

**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 March 27, 2019
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
(State or other jurisdiction of incorporation or organization)

3535 Harbor Blvd., Suite 100, Costa Mesa, California
(Address of principal executive offices)

20-3563182
(I.R.S. Employer Identification No.)

92626
(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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	LOCO	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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

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 April 26, 2019, there were 38,433,201 shares of the issuer's common stock outstanding.

Table of Contents	Page
<u>PART I—FINANCIAL INFORMATION</u>	<u>4</u>
<u>Item 1. Financial Statements.</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Income (Unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>9</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>39</u>
<u>Item 4. Controls and Procedures.</u>	<u>40</u>
<u>PART II—OTHER INFORMATION</u>	<u>41</u>
<u>Item 1. Legal Proceedings.</u>	<u>41</u>
<u>Item 1A. Risk Factors.</u>	<u>41</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>41</u>
<u>Item 3. Defaults of Senior Securities.</u>	<u>41</u>
<u>Item 4. Mine Safety Disclosures.</u>	<u>41</u>
<u>Item 5. Other Information.</u>	<u>41</u>
<u>Item 6. Exhibits.</u>	<u>42</u>
<u>Signatures</u>	<u>43</u>

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 27, 2019	December 26, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,699	\$ 6,969
Accounts and other receivables, net	10,750	9,599
Inventories	2,219	2,479
Prepaid expenses and other current assets	3,841	2,998
Assets held for sale	4,494	—
Total current assets	28,003	22,045
Property and equipment owned, net	94,319	104,145
Property held under finance leases, net	10	16
Property held under operating leases, net ("ROU Asset")	200,726	—
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Other intangible assets, net	256	280
Deferred tax assets	11,435	11,709
Other assets	1,404	1,469
Total assets	\$ 646,715	\$ 450,226
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under finance leases	\$ 41	\$ 68
Current portion of obligations under operating leases	17,697	—
Accounts payable	8,541	9,564
Accrued salaries and vacation	8,921	7,574
Accrued insurance	7,840	7,076
Accrued income taxes payable	147	71
Accrued interest	135	149
Current portion of income tax receivable agreement payable	6,732	6,637
Other accrued expenses and current liabilities	48,545	51,764
Total current liabilities	98,599	82,903
Revolver loan	71,000	74,000
Obligations under finance leases, net of current portion	109	116
Obligations under operating leases, net of current portion	200,443	—
Other intangible liabilities, net	608	642
Income tax receivable agreement payable, net of current portion	7,381	7,305
Other noncurrent liabilities	5,337	20,024
Total liabilities	383,477	184,990
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; 38,730,204 and 39,004,451 shares issued and outstanding	388	390
Additional paid-in-capital	372,825	375,734
Accumulated deficit	(109,975)	(110,888)
Total stockholders' equity	263,238	265,236
Total liabilities and stockholders' equity	\$ 646,715	\$ 450,226

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	
	March 27, 2019	March 28, 2018
Revenue		
Company-operated restaurant revenue	\$ 97,150	\$ 94,553
Franchise revenue	6,444	6,106
Franchise advertising fee revenue	5,383	5,097
Total revenue	108,977	105,756
Cost of operations		
Food and paper cost	27,152	27,235
Labor and related expenses	29,576	27,662
Occupancy and other operating expenses	23,227	21,919
Company restaurant expenses	79,955	76,816
General and administrative expenses	11,348	13,202
Franchise expenses	6,144	5,832
Depreciation and amortization	4,761	4,212
Loss on disposal of assets	44	61
Loss on assets held for sale	4,124	—
Recovery of securities lawsuits related legal expenses	—	(1,634)
Asset impairment and closed-store reserves	309	2,819
Total expenses	106,685	101,308
Income from operations	2,292	4,448
Interest expense, net of interest income of \$9 and \$8 for the quarters ended March 27, 2019 and March 28, 2018, respectively.	859	888
Income tax receivable agreement expense (income)	171	(918)
Income before provision for income taxes	1,262	4,478
Provision for income taxes	349	1,949
Net income	\$ 913	\$ 2,529
Net income per share		
Basic	\$ 0.02	\$ 0.07
Diluted	\$ 0.02	\$ 0.06
Weighted-average shares used in computing net income per share		
Basic	38,653,702	38,465,208
Diluted	39,496,436	38,987,351

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Amounts in thousands, except share data)

Thirteen Weeks Ended March 27, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, December 26, 2018	39,009,451	390	\$ 375,734	\$ (110,888)	\$ 265,236
Stock-based compensation	—	—	488	—	488
Forfeiture of common stock related to restricted shares, net	(22,118)	—	—	—	—
Shares repurchased for employee tax withholdings	(1,575)	—	(16)	—	(16)
Repurchase of common stock	(255,554)	(2)	(3,381)	—	(3,383)
Net income	—	—	—	913	913
Balance, March 27, 2019	<u>38,730,204</u>	<u>\$ 388</u>	<u>\$ 372,825</u>	<u>\$ (109,975)</u>	<u>\$ 263,238</u>

Thirteen Weeks Ended March 28, 2018

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, Balance, December 27, 2017	38,661,850	387	\$ 372,990	\$ (98,427)	\$ 274,950
Cumulative effect of accounting change (See Note 10)	—	—	—	(3,494)	(3,494)
Stock based compensation	—	—	532	—	532
Forfeiture of common stock related to restricted shares, net	(25,812)	—	—	—	—
Net income	—	—	—	2,529	2,529
Balance, March 28, 2018	<u>38,636,038</u>	<u>\$ 387</u>	<u>\$ 373,522</u>	<u>\$ (99,392)</u>	<u>\$ 274,517</u>

EL POLLO LOCO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Thirteen Weeks Ended	
	March 27, 2019	March 28, 2018
Cash flows from operating activities:		
Net income	\$ 913	\$ 2,529
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	4,761	4,212
Stock-based compensation expense	488	532
Income tax receivable agreement expense (income)	171	(918)
Loss on held for sale assets	4,124	—
Loss on disposal of assets	44	61
Closed-store reserve expense	—	2,819
Amortization of deferred financing costs	63	76
Amortization of favorable and unfavorable leases, net	(10)	(17)
Deferred income taxes, net	273	606
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(1,150)	(586)
Inventories	260	218
Prepaid expenses and other current assets	(843)	(790)
Other assets	—	97
Accounts payable	(783)	(673)
Accrued salaries and vacation	1,347	1,896
Accrued insurance	764	155
Income taxes payable	76	58
Other accrued expenses and liabilities	(521)	2,058
Net cash flows provided by operating activities	9,977	12,333
Cash flows from investing activities:		
Purchase of property and equipment	(4,183)	(6,648)
Net cash flows used in investing activities	(4,183)	(6,648)
Cash flows from financing activities:		
Payments on revolver loan	(3,000)	(8,000)
Payment of obligations under finance leases	(35)	(32)
Stock buybacks	(3,029)	—
Net cash flows used in financing activities	(6,064)	(8,032)
Decrease in cash and cash equivalents	(270)	(2,347)
Cash and cash equivalents, beginning of period	6,969	8,550
Cash and cash equivalents, end of period	\$ 6,699	\$ 6,203

	Thirteen Weeks Ended	
	March 27, 2019	March 28, 2018
Supplemental cash flow information		
Cash paid during the period for interest	\$ 838	\$ 662
Cash paid during the period for income taxes	\$ —	\$ —
Unpaid purchases of property and equipment	\$ 948	\$ 2,022
Unpaid stock buybacks	\$ 354	\$ —

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

EL POLLO LOCO HOLDINGS, INC.

NOTES TO 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 March 27, 2019, the Company operated 211 and franchised 273 El Pollo Loco restaurants.

On August 2, 2018, the Company announced the Board of Directors had authorized a stock repurchase program (the “Stock Repurchase Program”). The Company entered into a stock repurchase plan pursuant to Rule 10b5-1 of the Securities and Exchange Act of 1934, as amended on August 28, 2018 (the “Stock Repurchase Plan”), which allows for the repurchase of up to \$20.0 million of the Company’s common stock. The Stock Repurchase Plan commenced purchases on November 6, 2018, and, if not terminated sooner by other provisions of the Stock Repurchase Plan, will terminate on June 26, 2019. The Stock Repurchase Plan may also be suspended or terminated at any time upon prior notice.

Under the Stock Repurchase Program, the Company may repurchase its common stock from time to time, in amounts and at prices that the Company deems appropriate, subject to market conditions and other considerations. The Company’s repurchases may be executed using open market purchases and/or through privately negotiated transactions.

For the quarter ended March 27, 2019, the Company repurchased 255,554 shares of common stock under the Stock Repurchase Plan, using open market purchases, for total consideration of approximately \$3.4 million.

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 condensed consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 26, 2018.

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 2018 and 2019 are both 52-week years, ending on December 26, 2018 and December 25, 2019, 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”), guarantee EPL’s 2018 Revolver (as defined below) on a full and unconditional basis (see Note 4), 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.

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, contingent liabilities 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 March 27, 2019, the Company's total debt was \$71.2 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 \$6.7 million at March 27, 2019, and available borrowings under the 2018 Revolver (see Note 4) will be adequate to meet the Company's liquidity needs for the next twelve months from the filing of these condensed consolidated financial statements.

Recovery of Securities Class Action Legal Expense

During the thirteen weeks ended March 28, 2018, the Company received insurance proceeds of \$1.6 million 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.

Assets Held For Sale

During the thirteen weeks ended March 27, 2019, the Company agreed in principle to sell four restaurants within the San Francisco area to an existing franchisee. Additionally, the Company agreed in principle to sell seven restaurants in the Phoenix area to another existing franchisee. Assets are classified as held for sale if they meet the criteria outlined in ASC 360, *Property, Plant and Equipment*. In accordance with applicable accounting guidance, the net assets were recorded at the lower of carrying value or fair value less costs to sell. The Company classified \$4.5 million of assets as held for sale, consisting of leasehold improvements and other property equipment, as of March 27, 2019, and recognized a loss on held for sale assets of \$4.1 million for the thirteen weeks ended March 27, 2019.

Recently Adopted Accounting Pronouncements

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, "Disclosure Update and Simplification", amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The Company adopted SEC Release No. 33-10532 as of March 27, 2019. See "Consolidated Statements of Changes in Stockholders' Equity" above.

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", ("ASU 2018-07") 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 Company adopted ASU 2018-07 as of March 27, 2019 and it did not have a significant impact on the Company's consolidated financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases", ("Topic 842"). Topic 842 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. Early adoption is permitted. In July 2018, the FASB issued ASU No. 2018-11 which provides an alternative transition method that allows entities to apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted Topic 842, and all related ASU's in the first quarter of 2019. See "Changes in Accounting Policies," below for further details.

Subsequent Events

Subsequent to March 27, 2019, the Company completed the sale of four restaurants in the San Francisco area to an existing franchisee. See "Assets Held For Sale" above for further details related to the accounting impact as of and for the thirteen weeks ended March 27, 2019. Furthermore, the Company made a \$4.0 million borrowing on the 2018 Revolver. Additionally, the Company's Board of Directors, on April 30, 2019, as part of the Company's focus on shareholder returns, approved a new share repurchase program under which it authorized the Company, at its discretion, to repurchase up to \$30.0 million of its outstanding common stock. The new share repurchase program will commence on June 27, 2019, subsequent to the expiration of the current share repurchase program. The share repurchase program will terminate on March 25, 2020, if not terminated sooner by other provisions of the share repurchase program, and may also be suspended or terminated at anytime upon prior notice. 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.

The Company evaluated subsequent events that have occurred after March 27, 2019, 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 these 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 March 27, 2019. As of December 26, 2018, the Company had one supplier for which amounts due totaled 36.0% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 26.6% of total expenses for the thirteen weeks ended March 27, 2019 and 28.0% of total expenses for the thirteen weeks ended March 28, 2018.

Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 69.2% of total revenue for both the thirteen weeks ended March 27, 2019 and the thirteen weeks ended March 28, 2018.

Revenue Recognition

In the first quarter of 2018 the Company implemented Topic 606. 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. Topic 606 defines a five-step process to achieve this core principle. Refer to Note 10, "Revenue From Contracts With Customers" 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 or closure 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 fair value test by comparing the fair value of a reporting unit with its carrying amount. 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 fair value test, the Company will compare 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. If the carrying amount of a reporting unit exceeds its fair value, the Company will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit.

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 weeks ended March 27, 2019 or March 28, 2018, 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 March 27, 2019 and December 26, 2018, 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 weeks ended March 27, 2019. This reflects certain property and equipment assets, which were classified as held for sale as of March 27, 2019. The fair value of the assets was determined using Level 3 unobservable inputs not corroborated by market data, consisting of third-party offers for the building and equipment (in thousands):

	Total	Fair Value Measurements at March 27, 2019 Using			Thirteen Weeks Ended March 27, 2019
		Level 1	Level 2	Level 3	Loss on assets held for sale
Property and equipment owned, net	\$ 4,494	\$ —	\$ —	\$ 4,494	\$ 4,124

The Company had no assets or liabilities measured at fair value on a nonrecurring basis for the thirteen weeks ended March 28, 2018.

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 did not recognize any impairment charges during the thirteen weeks ended March 27, 2019 and March 28, 2018. 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. 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

Prior to the adoption of Topic 842 "Leases" when the Company closed a restaurant, it reviewed 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 recorded a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries. The estimates of future closed-store reserves were re-evaluated and adjusted each period based on information available as of the period. In addition, an impairment charge was recognized for any remaining carrying value of certain restaurant assets. During the thirteen weeks ended March 28, 2018, the Company closed two restaurants in Texas, both 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 resulting in a closed store reserve expense of \$2.8 million.

Subsequent to the adoption of Topic 842, the Company no longer recognizes a closed-store reserve when the Company closes a restaurant, as a lease liability related to the future lease payments is already recognized. Rather, when a restaurant is closed, the Company will evaluate the ROU Asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU Asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense. During the thirteen weeks ended March 27, 2019, the Company closed one restaurant in California and one in Texas and recognized \$0.3 million of closed-store reserve expense, primarily related to the amortization of ROU Assets for closed stores.

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 March 27, 2019 or at December 26, 2018, and did not recognize interest or penalties during the thirteen weeks ended March 27, 2019 or March 28, 2018, 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 federal corporate income tax rate from 35% to 21%, 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 federal 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 compensation based upon technical guidance that may be published and changes to current interpretations of certain provisions of the Tax Cuts and Jobs Act. Any impact to our provision for income taxes 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 income taxes as a result of utilizing its net operating losses and other tax attributes attributable to preceding periods. For the thirteen weeks ended March 27, 2019, we recorded income tax receivable agreement expense of \$0.2 million and for the thirteen weeks ended March 28, 2018, we recorded income tax receivable agreement income of \$0.9 million 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 Topic 842, with a date of initial application of December 27, 2018. As a result, the Company has changed its accounting policy for leases as detailed below.

The Company's operations utilize property, facilities, equipment and vehicles owned by the Company or leased from others, the majority of which are operating leases. Additionally, the Company has various contracts with vendors that have been determined to contain an embedded lease in accordance with Topic 842. As of the date of adoption, the Company recognized a ROU Asset and lease liability equal to the present value of these leases within its consolidated balance sheet for any leases with terms longer than 12 months. The Company also has three finance leases, subleases facilities to certain franchises and is the lessor for certain property, facilities and equipment owned by the Company. The adoption of this ASU did not have an impact on our current accounting policies for these items. Furthermore, the adoption of this standard did not have any impact on the Company's consolidated statement of operations or the consolidated statement of cash flows.

The Company applied Topic 842 using the effective date method, which allowed the Company to apply the standard as of the adoption date, and to recognize the cumulative effect of initially applying Topic 842 as an adjustment to retained earnings at December 27, 2018, if applicable. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 840. However, the Company did not have any impact to its retained earnings.

Additionally, the Company elected to apply the package of practical expedients, which allows for carryforwards of 1) historical lease classifications, 2) determination of whether a contract contains a lease under the new definition of a lease and 3) whether previously capitalized initial direct costs qualify for capitalization.

2. PROPERTY AND EQUIPMENT

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

	March 27, 2019	December 26, 2018
Land	\$ 12,323	\$ 12,323
Buildings and improvements	147,260	156,806
Other property and equipment	73,101	76,061
Construction in progress	3,630	2,989
	<u>236,314</u>	<u>248,179</u>
Less: accumulated depreciation and amortization	(141,995)	(144,034)
	<u>\$ 94,319</u>	<u>\$ 104,145</u>

Depreciation expense was \$4.8 million and \$4.2 million for the thirteen weeks ended March 27, 2019 and March 28, 2018, respectively.

Assets are classified as held for sale if they meet the criteria outlined in ASC 360, *Property, Plant and Equipment*. In accordance with applicable accounting guidance, the net assets were recorded at the lower of carrying value or fair value less costs to sell. The Company classified \$4.5 million of assets as held for sale as of March 27, 2019, and recognized a loss on held for sale assets of \$4.1 million for the thirteen weeks ended March 27, 2019.

3. STOCK-BASED COMPENSATION

At March 27, 2019, options to purchase 2,066,976 shares of common stock were outstanding, including 1,715,595 vested and 351,381 unvested. Unvested options vest over time; however, upon a change in control, the board may accelerate vesting. At March 27, 2019, 1,381,010 premium options, options granted above the stock price at date of grant, remained outstanding. A summary of stock option activity as of March 27, 2019 and changes during the thirteen weeks ended March 27, 2019 is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding - December 26, 2018	2,102,404	\$ 7.68
Grants	—	—
Exercised	—	—
Forfeited, cancelled or expired	(35,428)	12.90
Outstanding - March 27, 2019	<u>2,066,976</u>	<u>\$ 7.59</u>
Vested and expected to vest at March 27, 2019	<u>2,058,427</u>	<u>\$ 6.83</u>
Exercisable at March 27, 2019	<u>1,715,595</u>	<u>\$ 6.83</u>

At March 27, 2019, the Company had total unrecognized compensation expense of \$1.1 million related to unvested stock options, which it expects to recognize over a weighted-average period of 3.07 years.

A summary of restricted share activity as of March 27, 2019 and changes during the thirteen weeks ended March 27, 2019 is as follows:

	Shares	Weighted-Average Fair Value
Unvested shares at December 26, 2018	490,700	\$ 10.91
Granted	—	\$ —
Released	—	\$ —
Forfeited, cancelled, or expired	(22,118)	\$ 12.47
Unvested shares at March 27, 2019	<u>468,582</u>	<u>\$ 10.83</u>

Unvested shares at March 27, 2019, included 283,762 unvested restricted shares, 72,116 unvested performance stock units and 112,704 unvested restricted units outstanding.

At March 27, 2019, the Company had unrecognized compensation expense of \$2.7 million related to unvested restricted shares, which it expects to recognize over a weighted-average period of 2.80 years, unrecognized compensation expense of \$0.2 million related to performance stock units, which it expects to recognize over a weighted-average period of 2.76 years and unrecognized compensation expense of \$1.0 million related to unvested restricted units, which it expects to recognize over a weighted-average period of 3.25 years.

Total stock-based compensation expense was \$0.5 million for the thirteen weeks ended March 27, 2019 and \$0.5 million for the thirteen weeks ended March 28, 2018.

4. CREDIT AGREEMENTS

On July 13, 2018, the Company refinanced a credit agreement with Bank of America, N.A., initially entered into on December 11, 2014, (the “2014 Revolver”), pursuant to a credit agreement (the “2018 Credit Agreement”) among EPL, as borrower, and 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 \$150.0 million five-year senior secured revolving credit 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 2018 Revolver and 2018 Credit Agreement will mature on July 13, 2023. The obligations under the 2018 Credit Agreement and related loan documents are guaranteed by the Company and Intermediate. The obligations of the Company, EPL and Intermediate under the 2018 Credit Agreement and related loan documents are secured by a first priority lien on substantially all of their respective assets.

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 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 interest rate range was 3.96% to 4.01% for the thirteen weeks ended March 27, 2019 and 3.30% to 3.40% for the thirteen weeks ended March 28, 2018.

The 2018 Credit Agreement contains certain financial covenants. The Company was in compliance with the financial covenants as of March 27, 2019.

At March 27, 2019, \$8.5 million of letters of credit, and \$71.0 million of the 2018 Revolver were outstanding. The amount available under the 2018 Revolver was \$70.5 million at March 27, 2019.

Maturities

During the thirteen weeks ended March 27, 2019, the Company elected to pay down \$3.0 million of outstanding borrowings on the Company’s 2018 Revolver, primarily from its cash flow from operations. During the thirteen weeks ended March 28, 2018, the Company elected to pay down \$8.0 million of outstanding borrowings on the Company’s 2014 Revolver. There are no required principal payments prior to maturity for the 2018 Revolver.

5. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

	March 27, 2019	December 26, 2018
Accrued sales and property taxes	\$ 5,107	\$ 5,016
Gift card liability	2,280	2,512
Accrued legal settlements and professional fees	38,095	38,639
Other ⁽¹⁾	3,063	5,597
Total other accrued expenses and current liabilities	<u>\$ 48,545</u>	<u>\$ 51,764</u>

(1) The Company previously included the short-term portion deferred rent, tenant improvement allowance and lease escalation liabilities within "Other accrued expenses and current liabilities." Upon its adoption of Topic 842 "Leases," these balances were netted with the ROU Asset for the respective operating lease. See "Change in accounting policies" in Note 1 and Note 11 "Leases" for further details of the Company's adoption of Topic 842.

6. OTHER NONCURRENT LIABILITIES

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

	March 27, 2019	December 26, 2018
Deferred rent ⁽¹⁾	\$ —	\$ 10,660
Deferred franchise and development fees	5,270	5,224
Other ⁽²⁾	67	4,140
Total other noncurrent liabilities	<u>\$ 5,337</u>	<u>\$ 20,024</u>

(1) In accordance with the Company's adoption of Topic 842 "Leases" all deferred rent balances are now included with in the Company's ROU Asset. Refer to "Change in accounting policies" in Note 1 and Note 11 "Leases" for further details of the Company's adoption of Topic 842.

(2) The Company previously included the non-current portion tenant improvement allowance and lease escalation liabilities within "Other noncurrent liabilities." Upon its adoption of Topic 842 "Leases," these balances were netted with the ROU Asset for the respective operating lease. See "Change in accounting policies" in Note 1 and Note 11 "Leases" for further details of the Company's adoption of Topic 842.

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) (the "Olvera Action") 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 reached a settlement in principle on January 24, 2019 of all claims brought on behalf of approximately 32,000 putative class members in the Olvera Action, as well as all claims for failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements brought in the class actions captioned Martha Perez v. El Pollo Loco, Inc. (Los Angeles Superior Court Case No. BC624001) (the "Perez Action"), Maria Vega, et al. v. El Pollo Loco, Inc. (Los Angeles Superior Court Case No. BC649719 (the "Vega Action"), and Gonzalez v. El Pollo Loco, Inc. (Los Angeles Superior Court Case No. BC712867) (the "Gonzalez Action") and codified such settlement on April 26, 2019. The settlement reached in the Olvera Action, Perez Action, Vega Action, and Gonzalez Action resolves all potential claims from April 12, 2010 through April 1, 2019 that the Company's California based restaurant employees may have against El Pollo Loco for the failure to pay all compensation owed, failure to pay overtime compensation, failure to provide meal periods and rest breaks and failure to provide itemized wage statements, among other wage and hour related claims. It is anticipated that the settlement will be approved by the Court before the end of the year. A \$16.3 million accrual of an expected settlement amount related to this matter was recorded as of December 26, 2018. 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 filed a petition for appellate review of a portion of the Court's July 3, 2018 class certification order. On October 19, 2018 the Ninth Circuit Court of Appeals denied the petition.

On January 23, 2019, the parties filed a Notice of Settlement and Joint Request for Order to Stay Proceedings, stating the parties have reached an agreement in principle to settle the claims and allegations in the action and are negotiating the terms of a Stipulation of Settlement. On January 24, 2019, the Court ordered that all proceedings in the action be stayed until April 3, 2019, on or before which the parties were to file a Stipulation of Settlement and a motion for preliminary approval of the settlement. On April 3, 2019, Plaintiffs filed the Stipulation of Settlement and a Motion for Preliminary Approval of the Settlement. The Court set the motion for hearing on May 13, 2019. Defendants maintain that the Plaintiffs' claims are without merit, and have entered into the settlement to eliminate the uncertainties, burden and expense of further protracted litigation. A \$20.0 million accrual of an expected settlement amount related to this matter was recorded as of December 26, 2018.

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 or until the completion of an investigation of the allegations in the action by a special litigation committee of the Holdings board of directors (the "SLC"). On February 13, 2019, after concluding its investigation, the SLC filed a motion to dismiss the Diep action. The SLC filed its investigative report under seal as an exhibit to the motion to dismiss.

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-operated 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-operated locations to Plaintiffs or to continuously disgorge to Plaintiffs the unjust enrichment allegedly obtained by us through the operation of the company-operated 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 commenced 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-operated El Pollo Loco restaurants in Lancaster, and (2) not offering the two new company-operated 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 commenced 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. As part of the final judgment, the court found El Pollo Loco liable and 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-operated 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.

On August 16, 2018, the Company filed a motion challenging the verdicts and a motion for new trial (both the liability phase and damages phase) and on September 2, 2018, the court denied those motions. On August 27, 2018, the Company filed a notice of appeal as to the entire judgment, and on October 5, 2018, the Company filed a second notice of appeal challenging the court’s denial of the post-trial motions. On September 5, 2018, we filed a motion to strike several of the costs of suit requested by the Plaintiffs, and on September 28, 2018, the Plaintiffs filed a motion for an award of attorneys’ fees. The court ruled on these motions on October 30, 2018, reducing many of the costs requested by the Plaintiffs and awarding \$1,391,703 to the Plaintiffs for attorneys’ fees. We filed a notice of appeal relating to the trial court’s order relating to our motion to strike the costs and the Plaintiff’s motion for attorneys’ fees on November 6, 2018. The Company also filed motions to stay the injunctive part of the judgment pending the appeal but both the trial court and the California Court of Appeal denied those motions. We filed a petition for review of these denials with the California Supreme Court, but the California Supreme Court denied our petition for review on November 14, 2018. The appeal on the merits is currently pending. Briefing on the merits has not yet occurred in the appellate court. Once the record is delivered by the trial court clerk to the court of appeal, a schedule for the briefing on appeal will be set by the appellate court. Based on the assessment by Management, together with our legal trial counsel, the Company believes that the loss is currently not probable under ASC 450 and as of March 27, 2019, 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 March 27, 2019, the Company's total estimated commitment to purchase chicken was \$22.8 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 March 27, 2019, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was \$2.3 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at March 27, 2019 was \$1.9 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 four of the officers of the Company. 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 \$0.3 million of expenses related to employment agreements for the thirteen weeks ended March 27, 2019 and incurred \$0.4 million of expenses related to employment agreements for the thirteen weeks ended March 28, 2018.

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 earnings per share ("EPS") is calculated using the weighted-average number of shares of common stock outstanding during the thirteen weeks ended March 27, 2019 and March 28, 2018. Diluted EPS 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 EPS data for the periods indicated, which are in thousands except for per share data:

	Thirteen Weeks Ended	
	March 27, 2019	March 28, 2018
Numerator:		
Net income	\$ 913	\$ 2,529
Denominator:		
Weighted-average shares outstanding—basic	38,653,702	38,465,208
Weighted-average shares outstanding—diluted	39,496,436	38,987,351
Net income per share—basic	\$ 0.02	\$ 0.07
Net income per share—diluted	\$ 0.02	\$ 0.06
Anti-dilutive securities not considered in diluted EPS calculation	56,016	652,871

Below is a reconciliation of basic and diluted share counts.

	Thirteen Weeks Ended	
	March 27, 2019	March 28, 2018
Weighted-average shares outstanding—basic	38,653,702	38,465,208
Dilutive effect of stock options and restricted shares	842,734	522,143
Weighted-average shares outstanding—diluted	<u>39,496,436</u>	<u>38,987,351</u>

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 Topic 606, "Revenue from Contracts with Customers"

On December 28, 2017, the Company adopted Topic 606 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 every \$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 March 27, 2019 and December 26, 2018, the revenue allocated to loyalty points that have not been redeemed are \$1.2 million and \$1.0 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 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 March 27, 2019, 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	
	March 27, 2019	March 28, 2018
Core Market⁽¹⁾:		
Company-operated restaurant revenue	\$ 85,306	\$ 82,962
Franchise revenue	3,499	3,376
Franchise advertising fee revenue	2,717	2,609
Total core market	\$ 91,522	\$ 88,947
Non-Core Market⁽²⁾:		
Company-operated restaurant revenue	\$ 11,844	\$ 11,591
Franchise revenue	2,945	2,730
Franchise advertising fee revenue	2,666	2,488
Total non-core market	\$ 17,455	\$ 16,809
Total revenue	\$ 108,977	\$ 105,756

⁽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 by the Company subsequent to the IPO date.

The following table presents our revenues disaggregated by geographic market:

	Thirteen Weeks Ended	
	March 27, 2019	March 28, 2018
Greater Los Angeles area market	69.2%	69.2%
Other markets	30.8%	30.8%
Total	100%	100%

Contract balances

The following table provides information about the change in the franchise contract liability balances during the thirteen weeks ended March 27, 2019 (in thousands):

December 28, 2017	\$ 5,593
Revenue recognized - beginning balance	(104)
Additional contract liability	140
Revenue recognized - additional contract liability	(6)
March 27, 2019	\$ 5,623

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 thirteen weeks ended March 27, 2019, 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 March 27, 2019:

Franchise revenues (in thousands):

2019	\$	295
2020		386
2021		378
2022		372
2023		363
Thereafter		3,829
Total	\$	5,623

Contract Costs

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

11. LEASES

Adoption of Topic 842 "Leases"

On December 26, 2018 the Company adopted Topic 842, using the effective date method, recognizing and measuring all leases that existed as of December 26, 2018. The Company recorded a cumulative-effect adjustment as of December 26, 2018. Comparative periods are presented in accordance with ASC Topic 840 and do not include any retrospective adjustments to comparative periods to reflect the adoption of Topic 842. All leases that either (1) commenced, or (2) were modified or re-measured after December 26, 2018 are accounted for under Topic 842.

As a result of Topic 842, the Company recognized a ROU Asset of \$205.2 million and a lease liability of \$222.3 million on its consolidated balance sheet as of December 27, 2018. However, there was not a material impact on the Company's consolidated statement of operations or consolidated statement of cash flows.

Nature of leases

The Company's operations utilize property, facilities, equipment and vehicles owned by the Company or leased from others. Additionally, the Company has various contracts with vendors that have been determined to contain an embedded lease in accordance with Topic 842.

As of March 27, 2019 the Company had one lease that it had entered into, but had not yet commenced. The Company has no involvement with the construction or design of the underlying asset until lease commencement.

Building and facility leases

Buildings and facilities leased from others are primarily for restaurants and support facilities. The majority of the Company's leases are classified as operating leases; however, the Company currently has three finance leases.

Restaurants are operated under lease arrangements that generally provide for a fixed base rent and, in some instances, contingent rent based on a percentage of gross operating profit or net revenues in excess of a defined amount. Additionally, a number of the Company's leases have payments, which increase at pre-determined dates based on the change in the consumer price index. For all leases the Company also reimburses the landlord based on actual common area maintenance, property tax

and insurance costs, making them variable consideration and excluding them from the calculations of the ROU Asset and lease liability.

The initial terms of land and restaurant building leases are generally 20 years, exclusive of options to renew. These leases typically have four 5-year renewal options, which have generally been excluded in the calculation of the ROU Asset and lease liability, as they are not considered reasonably certain to be exercised, unless (1) the renewal has already occurred as of the time of adoption of Topic 842, or (2) there have been significant leasehold improvements that have a useful life that extend past the original lease term. Furthermore, there are no residual value guarantees and no restrictions imposed by the lease.

The Company also subleases facilities to certain franchisees and other non-related parties which are also considered operating leases. Sublease income also includes contingent rental income based on net revenues. The vast majority of these leases have rights to extend terms via fixed increases. However, none of these leases have early termination rights, the right to purchase the premises or any residual value guarantees. The Company does not have any related party leases.

Equipment

Leases of equipment primarily consist of restaurant equipment, copiers and vehicles. These leases are fixed payments with no variable component. Additionally, no optional renewal periods have been included in the calculation of the ROU Asset, there are no residual value guarantees and no restrictions imposed.

Significant Assumptions and Judgments

In applying the requirements of Topic 842 the Company made significant assumptions and judgments related to determination of whether a contract contains a lease and the discount rate used for the lease.

In determining if any of the Company's contracts contain a lease the Company made assumptions and judgments related to its ability to direct the use of any assets stated in the contract and the likelihood of renewing any short-term contracts for a period extending past twelve months.

The Company also made significant assumptions and judgments in determining an appropriate discount rate for property leases. These included using a consistent discount rate for a portfolio of leases entered into at varying dates, using the full 20 year term of the lease, excluding any options, and using the total minimum lease payments. The Company utilized a third party valuation firm in determining the discount rate, based on the above assumptions. For all other leases, the Company used the discount rate implicit in the lease, or the Company's incremental borrowing rate.

As the Company is adopting the practical expedient not to separate lease and non-lease components, no significant assumptions or judgments were necessary in allocating consideration between these components, for all classes of underlying assets.

The following table presents the Company's total lease cost, disaggregated by underlying asset (in thousands):

	Thirteen Weeks Ended March 27, 2019		
	Property Leases	Equipment Leases	Total
Finance lease cost:			
Amortization of right-of-use assets	6	—	6
Interest on lease liabilities	8	—	8
Operating lease cost	6,604	327	6,931
Short-term lease cost	—	8	8
Variable lease cost	97	73	170
Sublease income	(27)	—	(27)
Total lease cost	6,688	408	7,096
Lease cost breakdown:			
Lease cost – Company restaurant expense	6,770		
Lease cost – General & administrative	119		
Lease cost – Depreciation and amortization	6		
Lease cost – Interest expense	8		
Lease cost - Closed-store reserve	193		
Total lease cost	7,096		

During the thirteen weeks ended March 27, 2019, the Company had the following cash and non-cash activities associated with its leases (in thousands):

	Thirteen Weeks Ended March 27, 2019		
	Property Leases	Equipment Leases	Total
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	6,196	330	6,526
Financing cash flows from finance leases	35	—	35
Non-cash investing and financing activities:			
Additions to ROU Assets obtained from			
Operating lease liabilities	200,555	4,668	205,223
Other Information			
Weighted-average remaining lease term—finance leases	3.40	—	
Weighted-average remaining lease term—operating leases	12.37	3.78	
Weighted-average discount rate—finance leases	11.09%	—	
Weighted-average discount rate—operating leases	4.38%	3.98%	

Information regarding the Company's minimum future lease obligations at March 27, 2019 is as follows (in thousands):

	Finance	Operating Leases	
	Minimum Lease Payments	Minimum Lease Payments	Minimum Sublease Income
For the Years Ending			
December 25, 2019	\$ 52	\$ 19,893	\$ 954
December 30, 2020	54	26,411	1,108
December 29, 2021	54	26,062	1,078
December 28, 2022	45	25,028	1,001
December 28, 2023	—	22,500	989
Thereafter	—	153,141	2,612
Total	\$ 205	\$ 273,035	\$ 7,742
Less: imputed interest (3.96% to 11.1%)	(55)	(54,895)	
Present value of lease obligations	150	218,140	
Less: current maturities	(41)	(17,697)	
Noncurrent portion	\$ 109	\$ 200,443	

Information regarding the Company's minimum future lease obligations at December 26, 2018 is as follows, under ASC 840 (in thousands):

	Capital Leases	Operating Leases	
	Minimum Lease Payments	Minimum Lease Payments	Minimum Sublease Income
For the Years Ending			
December 25, 2019	\$ 95	\$ 25,388	\$ 1,443
December 30, 2020	54	24,437	1,108
December 29, 2021	54	23,342	1,078
December 28, 2022	45	22,338	1,001
December 28, 2023	—	20,634	989
Thereafter	—	150,342	2,612
Total	\$ 248	\$ 266,481	\$ 8,231
Less: imputed interest (11.0% to 11.1%)	(64)		
Present value of capital lease obligations	184		
Less: current maturities	(68)		
Noncurrent portion	\$ 116		

Short-Term Leases

The Company has multiple short-term leases, which have terms of less than 12 months, and thus were excluded from the recognition requirements of Topic 842. The Company has recognized these lease payments in its consolidated statement of operations on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred.

Lessor

The Company is a lessor for certain property, facilities and equipment owned by the Company and leased to others, principally franchisees, under non-cancelable leases with initial terms ranging from 3 to 20 years. These lease agreements generally provide for a fixed base rent and, in some instances, contingent rent based on a percentage of gross operating profit or net revenues. All leases are considered operating leases.

For the leases in which the Company is the lessor, there are options to extend the lease. However, there are no terms and conditions to terminate the lease, no right to purchase premises and no residual value guarantees. Additionally, there are no related party leases.

For the period ending March 27, 2019 the Company received \$0.1 million of lease income from company-owned locations.

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

Cautionary Statement Concerning Forward-Looking Statements

This discussion and analysis should be read in conjunction with Item 1 above and with the condensed consolidated financial statements contained in our annual report on Form 10-K for the year ended December 26, 2018. 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. 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 the following strategies:

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

As of March 27, 2019, we had 484 locations in six states. In fiscal 2018, we opened eight new company-operated and nine new franchised restaurants across Arizona, California, Utah, Louisiana and Texas. For the thirteen weeks ended March 27, 2019, we opened no new company-operated restaurants and two franchised restaurants in California. In 2019, we intend to open three to four new company-operated and three to five 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 weeks ended March 27, 2019, comparable restaurant sales increased by 2.4% from the comparable period in the prior year. For company-operated restaurants, comparable restaurant sales, for the thirteen weeks ended March 27, 2019, increased by 1.5%. For company-operated restaurants, the quarter’s change in comparable restaurant sales consisted of a 4.6% increase in average check size, and a 3.1% decline in transactions. For franchised restaurants, comparable restaurant sales increased 3.2% for the thirteen weeks ended March 27, 2019.

Restaurant Development

Our restaurant counts at the beginning and end of each of the last three fiscal years and the thirteen weeks ended March 27, 2019, were as follows.

	Thirteen Weeks Ended	Fiscal Year Ended		
	March 27, 2019	2018	2017	2016
Company-operated restaurant activity:				
Beginning of period	213	212	201	186
Openings	—	8	16	18
Restaurant sale to franchisee	—	—	—	(1)
Closures	(2)	(7)	(5)	(2)
Restaurants at end of period	211	213	212	201
Franchised restaurant activity:				
Beginning of period	271	265	259	247
Openings	2	9	7	13
Restaurant sale to franchisee	—	—	—	1
Closures	—	(3)	(1)	(2)
Restaurants at end of period	273	271	265	259
System-wide restaurant activity:				
Beginning of period	484	477	460	433
Openings	2	17	23	31
Closures	(2)	(10)	(6)	(4)
Restaurants at end of period	484	484	477	460

Restaurant Remodeling

As of March 27, 2019, together with our franchisees, we had remodeled 29 company-operated and 35 franchised restaurants 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 March 27, 2019, including new builds and remodels, we had 105 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 March 27, 2019, the amount of revenue deferred related to the earned points, net of redemptions, is \$1.2 million. The Company had over one million loyalty program members as of March 27, 2019.

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 condensed consolidated 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 26, 2018, 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 Topic 842, as described in Note 1 and Note 11 to Item 1 above.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in Note 1 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. December 25, 2019 will be the first day that we will cease to be an EGC. Please refer to our annual report on Form 10-K for more information.

Key Financial Definitions

Revenue

Our revenue is derived from three primary sources: company-operated restaurant revenue, franchise revenue, which is comprised primarily of franchise royalties and, to a lesser extent, franchise fees and sublease rental income, and franchise advertising fee revenue. 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.

Legal Settlements

Legal settlements include expenses such as judgments or settlements related to legal matters, legal claims and class action lawsuits.

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 Topic 606 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.

Prior to the adoption of Topic 842 "Leases," 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. Upon the adoption of Topic 842, the Company no longer recognizes a closed-store reserve when the Company closes a restaurant, as a lease liability related to the future lease payments is already recognized. Rather, when a restaurant is closed, the Company will evaluate the ROU Asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU Asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense.

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.

Comparison of Results of Income

Our operating results for the thirteen weeks ended March 27, 2019 and March 28, 2018, 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.

Statements of Income Data	Thirteen Weeks Ended					
	March 27, 2019		March 28, 2018		Increase / (Decrease)	
	(\$,000)	(%)	(\$,000)	(%)	(\$,000)	(%)
Company-operated restaurant revenue	\$ 97,150	89.2	\$ 94,553	89.4	\$ 2,597	2.7
Franchise revenue	6,444	5.9	6,106	5.8	338	5.5
Franchise advertising fee revenue	5,383	4.9	5,097	4.8	286	5.6
Total revenue	108,977	100.0	105,756	100.0	3,221	3.0
Cost of operations						
Food and paper costs(1)	27,152	27.9	27,235	28.8	(83)	(0.3)
Labor and related expenses(1)	29,576	30.4	27,662	29.3	1,914	6.9
Occupancy and other operating expenses(1)	23,227	23.9	21,919	23.2	1,308	6.0
Company restaurant expenses(1)	79,955	82.3	76,816	81.2	3,139	4.1
General and administrative expenses	11,348	10.4	13,202	12.5	(1,854)	(14.0)
Franchise expenses	6,144	5.6	5,832	5.5	312	5.3
Depreciation and amortization	4,761	4.4	4,212	4.0	549	13.0
Loss on disposal of assets	44	0.0	61	0.1	(17)	(27.9)
Loss on assets held for sale	4,124	3.8	—	—	4,124	N/A
Recovery of securities lawsuits related legal expenses	—	—	(1,634)	(1.5)	1,634	(100.0)
Asset impairment and closed-store reserves	309	0.3	2,819	2.7	(2,510)	(89.0)
Total expenses	106,685	97.9	101,308	95.8	5,377	5.3
Income from operations	2,292	2.1	4,448	4.2	(2,156)	(48.5)
Interest expense, net of interest income	859	0.8	888	0.8	(29)	(3.3)
Income tax receivable agreement expense (income)	171	0.2	(918)	(0.9)	1,089	(118.6)
Income before provision for income taxes	1,262	1.2	4,478	4.2	(3,216)	(71.8)
Provision for income taxes	349	0.3	1,949	1.8	(1,600)	(82.1)
Net income	\$ 913	0.8	\$ 2,529	2.4	\$ (1,616)	(63.9)

- (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 \$2.6 million, or 2.7%, from the comparable period in the prior year. The growth in company-operated restaurant sales was primarily due to an increase of \$3.2 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 an increase of \$1.4 million from a 1.5% increase in company-operated comparable sales. This restaurant sales increase was partially offset by revenue declines from the closure of nine restaurants during or subsequent to the first quarter of 2018. The company-operated comparable restaurant sales increase consisted of an increase in average check size of 4.6% partially offset by a decline in transactions of 3.1%.

Franchise Revenue

For the quarter, franchise revenue increased \$0.3 million, or 5.5%, from the comparable period in the prior year. This increase was primarily due to a franchise comparable restaurant sales increase of 3.2%, the opening of 11 new franchised restaurants during or after the prior year quarter, and higher franchise fees received from franchised restaurants related to their use of our point-of-sales system. This was partially offset by the closure of three franchise locations during the same period.

Franchise Advertising Fee Revenue

Beginning in Fiscal 2018, we implemented Topic 606, 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. The increase in franchise advertising fee revenue of \$0.3 million for the quarter from the comparable period in the prior year, was due an increase in franchise locations and increased franchise comparable restaurant sales.

Food and Paper Costs

For the quarter, food and paper costs decreased \$0.1 million, or 0.3%, from the comparable period in the prior year, due to a \$0.2 million decrease in food costs, partially offset by a \$0.1 million increase in paper costs. The decrease in food and paper costs, for the quarter resulted primarily from lower company transactions.

For the quarter, food and paper costs as a percentage of company-operated restaurant revenue were 27.9%, down from 28.8% in the comparable period of the prior year. The percentage decrease for the quarter was due primarily due to an increase in pricing and a favorable sales mix, partially offset by commodity inflation.

Labor and Related Expenses

For the quarter, payroll and benefit expenses increased \$1.9 million, or 6.9%, from the comparable period in the prior year. The increase for the quarter was due primarily to increased labor costs resulting from new restaurants opened in fiscal 2018 and the first quarter of fiscal 2019, and the impact of the wage increases in California and Los Angeles during fiscal 2018 and the first quarter of fiscal 2019. Additionally, the increase in the quarter 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 30.4%, up from 29.3% in the comparable period in the prior year. The increase was due primarily to wage increases in California and Los Angeles. Additionally, the increase in the quarter was negatively impacted by higher workers' compensation expense due to increased claims activity. Partially offsetting these increases were positive impacts due to an increase in pricing.

Occupancy and Other Operating Expenses

For the quarter, occupancy and other operating expenses increased \$1.3 million, or 6.0%, from the comparable period of the prior year. The increase was primarily due to a \$0.6 million increase in occupancy and related costs, due primarily to additional rent, utilities and property tax, a \$0.3 million increase in repair and maintenance costs, a \$0.2 million increase in operating supplies, and a \$0.2 million increase in customer order delivery fees.

For the quarter, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 23.9%, up from 23.2% in the comparable period of the prior year. The increase resulted primarily from the increases noted above, partially offset by pricing.

General and Administrative Expenses

For the quarter, general and administrative expenses decreased \$1.9 million, or 14.0%, from the comparable period in the prior year. The decrease for the quarter was due primarily to (i) a \$1.5 million decrease in legal expenses related primarily to a decrease in securities class action litigation costs and (ii) a \$0.6 million decrease in executive transition costs, and (iii) a \$0.3 million decrease in dead site costs related to costs incurred for potential new restaurant locations that we chose not to continue to pursue. These decreases were partially offset by a \$0.5 million increase in labor related costs, primarily related to an increase in estimated management bonus expenses.

For the quarter, general and administrative expenses as a percentage of total revenue were 10.4% down from 12.5% in the comparable period of the prior year. The percentage decrease is primarily due to the cost decreases discussed above.

Loss on held for sale assets

During the thirteen weeks ended March 27, 2019, the Company agreed in principle to sell four restaurants within the San Francisco area to an existing franchisee. Additionally, the Company agreed in principle to sell seven restaurants in the Phoenix area to another existing franchisee. The net assets were recorded to assets held for sale at the lower of carrying value or fair value less costs to sell, which resulted in a loss on held for sale assets of \$4.1 million for the thirteen weeks ended March 27, 2019.

Recovery of Securities Class Action Legal Expense

During the thirteen weeks ended March 28, 2018, we received insurance proceeds of \$1.6 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.

Asset Impairment and Closed-Store Reserves

During the thirteen weeks ended March 28, 2018, the Company closed two restaurants in Texas, both 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 resulting in a closed store reserve expense of \$2.8 million.

Subsequent to the adoption of Topic 842, the Company no longer recognizes a closed-store reserve when the Company closes a restaurant, as there is already a lease liability on its books related to the future lease payments. Rather, when a restaurant is closed, the Company will evaluate the ROU Asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU Asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense. During the thirteen weeks ended March 27, 2019, the Company closed one restaurant in California and one in Texas and recognized \$0.3 million of closed-store reserve expense, primarily related to the amortization of ROU Assets for closed stores.

Interest Expense, Net

For the quarter, interest expense, net was consistent with the prior period.

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 thirteen weeks ended March 27, 2019 and March 28, 2018, we recorded income tax receivable agreement expense of \$0.2 million and income tax receivable agreement income of \$0.9 million, respectively.

Provision for Income Taxes

For the quarter ended March 27, 2019, we recorded an income tax provision of \$0.3 million, reflecting an estimated effective tax rate of 27.7%. For the quarter ended March 28, 2018, we recorded an income tax provision of \$1.9 million, reflecting an estimated effective tax rate of approximately 43.5%. The difference between the 21.0% statutory rate and the Company's effective tax rate of 27.7% for the year-to-date ended March 27, 2019 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 apportioned to the state jurisdiction, non-deductible executive compensation and changes to total expected TRA payments due to changes in future forecasted taxable 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 March 27, 2019 and March 28, 2018, there were 458 and 442 comparable restaurants, 200 and 192 company-operated and 258 and 250 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 which includes food and paper cost, labor and related expenses and occupancy and other operating expenses, where applicable. Restaurant contribution excludes certain costs, such as general and administrative expenses, depreciation and amortization, asset impairment and closed-store reserve and other costs that are considered normal operating costs and accordingly, restaurant contribution is not indicative of overall Company results and does not accrue directly to the benefit of shareholders because of the exclusion of certain corporate-level 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 superior to, or as substitutes for the analysis of our results as reported under GAAP. 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. 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. Restaurant contribution and restaurant contribution margin may also assist investors in evaluating our business and performance relative to industry peers and provide greater transparency with respect to the Company’s financial condition and results of operation.

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

(Dollar amounts in thousands)	Thirteen Weeks Ended	
	March 27, 2019	March 28, 2018
Restaurant contribution:		
Income from operations	\$ 2,292	\$ 4,448
Add (less):		
General and administrative expenses	11,348	13,202
Franchise expenses	6,144	5,832
Depreciation and amortization	4,761	4,212
Loss on disposal of assets	44	61
Loss on assets held for sale	4,124	—
Franchise revenue	(6,444)	(6,106)
Franchise advertising fee revenue	(5,383)	(5,097)
Recovery of securities lawsuits related legal expenses	—	(1,634)
Asset impairment and closed-store reserves	309	2,819
Restaurant contribution	\$ 17,195	\$ 17,737
Company-operated restaurant revenue:		
Total revenue	\$ 108,977	\$ 105,756
Less:		
Franchise revenue	(6,444)	(6,106)
Franchise advertising fee revenue	(5,383)	(5,097)
Company-operated restaurant revenue	\$ 97,150	\$ 94,553
Restaurant contribution margin (%)	17.7%	18.8%

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:

(Amounts in thousands)	Thirteen Weeks Ended	
	March 27, 2019	March 28, 2018
Net income	\$ 913	\$ 2,529
Non-GAAP adjustments:		
Provision (benefit) for income taxes	349	1,949
Interest expense, net of interest income	859	888
Depreciation and amortization	4,761	4,212
EBITDA	\$ 6,882	\$ 9,578
Stock-based compensation expense (a)	488	145
Loss on disposal of assets (b)	44	61
Loss on assets held for sale (c)	4,124	—
Recovery of securities lawsuits related legal expense (d)	—	(1,634)
Asset impairment and closed-store reserves (recovery) (e)	309	2,819
Income tax receivable agreement expense (income) (f)	171	(918)
Securities class action legal expense (g)	2,139	3,704
Pre-opening costs (h)	—	212
Executive transition costs (i)	37	646
Adjusted EBITDA	\$ 14,194	\$ 14,613

- (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 weeks ended March 27, 2019, the Company agreed in principle to sell four restaurants within the San Francisco area to an existing franchisee. Additionally, the Company agreed in principle to sell seven restaurants in the Phoenix area to another existing franchisee. The net assets were recorded to assets held for sale at the lower of carrying value or fair value less costs to sell, which resulted in a loss on held for sale assets of \$4.1 million for the thirteen weeks ended March 27, 2019.

- (d) During the thirteen weeks ended March 28, 2018 we received insurance proceeds of \$1.6 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.
- (e) Includes costs related to impairment of long-lived assets and closing restaurants. During the thirteen weeks ended March 27, 2019, the Company recognized \$0.3 million of closed-store reserve expense, primarily related to the amortization of ROU Assets for closed stores. During the thirteen weeks ended March 28, 2018, the Company closed two restaurants in Texas, both 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, which resulted in a closed-store reserve of \$2.8 million. We continue to monitor the recoverability of the carrying value of the assets of several other restaurants.
- (f) 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 weeks ended March 27, 2019 and March 28, 2018, 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.
- (g) Consists of costs related to the defense of securities lawsuits. See Condensed Consolidated Financial Statements, "Note 7. Commitments and Contingencies-Legal Matters."
- (h) 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.
- (i) Includes costs associated with the transition of our CEO, such as executive recruiter costs, CEO sign-on bonus, and former CEO stock modification expense.

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.

<u>(Amounts in thousands)</u>	<u>Thirteen Weeks Ended</u>	
	<u>March 27, 2019</u>	<u>March 28, 2018</u>
Net cash provided by (used in)		
Operating activities	\$ 9,977	\$ 12,333
Investing activities	(4,183)	(6,648)
Financing activities	(6,064)	(8,032)
Net decrease in cash	<u>\$ (270)</u>	<u>\$ (2,347)</u>

Operating Activities

For the thirteen weeks ended March 27, 2019, net cash provided by operating activities decreased by approximately \$2.4 million from the comparable period of the prior year. This was due primarily to less favorable working capital fluctuations in the current period.

Investing Activities

For the thirteen weeks ended March 27, 2019, net cash used in investing activities decreased by \$2.5 million from the comparable period of the prior year. This was due primarily to opening no new company restaurants and completing one remodel in the thirteen weeks ended March 27, 2019 compared to two new restaurants and one completed remodel in the thirteen weeks ended March 28, 2018.

For the year ending December 25, 2019, we expect to incur capital expenditures of \$14.0 million to \$19.0 million, consisting of \$5.0 to \$9.0 million related to new restaurants, \$3.0 million related to the remodeling of existing restaurants, and \$6.0 million related to major maintenance and other corporate capital expenditures.

Financing Activities

For the thirteen weeks ended March 27, 2019, net cash used in financing activities decreased by \$2.0 million from the comparable period of the prior year. This was due primarily to a decrease in net prepayments of \$5.0 million on the revolving debt facilities during the thirteen weeks ended March 27, 2019 compared to the thirteen weeks ended March 28, 2018. This was partially offset by a \$3.0 million increase in cash outflow related to stock buybacks in the current period.

Debt and Other Obligations

On July 13, 2018, the Company refinanced the 2014 Revolver, pursuant to the 2018 Credit Agreement, which provides for 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 2018 Revolver and 2018 Credit Agreement will mature on July 13, 2023. The obligations under the 2018 Credit Agreement and related loan documents are guaranteed by the Company and Intermediate. The obligations of the Company, EPL and Intermediate under the 2018 Credit Agreement and related loan documents are secured by a first priority lien on substantially all of their respective assets.

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 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 interest rate range was 3.96% to 4.01% for the thirteen weeks ended March 27, 2019 and 3.30% to 3.40% for the thirteen weeks ended March 28, 2018.

The 2018 Credit Agreement contains certain financial covenants. The Company was in compliance with the financial covenants as of March 27, 2019.

At March 27, 2019, \$8.5 million of letters of credit, and \$71.0 million of the 2018 Revolver were outstanding. The amount available under the 2018 Revolver was \$70.5 million at March 27, 2019.

Contractual Obligations

Our contractual commitments outstanding on March 27, 2019, have not changed materially since our annual report on Form 10-K for the year ended December 26, 2018. 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 March 27, 2019 and December 26, 2018, we were using \$8.5 million of borrowing capacity on the 2018 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 1.25% and 2.25%. As of March 27, 2019, we had outstanding borrowings of \$71.0 million and another \$8.5 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 \$0.7 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.

For information regarding legal proceedings, see "Note 7. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Condensed Consolidated Financial Statements" in this Quarterly Report.

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 26, 2018.

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

Issuer Purchases of Equity Securities

The following table summarizes the Company's purchases of common stock under a Stock Repurchase Program (as defined below) in the quarterly period ended March 27, 2019 (in thousands, except number of shares and per share amounts):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Be Purchased Under the Plans or Programs
December 27, 2018 to January 23, 2019	18,075	\$ 14.83	18,075	\$ 18,751
January 24, 2019 to February 20, 2019	10,400	\$ 14.79	10,400	\$ 18,597
February 21, 2019 to March 27, 2019	227,079	\$ 13.04	227,079	\$ 15,636
Total	<u>255,554</u>		<u>255,554</u>	

On August 2, 2018, the Company announced the Board of Directors had authorized a stock repurchase program (the "Stock Repurchase Program"). The Company entered into a stock repurchase plan pursuant to Rule 10b5-1 of the Exchange Act on August 28, 2018 (the "Stock Repurchase Plan"), which allows the repurchase of up to \$20.0 million of the Company's common stock. The Stock Repurchase Plan commenced purchases on November 6, 2018, and, if not terminated sooner by other provisions of the Stock Repurchase Plan, will terminate on June 26, 2019. The Stock Repurchase Plan may also be suspended or terminated at any time upon prior notice.

Under the Stock Repurchase Program, the Company may repurchase its common stock from time to time, in amounts and at prices that the Company deems appropriate, subject to market conditions and other considerations. The Company's repurchases may be executed using open market purchases and/or through privately negotiated transactions.

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 2018 Revolver limits the payment of dividends.

Item 3. Defaults of Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Index

<u>Number</u>	<u>Description</u>
10.31	Employment Agreement between Miguel Lozano and El Pollo Loco, Inc.
10.32	Confidential Separation Agreement between Gus Siade and El Pollo Loco, Inc.
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)

May 2, 2019
Date

/s/ Bernard Acoca

Bernard Acoca

President and Chief Executive Officer

May 2, 2019
Date

/s/ Laurance Roberts

Laurance Roberts

Chief Financial Officer

**EMPLOYMENT AGREEMENT
MIGUEL LOZANO**

EMPLOYMENT AGREEMENT (the "Agreement") dated as of March __, 2019 by and between El Pollo Loco, Inc. (the "Company") and Miguel Lozano (the "Executive").

WHEREAS, the Company desires to employ Executive as the Company's Chief Operating Officer; and

WHEREAS, Executive is willing to accept such employment on the terms hereinafter set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties agree as follows:

1. Term of Employment; Executive Representation.

- (a) Employment Term. Subject to the terms and conditions set forth in this Agreement, the term of Executive's employment under this Agreement shall commence on April 1, 2019 (the "Effective Date") and end on the 12th month anniversary of the Effective Date (the "Initial Employment Term") and on such date and on each subsequent anniversary of such date, the term shall, without further action by Executive or Company, be extended by an additional one-year period (each such one year term, the "Renewal Employment Term") subject to earlier termination as provided in this Agreement; provided, however, that either Company or Executive may, by written notice to the other given not less than 60 days prior to the scheduled expiration of the Initial Employment Term or Renewal Employment Term (a "Non-Renewal Notice"), as applicable, cause the term not to extend (the period during which Executive is employed under the terms of this Agreement, including the Initial Employment Term and all Renewal Employment Terms, is referred to herein as the "Employment Term"). The Employment Term shall also terminate earlier upon termination of Executive's employment as set forth in Section 7.
- (b) Executive Representation. Executive hereby represents to the Company that the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement or other agreement or policy to which Executive is a party or otherwise bound.

2. Position.

- (a) During the Employment Term, Executive shall serve as the Company's Chief Operating Officer and shall principally perform Executive's duties to the Company and its affiliates from the Company's offices in the Orange County, California metropolitan area, subject to normal and customary travel requirements in the conduct of the Company's business. Executive shall have such authorities, duties and responsibilities as the Chief Executive Officer may from time to time assign to him and reasonably consistent with those customarily performed by a chief operating officer of a company having a similar size and nature of the Company, and the Executive shall report directly to the Chief Executive Officer.
- (b) During the Employment Term, Executive will devote Executive's full business time and best efforts to the performance of Executive's duties hereunder and will not engage in any other business, profession or occupation (including in an advisory capacity, consulting capacity, or otherwise) for compensation or otherwise which would conflict with the rendition of such services either directly or indirectly, without the prior written consent of the Board of Directors of the Company (the "Board").

3. Compensation.

- (a) During the Employment Term, the Company shall pay Executive a base salary (the "Base Salary") at the annual rate of \$325,000 (less applicable withholding taxes), payable in regular installments in accordance with the Company's usual payment practices. Executive shall be entitled to such increases in Executive's Base Salary, if any, as may be determined from time to time in the sole discretion of the Board.
- (b) With respect to each full calendar year during the Employment Term, Executive shall be eligible to earn an annual bonus award (an "Annual Bonus") based on the achievement of specified performance goals, which shall be determined by the Board in its sole discretion within ninety (90) days following the commencement of each calendar year, with a targeted bonus equal to seventy-five percent (75%) of Executive's then current Base Salary (the "Target Bonus"). The Annual Bonus, if any, will be paid between January 1 and March 15 of the year following the year to which it relates.
- (c) At the discretion of the Board, during the Employment Term, starting in 2020, Executive will be eligible to receive an annual discretionary equity grant, with the amount and terms thereof determined by the Board.

4. Sign on Awards

- (a) Equity. Executive will receive the following equity grants during the Company's annual equity grant window in 2019, typically in May (together, the "2019 Equity Grant") with the aggregate grant-date value targeted at approximately \$350,000. The 2019 Equity Grant will consist of the following:
 - (i) Approximately \$100,000 worth of time-vested 10-year options that will vest 25%/year;
 - (ii) Approximately \$250,000 worth of time-vested restricted stock units (or restricted shares) that will vest 25%/year; and

All the other terms of the 2019 Equity Grant will be consistent with the Company's standard equity award practices and shall be determined in good faith by the Board.

- (b) Cash. Within 30 days of the Effective Date, the Company shall pay Executive a lump sum cash payment of \$20,000. If Executive resigns without Good Reason or is terminated by the Company for Cause prior to the twelve month anniversary of the Effective Date, the Executive will repay such amount to the Company within 30 days of such termination.
- (c) Indemnification. The Executive shall be covered under the Company's directors and officers liability insurance during the Employment Term and thereafter to the same extent as such coverage is provided from time to time to similarly situated officers of the Company.

5. Employee Benefits. During the Employment Term, Executive shall be provided, in accordance with the terms of the Company's employee benefit plans as in effect from time to time, health insurance, retirement benefits and fringe benefits (collectively "Employee Benefits") on the same basis as those benefits are generally made available to other senior executives of the Company. Executive shall be provided with annual vacation of four (4) weeks per each twelve (12) month period and additional weeks on a basis consistent with Company policy. During the Employment Term, the Company shall provide Executive with an automobile allowance substantially similar to the allowance provided by the Company to other similarly situated senior executives of the Company.

6. Business Expenses. During the Employment Term, reasonable, documented business expenses incurred by Executive in the performance of Executive's duties hereunder shall be reimbursed by the Company in accordance with Company policies.

7. Termination. The Employment Term and Executive's employment hereunder may be terminated early by either party at any time and for any reason; provided that Executive will be required to give the Company at least ninety (90) days advance written notice of any resignation of Executive's employment. Notwithstanding any other provision of this Agreement, the provisions of this Section 7 shall exclusively govern Executive's rights upon termination of employment with the Company and its affiliates prior to expiration of the Employment Term.

(a) By the Company For Cause, By Executive's Resignation without Good Reason or upon Non-Renewal of the Employment Term.

- (i) The Employment Term and Executive's employment hereunder may be terminated by the Company for Cause (as defined below) or by Executive's resignation without Good Reason (as defined below).
- (ii) For purposes of this Agreement, "Cause" shall mean (a) action by the Executive that constitute acts of (1) fraud; (2) embezzlement; (3) gross insubordination; (4) gross misconduct; (5) material dishonesty which causes material harm to the Company; (b) the Executive's inability, failure, or refusal to perform any duty, responsibility, or obligation of his position, which (to the extent such inability, failure, or refusal to perform is curable in the judgment of the Company) is not cured by the Executive within five (5) days after receiving written notice from the Company of such inability, failure; (c) Executive's commission of a felony; (d) Executive's substance abuse or alcohol abuse which renders the Executive unfit to perform his duties; or (e) any breach of the covenants set forth in Section 8 of this Agreement by Executive. Any voluntary termination of employment by the Executive in anticipation of an involuntary termination of the Executive's employment by the Company for Cause shall be deemed to be a termination for Cause.
- (iii) If Executive's employment is terminated by the Company for Cause, if Executive resigns without Good Reason or if the Employment Term expires as a result of the Company delivering to the Executive the Non-Renewal Notice (such event, the "Company Non-Renewal"), Executive shall be entitled to receive:
 - (A) the Base Salary through the date of termination;
 - (B) except in the case of termination for Cause, any Annual Bonus earned but unpaid as of the date of termination for any previously completed calendar year;
 - (C) reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy prior to the date of Executive's termination; and
 - (D) such Employee Benefits, if any, as to which Executive may be entitled under the employee benefit plans of the Company;
 - (E) any additional amounts or benefits due under any applicable plan, program, agreement or arrangement of the Company or its affiliates or pursuant to applicable law (the amounts described in clauses (A) through (E) hereof being referred to as the "Accrued Rights"). The Accrued Rights under this Section 7 shall in all events be paid in accordance with the Company's normal payroll procedures, expense reimbursement procedures or plan terms, as applicable.

Following such termination of Executive's employment by Company Non-Renewal, the Company for Cause or resignation by Executive without Good Reason, except as set forth in this Section 7(a), Executive shall have no further rights to any contract damages, other compensation or any other benefits under this Agreement.

(b) Disability or Death.

- (i) The Employment Term and Executive's employment hereunder shall terminate upon Executive's death or if Executive (A) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan, or disability plan, covering employees of the Company or an affiliate of the Company (such incapacity is hereinafter referred to as "Disability").

Any question as to the existence of the Disability of Executive as to which Executive and the Company cannot agree shall be determined in writing by a qualified independent physician mutually acceptable to Executive and the Company. If Executive and the Company cannot agree as to a qualified independent physician, each shall appoint such a physician and those two physicians shall select a third who shall make such determination in writing. The determination of Disability made in writing to the Company and Executive shall be final and conclusive for all purposes of the Agreement.

- (ii) Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive:
 - (A) the Accrued Rights; and
 - (B) the Annual Bonus, if any, that the Executive would have been entitled to receive pursuant to Section 3(b) hereof in respect of the year in which such termination occurs based upon the actual achievement of the performance goals, multiplied by a fraction the numerator of which is the number of days Executive is employed by the Company in such year and the denominator of which is the total number of days in such year, payable when such Annual Bonus would have otherwise been payable in accordance with Section 3(b) had the Executive's employment not terminated (the "Pro-Rata Bonus").

Following Executive's termination of employment due to death or Disability, except as set forth in this Section 7(b), Executive or Executive's estate (as the case may be) shall have no further rights to any contract damages, other compensation or any other benefits under this Agreement.

(c) By the Company Without Cause or by Executive's Resignation with Good Reason.

- (i) The Employment Term and Executive's employment hereunder may be terminated by the Company without Cause or by Executive with Good Reason.
- (ii) For purposes of this Agreement, "Good Reason" shall mean:
 - (A) Executive's relocation, without his consent and other than for a temporary work assignment, by the Company outside Orange County, California;
 - (B) a material diminution of Executive's authority, duties, title or responsibilities as set forth in Section 2(a) hereof;
 - (C) a reduction of Executive's Base Salary (as increased from time to time) as set forth in Section 3(a) hereof;
 - (D) the material failure of the Company to provide or cause to be provided to Executive any of the Employee Benefits described in Section 5 hereof; or

- (E) a requirement that Executive report to anyone other than the Chief Executive Officer or the Board; provided that none of the events described in clauses (A) through (E) of this Section 7(c)(ii) shall constitute Good Reason unless Executive shall have notified the Company in writing describing the event which constitutes Good Reason within thirty (30) days of the initial occurrence of such event and then only if the Company shall have failed to cure such event within thirty (30) days after the Company's receipt of such written notice.
- (iii) If Executive's employment is terminated by the Company without Cause (other than by reason of death or Disability), by Executive with Good Reason, Executive shall be entitled to receive:
- (A) the Accrued Rights;
 - (B) subject to Executive's execution of a general release of claims in a form reasonably determined by the Company (the "Release"), the expiration of the applicable revocation period with respect to such Release within sixty (60) days following the date of termination and Executive's continued compliance with the provisions of Section 8 and 9, the Pro-Rata Bonus;
 - (C) subject to Executive's execution of a Release, the expiration of the applicable revocation period with respect to such Release within sixty (60) days following the date of termination and Executive's continued compliance with the provisions of Section 8 and 9, continued payment of the Base Salary in accordance with the Company's normal payroll practices for a period of twelve (12) months following the date of such termination, which shall commence on the sixtieth (60th) day following such termination (with the first payment equal to the cumulative amount that would have been paid in such initial sixty (60) day period); and

Following Executive's termination of employment by the Company without Cause (other than by reason of Executive's death or Disability) or by Executive's resignation with Good Reason, except as set forth in this Section 7(c), Executive shall have no further rights to any contract damages, other compensation or any other benefits under this Agreement or under any other plans, programs or arrangements of the Company or its affiliates.

- (d) Notice of Termination. Any purported termination of employment by the Company or by Executive (other than due to Executive's death) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 12(g) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated.
8. Non-Interference/Non-Solicitation. Executive acknowledges and recognizes that in the course of performing services for the Company, Executive will have access to certain confidential and proprietary information of the Company and its affiliates that is extremely valuable to the Company and its affiliates and is not known to the general public. Accordingly, Executive agrees as follows:
- (a) Executive agrees that during the term of employment and until the first anniversary of the date of termination of Executive's employment with the Company or any subsidiary of the Company, as the case may be (the "Restricted Period"), the Executive will not directly or indirectly, use any Company Confidential Information (as defined in Section 9) to interfere with business relationships (whether formed before or after the date of this Agreement) between the Company or any of its affiliates and customers, suppliers, partners, members or investors of the Company or its affiliates.

(b) Executive further agrees that during the Restricted Period, Executive will not, directly or indirectly, (i) solicit or encourage any employee of the Company or its affiliates to leave the employment of the Company or its affiliates, or (ii) solicit or encourage to cease to work with the Company or its affiliates any consultant then under contract with the Company or its affiliates; provided, however, that general advertising not directed specifically at employees of the Company or any affiliate shall not be deemed to violate this Section 8(b).

(c) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 8 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that any restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

9. Confidentiality and Cooperation. Executive will not at any time (whether during or after Executive's employment with the Company) disclose or use for Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Company and any of its subsidiaries or affiliates, any trade secrets, information, data, or other confidential information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans, or the business and affairs of the Company generally, or of any subsidiary or affiliate of the Company ("Company Confidential Information"); provided that the foregoing shall not apply to information which is not unique to the Company or which is generally known to the industry or the public other than as a result of Executive's breach of this covenant; provided further that the foregoing shall not apply when Executive is required to divulge, disclose or make accessible such information by a court of competent jurisdiction or an individual duly appointed thereby, by any administrative body or legislative body (including a committee thereof) having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information. Executive agrees that upon termination of Executive's employment with the Company for any reason, he will return to the Company immediately all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company and its affiliates and/or containing any Company Confidential Information, except that he may retain personal notes, notebooks and diaries that do not contain Company Confidential Information of the type described in the preceding sentence. Executive further agrees that he will not retain or use for Executive's account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or its affiliates. Except to the extent that it could reasonably be expected to materially and unreasonably interfere with the Executive's professional and personal responsibilities and commitments, upon reasonable notice from the Company to the Executive, Executive agrees to cooperate, both during and after the Employment Term, at the Company's sole cost and expense (including reasonable, necessary and documented legal fees to the extent not otherwise paid by insurance), with respect to matters of which Executive has knowledge.

10. DEFEND TRADE SECRETS ACT.

- (a) Notwithstanding anything set forth in this Agreement to the contrary, Executive shall not be prohibited from reporting possible violations of federal or state law or regulation to any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of federal or state law or regulation, nor is Executive required to notify the Company regarding any such reporting, disclosure or cooperation with the government.
- (b) Pursuant to Section 1833(b) of the Defend Trade Secrets Act of 2016, Executive acknowledges that he shall not have criminal or civil liability under any federal or State trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Nothing in this Agreement is intended to conflict with Section 1833(b) of the Defend Trade Secrets Act of 2016 or create liability for disclosures of trade secrets that are expressly allowed by such section.

11. Specific Performance. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 8 or Section 9 would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.
12. Miscellaneous.
- (a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to conflicts of laws principles thereof.
 - (b) Entire Agreement/Amendments. This Agreement contains the entire understanding of the parties with respect to the employment of Executive by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto.
 - (c) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
 - (d) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.
 - (e) Assignment. This Agreement shall not be assignable by Executive. This Agreement may be assigned by the Company to a company which is a successor in interest to substantially all of the business operations of the Company. Such assignment shall become effective when the Company notifies the Executive of such assignment or at such later date as may be specified in such notice. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such successor company, provided that any assignee expressly assumes the obligations, rights and privileges of this Agreement.
 - (f) Successors Binding Agreement. This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributes, devisees and legatees.
 - (g) Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to the Company:

El Pollo Loco, Inc.
3535 Harbor Boulevard, Suite 100
Costa Mesa, CA 92626
Attn: President and Chief Executive Officer
Attn: Vice President, Legal.

If to Executive: To the most recent address of Executive set forth in the personnel records of the Company.

- (h) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.
- (i) Section 409A. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to the extent subject thereto, and accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, Executive shall not be considered to have terminated employment with the Company for purposes of any payments under this Agreement which are subject to Section 409A of the Code until the Executive has incurred a "separation from service" from the Company within the meaning of Section 409A of the Code. Each amount to be paid or benefit to be provided under this Agreement shall be construed as a separate identified payment for purposes of Section 409A of the Code. Without limiting the foregoing and notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to this Agreement during the six-month period immediately following an Executive's separation from service shall instead be paid on the first business day after the date that is six months following the Executive's separation from service (or, if earlier, the Executive's date of death). To the extent required to avoid an accelerated or additional tax under Section 409A of the Code, amounts reimbursable to Executive under this Agreement shall be paid to Executive on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in kind benefits provided to Executive) during one year may not affect amounts reimbursable or provided in any subsequent year. The Company makes no representation that any or all of the payments described in this Agreement will be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to any such payment.
- (j) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

Miguel Lozano

EL POLLO LOCO, INC.

By: _____

Name:

Title:

CONFIDENTIAL SEPARATION AGREEMENT AND RELEASE

This Confidential Separation Agreement and Release ("**Agreement**") is entered into by and between Gus Siade ("**Siade**"), individually, and El Pollo Loco, Inc. (hereinafter known as "**Company**" or "**El Pollo Loco**").

RECITALS

A. Siade worked for El Pollo Loco as the Senior Vice President, Operations ("**SVP, Operations**") and, as result of the elimination of the SVP, Operations position, on January 22, 2019 it was confirmed that Siade's employment with the Company will be separated effective February 1, 2019 ("**Separation Date**").

B. On January 22, 2019 this Agreement was provided to Siade and is open for his consideration for twenty-two (22) calendar days **until February 13, 2019**, and shall become null and void if not executed by Siade by or before that deadline. The **earliest** Siade can sign this Agreement is on **February 1, 2019**, and the Company's obligations will not be triggered if the Agreement is signed before the Separation Date.

C. Siade understands and agrees that he has been paid all earned and accrued benefits, wages, expenses, and amounts to which he is entitled at the time of execution of this Agreement. Siade understands the aforementioned payments are not consideration for this Agreement. Siade will also receive any bonus earned under the El Pollo Loco 2018 Incentive Plan ("**2018 Bonus Plan**"), which is also not consideration for this Agreement and will be paid at the time earned and distributed by the Company to its Support Center employees, consistent with the terms of the 2018 Bonus Plan. Siade understands and acknowledges that he is not entitled to any further compensation or payments, other than what is expressly set forth herein as consideration for his agreement to the terms of this Agreement.

D. Siade also holds stock, shares and/or options, other securities or rights to purchase shares of the Company's capital stock pursuant to the Company's Omnibus Equity Incentive Plan and its related plan documents (collectively, the "**Option Plan**"), subject to certain vesting requirements and other terms and conditions set forth in the Option Plan.

E. By way of this Agreement, the Company has elected to offer Siade benefits to which he would not otherwise be entitled. Based upon the foregoing, and in consideration of the mutual promises contained in this Agreement, the El Pollo Loco and Siade (the "**Parties**") agree the Company will offer consideration to Siade in exchange for his agreement to the terms of their Agreement, as set forth below. Any Company shares of Siade will be governed under the terms of the existing plan agreement for the distribution of those shares.

\

AGREEMENT

1. **Effective Date.** The "**Effective Date**" of this Agreement shall be the day on which Siade executes this Agreement in accordance with its terms (on or after the Separation Date and before February 13, 2019). The Company's obligations under this Agreement are not triggered until ten (10) business days after the Effective Date, and on the condition there has been no revocation of the Agreement, including any pursuant to Paragraph 14.

2. **Consideration.** Subject to Siade's compliance with the terms and conditions of this Agreement, El Pollo Loco shall provide to Siade up to a total gross sum of Two-hundred eighty-one thousand eight-hundred seventy-six Dollars (\$281,876) less any applicable taxes and withholding under state and federal law ("**Consideration**"), in consideration for Siade's agreement to the terms of this Agreement, as specified below and assuming the Agreement is not revoked or breached by Siade. The Consideration shall be issued by way of two (2) Company checks and paid out as follows:

(a) The first check in the gross amount of One-hundred-forty thousand nine-hundred thirty-eight Dollars (\$140,938.00) ("**Check One**"), less any applicable taxes and withholding (issued along with a Form W-2), made payable to Gus Siade, assuming there has been no breach or revocation of this Agreement in any form (including no revocation pursuant to Paragraph 14) by Siade, and delivered to Siade on or before fifteen (15) business days after El Pollo Loco's receipt of this original fully executed Agreement and the Effective Date, in accordance with the terms of this Agreement, as full and complete consideration for Siade's agreement to the terms of this Agreement;

INITIAL HERE

(b) The second check in the gross amount of One-hundred forty thousand nine-hundred thirty-eight Dollars

(\$140,938.00) (“*Check Two*”), less any applicable taxes and withholding (issued along with a Form W-2), made payable to Gus Siade and delivered to him on or before August 30, 2019, in further consideration for Siade’s agreement to the terms of this Agreement, and on the condition the following has occurred: (1) Siade’s execution of the Final Severance Release (**Exhibit A**) in July of 2019 and ensures its delivery to the Company, to the attention of Edye Austin, Vice President, Legal of the Company by or before July 31, 2019, (2) Siade’s continued compliance with the terms of this Agreement and the Final Severance Release, without revocation; and (3) confirmation that no claim(s) or litigation has been initiated by Siade or anyone acting on his behalf against the Company and the Released Parties.

INITIAL HERE

3. The Consideration specified in Paragraph 2 shall be made by Company checks of El Pollo Loco, Inc. Siade also understands Checks One and Two are designated as wages and will be reported by Siade on a Form W-2. Further, Siade acknowledges, understands and agrees that Check One alone is sufficient consideration for his agreement to the terms of this Agreement, and any subsequent breach of his obligations under this Agreement or the Final Severance Release Agreement relieves and forever excuses the Company of its obligation to render any further payment to him, including Check Two.

INITIAL HERE

4. Attorneys’ Fees. Each Party shall bear his or its own attorneys’ fees (if any), costs, and any other expenses incurred in connection with the subject matter of this Agreement.

5. Taxes. Notwithstanding the tax deductions set forth in Paragraph 2 above, Siade shall pay in full when due, and shall be solely responsible for, any and all federal, state, or local income taxes that are or may be assessed against his or on his behalf relating to the Consideration payments received by Siade pursuant to this Agreement, as well as all interest or penalties that may be owed in connection with such taxes. Siade is not relying on any representations or conduct of El Pollo Loco with respect to the adequacy of the withholdings. Siade further agrees to indemnify and hold harmless El Pollo Loco from any and all claims related to or arising from each of his responsibilities to pay taxes associated with the Consideration or the manner in which payment has been allocated for purposes of this Agreement.

6. Releases.

6.1. Release. In consideration for the mutual promises and covenants undertaken herein, Siade does hereby, for himself and for his heirs, attorneys, legal representatives, agents, successors-in-interest and assigns, irrevocably and unconditionally releases and forever discharges El Pollo Loco as well as its parent companies, subsidiaries, affiliates, predecessors, successors or assigns, shareholders, members, partners, officers, attorneys, agents and employees (the “*Released Parties*”), from any and all causes of action, claims, actions, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind and character, which he has or may have against the Released Parties by reason of, or arising out of, touching upon, or concerning Siade’s relationship with El Pollo Loco, or any and all other matters of whatever kind, nature or description, whether known or unknown, occurring prior to the date of execution of this Agreement. This release specifically includes, but is not limited to, any and all claims for breach of contract or implied contract, fraud, breach of fiduciary duty, breach of the covenant of good faith and fair dealing, inducement of breach, intentional or negligent misrepresentation, conspiracy, tortious denial of contract, interference with proprietary interests, failure to pay wages, bonuses, benefits, vacation pay, severance pay or other compensation of any sort, negligence, negligent hiring, retention or supervision, defamation, unlawful efforts to prevent relationship, violation of constitutional rights, discrimination or harassment on the basis of race, color, sex, sexual orientation, national origin, religion, age (including but not limited to claims arising under the Age Discrimination in Employment Act and Older Worker Benefit Protection Act, 29 U.S.C. § 621, et seq.), disability, medical condition or marital status, and/or violation of any statutes, rules, regulations or ordinances, whether federal, state or local, including, but not limited to, Title VII of the Civil Rights Act of 1964, the California Fair Employment and Housing Act, the California Family Rights Act, and qui tam actions pursuant to any federal, state or local statute, rule, regulation or ordinance. Siade has confirmed he has no claims of any kind against the Company, and has not been precluded by this or any other agreement for discussing the facts of a claim of sexual harassment, discrimination or retaliation. Nothing in this Agreement shall preclude Siade from filing a charge with a government agency or cooperating in an investigation conducted by a government agency, including the Department of Fair Employment and Housing, and the Equal Employment Opportunity Commission. However, Siade agrees except with respect to proceedings before the Securities and Exchange Commission, he is waiving his right to any monetary damages or other equitable relief as a result of any such proceedings.

6.2. Mistakes in Fact; Voluntary Consent. Siade expressly and knowingly acknowledges that, after the execution of this Agreement, he may discover facts different from or in addition to those that he now knows or believes to be true with respect to the claims released in this Agreement. Nonetheless, this Agreement shall be and remain in full force and effect in all respects, notwithstanding such different or additional facts and Siade intends to fully, finally, and forever settle and release those claims released in this Agreement. In furtherance of such intention, the release given in this Agreement shall be and remain in effect as a full and complete release of such claims, notwithstanding the discovery and existence of any additional or different claims or facts. Similarly, in entering into this Agreement, Siade assumes the risk of misrepresentations, concealments, or mistakes, and if he should subsequently discover that any fact relied upon in entering into this Agreement was untrue, that any fact was concealed, or that her understanding of the facts or law was incorrect, he shall not be entitled to set aside this Agreement or the settlement reflected in this Agreement or be entitled to recover any damages on that account.

6.3. Section 1542 of the California Civil Code. Siade expressly waives any and all rights and benefits conferred upon him by Section 1542 of the California Civil Code, which states as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

Accordingly, Siade knowingly, voluntarily and expressly waives any rights and benefits arising under Section 1542 of the California Civil Code and any other statute or principle of similar effect.

6.4. Covenant of Siade. Siade represents and covenants he has not revealed to anyone any trade secrets or confidential or proprietary information of the Company or Released Parties, not otherwise available to the public. The Parties understand and agree that notwithstanding the provisions of this Agreement, Siade will remain bound by the confidentiality provisions of this Agreement, as specified in Paragraph 7, below, with respect to non-public information gained by him during his employment.

6.5. No Lawsuits. Siade confirms he has filed no lawsuit and no charge against the Released Parties, including any charge with any government agency including but not limited to the EEOC or the DFEH, related to his employment. Siade further confirms that he has no such claims nor has he notified the Company of any such claims. In the event that any claim released herein is at any time in the future prosecuted by Siade, or by any person, entity or administrative agency on behalf of Siade, Siade shall pay any amounts to the Company received by him as a result of such future prosecution of any claims released herein.

INITIAL HERE

7. Confidentiality. Siade agrees he will not disclose to others (i) the fact or terms of this Agreement, (ii) the amounts referenced in this Agreement, or (iii) the fact of the payment of these amounts, except that he may disclose such facts to his spouse, attorneys, accountants, insurers or other professional advisors to whom the disclosure is necessary to effect the purpose for which the professional has been consulted, provided that they each agree to be bound by this confidentiality provision. Nothing contained in this paragraph shall preclude Siade from revealing or describing his employment with the Company to prospective employers; provided however, such disclosure shall not violated Paragraph 10, and not disparage the Company. The confidentiality obligations contained in this paragraph shall be in addition to any other confidentiality agreements between the Company and Siade. Notwithstanding the foregoing, nothing in this Agreement shall be construed as precluding disclosure required and compelled by law. In the event Siade is required and compelled by law to disclose any such matters, he will first give fifteen (15) days advance written notice (or, in the event that it is not possible to provide fifteen (15) days written notice, as much written notice as is possible under the circumstances) to the Company so that the Company may present and preserve any objections that it may have to such disclosure and/or seek an appropriate protective order. **The Parties acknowledge and agree this Paragraph 7 is a material inducement to the Parties entering into this Agreement, and further acknowledge and agree that any breach of this Paragraph by Siade, Siade's representatives, and/or Siade's family members, shall be subject to a claim for damages or equitable relief (or both). The Parties acknowledge and agree that any such disclosure of the facts or terms of this Agreement shall be subject to a claim for damages including but not limited to liquidated damages in a sum equal to \$1,000 per violation and/or injunctive relief.**

8. Notice. Written notices pursuant to this Agreement shall be directed as follows:

If to El Pollo Loco:

Edye Austin
El Pollo Loco, Inc.
3535 Harbor Blvd., Suite 100
Costa Mesa, CA 92626
Facsimile No.: (714) 599-5593

If to Siade

Gus Siade
26183 Quartz Mesa Lane
Valencia, CA 91381

9. Cooperation. Siade agrees that he will assist the Company in defending or prosecuting any claim which arose or may arise or continue after Siade's employment ends. Such assistance shall include, but not be limited to Siade being reasonably available as a witness for the Company regardless of the location of the deposition, arbitration or trial, being reasonably available to be prepared for testimony, and providing the Company and its counsel with information, documents or other material within Siade's knowledge related to Siade's employment or pertinent to the claim. The Company agrees to reimburse Siade for reasonable out-of-pocket expenses only (including travel) actually incurred by Siade in providing assistance at Siade's request pursuant to this provision.

10. Non-Disparagement. Siade agrees that he will not knowingly disparage the Company, the Released Parties, or any past or present (as of the time any statement is made) officer, director or employee of the Company, or otherwise make statements whether or not such statements are thought to be (or are) true with respect to the Company's business or human resources practices, policies and procedures, and whether or not such statements are made publicly, privately, subject to confidentiality obligations, or otherwise, which could tend to harm or injure the personal or business reputation, or business, of the Released Parties, and whether or not such statements are made to any present employee, officer or director of the Company or Released Parties or to someone outside of the Company. This Paragraph 10 does not apply to Siade's statements to his attorneys or physicians or to any statements required by law.

11. Neutral Reference. All reference requests for Siade should be directed to the Work Number 1-800-996-7566. Inquiries may also be referred to the Work Number's website, www.worknumber.com. The Company acknowledges and agrees that for all references directed to the Work Number, it will limit information to Siade's prospective employers to the fact that Siade was employed by the Company, the dates of his employment, the last job title and position Siade held.

12. Return of El Pollo Loco Documents. Siade represents and warrants he does not possess any documents or materials belonging to the Company and he will deliver to the Company all originals and copies in his possession, custody or control, all documents and materials, of whatever nature, belonging to El Pollo Loco, its products and/or its services, and/or Siade's employment with the Company, no later than two (2) days after the Effective Date. Excluded from this production will be Siade's personnel files and pay records.

13. ADEA Waiver. Siade specifically agrees and acknowledges that: (a) his waiver of rights under this Agreement is knowing and voluntary as required under the Age Discrimination in Employment Act, 29 U.S.C. § 621 et. seq. and the Older Workers Benefit Protection Act; (b) he understands the terms of this Agreement; (c) El Pollo Loco advises Siade to consult with an attorney prior to executing this Agreement; (d) the Company has given him a period of up to twenty-one (21) days within which to consider this Agreement; (e) following his execution of this Agreement, he has seven (7) days in which to revoke his agreement to this Agreement as specified in Paragraph 14 and that, if he chooses not to so revoke, the Agreement shall then become effective and enforceable and the payment and extension of benefits listed above shall then be made to him in accordance with the terms of this Agreement; and (f) nothing in this Agreement shall be construed to prohibit him from filing a charge or complaint, including a challenge to the validity of the waiver provision of this Agreement, with a government agency or participating in any investigation conducted a government agency. However, Siade agrees, except with respect to any proceedings before the Securities and Exchange Commission, he is waiving the right to monetary damages or other equitable or monetary relief as a result of such proceedings.

14. Revocation Period. Siade may revoke this Agreement and his release of claims, insofar as it extends to potential claims under the Age Discrimination in Employment Act, by informing El Pollo Loco of his intent to revoke his release within seven (7) calendar days following his execution of this Agreement. Siade understands that any such revocation must be in writing and delivered by hand or by certified mail - return receipt requested - within the applicable period to Edye Austin, 3535 Harbor Blvd., Suite 100, Costa Mesa, CA 92626. Siade understands that if Siade exercises his right to revoke, then El Pollo Loco will have no obligations under this Agreement to Siade or to others whose rights derive from him. The Agreement shall not become effective or enforceable, until the seven (7) day revocation period identified above has expired and in accordance with the Effective Date set forth herein. The terms of this Agreement shall be open for acceptance by Siade for a period of twenty-one (21) calendar days, and Siade understands that he should, and El Pollo Loco hereby advises him to, consult with legal counsel regarding the releases contained herein and to consider whether to accept El Pollo Loco's offer and sign the Agreement. In the event Siade revokes this Agreement pursuant to this

Paragraph 14, any such revocation is limited to any claim under the ADEA and this Agreement is otherwise enforceable in exchange for consideration of One Hundred Dollars (\$100).

15. No Future Employment with El Pollo Loco. Except as otherwise set forth herein, El Pollo Loco and Siade mutually agree that Siade will not in the future knowingly apply, or be considered, for employment with El Pollo Loco or any of El Pollo Loco's current or future parents, or subsidiaries.

16. Indemnification and Attorneys' Fees. Without in any way limiting the generality of the foregoing, in the event that any action, suit, or other proceeding is instituted to enforce or interpret this Agreement, or to remedy, prevent or obtain relief from a breach of this Agreement, the prevailing party shall recover all of such party's costs and fees (including but not limited to attorneys' fees) incurred in each and every such action, suit, or other proceeding.

17. Miscellaneous Terms. Each of the Parties to this Agreement further represents, warrants, and agrees as follows:

17.1. Independent Advice from Counsel. Each of the Parties has had opportunity to receive independent legal advice from legal counsel of such party's choice prior to executing this Agreement. The terms of this Agreement are contractual, not a mere recital, and are the result of negotiations between the Parties, and no party shall be deemed the drafter of this Agreement.

17.2. Non-Reliance on Other Parties. Except for statements expressly set forth in this Agreement and the Consulting Agreement, no party has made any statement or representation to any other party regarding a fact relied on by the other party in entering into this Agreement, and no party has relied on any statement, representation, or promise of any other party, or of any representative or attorney for any other party, in executing this Agreement or in making the settlement provided for in this Agreement.

17.3. Negotiated Agreement. The terms of this Agreement are contractual, not a mere recital, and are the result of negotiations between the Parties. Accordingly, no party shall be deemed the drafter of this Agreement.

17.4. Severability. In the event that any provision of this Agreement should be held to be void, voidable, unlawful, or for any other reason unenforceable, the Parties hereto shall mutually agree upon a new provision to replace the provision held void, voidable, unlawful or unenforceable. In the event that it is not possible as a matter of law to replace any such provision, the remaining provisions or portions of this Agreement shall remain in full force and effect.

17.5. Modifications. No modification of this Agreement, shall be binding upon any party to this Agreement unless made in writing and signed by such party or by a duly authorized officer or agent of such party.

17.6. Accord and Satisfaction. In entering into this Agreement and the consideration provided for in this Agreement, the Parties recognize that no facts or representations are ever absolutely certain. Except for the Consulting Agreement between the Parties, this Agreement is intended to be final and binding between the Parties hereto, and is further intended to be effective as a full and final accord and satisfaction between them.

17.7. Successors and Assigns. This Agreement shall inure to the benefit of and shall be binding upon the heirs, successors and assigns of the Parties hereto and each of them.

17.8. Applicable Law; Venue. This Agreement shall be construed in accordance with, and governed by, the laws of the State of California without taking into account conflict of law principles. Any action to enforce, interpret or evade the terms of this Agreement shall be exclusively brought in the United States District Court, for Central District Court of California.

17.9. Integration. This Agreement constitutes a single, integrated written contract expressing the entire Agreement of the Parties concerning the subject matter referred to in this Agreement. No covenants, agreements, representations, or warranties of any kind whatsoever, whether express or implied in law or fact, have been made by any party to this Agreement, except as specifically set forth in this Agreement. All prior and contemporaneous discussions, negotiations, and agreements have been and are merged and integrated into, and are superseded by, this Agreement.

17.10. No Transfer/Assignment of Claims. Siade warrants and represents that he has not assigned or transferred or purported to assign or transfer to any person or entity all or any part of or any interest in any claim released under this Agreement. Siade agrees that he is solely responsible for the satisfaction of any assignment or lien to any lien holder.

17.11. Knowing and Voluntary Agreement. Each Party acknowledges that he or it is entering into this Agreement knowingly and voluntarily after having had an opportunity to negotiate with regard to the terms of this Agreement, to receive advice with regard to it, to carefully read and consider its terms, and to make such investigation of the facts pertaining to the settlement and this Agreement and of all matters pertaining to this Agreement as such party deems necessary or desirable.

17.12. Counterparts. This Agreement may be executed and delivered in any number of counterparts or copies (“*counterpart*”) by the Parties to this Agreement. When each party has signed and delivered at least one counterpart to the other party to this Agreement, each counterpart shall be deemed an original and, taken together, shall constitute one and the same Agreement, which shall be binding and effective as to the Parties to this Agreement.

SIADÉ ACKNOWLEDGES AND AGREES THAT HE HAS CAREFULLY READ AND VOLUNTARILY SIGNED THIS AGREEMENT, THAT HE WAS PROVIDED OPPORTUNITY TO REVIEW THIS AGREEMENT FOR AT LEAST 21-DAYS AND AN OPPORTUNITY TO CONSULT WITH AN ATTORNEY OF HIS CHOICE, AND THAT SIADÉ SIGNS THIS AGREEMENT WITH THE INTENT OF RELEASING EL POLLO LOCO AND THE RELEASED PARTIES FROM ANY AND ALL CLAIMS.

IN WITNESS WHEREOF, the Parties hereto have approved and executed this Agreement on the dates specified below.

AGREEING PARTIES

Dated: February __, 2019 __

Gus Siade

Dated: February __, 2019 EL POLLO LOCO, INC.

By:___
Name:___
Its:___

EXHIBIT A

FINAL SEVERANCE RELEASE

THIS FINAL SEVERANCE RELEASE SHALL BE VALID ONLY IF EXECUTED BY SIADÉ IN JULY OF 2019 AND DELIVERED TO THE COMPANY BY OR BEFORE JULY 31, 2019, WITHOUT REVOCATION.

By executing this this Final Severance Release (“*Final Release*”) I reaffirm the representations, release of all claims waiver of known and unknown claims, including but not limited to the general release of all claims against the Company and Company Parties arising out of payment of my incentive compensation under the 2018 Bonus Plan or any other issues arising after my Separation Date, in exchange for Check Two which is being provided as additional consideration for this Final Release and my continued compliance with my Confidential Separation Agreement (“*Agreement*”), which I previously executed. I confirm that I continue to comply with the terms of that Agreement. This Final Release does not in any way impact my existing contractual obligations under that Agreement.

Rather, this Final Release confirms my agreement to further release the Company of any and all claims arising after my Separation Date, including payment of any incentive compensation under the 2018 Bonus Plan. Specifically, I acknowledge that consistent with and subject to Paragraph 6 of the Agreement, here in this Final Release I hereby release El Pollo Loco for any claims arising after my Separation Date and in consideration for the promises made herein, and Check Two to be provided by the Company, I irrevocably and unconditionally releases and forever discharges El Pollo Loco as well as its parent companies, subsidiaries, affiliates, predecessors, successors or assigns, shareholders, members, partners, officers, attorneys, agents and employees (the “*Released Parties*”), from any and all causes of action, claims, actions, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind and character, which he has or may have against the Released Parties by reason of, or arising out of, touching upon, or concerning my relationship with El Pollo Loco, or any and all other matters of whatever kind, nature or description, whether known or unknown, occurring prior to the date of execution of this Final Release and the Agreement. This release specifically includes, but is not limited to, any and all claims for breach of contract or implied contract, fraud, breach of fiduciary duty, breach of the covenant of good faith and fair dealing, inducement of breach, intentional or negligent misrepresentation, conspiracy, tortious denial of contract, interference with proprietary interests, failure to pay payments of any kind, or other compensation of any sort, negligence, negligent hiring, retention or supervision, defamation, unlawful efforts to prevent relationship, violation of constitutional rights, discrimination or harassment on the basis of race, color, sex, sexual orientation, national origin, religion, age (including but not limited to claims arising under the Age Discrimination in Employment Act and Older Worker Benefit Protection Act, 29 U.S.C. § 621, et seq.), disability, medical condition or marital status, and/or violation of any statutes, rules, regulations or ordinances, whether federal, state or local, including, but not limited to, Title VII of the Civil Rights Act of 1964, the California Fair Employment and Housing Act,

the California Family Rights Act, and qui tam actions pursuant to any federal, state or local statute, rule, regulation or ordinance. I understand that nothing in this Final Release and the Agreement shall preclude me from filing a charge with a government agency or cooperating in an investigation conducted by a government agency, including the Department of Fair Employment and Housing, and the Equal Employment Opportunity Commission. However, I agree except with respect to proceedings before the Securities and Exchange Commission, I am waiving my right to any monetary damages or other equitable relief as a result of any such proceedings. I also confirm I have not filed any lawsuit or charge against the Company or Released Parties, and I further confirm that I have no such claims.

Without limiting the generality of the above, I specifically acknowledge and agree that all rights under Section 1542 of the California Civil Code are expressly waived, and any rights of similar effect under any other state or common law are equally waived. That section provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

I further understand and acknowledge that pursuant to Paragraphs 13 and 14 of the Agreement, here for this Final Release I again specifically agree and acknowledge that: (a) my waiver of rights under this Final Release is knowing and voluntary as required under the Age Discrimination in Employment Act, 29 U.S.C. § 621 et. seq. and the Older Workers Benefit Protection Act; (b) I understand the terms of this Final Release; (c) the Company advised me to consult with an attorney prior to executing this Final Release; (d) the Company has given me a period of up to twenty-one (21) days within which to consider this Agreement; (e) following my execution of this Final Release, I have seven (7) days in which to revoke my agreement to this Agreement as specified in Paragraph 14 and that, if I choose not to so revoke, the Final Release shall then become effective and enforceable and the payment and extension of benefits listed above shall then be made to me in accordance with the terms of this Final Release and Agreement; and (f) nothing in this Agreement shall be construed to prohibit me from filing a charge or complaint, including a challenge to the validity of the waiver provision of this Agreement, with a government agency or participating in any investigation conducted a government agency. However, I agree, except with respect to any proceedings before the Securities and Exchange Commission, I am waiving the right to monetary damages or other equitable or monetary relief as a result of such proceedings. As specified in Paragraph 14 of the Agreement, I may revoke my release of claims, insofar as it extends to potential claims under the Age Discrimination in Employment Act, by informing the Company of my intent to revoke my release within seven (7) calendar days following my execution of this Final Release, and any such revocation would be limited only to revocation of the release as applied to claims related to my Consulting Work and would not otherwise impact my obligations and duties under the Agreement since I received Check One as consideration for my agreement to the terms of the Agreement. I also understand that any such revocation must comply with the terms and procedures set forth in Paragraph 14 of the Agreement and be delivered to Edye Austin, 3535 Harbor Blvd, Suite 100, Costa Mesa, CA 92626. The terms of this Agreement shall be open for acceptance by me for a period of twenty-one (21) days, and I understand that I should and the Company hereby advises me to, consult with legal counsel regarding the releases contained herein and to consider whether to accept the Company's offer and sign this Final Release.

I also affirm and agree that I have been paid all amounts due and owing as of the date of execution, including but not limited to, all salary, incentive compensation or other wages or benefits, that I earned for services through the date of execution. I further understand and agree the aforementioned Check Two is not compensation for any past services provided, and agree I am not entitled to any payments or benefits from the Company other than those expressly set forth herein.

I HAVE VOLUNTARILY RE-AFFIRMED THE SEPARATION AGREEMENT AND FINAL SEVERANCE RELEASE, I HAD AN OPPORTUNITY TO CONSULT WITH AN ATTORNEY OF MY CHOICE, I HAD AT LEAST 21 DAYS IN WHICH TO REVIEW THIS, AND I KNOWINGLY INTEND TO RELEASE THE COMPANY AND COMPANY PARTIES FROM ANY AND ALL CLAIMS.

Dated: _____ By: _____

Gus Siade

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: May 2, 2019

/s/ Bernard Acoca

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

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: May 2, 2019

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer
(Principal Financial Officer)

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: May 2, 2019

/s/ Bernard Acoca

Bernard Acoca
President and Chief Executive Officer

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer