that concealed the effect that these factors were having on store sales growth, resulting in Holdings stock continuing to be traded at artificially inflated prices. As a result, Plaintiffs and other members of the putative class allegedly suffered damages in connection with their purchase of Holdings' stock during the Class Period. In addition, Plaintiffs allege that the Individual Defendants and Controlling Shareholder Defendants had direct involvement in, and responsibility over, the operations of Holdings, and are presumed to have had, among other things, the power to control or influence the transactions giving rise to the alleged securities law violations. In both cases, Plaintiffs seek an unspecified amount of damages, as well as costs and expenses (including attorneys' fees).

On July 25, 2016, the Court issued an order granting, without prejudice, Defendants' Motion to Dismiss plaintiff's complaint for failure to state a claim. Plaintiffs were granted leave to amend their complaint, and filed an amended complaint on August 22, 2016. Defendants moved to dismiss the amended complaint, and on March 20, 2017, the Court dismissed the amended complaint and granted Plaintiffs leave to file another amended complaint. Plaintiffs filed another amended complaint on April 17, 2017. Defendants filed a motion to dismiss the amended complaint on or about May 17, 2017. The Court denied Defendants' motion to dismiss the third amended complaint on August 4, 2017. On December 8, 2017, Plaintiffs filed a motion for class certification, and on July 3, 2018, the Court granted Plaintiffs' motion and certified a class as to all of Plaintiffs' claims. Defendants are currently seeking appellate review of a portion of the Court's July 3, 2018 class certification order. Defendants intend to continue to defend against the claims asserted.

In addition, on September 16, 2015, Holdings and certain of its officers and directors received an informal, non-public inquiry from the SEC requesting voluntary production of documents and information. All parties cooperated fully with the SEC's request. On July 15, 2016, Holdings was informed that the SEC was closing its inquiry as to all parties.

On or about November 5, 2015, a purported Holdings shareholder filed a derivative complaint on behalf of Holdings in the Court of Chancery of the State of Delaware against certain Holdings officers, directors and Trimaran Pollo Partners, L.L.C., under the caption Armen Galustyan v. Sather, et al. (Case No. 11676-VCL). The derivative complaint alleges that these defendants breached their fiduciary duties to Holdings and were unjustly enriched when they sold shares of Holdings at artificially inflated prices due to alleged misrepresentations and omissions regarding EPL's comparable store sales in the second quarter of 2015. The Holdings shareholder's requested remedies include an award of compensatory damages to Holdings, as well as a court order to improve corporate governance by putting forward for stockholder vote certain resolutions for amendments to Holdings' Bylaws or Certificate of Incorporation. The parties have stipulated to, which the court has ordered, a stay of these proceedings pending the outcome of Turocy v. El Pollo Loco Holdings, Inc., discussed above. A second purported Holdings shareholder filed a derivative complaint on or about September 23, 2016, under the caption Diep v. Sather, CA 12760-VCL in the Delaware Court of Chancery. The Diep action is also purportedly brought on behalf of Holdings, names the same defendants and asserts substantially the same claims on substantially the same alleged facts as does Galustyan. Defendants moved to stay or dismiss the Diep action.

On March 17, 2017, the Delaware court granted in part, and denied in part, the motion to stay the Diep action. The court denied defendants' motion to dismiss the complaint for failure to state a claim. On January 17, 2018, the court entered an order granting the parties' stipulation staying all proceedings in the Diep action for five months pending an investigation of the allegations in the action by a special litigation committee of the Holdings board of directors, and the action remains stayed.

Janice P. Handlers-Bryman and Michael D. Bryman v. El Pollo Loco, Inc., Los Angeles Superior Court (Case No. MC026045) (the "Lancaster Lawsuit") was filed on February 9, 2016. Existing El Pollo Loco franchisees, Janice P. Handlers-Bryman and Michael D. Bryman, as individuals and in their capacities as trustees of the Handlers Bryman Trust (collectively, "Plaintiffs"), filed suit against us alleging, among other things, that we "imposed unreasonable time limitations" on their development of additional restaurant locations in Lancaster, California, and that we thereafter developed company-owned El Pollo Loco restaurants in the "market area" of Plaintiffs' existing El Pollo Loco restaurant in Lancaster. Plaintiffs' asserted claims against us for, among other things, (i) breach of the implied covenant of good faith and fair dealing, (ii) intentional interference with prospective business, and (iii) unfair business practices. In addition to an unspecified amount of damages and costs of the lawsuit, Plaintiffs sought reformation of the contract, declaratory relief, disgorgement of alleged revenues and profits, injunctive relief, and a judicial mandate requiring us to either transfer the company-owned locations to Plaintiffs or to continuously disgorge to Plaintiffs the unjust enrichment allegedly obtained by us through the operation of the company-owned restaurants in Lancaster. We denied Plaintiffs' allegations as the franchise agreement did not grant Plaintiffs any exclusive territorial rights and, instead, expressly reserved for us the right to open and operate and the right to grant others the right to open and operate - El Pollo Loco restaurants "in the immediate vicinity of or adjacent to" Plaintiffs' restaurant in Lancaster. On June 7, 2016, we filed a cross-complaint against Plaintiffs for breach of the franchise agreement due to Plaintiffs' failure to pay to us liquidated damages provided for in the franchise agreement in connection with their solicitation and/or hiring of our general manager. This counterclaim was voluntarily dismissed by us, without prejudice, on February 27, 2017 and a related action before the San Bernardino Superior Court titled El Pollo Loco, Inc. v. EPL 3766, Inc. was dismissed on April 6, 2017. On April 24, 2017, four days before the commencement of trial, Plaintiffs filed a voluntary dismissal, without prejudice, of the Lancaster Lawsuit without any payment or other concession by us. The corresponding dismissal was entered by the court on April 25, 2017. On May 22, 2017, Plaintiffs filed a motion for relief from the dismissal which was granted by the court on June 29, 2017. The trial in the case was bifurcated between the liability and damages phases. The liability phase went forward on November 16, 2017. The only cause of action that the court allowed to go to the jury was the cause of action for breach of the covenant of good faith and fair dealing. The court elected not to present the cause of action for intentional interference with prospective business to the jury. (The causes of action for reformation due to mistake and unconscionability, unfair business practices under California Business & Professions Code §§ 17200 et seq. , and declaratory relief were not presented to the jury as these types of equitable claims are to be decided by the court as a matter of law.). On December 11, 2017, the jury returned a verdict in favor of Plaintiffs finding that the Company breached the implied covenant of good faith and fair dealing by (1) constructing the two new company-owned El Pollo Loco restaurants in Lancaster, and (2) not offering the two new company-owned El Pollo Loco restaurants in Lancaster to Plaintiffs. Because the trial was bifurcated, the December 11, 2017 verdict did not include a determination of damages.

The damages phase of the trial went forward on April 20, 2018. On May 1, 2018, the jury returned a verdict on damages in favor of Plaintiffs in the following amounts: (1) $4,356,600 in "impact damages" arising out of our construction of the two new company-owned El Pollo Loco restaurants in Lancaster, and (2) $4,481,206 in "lost opportunity damages" arising out of our failure to offer the two new company-owned El Pollo Loco restaurants in Lancaster to Plaintiffs. On August 1, 2018, the court issued a final judgment and decision on the unfair business practices claim under California Business & Professions Code §§ 17200 et seq. The court has found El Pollo Loco liable and has issued injunctive relief requiring El Pollo Loco to revise its franchise disclosure document and franchise agreement. The court also awarded Plaintiffs restitution of $4,356,600 for "impact damages" arising out of our construction of the two new company-owned El Pollo Loco restaurants in Lancaster. The court, reversing its previous position, held that these damages could be awarded in addition to the "lost opportunity damages" awarded by the jury. Thus, the court entered a total monetary judgment of $8,837,806. There has been no ruling on the causes of action for reformation due to mistake and unconscionability, and declaratory relief.

The Company believes that both jury verdicts and the court's verdict are in error due to express language of the franchise agreement and because of prejudicial and reversible errors of the court in the earlier phases of the litigation, during the liability phase of the trial, and during the damages phases of the trial. El Pollo Loco intends to file a motion challenging the verdicts, a motion for new trial (both the liability phase and damages phase) and, if unsuccessful, will appeal the verdict and various other rulings in the case. Based on the assessment by Management, together with our legal counsel, the Company believes that the loss is currently not probable under ASC 450 and as of June 27, 2018, no accrual has been made with regard to the verdict.

The Company is also involved in various other claims and legal actions that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these other actions will have a material adverse effect on its financial position, results of operations, liquidity, or capital resources. A significant increase in the number of claims, or an increase in amounts owing under successful claims, could materially and adversely affect its business, consolidated financial condition, results of operations, and cash flows.

Purchasing Commitments

The Company has long-term beverage supply agreements with certain major beverage vendors. Pursuant to the terms of these arrangements, marketing rebates are provided to the Company and its franchisees from the beverage vendors based upon the dollar volume of purchases for system-wide restaurants which will vary according to their demand for beverage syrup and fluctuations in the market rates for beverage syrup. These contracts have terms extending through the end of 2024.

At June 27, 2018, the Company's total estimated commitment to purchase chicken was $14.6 million.

Contingent Lease Obligations

As a result of assigning the Company's interest in obligations under real estate leases in connection with the sale of company-operated restaurants to some of the Company's franchisees, the Company is contingently liable on five lease agreements. These leases have various terms, the latest of which expires in 2036. As of June 27, 2018, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was $2.5 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at June 27, 2018 was $2.1 million. The Company's franchisees are primarily liable on the leases. The Company has cross-default provisions with these franchisees that would put them in default of their franchise agreements in the event of non-payment under the leases. The Company believes that these cross-default provisions reduce the risk that payments will be required to be made under these leases. Accordingly, no liability has been recorded in the Company's condensed consolidated financial statements related to these contingent liabilities.

Employment Agreements

The Company has employment agreements with two of the officers of the Company on an at will basis. These agreements provide for minimum salary levels, possible annual adjustments for cost-of-living changes, and incentive bonuses that are payable under certain business conditions. The Company incurred $0.4 million and $0.8 million of expense related to employment agreements for the thirteen and twenty-six weeks ended June 27, 2018. There were no expenses related to employment agreements for the thirteen and twenty-six weeks ended June 28, 2017.

Indemnification Agreements

The Company has entered into indemnification agreements with each of its current directors and officers. These agreements require the Company to indemnify these individuals to the fullest extent permitted under Delaware law against liabilities that may arise by reason of their service to the Company and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. The Company also intends to enter into indemnification agreements with future directors and officers.

8. NET INCOME PER SHARE

Basic net income per share is calculated using the weighted-average number of shares of common stock outstanding during the thirteen weeks ended June 27, 2018 and June 28, 2017. Diluted net income per share is calculated using the weighted-average number of shares of common stock outstanding and potentially dilutive during the period, using the treasury stock method.

Below are basic and diluted net income per share data for the periods indicated, which are in thousands except for per share data.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2018	June 28, 2017	June 27, 2018	June 28, 2017
Numerator:				
Net income	$ 5,052	$ 7,819	$ 7,581	$ 12,696
Denominator:				
Weighted-average shares outstanding—basic	38,482,074	38,449,240	38,473,641	38,443,130
Weighted-average shares outstanding—diluted	39,043,434	39,123,961	39,015,259	39,102,501
Net income per share—basic	$ 0.13	$ 0.20	$ 0.20	$ 0.33
Net income per share—diluted	$ 0.13	$ 0.20	$ 0.19	$ 0.32
Anti-dilutive securities not considered in	570,774	763,761	570,774	763,761

diluted EPS calculation

Below is a reconciliation of basic and diluted share counts.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 27, 2018	June 28, 2017	June 27, 2018	June 28, 2017
Weighted-average shares outstanding—basic	38,482,074	38,449,240	38,473,641	38,443,130
Dilutive effect of stock options and restricted shares	561,360	674,721	541,618	659,371
Weighted-average shares outstanding—diluted	39,043,434	39,123,961	39,015,259	39,102,501

9. RELATED PARTY TRANSACTIONS

Trimaran Pollo Partners, L.L.C. ("LLC"), owns approximately 43.2% of the Company's outstanding common stock. This large position means that LLC and its majority owners—predecessors and affiliates of, and certain funds managed by, Trimaran Capital Partners and Freeman Spogli & Co. (collectively, "Trimaran" and "Freeman Spogli," respectively)—possess significant influence when stockholders vote on matters such as election of directors, mergers, consolidations and acquisitions, the sale of all or substantially all of the Company's assets, decisions affecting the Company's capital structure, amendments to the Company's certificate of incorporation or by-laws, and the Company's winding up and dissolution. So long as LLC maintains at least 40% ownership, (i) any member of the board of directors may be removed at any time without cause by affirmative vote of a majority of the Company's common stock, and (ii) stockholders representing 40% or greater ownership may cause special stockholder meetings to be called.

10. REVENUE FROM CONTRACTS WITH CUSTOMERS

Adoption of ASU 2014-09, "Revenue from Contracts with Customers"

On December 28, 2017, the Company adopted ASU 2014-09 using the modified retrospective method applied to those contracts, which were not fully satisfied as of December 28, 2017. Results for reporting periods beginning after December 28, 2017, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

The cumulative catch-up adjustment recorded to accumulated deficit was approximately $3.5 million, net of taxes, related to franchise and development fees.

Revenue Recognition

Nature of products and services

The Company has two revenue streams, company-operated restaurant revenue and franchise related revenue.

Company-operated restaurant revenue

Revenues from the operation of company-operated restaurants are recognized as food and beverage products are delivered to customers and payment is tendered at the time of sale. The Company presents sales, net of sales-related taxes and promotional allowances.

The Company offers a loyalty rewards program, which awards a customer one point for ever $1 spent. When 100 points are accumulated a $10 reward to be used on future purchases is earned. When a customer is part of the rewards program, the obligation to provide future discounts related to points earned is considered a separate performance obligation, to which a portion of the transaction price is allocated. The performance obligation related to loyalty points is deemed to have been satisfied, and the amount deferred in the balance sheet is recognized as revenue, when the points are transferred to a $10 reward and redeemed, or the likelihood of redemption is remote. A portion of the transaction price is allocated to loyalty points, if necessary, on a pro-rata basis, based on stand-alone selling price, as determined by menu pricing and loyalty points terms. As of June 27, 2018 and December 27, 2017, the revenue allocated to loyalty points that have not been redeemed are $0.7 million and $0.4 million, respectively, which are reflected in the Company's accompanying condensed consolidated balance sheets within other accrued expenses and current liabilities. The Company expects the loyalty points to be redeemed and recognized over a one year period.

The Company sells gift cards to its customers in the restaurants and through selected third parties. The gift cards sold to customers have no stated expiration dates and are subject to actual and/or potential escheatment rights in several of the jurisdictions in which the Company operates. Furthermore, due to these escheatment rights, the Company does not recognize breakage related to the sale of gift cards due to the immateriality of the amount remaining after escheatment. The Company recognizes income from gift cards when redeemed by the customer.

Franchise and franchise advertising revenue

Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees, IT support services, and rental income for leases and subleases to franchisees. Franchise advertising revenue consists of advertising contributions received from franchisees. These revenue streams are made up of the following performance obligations:

- Franchise License - inclusive of advertising services, development agreements, training, access to plans and help desk services.
- Discounted renewal option.
- Hardware services.

The Company satisfies the performance obligation related to the franchise license over the term of the franchise agreement, which is typically 20 years. Payment for the franchise license consists of three components, a fixed-fee related to the franchise/development agreement, a sales-based royalty fee and a sales-based advertising fee. The fixed fee, as determined by the signed development and/or franchise agreement, is due at the time the development agreement is entered into, and/or when the franchise agreement is signed, and does not include a finance component.

The sales-based royalty fee and sales-based advertising fee are considered variable consideration and will continue to be recognized as revenue as such sales are earned by the franchisees. Both sales-based fees qualify under the royalty constraint exception, and do not require an estimate of future transaction price. Additionally, the Company is utilizing the practical expedient regarding disclosure of the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for sales-based royalties.

In certain franchise agreements, the Company offers a discounted renewal to incentivize future renewals after the end of the initial franchise term. As this is considered a separate performance obligation, the Company allocated a portion of the initial franchise fee to this discounted renewal, on a pro-rata basis, assuming a 20 year renewal. This performance obligation is satisfied over the renewal term, typically 10 or 20 years, while payment is fixed and due at the time the renewal is signed.

The Company purchases hardware, such as scanners, printers, cash registers and tablets, from third party vendors, which it then sells to franchisees. As the Company is considered the principal in this relationship, payment for the hardware is considered revenue, and is received upon transfer of the goods from the Company to the Franchisee. As of June 27, 2018, there were no performance obligations, related to hardware services that were unsatisfied or partially satisfied.

Disaggregated revenue

The following table presents our revenues disaggregated by revenue source and market (in thousands):

	Thirteen Weeks Ended	Twenty-Six Weeks Ended
	June 27, 2018	
Core Market[1]**:**		
Company-operated restaurant revenue	$ 86,842	$ 169,804
Franchise revenue	3,609	6,985
Franchise advertising fee revenue	2,769	5,378
Total core market	$ 93,220	$ 182,167
Non-Core Market[2]**:**		
Company-operated restaurant revenue	$ 12,785	$ 24,376
Franchise revenue	2,944	5,674
Franchise advertising fee revenue	2,684	5,172
Total non-core market	$ 18,413	$ 35,222
Total revenue	**$ 111,633**	**$ 217,389**

[1] Core Market includes markets with existing company-operated restaurants at the Initial Public Offering (IPO) date.
[2] Non-Core Market includes markets entered into subsequent to the IPO date.

The following table presents our revenues disaggregated by geographic market:

	Thirteen Weeks Ended	Twenty-Six Weeks Ended
	June 27, 2018	
Greater Los Angeles area market	68.5%	68.8%
Other markets	31.5%	31.2%
Total	**100%**	**100%**

Contract balances

The following table provides information about the change in the franchise contract liability balances during the twenty-six weeks ended June 27, 2018 (in thousands):

December 28, 2017	$ 5,799
Revenue recognized - beginning balance	(174)
Additional contract liability	141
Revenue recognized - additional contract liability	(4)
June 27, 2018	**$ 5,762**

The Company's franchise contract liability includes development fees, initial franchise and license fees, and franchise renewal fees and is included within other accrued expenses and current liabilities and other noncurrent liabilities within the accompanying consolidated balance sheets. The Company receives area development fees from franchisees when they execute multi-unit area development agreements. Initial franchise and license fees, or franchise renewal fees, are received from franchisees upon the execution of, or renewal of, a franchise agreement. Revenue is recognized from these agreements as the underlying performance obligation is satisfied, which is over the term of the agreement.

For the thirteen and twenty-six weeks ended June 27, 2018, there were no significant changes in the franchise contract liability balances.

The following table illustrates the estimated revenue to be recognized in the future related to performance obligations that are unsatisfied as of June 27, 2018:

Franchise revenues (in thousands):		
2018	$	190
2019		392
2020		396
2021		386
Thereafter		4,398
Total	**$**	**5,762**

Contract Costs

The Company does not currently incur costs to obtain or fulfill a contract that would be considered contract assets under Topic 606.

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

Cautionary Statement Concerning Forward-Looking Statements

This discussion and analysis should be read in conjunction with Item 1 above and with the consolidated financial statements contained in our annual report on Form 10-K for the year ended December 27, 2017. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Outcomes may differ materially from our expectations. For more information, we direct you to the sections "Risk Factors" (as updated by "PART II-OTHER INFORMATION-Item 1A. Risk Factors." below) and "Forward-Looking Statements" in our annual report. We make no guarantees regarding outcomes, and assume no obligations to update the forward-looking statements herein, except pursuant to law.

Overview

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the limited service restaurant ("LSR") segment. We strive to offer the quality of food and dining experience typical of fast casual restaurants while providing the speed, convenience, and value typical of traditional quick-service restaurants ("QSRs"), a combination that we call "QSR+" and to provide a value-oriented fast casual dining experience. Our distinctive menu features our signature product—citrus-marinated fire-grilled chicken—and a variety of Mexican-inspired entrees that we create from our chicken. We offer our customers healthier alternatives to traditional food on the go, served by our team members in a contemporary restaurant environment. We serve individual and family-sized chicken meals, a variety of Mexican-inspired entrees, and sides, and, throughout the year, on a limited-time basis, additional proteins like shrimp and beef. Our entrees include favorites such as our Chicken Avocado Burrito, Under 500 Calorie entrees, Double Pollo Bowl, and Stuffed Chicken Avocado Quesadilla. Our famous Creamy Cilantro dressings and salsas are prepared fresh daily, allowing our customers to create their favorite flavor profiles to enhance their culinary experience. Our distinctive menu with healthier alternatives appeals to consumers across a wide variety of socio-economic backgrounds and drives our balanced day-part mix.

Growth Strategies and Outlook

We plan to continue to expand our business, drive restaurant sales growth, and enhance our competitive positioning, by executing on the following strategies:

- expand our restaurant base;
- increase our comparable restaurant sales; and
- enhance operations and leverage our infrastructure.

As of June 27, 2018, we had 480 locations in six states. In fiscal 2017, we opened 16 new company-operated and 7 new franchised restaurants across Arizona, California, Utah and Texas. For the twenty-six weeks ended June 27, 2018, we opened three new company-operated restaurants and four franchised restaurants in California, Texas, Louisiana and Utah. In 2018, we intend to open 7 to 8 new company-operated and 8 to 10 new franchised restaurants. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend. These growth rates are not guaranteed.

Highlights and Trends

Comparable Restaurant Sales

System-wide, for the thirteen and twenty-six weeks ended June 27, 2018, comparable restaurant sales decreased 0.9% and 1.0% year over year, respectively. For company-operated restaurants, comparable restaurant sales, for the thirteen and twenty-six weeks ended June 27, 2018, decreased by 1.6% and 1.8%, respectively. For company-operated restaurants, the quarter’s change in comparable restaurant sales consisted of a 2.5% decline in transactions, and a 0.9% increase in average check size and the year to date change in comparable restaurant sales consisted of a 2.1% decline in transactions, and a 0.3% increase in average check size. For franchised restaurants, comparable restaurant sales decreased 0.3% and 0.4% for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

Restaurant Development

Our restaurant counts at the beginning and end of each of the last three fiscal years and the twenty-six weeks ended June 27, 2018, were as follows.

	Twenty-Six Weeks Ended	Fiscal Year Ended		
	June 27, 2018	2017	2016	2015
Company-operated restaurant activity:				
Beginning of period	212	201	186	172
Openings	3	16	18	14
Restaurant sale to franchisee	—	—	(1)	—
Closures	(4)	(5)	(2)	—
Restaurants at end of period	211	212	201	186
Franchised restaurant activity:				
Beginning of period	265	259	247	243
Openings	4	7	13	5
Restaurant sale to franchisee	—	—	1	—
Closures	—	(1)	(2)	(1)
Restaurants at end of period	269	265	259	247
System-wide restaurant activity:				
Beginning of period	477	460	433	415
Openings	7	23	31	19
Closures	(4)	(6)	(4)	(1)
Restaurants at end of period	480	477	460	433

Restaurant Remodeling

We and our franchisees commenced our remodeling program in 2011 and, as of June 27, 2018, together we had remodeled 125 company-operated and 208 franchised restaurants, or 333 system-wide, over 75% of our restaurant system due to be remodeled. This includes 20 company-operated and 16 franchised restaurants that have been remodeled using our newest Vision restaurant design. The Vision design elevates the brand image with exterior and interior features that embrace the brand’s authentic roots with warm textures, rustic elements and a focus on the signature open kitchen layout established in previous designs. As of

June 27, 2018, including new builds and remodels, we had 66 restaurants open with the Vision design in our system. Remodeling is a use of cash and has implications for our net property and equipment owned and depreciation and amortization line items on our condensed consolidated balance sheets and consolidated statements of income, among others. The cost of our restaurant remodels varies depending on the scope of work required, but on average, the investment is $0.3 million to $0.4 million per restaurant. We believe that our remodeling program will result in higher restaurant revenue and a strengthened brand.

Loco Rewards

During the second quarter of 2017, we introduced a new loyalty rewards points program in an effort to increase sales and loyalty among our customers, by offering rewards that incentivize customers to visit our restaurants more often each month. Customers earn 1 point for each $1 spent and 100 points can be redeemed for a $10 reward to be used for a future purchase. In addition, customers can earn additional points and free entrées for a variety of engagement activities. As points are available for redemption past the quarter earned, a portion of the revenue associated with the earned points will be deferred until redemption. As of June 27, 2018, the amount of revenue deferred related to the earned points, net of redemptions, is $0.7 million. The Company had over 850,000 loyalty program members as of June 27, 2018.

Critical Accounting Policies and Use of Estimates

The preparation of our condensed consolidated financial statements in accordance with GAAP requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenue, and expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances in making judgments about the carrying value of assets and liabilities that are not readily available from other sources. We evaluate our estimates on an on-going basis. Actual results may differ from these estimates under different assumptions or conditions.

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 discussed below involve the most difficult management judgments, due to the sensitivity of the methods and assumptions used. For a summary of our critical accounting policies and a discussion of our use of estimates, see “Critical Accounting Policies and Use of Estimates” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Income” in our annual report on Form 10-K for the year ended December 27, 2017, and Note 2, “Summary of Significant Accounting Policies,” to Item 8, “Financial Statements and Supplementary Data,” in our annual report. For a summary of our significant accounting policies and a discussion of our use of estimates, see also Note 1 and note 10 to Item 1 above.

There have been no material changes to our critical accounting policies or uses of estimates since our annual report on Form 10-K, other than the adoption of ASU 2014-09, as described in Note 1 and Note 10 to Item 1 above.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in Note 10 to our condensed consolidated financial statements included elsewhere in this report.

JOBS Act

We presently qualify as an “emerging growth company” (“EGC”) under section 2(a) of the Securities Act, pursuant to the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). An EGC has reduced public company reporting, accounting, and corporate governance requirements. We may take advantage of some of these benefits. In addition, the JOBS Act provides that an EGC can take advantage of an extended transition period for complying with new or revised accounting standards, delaying the adoption of these accounting standards until they would apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not EGCs.

We will cease to be an EGC following the earliest of (i) five years after our IPO, (ii) $1.07 billion in annual revenue, (iii) $700.0 million in common stock market capitalization held by non-affiliates, or (iv) $1.0 billion in non-convertible debt security issuance on a three-year rolling basis. Please refer to our annual report on Form 10-K for more information.

Key Financial Definitions

Revenue

Our revenue is derived from two primary sources: company-operated restaurant revenue and franchise revenue, the latter of which is comprised primarily of franchise royalties and, to a lesser extent, franchise fees and sublease rental income. See Note 10 for further details regarding our revenue recognition policy.

Food and Paper Costs

Food and paper costs include the direct costs associated with food, beverage and packaging of our menu items. The components of food and paper costs are variable in nature, change with sales volume, are impacted by menu mix, and are subject to increases or decreases in commodity costs.

Labor and Related Expenses

Labor and related expenses include wages, payroll taxes, workers' compensation expense, benefits, and bonuses paid to our restaurant management teams. Like other expense items, we expect labor costs to grow proportionately as our restaurant revenue grows. Factors that influence labor costs include minimum wage and payroll tax legislation, the frequency and severity of workers' compensation claims, health care costs, and the performance of our restaurants.

Occupancy Costs and Other Operating Expenses

Occupancy costs include rent, common area maintenance, and real estate taxes. Other restaurant operating expenses include the costs of utilities, advertising, credit card processing fees, restaurant supplies, repairs and maintenance, and other restaurant operating costs.

General and Administrative Expenses

General and administrative expenses are comprised of expenses associated with corporate and administrative functions that support the development and operations of our restaurants, including compensation and benefits, travel expenses, stock compensation costs, legal and professional fees, and other related corporate costs. Also included are pre-opening costs, and expenses above the restaurant level, including salaries for field management, such as area and regional managers, and franchise field operational support.

Franchise Expenses

Franchise expenses are primarily comprised of rent expenses incurred on properties leased by us and then sublet to franchisees, and expenses incurred in support of franchisee information technology systems. Additionally, upon adoption of ASU 2014-09 in the first quarter of 2018, the franchisee's portion of advertising expenses is now included in franchise expense.

Depreciation and Amortization

Depreciation and amortization primarily consist of the depreciation of property and equipment, including leasehold improvements and equipment.

Loss on Disposal of Assets

Loss on disposal of assets includes the loss on disposal of assets related to retirements and replacement or write-off of leasehold improvements or equipment.

Asset Impairment and Closed-Store Reserves

We review long-lived assets such as property, equipment, and intangibles on a unit-by-unit basis for impairment when events or circumstances indicate a carrying value of the assets that may not be recoverable. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values, and record an impairment charge when appropriate. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material. Closure costs include non-cash restaurant charges such as up-front expensing of the net present value of unpaid rent remaining on the life of a lease, offset by assumed sublease income.

Interest Expense, Net

Interest expense, net, consists primarily of interest on our outstanding debt. Debt issuance costs are amortized at cost over the life of the related debt.

Provision for Income Taxes

Provision for income taxes consists of federal and state taxes on our income.

Key Performance Indicators

To evaluate the performance of our business, we utilize a variety of financial and performance measures. These key measures include company-operated restaurant revenue, comparable restaurant sales, company-operated average unit volumes, restaurant contribution, restaurant contribution margin, new restaurant openings, EBITDA, and Adjusted EBITDA.

Company-Operated Restaurant Revenue

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

Seasonal factors and the timing of holidays cause our revenue to fluctuate from quarter to quarter. Our revenue per restaurant is typically lower in the first and fourth quarters due to reduced January and December traffic and higher in the second and third quarters. As a result of seasonality, our quarterly and annual results of operations and key performance indicators such as company-operated restaurant revenue and comparable restaurant sales may fluctuate.

Comparable Restaurant Sales

Comparable restaurant sales reflect year-over-year sales changes for comparable company-operated, franchised, and system-wide restaurants. A restaurant enters our comparable restaurant base the first full week after it has operated for fifteen months. Comparable restaurant sales exclude restaurants closed during the applicable period. At June 27, 2018 and June 28, 2017, there were 447 and 420 comparable restaurants, 194 and 178 company-operated and 253 and 242 franchised, respectively. Comparable restaurant sales indicate the performance of existing restaurants, since new restaurants are excluded.

Comparable restaurant sales growth can be generated by an increase in the number of meals sold and/or by increases in the average check amount, resulting from a shift in menu mix and/or higher prices resulting from new products 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 consist of comparable restaurant sales over a seven-day period from Thursday to Wednesday. Annual AUVs are calculated using the following methodology: First, we divide our total net sales for all company-operated restaurants for the fiscal year by the total number of restaurant operating weeks during the same period. Second, we annualize that average weekly per-restaurant sales figure by multiplying it by 52. An operating week is defined as a restaurant open for business over a seven-day period from Thursday to Wednesday. This measurement allows management to assess changes in consumer spending patterns at our restaurants and the overall performance of our restaurant base.

Restaurant Contribution and Restaurant Contribution Margin

Restaurant contribution and restaurant contribution margin are neither required by, nor presented in accordance with, GAAP. Restaurant contribution is defined as company-operated restaurant revenue less company restaurant expenses. Restaurant contribution margin is defined as restaurant contribution as a percentage of net company-operated restaurant revenue. Restaurant contribution and restaurant contribution margin are supplemental measures of operating performance of our restaurants, and our 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 our results as reported under 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 metrics to evaluate the profitability of incremental sales at our restaurants, to evaluate our restaurant performance across periods, and to evaluate our restaurant financial performance compared with our competitors.

A reconciliation of restaurant contribution and restaurant contribution margin to company-operated restaurant revenue is provided below:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(Dollar amounts in thousands)	**June 27, 2018**	**June 28, 2017**	**June 27, 2018**	**June 28, 2017**
Company-operated restaurant revenue	$ 99,627	$ 98,885	$ 194,180	$ 192,334
Company restaurant expenses	79,450	77,312	156,266	151,759
Restaurant contribution	$ 20,177	$ 21,573	$ 37,914	$ 40,575
Restaurant contribution margin (%)	20.3%	21.8%	19.5%	21.1%

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. New restaurants often open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. New restaurants typically 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. The average start-up period after which our new restaurants' revenue and expenses normalize is approximately fourteen weeks. When we enter new markets, we may be exposed to start-up times and restaurant contribution margins that are longer and lower than reflected in our average historical experience.

EBITDA and Adjusted EBITDA

EBITDA represents net income before interest expense, provision for income taxes, depreciation, and amortization. Adjusted EBITDA represents net income before interest expense, provision for income taxes, depreciation, amortization, and items that we do not consider representative of our on-going operating performance, as identified in the reconciliation table below.

EBITDA and Adjusted EBITDA as presented in this report are supplemental measures of our performance that are neither required by, nor presented in accordance with, GAAP. EBITDA and Adjusted EBITDA are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income, operating income, or any other performance measures derived in accordance with GAAP, or as alternatives to cash flow from operating activities as a measure of our liquidity. In addition, in evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we will 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 our 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 our results as reported under GAAP. Some of these limitations are (i) they do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments, (ii) they do not reflect changes in, or cash requirements for, our working capital needs, (iii) they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our 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 our 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 our on-going operations, and (vii) other companies in our 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 GAAP amounts excluded from such non-GAAP financial measures. We further compensate for the limitations in our use of non-GAAP financial measures by presenting comparable GAAP measures more prominently.

We believe that 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 companies of 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 that these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry, (ii) we believe that investors will find these measures useful in assessing our ability to service or incur indebtedness, and (iii) we use EBITDA and Adjusted EBITDA internally for a number of benchmarks including to compare our performance to that of our competitors and for compensation performance benchmarks.

The following table sets forth reconciliations of EBITDA and Adjusted EBITDA to our net income:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(Amounts in thousands)	**June 27, 2018**	**June 28, 2017**	**June 27, 2018**	**June 28, 2017**
Net income	**$ 5,052**	**$ 7,819**	**$ 7,581**	**$ 12,696**
Non-GAAP adjustments:				
Provision for income taxes	865	4,244	2,814	7,711
Interest expense, net of interest income	960	778	1,848	1,568
Depreciation and amortization	4,344	4,632	8,556	8,949
EBITDA	**$ 11,221**	**$ 17,473**	**$ 20,799**	**$ 30,924**
Stock-based compensation expense(a)	298	272	443	414
(Gain) loss on disposal of assets(b)	(8)	434	53	659
Recovery of securities lawsuits related legal expense(c)	(2,429)	(511)	(4,063)	(511)
Asset impairment and closed-store reserves(d)	3,963	384	6,782	1,255
Income tax receivable agreement expense (income)(e)	712	(101)	(206)	126
Securities lawsuits related legal expense(f)	3,169	1,057	6,873	1,408
Pre-opening costs(g)	211	470	423	1,097
Executive transition costs(h)	373	179	1,019	271
Adjusted EBITDA	**$ 17,510**	**$ 19,657**	**$ 32,123**	**$ 35,643**

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

(b) Loss on disposal of assets includes the loss on disposal of assets related to retirements and replacement or write-off of leasehold improvements or equipment.

(c) During the thirteen and twenty-six weeks ended June 27, 2018, we received insurance proceeds of $2.4 million and $4.1 million and during the thirteen and twenty-six weeks ended June 28, 2017 we received insurance proceeds of $0.5 million, related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See the Notes to the Condensed Consolidated Financial Statements, Note 7, Commitments and Contingencies, Legal Matters.

(d) Includes costs related to impairment of long-lived assets and closing restaurants. During the thirteen and twenty-six weeks ended June 27, 2018, the Company determined that the carrying value of one restaurant in Arizona may not be recoverable. As a result, the Company recorded a $1.7 million expense, primarily related to the impairment of the assets of the restaurant. During the thirteen weeks ended June 27, 2018, the Company closed two restaurants in Texas, both of which were previously impaired during the third quarter of 2017. During the twenty-six weeks ended June 27, 2018, the Company closed four restaurants in Texas, all of which were previously impaired during the third quarter of 2017, and decided not to move forward with the development of a third location in Texas. This resulted in a closed-store reserve of $2.3 million for the thirteen weeks ended June 27, 2018 and $5.1 million for the twenty-six weeks ended June 27, 2018. During the thirteen and twenty-six weeks ended June 28, 2017, the Company determined that the carrying value of one restaurant in Texas may not be recoverable. As a result, the Company recorded a $0.4 million expense related to the impairment of the assets of the restaurant. During the twenty-six weeks ended June 28, 2017, we closed one restaurant in Arizona and one restaurant in Texas, resulting in a closed store reserve of $0.8 million. We continue to monitor the recoverability of the carrying value of the assets of several other restaurants.

(e) On July 30, 2014, we entered into the TRA. This agreement calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the thirteen and twenty-six weeks ended June 27, 2018 and June 28, 2017, income tax receivable agreement expense (income) consisted of the amortization of interest expense and changes in estimates for actual tax returns filed, related to our total expected TRA payments.

(f) Consists of costs related to the defense of securities lawsuits. See the Notes to the Condensed Consolidated Financial Statements, Note 7, Commitments and Contingencies, Legal Matters.

(g) Pre-opening costs are a component of general and administrative expenses, and consist of costs directly associated with the opening of new restaurants and incurred prior to opening, including management labor costs, staff labor costs during training, food and supplies used during training, marketing costs, and other related pre-opening costs. These are generally incurred over the three to five months prior to opening. Pre-opening costs also include occupancy costs incurred between the date of possession and the opening date for a restaurant.

(h) Includes costs associated with the transition of our CEO, such as executive recruiter costs, CEO sign-on bonus, and former CEO stock modification expense.

Comparison of Results of Income

Our operating results for the thirteen weeks ended June 27, 2018 and June 28, 2017, in absolute terms, and expressed as percentages of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below.

	Thirteen Weeks Ended					
	June 27, 2018		June 28, 2017		Increase / (Decrease)	
Statements of Income Data	($,000)	(%)	($,000)	(%)	($,000)	(%)
Company-operated restaurant revenue	$ 99,627	89.2	$ 98,885	93.7	$ 742	0.8
Franchise revenue	6,553	5.9	6,688	6.3	(135)	(2.0)
Franchise advertising fee revenue	5,453	4.9	—	—	5,453	N/A
Total revenue	**111,633**	**100.0**	**105,573**	**100.0**	**6,060**	**5.7**
Cost of operations						
Food and paper costs(1)	28,681	28.8	29,146	29.5	(465)	(1.6)
Labor and related expenses(1)	27,856	28.0	26,592	26.9	1,264	4.8
Occupancy and other operating expenses(1)	22,913	23.0	21,574	21.8	1,339	6.2
Company restaurant expenses(1)	**79,450**	**79.7**	**77,312**	**78.2**	**2,138**	**2.8**
General and administrative expenses	12,474	11.2	9,576	9.1	2,898	30.3
Franchise expenses	6,250	5.6	1,006	1.0	5,244	521.3
Depreciation and amortization	4,344	3.9	4,632	4.4	(288)	(6.2)
(Gain) loss on disposal of assets	(8)	—	434	0.4	(442)	(101.8)
Recovery of securities lawsuits related legal expenses	(2,429)	(2.2)	(511)	(0.5)	(1,918)	375.3
Asset impairment and closed-store reserves	3,963	3.6	384	0.4	3,579	932.0
Total expenses	**104,044**	**93.2**	**92,833**	**87.9**	**11,211**	**12.1**
Income from operations	**7,589**	**6.8**	**12,740**	**12.1**	**(5,151)**	**(40.4)**
Interest expense, net of interest income	960	0.9	778	0.7	182	23.4
Income tax receivable agreement expense (income)	712	0.6	(101)	(0.1)	813	(805.0)
Income before provision for income taxes	**5,917**	**5.3**	**12,063**	**11.4**	**(6,146)**	**(50.9)**
Provision for income taxes	865	0.8	4,244	4.0	(3,379)	(79.6)
Net income	**$ 5,052**	**4.5**	**$ 7,819**	**7.4**	**$ (2,767)**	**(35.4)**

(1) Percentages for line items relating to cost of operations and company restaurant expenses are calculated with company-operated restaurant revenue as the denominator. All other percentages use total revenue.

Our operating results for the twenty-six weeks ended June 27, 2018 and June 28, 2017, in absolute terms, and expressed as percentages of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below.

	Twenty-Six Weeks Ended					
	June 27, 2018		June 28, 2017		Increase / (Decrease)	
Statement of Operations Data	**($,000)**	**(%)**	**($,000)**	**(%)**	**($,000)**	**(%)**
Company-operated restaurant revenue	$ 194,180	89.3	$ 192,334	93.7	$ 1,846	1.0
Franchise revenue	12,659	5.8	13,010	6.3	(351)	(2.7)
Franchise advertising fee revenue	10,550	4.9	—	—	10,550	NA
Total revenue	**217,389**	**100.0**	**205,344**	**100.0**	**12,045**	**5.9**
Cost of operations						
Food and paper costs(1)	55,916	28.8	56,218	29.2	(302)	(0.5)
Labor and related expenses(1)	55,518	28.6	53,425	27.8	2,093	3.9
Occupancy and other operating expenses(1)	44,832	23.1	42,116	21.9	2,716	6.4
Company restaurant expenses(1)	**156,266**	**80.5**	**151,759**	**78.9**	**4,507**	**3.0**
General and administrative expenses	25,676	11.8	19,309	9.4	6,367	33.0
Franchise expenses	12,082	5.6	1,823	0.9	10,259	562.8
Depreciation and amortization	8,556	3.9	8,949	4.4	(393)	(4.4)
Loss on disposal of assets	53	—	659	0.3	(606)	(92.0)
Recovery of securities lawsuits related legal expenses	(4,063)	(1.9)	(511)	(0.2)	(3,552)	695.1
Asset impairment and closed-store reserves	6,782	3.1	1,255	0.6	5,527	440.4
Total expenses	**205,352**	**94.5**	**183,243**	**89.2**	**22,109**	**12.1**
Income from operations	**12,037**	**5.5**	**22,101**	**10.8**	**(10,064)**	**(45.5)**
Interest expense, net of interest income	1,848	0.9	1,568	0.8	280	17.9
Income tax receivable agreement (income) expense	(206)	(0.1)	126	0.1	(332)	(263.5)
Income before provision for income taxes	**10,395**	**4.8**	**20,407**	**9.9**	**(10,012)**	**(49.1)**
Provision for income taxes	2,814	1.3	7,711	3.8	(4,897)	(63.5)
Net income	**$ 7,581**	**3.5**	**12,696**	**6.2**	**$ (5,115)**	**(40.3)**

(1) Percentages for line items relating to cost of operations and company restaurant expenses are calculated with company-operated restaurant revenue as the denominator. All other percentages use total revenue.

Company-Operated Restaurant Revenue

For the quarter, company-operated restaurant revenue increased $0.7 million, or 0.8%, from the comparable period in the prior year. The growth in company-operated restaurant sales was due to $4.0 million of non-comparable restaurant sales on restaurants that had not been open the fifteen months required to be included in comparable restaurant sales. This was partially offset by a $1.6 million decrease resulting from a 1.6% decline in company-operated comparable sales, the closure of four restaurants during or subsequent to the first quarter of 2018 and three restaurants during or subsequent to the second quarter of 2017, and the net negative impact of temporary remodel closures during the second quarter of 2018 and the second quarter of 2017. The company-operated comparable restaurant sales decrease consisted of a decline in transactions of 2.5%, partially offset by an increase in average check size of 0.9%.

Year-to-date, company-operated restaurant revenue increased $1.8 million, or 1.0%, from the comparable period in the prior year. The growth in company-operated restaurant sales was due to $7.5 million of non-comparable restaurant sales on restaurants that had not been open the fifteen months required to be included in comparable restaurant sales and the positive net impact of temporary remodel closures in the first half of 2018 and the first half of 2017. This was partially offset by a $3.4 million decrease resulting from a 1.8% decline in company-operated comparable sales, the closure of four restaurants in the first half of 2018 and five restaurants during or subsequent to the first half of 2017. The company-operated comparable restaurant sales decrease consisted of a decline in transactions of 2.1% , partially offset by an increase in average check size of 0.3%.

Franchise Revenue

For the quarter, franchise revenue decreased $0.1 million, or 2.0%, from the comparable period in the prior year. This decrease was primarily due to lower franchise fees received from franchised restaurants related to their use of our point-of-sales system, and franchise comparable restaurant sales decline of 0.3%. This was partially offset by seven new franchised restaurants opened during or after the prior year quarter.

Year-to-date, franchise revenue decreased $0.4 million, or 2.7%, from the comparable period in the prior year. This decrease was primarily due to a decline in revenue recognized from franchise agreement and development agreement fees, lower franchise fees received from franchised restaurants related to their use of our point-of-sales system, and franchise comparable restaurant sales decline of 0.4%. This was partially offset by eleven new franchised restaurants opened during or after the first quarter of 2017.

Franchise Advertising Fee Revenue

In the first quarter of 2018, we implemented Accounting Standard Update 2014-09, which requires us to present franchise advertising contributions received from franchisees as franchise advertising fee revenue and record all expenses of the advertising fund within franchise expenses, resulting in an increase in revenues and expenses on our consolidated statements of income. As such, franchise advertising fee revenue increased $5.5 million for the quarter and $10.6 million for the year-to-date, from the comparable period in the prior year, as this was the first year of implementation. Refer to the Condensed Consolidated Financial Statements, Note 10, Revenue from Contracts with Customers, for further details.

Food and Paper Costs

For the quarter, food and paper costs decreased $0.5 million, or 1.6%, from the comparable period in the prior year, due to a $0.6 million decrease in food costs, partially offset by a $0.1 million increase in paper costs. Year-to-date, food and paper costs decreased $0.3 million, or 0.5%, from the comparable period in the prior year, due to a $0.6 million decrease in food costs and a $0.3 million increase in paper costs. The decrease in food and paper costs, for the quarter and year-to-date periods, resulted primarily from lower transactions, and lower commodity costs related to avocados, partially offset by increased packaging costs.

For the quarter, food and paper costs as a percentage of company-operated restaurant revenue were 28.8%, down from 29.5% in the comparable period of the prior year. Year-to-date, food and paper costs as a percentage of company-operated restaurant revenue were 28.8%, down from 29.2% in the comparable period of the prior year. The percentage decrease for the quarter and year-to-date periods was due primarily to a favorable sales mix and lower commodity costs, noted above, partially offset by increased packaging costs.

Labor and Related Expenses

For the quarter, payroll and benefit expenses increased $1.3 million, or 4.8%, from the comparable period in the prior year. Year-to-date, payroll and benefit expenses increased $2.1 million, or 3.9%, from the comparable period in the prior year. The increase for the quarter and year-to-date periods was due primarily to increased labor costs resulting from the opening of 19 new restaurants in fiscal 2017 and the first half of fiscal 2018, and the impact of the wage increases in California and Los Angeles during fiscal 2017 and the first half of fiscal 2018. Additionally, the increase in the quarter-to-date period was negatively impacted by higher workers' compensation expense due to increased claims activity.

For the quarter, payroll and benefit expenses as a percentage of company-operated restaurant revenue were 28.0%, up from 26.9% in the comparable period in the prior year. Year-to-date payroll and benefit expenses as a percentage of company-operated restaurant revenue were 28.6%, up from 27.8% in the comparable period in the prior year. The increase was due primarily to wage increases in California and Los Angeles, the impact of the higher labor required for 19 new restaurants opened during or after the first quarter of 2017. Additionally, the increase in the quarter-to-date period was negatively impacted by higher workers' compensation expense due to increased claims activity.

Occupancy and Other Operating Expenses

For the quarter, occupancy and other operating expenses increased $1.3 million, or 6.2%, from the comparable period of the prior year. The increase was primarily due to a $0.4 million increase in occupancy costs, due primarily to additional rent, a $0.3 million increase in advertising costs, a $0.1 million increase in utilities costs, and a $0.5 million increase in other operating expenses, resulting primarily from an increase in repair and maintenance costs, restaurant security expenses and property tax expense. The increases resulted primarily from the new restaurants opened during or after the second quarter of 2017. Year-to-date, occupancy and other operating expenses increased $2.7 million, or 6.4%, from the comparable period of the prior year. The increase was primarily due to a $1.2 million increase in occupancy costs, due primarily to additional rent, a $0.5 million increase in advertising costs, a $0.2 million increase in utilities costs, and a $0.8 million increase in other operating expenses, resulting primarily from an increase in restaurant security expenses, repair and maintenance costs, property tax expense and credit card fees and restaurant security expenses. The increases resulted primarily from the new restaurants opened during or after the first quarter of 2017.

For the quarter, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 23.0%, up from 21.8% in the comparable period of the prior year. Year-to-date, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 23.1%, up from 21.9% in the comparable period of the prior year. Both the quarter and year-to-date increase resulted primarily from rent expense, relative to revenue volume generated, and other incremental costs related to opening new restaurants in 2017 and the twenty-six weeks ended June 27, 2018.

General and Administrative Expenses

For the quarter, general and administrative expenses increased $2.9 million, or 30.3%, from the comparable period in the prior year. The increase for the quarter was due primarily to (i) a $2.4 million increase in legal expense related primarily to a $2.1 million increase in securities class action litigation costs, (ii) a $0.4 million increase in stock compensation related expenses, primarily related to the stock modification discussed in Note 3, (iii) a $0.3 million increase in professional related fees, and (iv) a $0.1 million increase in other general and administrative expenses. These increases were partially offset by a $0.3 million decrease in restaurant pre-opening costs.

Year-to-date, general and administrative expenses increased $6.4 million, or 33.0%, from the comparable period in the prior year. The increase for the quarter was due primarily to (i) a $5.1 million increase in legal expense related primarily to an increase in securities class action litigation costs, (ii) a $0.8 million increase in stock compensation related expenses, primarily related to the stock modification discussed in Note 3, (iii) a $0.4 million increase in professional related fees, (iv) a $0.2 million increase in dead site costs related to costs incurred for potential new restaurant locations that we chose not to continue to pursue, (v) a $0.2 million increase in software maintenance costs and (vi) a $0.4 million increase in other general and administrative expenses. These increases were partially offset by a $0.7 million decrease in restaurant pre-opening costs.

For the quarter, general and administrative expenses as a percentage of total revenue were 11.2% up from 9.1% in the comparable period of the prior year. Excluding franchise advertising fee revenue, discussed in Note 10, general and administrative expenses as a percentage of total revenue were 11.7% up from 9.1% in the comparable period of the prior year. Year-to-date, general and administrative expenses as a percentage of total revenue were 11.8% up from 9.4% in the comparable period of the prior year. Excluding franchise advertising fee revenue, discussed in Note 10, general and administrative expenses as a percentage of total revenue were 12.4% up from 9.4% in the comparable period of the prior year. The percentage increase is primarily due to the cost increases discussed above.

Recovery of Securities Class Action Legal Expense

During the thirteen and twenty-six weeks ended June 27, 2018, we received insurance proceeds of $2.4 million and $4.1 million, respectively, related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See the Notes to the Condensed Consolidated Financial Statements, Note 7, Commitments and Contingencies, Legal Matters.

Asset Impairment and Closed-Store Reserves

During the thirteen and twenty-six weeks ended June 27, 2018, the Company determined that the carrying value of one restaurant in Arizona may not be recoverable. As a result, the Company recorded a $1.7 million expense, primarily related to the impairment of the assets of the restaurant. During the thirteen weeks ended June 27, 2018, the Company closed two restaurants in Texas, both of which were previously impaired during the third quarter of 2017. During the twenty-six weeks ended June 27, 2018, the Company closed four restaurants in Texas, all of which were previously impaired during the third quarter of 2017, and decided not to move forward with the development of a third location in Texas. This resulted in a closed-store reserve of $2.3 million for the thirteen weeks ended June 27, 2018 and $5.1 million for the twenty-six weeks ended June 27, 2018. During the thirteen and twenty-six weeks ended June 28, 2017, the Company determined that the carrying value of one restaurant in Texas may not be recoverable. As a result, the Company recorded a $0.4 million expense related to the impairment of the assets of the restaurant. During the twenty-six weeks ended June 28, 2017, we closed one restaurant in Arizona and one restaurant in Texas, resulting in a closed store reserve of $0.8 million. We continue to monitor the recoverability of the carrying value of the assets of several other restaurants.

Interest Expense, Net

For the quarter, interest expense, net increased by $0.2 million, or 23.4%, and for the year-to-date period, interest expense, net increased by $0.3 million, or 17.9%. Both quarter and year-to-date increases were due to an increase in the interest rate on our debt, partially offset by a lower outstanding debt balance.

Income Tax Receivable Agreement

On July 30, 2014, we entered into the TRA. The TRA calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the quarter ended June 27, 2018 and June 28, 2017, we recorded income tax receivable agreement expense of $0.7 million and income tax receivable agreement income of $0.1 million, respectively. For the year-to-date periods ending June 27, 2018 and June 28, 2017, we recorded an income tax receivable agreement income of $0.2 million and income tax receivable agreement expense of $0.1 million, respectively.

Provision for Income Taxes

For the quarter ended June 27, 2018, we recorded an income tax provision of $0.9 million, reflecting an estimated effective tax rate of 14.6%. For the quarter ended June 28, 2017, we recorded an income tax provision of $4.2 million, reflecting an estimated effective tax rate of approximately 35.2%. Year-to-date ended June 27, 2018 we recorded an income tax provision of $2.8 million, reflecting an estimated effective tax rate of approximately 27.1%. Year-to-date ended June 28, 2017 we recorded an income tax provision of $7.7 million, reflecting an estimated effective tax rate of approximately 37.8%. The difference between the 21.0% statutory rate and the Company’s effective tax rate of 27.1% for the year-to-date ended June 28, 2017 is primarily a result of state taxes, a Work Opportunity Tax Credit benefit, the Company’s valuation allowance against certain state credits as a result of future forecasted income and changes to total expected TRA payments due to changes in future forecasted taxable income.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources have been cash provided from operations, cash and cash equivalents, and our secured revolving credit facility. Our primary requirements for liquidity and capital are new restaurants, existing restaurant capital investments (remodels and maintenance), interest payments on our debt, lease obligations, and working capital and general corporate needs. Our working capital requirements are not significant, since our 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 of our inventory items before we have to pay our suppliers for them. Our restaurants do not require significant inventories or receivables. We believe that these sources of liquidity and capital are sufficient to finance our continued operations and expansion plans for at least the next twelve months from the filing of the condensed consolidated financial statements.

The following table presents summary cash flow information for the periods indicated.

	Twenty-Six Weeks Ended	
(Amounts in thousands)	**June 27, 2018**	**June 28, 2017**
Net cash provided (used) by		
Operating activities	$ 25,630	$ 30,733
Investing activities	(13,952)	(19,040)
Financing activities	(7,143)	(9,490)
Net increase in cash	$ 4,535	$ 2,203

Operating Activities

For the twenty-six weeks ended June 27, 2018, net cash provided by operating activities decreased by approximately $5.1 million from the comparable period of the prior year. This was due primarily to a decline in profitability after non-cash items, partially offset by favorable working capital fluctuations.

Investing Activities

For the twenty-six weeks ended June 27, 2018, net cash used by investing activities decreased by $5.1 million from the comparable period of the prior year. This was due primarily to opening three new company restaurants and six remodels completed in the twenty-six weeks ended June 27, 2018 compared to nine new restaurants and seven remodels completed in the twenty-six weeks ended June 28, 2017.

For the year ending December 26, 2018, we expect to incur capital expenditures of $27.0 million to $31.0 million, consisting of $13.0 to $17.0 million related to new restaurants, $6.0 million related to the remodeling of existing restaurants, and $8.0 million related to major maintenance and other corporate capital expenditures.

Financing Activities

For the twenty-six weeks ended June 27, 2018, net cash used by financing activities decreased by $2.3 million from the comparable period of the prior year. This was due primarily to decrease in net prepayments of $2.5 million on the 2014 Revolver during the twenty-six weeks ended June 27, 2018 compared to the twenty-six weeks ended June 28, 2017. This was partially offset by a $0.2 million increase in cash outflow related to share-based compensation-related transactions.

Debt and Other Obligations

On December 11, 2014, we refinanced our debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for the 2014 Revolver. The 2014 Revolver includes a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. At June 27, 2018, $7.7 million of letters of credit were outstanding and $106.3 million was available to borrow under the revolving line of credit.

Borrowings under the 2014 Revolver (other than any swingline loans) bear interest, at the borrower’s option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in a range of 1.75% to 2.50%, and for base rate loans the margin is in a range of 0.75% to 1.50%. The interest rate range was 3.6% to 3.7% and for 3.3% to 3.7% the thirteen and twenty-six weeks ended June 27, 2018, respectively, and 2.7% to 3.0% and 2.4% to 3.0% for the thirteen and twenty-six weeks ended June 28, 2017, respectively.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also includes certain customary affirmative covenants and events of default. We were in compliance with all such covenants at June 27, 2018.

Under the 2014 Revolver, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under the TRA, and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5.0 million in other restricted payments per year, and (d) make other restricted payments, subject to its compliance, on a pro forma basis, with (x) its lease-adjusted consolidated leverage ratio not to exceed 4.25 times and (y) the financial covenants applicable to the 2014 Revolver.

On July 13, 2018, the 2014 Revolver was refinanced pursuant to a credit agreement (the “2018 Credit Agreement”) among EPL, as borrower, the Company and Intermediate, as guarantors, the lenders and other parties party thereto and Bank of America, N.A., as administrative agent, swingline lender and L/C issuer, which provides for a $150.0 million five-year senior secured revolving facility. For more information regarding the 2018 Credit Agreement, see “Subsequent Events — 2018 Credit Agreement.”

Contractual Obligations

Our contractual commitments outstanding on June 27, 2018, have not changed materially since our annual report on Form 10-K for the year ended December 27, 2017. These relate to future (i) debt payments, including expected interest expense, calculated based on current interest rates, (ii) restaurant operating lease payments, (iii) income tax receivable agreement payments, and (iv) purchasing commitments for chicken.

Off-Balance Sheet and Other Arrangements

As of June 27, 2018 and December 27, 2017, we were using $7.7 million of borrowing capacity on the 2014 Revolver for letters of credit in support of our insurance programs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to market risk from changes in the interest rate on our debt, which bears interest at USD LIBOR plus a margin between 1.75% and 2.50%. As of June 27, 2018, we had outstanding borrowings of $86.0 million and another $7.7 million of letters of credit in support of our insurance programs. A 1.0% increase in the effective interest rate applied to these borrowings would result in a pre-tax interest expense increase of $0.9 million on an annualized basis.

We manage our interest rate risk through normal operating and financing activities and, when determined appropriate, through the use of derivative financial instruments.

Inflation

Inflation has an impact on food, paper, construction, utility, labor and benefits, general and administrative, and other costs, all of which can materially impact our 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 our labor costs. In general, we have been able to substantially offset cost increases resulting from inflation by increasing menu prices, managing menu mix, improving productivity, or making other adjustments. We may not be able to offset cost increases in the future.

Commodity Price Risk

We are exposed to market price fluctuation in food product prices. Given the historical volatility of certain of our food product prices, including chicken, other proteins, grains, produce, dairy products, and cooking oil, these fluctuations can materially impact our food and beverage costs. While our purchasing commitments partially mitigate the risk of such fluctuations, there is no assurance that supply and demand factors such as disease or inclement weather will not cause the prices of the commodities used in our restaurant operations to fluctuate. In periods when the prices of commodities drop, we may pay higher prices under our purchasing commitments. In rapidly fluctuating commodities markets, it may prove difficult for us to adjust our menu prices in accordance with input price fluctuations. Therefore, to the extent that we do not pass along cost increases to our customers, our results of operations may be adversely affected. At this time, we do not use financial instruments to hedge our commodity risk.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the required time periods, and designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures are based on assumptions about the likelihood of future events, and even effective disclosure controls and procedures can only provide reasonable assurance of achieving their objectives. Because of their inherent limitations, we cannot guarantee that our disclosure controls and procedures will succeed in achieving their stated objectives in all cases, that they will be complied with in all cases, or that they will prevent or detect all misstatements.

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer 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 occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, under the caption Elliott Olvera, et al v. El Pollo Loco, Inc., et al (Case No. 30-2014-00707367-CU-OE-CXC) on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. The parties executed a Stipulation of Class Settlement and Release which the court refused to approve on the grounds that it did not provide sufficient compensation for the putative class members. Further settlement discussions were not successful, and the court recently certified two class of plaintiffs - one class encompasses restaurant employees who were not provided proper rest breaks because they were not allowed to leave the premises during their breaks and the other class encompasses restaurant employees who were required to wait at the restaurant after they finished working for the night until the manager set the alarm for safety purposes. Purported class actions alleging wage and hour violations are commonly filed against California employers. The Company has similar cases pending that overlap in part with the Olvera action and fully expects to have to defend against similar lawsuits in the future.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016, on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, LLC., Trimaran Capital Partners, and Freeman Spogli & Co. (collectively, the "Controlling Shareholder Defendants"). Among other things, Plaintiffs allege that, in 2014 and early 2015, Holdings suffered losses due to rising labor costs in California and, in an attempt to mitigate the effects of such rising costs, removed a $5 value option from the Company's menu, which resulted in a decrease in traffic from value-conscious consumers. Plaintiffs further allege that during the Class Period, Holdings and the Individual Defendants made a series of materially false and misleading statements that concealed the effect that these factors were having on store sales growth, resulting in Holdings stock continuing to be traded at artificially inflated prices. As a result, Plaintiffs and other members of the putative class allegedly suffered damages in connection with their purchase of Holdings' stock during the Class Period. In addition, Plaintiffs allege that the Individual Defendants and Controlling Shareholder Defendants had direct involvement in, and responsibility over, the operations of Holdings, and are presumed to have had, among other things, the power to control or influence the transactions giving rise to the alleged securities law violations. In both cases, Plaintiffs seek an unspecified amount of damages, as well as costs and expenses (including attorneys' fees).

On July 25, 2016, the Court issued an order granting, without prejudice, Defendants' Motion to Dismiss plaintiff's complaint for failure to state a claim. Plaintiffs were granted leave to amend their complaint, and filed an amended complaint on August 22, 2016. Defendants moved to dismiss the amended complaint, and on March 20, 2017, the Court dismissed the amended complaint and granted Plaintiffs leave to file another amended complaint. Plaintiffs filed another amended complaint on April 17, 2017. Defendants filed a motion to dismiss the amended complaint on or about May 17, 2017. The Court denied Defendants' motion to dismiss the third amended complaint on August 4, 2017. On December 8, 2017, Plaintiffs filed a motion for class certification and on July 3, 2018, the Court granted Plaintiffs' motion and certified a class as to all of Plaintiffs' claims. Defendants are currently seeking appellate review of a portion of the Court's July 3, 2018 class certification order. Defendants intend to continue to defend against the claims asserted.

In addition, on September 16, 2015, Holdings and certain of its officers and directors received an informal, non-public inquiry from the SEC requesting voluntary production of documents and information. All parties cooperated fully with the SEC's request. On July 15, 2016, Holdings was informed that the SEC was closing its inquiry as to all parties.

On or about November 5, 2015, a purported Holdings shareholder filed a derivative complaint on behalf of Holdings in the Court of Chancery of the State of Delaware against certain Holdings officers, directors and Trimaran Pollo Partners, L.L.C., under the caption Armen Galustyan v. Sather, et al. (Case No. 11676-VCL). The derivative complaint alleges that these defendants breached their fiduciary duties to Holdings and were unjustly enriched when they sold shares of Holdings at artificially inflated prices due to alleged misrepresentations and omissions regarding EPL's comparable store sales in the second quarter of 2015. The Holdings shareholder's requested remedies include an award of compensatory damages to Holdings, as well as a court order to improve corporate governance by putting forward for stockholder vote certain resolutions for amendments to Holdings' Bylaws or Certificate of Incorporation. The parties have stipulated to, which the court has ordered, a stay of these proceedings pending the outcome of Turocy v. El Pollo Loco Holdings, Inc., discussed above. A second purported Holdings shareholder filed a derivative complaint on or about September 23, 2016, under the caption Diep v. Sather, CA 12760-VCL in the Delaware Court of Chancery. The Diep action is also purportedly brought on behalf of Holdings, names the same defendants and asserts substantially the same claims on substantially the same alleged facts as does Galustyan. Defendants moved to stay or dismiss the Diep action.

On March 17, 2017, the Delaware court granted in part, and denied in part, the motion to stay the Diep action. The court denied defendants' motion to dismiss the complaint for failure to state a claim. On January 17, 2018, the court entered an order granting the parties' stipulation staying all proceedings in the Diep action for five months pending an investigation of the allegations in the action by a special litigation committee of the Holdings board of directors, and the action remains stayed.

Janice P. Handlers-Bryman and Michael D. Bryman v. El Pollo Loco, Inc., Los Angeles Superior Court (Case No. MC026045) (the "Lancaster Lawsuit") was filed on February 9, 2016. Existing El Pollo Loco franchisees, Janice P. Handlers-Bryman and Michael D. Bryman, as individuals and in their capacities as trustees of the Handlers Bryman Trust (collectively, "Plaintiffs"), filed suit against us alleging, among other things, that we "imposed unreasonable time limitations" on their development of additional restaurant locations in Lancaster, California, and that we thereafter developed company-owned El Pollo Loco restaurants in the "market area" of Plaintiffs' existing El Pollo Loco restaurant in Lancaster. Plaintiffs' asserted claims against us for, among other things, (i) breach of the implied covenant of good faith and fair dealing, (ii) intentional interference with prospective business, and (iii) unfair business practices. In addition to an unspecified amount of damages and costs of the lawsuit, Plaintiffs sought reformation of the contract, declaratory relief, disgorgement of alleged revenues and profits, injunctive relief, and a judicial mandate requiring us to either transfer the company-owned locations to Plaintiffs or to continuously disgorge to Plaintiffs the unjust enrichment allegedly obtained by us through the operation of the company-owned restaurants in Lancaster. We denied Plaintiffs' allegations as the franchise agreement did not grant Plaintiffs any exclusive territorial rights and, instead, expressly reserved for us the right to open and operate - and the right to grant others the right to open and operate - El Pollo Loco restaurants "in the immediate vicinity of or adjacent to" Plaintiffs' restaurant in Lancaster. On June 7, 2016, we filed a cross-complaint against Plaintiffs for breach of the franchise agreement due to Plaintiffs' failure to pay to us liquidated damages provided for in the franchise agreement in connection with their solicitation and/or hiring of our general manager. This counterclaim was voluntarily dismissed by us, without prejudice, on February 27, 2017, and a related action before the San Bernardino Superior Court titled El Pollo Loco, Inc. v. EPL 3766, Inc. was dismissed on April 6, 2017. On April 24, 2017, four days before the commencement of trial, Plaintiffs filed a voluntary dismissal, without prejudice, of the Lancaster Lawsuit without any payment or other concession by us. The corresponding dismissal was entered by the court on April 25, 2017. On May 22, 2017, Plaintiffs filed a motion for relief from the dismissal which was granted by the court on June 29, 2017. The trial in the case was bifurcated between the liability and damages phases. The liability phase went forward on November 16, 2017. The only cause of action that the court allowed to go to the jury was the cause of action for breach of the covenant of good faith and fair dealing. The court elected not to present the cause of action for intentional interference with prospective business to the jury. (The causes of action for reformation due to mistake and unconscionability, unfair business practices under California Business & Professions Code §§ 17200 et seq., and declaratory relief were not presented to the jury as these types of equitable claims are to be decided by the court as a matter of law.) On December 11, 2017, the jury returned a verdict in favor of Plaintiffs finding that we breached the implied covenant of good faith and fair dealing by (1) constructing the two new company-owned El Pollo Loco restaurants in Lancaster, and (2) not offering the two new company-owned El Pollo Loco restaurants in Lancaster to Plaintiffs. Because the trial was bifurcated, the December 11, 2017 verdict did not include a determination of damages.

The damages phase of the trial went forward on April 20, 2018. On May 1, 2018, the jury returned a verdict on damages in favor of Plaintiffs in the following amounts: (1) $4,356,600 in "impact damages" arising out of our construction of the two new company-owned El Pollo Loco restaurants in Lancaster, and (2) $4,481,206 in "lost opportunity damages" arising out of our failure to offer the two new company-owned El Pollo Loco restaurants in Lancaster to Plaintiffs. On August 1, 2018, the court issued a final judgment and decision on the unfair business practices claim under California Business & Professions Code §§ 17200 et seq. The court has found El Pollo Loco liable and has issued injunctive relief requiring El Pollo Loco to revise its franchise disclosure document and franchise agreement. The court also awarded Plaintiffs restitution of $4,356,600 for "impact damages" arising out of our construction of the two new company-owned El Pollo Loco restaurants in Lancaster. The court, reversing its previous position, held that these damages could be awarded in addition to the "lost opportunity damages" awarded by the jury. Thus, the court entered a total monetary judgment of $8,837,806. There has been no ruling on the causes of action for reformation due to mistake and unconscionability, and declaratory relief.

The Company believes that both jury verdicts and the court's verdict are in error due to express language of the franchise agreement and because of the prejudicial and reversible errors of the court in the earlier phases of the litigation, during the liability phase of the trial, and during the damages phase of trial. El Pollo Loco intends to file a motion challenging the verdicts, a motion for new trial (both the liability phase and damages phase) and, if unsuccessful, will appeal the verdict and various other rulings in the case. Based on the assessment by Management, together with our legal counsel, the Company believes that the loss is currently not probable under ASC 450 and as of June 27, 2018, no accrual has been made with regard to the verdict.

The Company is also involved in various other claims and legal actions that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these other actions will have a material adverse effect on its financial position, results of income, liquidity, or capital resources. A significant increase in the number of claims, or an increase in amounts owing under successful claims, could materially and adversely affect its business, consolidated financial condition, results of income, and cash flows.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 27, 2017.

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

None. Additionally, as discussed above in (i) Part I, Item 1, Note 1, “Basis of Presentation”, and (ii) Part I, Item 2, “Liquidity and Capital Resources - Debt and Other Obligations”, our 2014 Revolver and our 2018 Revolver limit payment of dividends.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Index

Number	Description
31.1	Certification of Principal Executive Officer under section 302 of the Sarbanes–Oxley Act of 2002
31.2	Certification of Principal Financial Officer under section 302 of the Sarbanes–Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. section 1350, adopted by section 906 of the Sarbanes–Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Pursuant to Item 601(b)(32)(ii) of Regulation S-K (17 C.F.R. § 229.601(b)(32)(ii)), this certification is deemed furnished, not filed, for purposes of section 18 of the Exchange Act, nor is it otherwise subject to liability under that section. It will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except if the registrant specifically incorporates it by reference.

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.

	El Pollo Loco Holdings, Inc.
	(Registrant)
August 3, 2018	/s/ Bernard Acoca
Date	Bernard Acoca
	President and Chief Executive Officer
August 3, 2018	/s/ Laurance Roberts
Date	Laurance Roberts
	Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, Bernard Acoca, certify that:

1. I have reviewed this quarterly report on Form 10-Q of El Pollo Loco Holdings, 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 (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) 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: August 3, 2018

/s/ Bernard Acoca

Bernard Acoca
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Laurance Roberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of El Pollo Loco Holdings, 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 (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) 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: August 3, 2018

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

Under 18 U.S.C. section 1350, adopted by section 906 of the Sarbanes-Oxley Act of 2002, in connection with the attached periodic report, the undersigned each certify that (i) the periodic report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: August 3, 2018

/s/ Bernard Acoca

Bernard Acoca
President and Chief Executive Officer

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer