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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 26, 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	**20-3563182**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3535 Harbor Blvd., Suite 100, Costa Mesa, California	**92626**
(Address of principal executive offices)	**(Zip Code)**

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

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

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 July 26, 2019, there were 36,837,614 shares of the issuer’s common stock outstanding.

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 26, 2019	December 26, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 11,281	$ 6,969
Accounts and other receivables, net	11,683	9,599
Inventories	2,069	2,479
Prepaid expenses and other current assets	3,440	2,998
Total current assets	28,473	22,045
Property and equipment owned, net	91,259	104,145
Property held under finance leases, net	6	16
Property held under operating leases, net ("ROU Asset")	199,461	—
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Other intangible assets, net	—	280
Deferred tax assets	5,910	11,709
Other assets	1,322	1,469
Total assets	**$ 636,993**	**$ 450,226**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under finance leases	$ 31	$ 68
Current portion of obligations under operating leases	18,727	—
Accounts payable	10,234	9,564
Accrued salaries and vacation	7,087	7,574
Accrued insurance	8,239	7,076
Accrued income taxes payable	68	71
Accrued interest	113	149
Current portion of income tax receivable agreement payable	6,732	6,637
Other accrued expenses and current liabilities	26,098	51,764
Total current liabilities	77,329	82,903
Revolver loan	85,000	74,000
Obligations under finance leases, net of current portion	100	116
Obligations under operating leases, net of current portion	198,612	—
Other intangible liabilities, net	—	642
Income tax receivable agreement payable, net of current portion	7,286	7,305
Other noncurrent liabilities	5,842	20,024
Total liabilities	374,169	184,990
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value—200,000,000 shares authorized; 37,732,948 and 39,004,451 shares issued and outstanding	377	390
Additional paid-in-capital	358,335	375,734
Accumulated deficit	(95,888)	(110,888)
Total stockholders' equity	262,824	265,236
Total liabilities and stockholders' equity	**$ 636,993**	**$ 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		Twenty-Six Weeks Ended	
	June 26, 2019	June 27, 2018	June 26, 2019	June 27, 2018
Revenue				
Company-operated restaurant revenue	$ 100,139	$ 99,627	$ 197,289	$ 194,180
Franchise revenue	7,918	6,553	14,362	12,659
Franchise advertising fee revenue	5,683	5,453	11,066	10,550
Total revenue	113,740	111,633	222,717	217,389
Cost of operations				
Food and paper cost	27,886	28,681	55,038	55,916
Labor and related expenses	29,272	27,856	58,848	55,518
Occupancy and other operating expenses	23,032	22,913	46,259	44,832
Company restaurant expenses	80,190	79,450	160,145	156,266
General and administrative expenses	9,348	12,474	20,696	25,676
Franchise expenses	7,542	6,250	13,686	12,082
Depreciation and amortization	4,454	4,344	9,215	8,556
Loss (gain) on disposal of assets	134	(8)	178	53
Recovery of securities lawsuits related legal expenses	(10,000)	(2,429)	(10,000)	(4,063)
Asset impairment and closed-store reserves	565	3,963	874	6,782
Loss on disposition of restaurants	927	—	5,051	—
Total expenses	93,160	104,044	199,845	205,352
Income from operations	20,580	7,589	22,872	12,037
Interest expense, net	922	960	1,781	1,848
Income tax receivable agreement (income) expense	(94)	712	77	(206)
Income before provision for income taxes	19,752	5,917	21,014	10,395
Provision for income taxes	5,665	865	6,014	2,814
Net income	$ 14,087	$ 5,052	$ 15,000	$ 7,581
Net income per share				
Basic	$ 0.37	$ 0.13	$ 0.39	$ 0.20
Diluted	$ 0.37	$ 0.13	$ 0.38	$ 0.19
Weighted-average shares used in computing net income per share				
Basic	37,939,912	38,482,074	38,296,807	38,473,641
Diluted	38,580,722	39,043,434	39,043,477	39,015,259

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 June 26, 2019

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, March 27, 2019	38,730,204	388	$ 372,825	$ (109,975)	$ 263,238
Stock-based compensation	—	—	641	—	641
Issuance of common stock related to restricted shares, net	323,489	3	(3)	—	—
Issuance of common stock upon exercise of stock options	6,709	—	80	—	80
Shares repurchased for employee tax withholdings	(24,172)	(1)	(278)	—	(279)
Repurchase of common stock	(1,303,282)	(13)	(14,930)	—	(14,943)
Net income	—	—	—	14,087	14,087
Balance, June 26, 2019	37,732,948	$ 377	$ 358,335	$ (95,888)	$ 262,824

Thirteen Weeks Ended June 27, 2018

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, March 28, 2018	38,636,038	387	$ 373,522	$ (99,392)	$ 274,517
Stock based compensation	—	—	638	—	638
Shares repurchased for employee tax withholdings	(8,466)	—	(79)	—	(79)
Forfeiture of common stock related to restricted shares, net	(18,762)	—	—	—	—
Net income	—	—	—	5,052	5,052
Balance, June 27, 2018	38,608,810	$ 387	$ 374,081	$ (94,340)	$ 280,128

Twenty-Six Weeks Ended June 26, 2019

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, December 26, 2018	39,009,451	390	$ 375,734	$ (110,888)	$ 265,236
Stock-based compensation	—	—	1,129	—	1,129
Issuance of common stock related to restricted shares, net	301,371	3	(3)	—	—
Issuance of common stock upon exercise of stock options	6,709	—	80	—	80
Shares repurchased for employee tax withholdings	(25,747)	(1)	(294)	—	(295)
Repurchase of common stock	(1,558,836)	(15)	(18,311)	—	(18,326)
Net income	—	—	—	15,000	15,000
Balance, June 26, 2019	37,732,948	$ 377	$ 358,335	$ (95,888)	$ 262,824

Twenty-Six Weeks Ended June 27, 2018					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
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	—	—	1,170	—	1,170
Shares repurchased for employee tax withholdings	(8,466)	—	(79)	—	(79)
Forfeiture of common stock related to restricted shares, net	(44,574)	—	—	—	—
Net income	—	—	—	7,581	7,581
Balance, June 27, 2018	38,608,810	$ 387	$ 374,081	$ (94,340)	$ 280,128

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Twenty-Six Weeks Ended	
	June 26, 2019	June 27, 2018
Cash flows from operating activities:		
Net income	$ 15,000	$ 7,581
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	9,215	8,556
Stock-based compensation expense	1,129	1,170
Income tax receivable agreement expense (income)	77	(206)
Loss on disposition of restaurants	5,051	—
Loss on disposal of assets	178	53
Impairment of property and equipment	227	1,708
Closed-store reserve expense	—	5,074
Amortization of deferred financing costs	126	152
Amortization of favorable and unfavorable leases, net	(362)	(27)
Deferred income taxes, net	5,799	1,349
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(2,084)	(400)
Inventories	277	212
Prepaid expenses and other current assets	(450)	(553)
Other assets	23	117
Accounts payable	1,057	(1,051)
Accrued salaries and vacation	(487)	(687)
Accrued insurance	1,163	446
Income taxes payable	(3)	55
Other accrued expenses and liabilities	(23,077)	2,081
Net cash flows provided by operating activities	12,859	25,630
Cash flows from investing activities:		
Proceeds from disposition of restaurants	4,770	—
Purchase of property and equipment	(5,898)	(13,952)
Net cash flows used in investing activities	(1,128)	(13,952)
Cash flows from financing activities:		
Minimum tax withholdings related to net share settlements	(295)	(79)
Payments on revolver and swingline loan	(15,000)	(13,000)
Borrowings on revolver and swingline loan	26,000	6,000
Proceeds from issuance of common stock upon exercise of stock options, net of expenses	80	—
Payment of obligations under finance leases	(53)	(64)
Stock buybacks	(18,151)	—
Net cash flows used in financing activities	(7,419)	(7,143)
Decrease in cash and cash equivalents	4,312	4,535
Cash and cash equivalents, beginning of period	6,969	8,550
Cash and cash equivalents, end of period	$ 11,281	$ 13,085

	Twenty-Six Weeks Ended	
Supplemental cash flow information	**June 26, 2019**	**June 27, 2018**
Cash paid during the period for interest	$ 1,694	$ 1,593
Cash paid during the period for income taxes	$ 218	$ 125
Unpaid purchases of property and equipment	$ 980	$ 2,295
Unpaid stock buybacks	$ 310	$ —

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 June 26, 2019, the Company operated 200 and franchised 284 El Pollo Loco restaurants.

On August 2, 2018, the Company announced that the Board of Directors had authorized a 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 “2018 Stock Repurchase Plan”), which allowed for the repurchase of up to $20.0 million of the Company’s common stock. The 2018 Stock Repurchase Plan commenced purchases on November 6, 2018 and terminated on June 26, 2019.

On April 30, 2019, as part of the Company’s focus on shareholder returns, the Board of Directors approved a new 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 May 17, 2019 (the “2019 Stock Repurchase Plan”), which allowed for the repurchase up to $30.0 million of the Company's outstanding common stock. The 2019 Stock Repurchase Program commenced purchases on June 27, 2019, and will terminate on March 25, 2020, if not terminated sooner by other provisions of the 2019 Stock Repurchase Program, and may also be suspended or terminated at anytime upon prior notice.

Under the 2019 Sock 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 thirteen weeks ended June 26, 2019, the Company repurchased 1,303,282 shares of common stock under the 2018 Stock Repurchase Plan, using open market purchases, for total consideration of approximately $14.9 million. For the twenty-six weeks ended June 26, 2019, the Company repurchased 1,558,836 shares of common stock under the 2018 Stock Repurchase Plan, using open market purchases, for total consideration of approximately $18.3 million, which were retired.

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 2019 and 2018 are both 52-week years, ending on December 25, 2019 and December 26, 2018, respectively. Revenues, expenses, and other financial and operational figures may be elevated in a 53-week year.

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), 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 accounting matters, 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 June 26, 2019, the Company's total debt was $85.0 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 $11.3 million at June 26, 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 and twenty-six weeks ended June 26, 2019 the Company received insurance proceeds of $10.0 million related to the settlement of the securities class action lawsuit. During the thirteen and twenty-six weeks ended June 27, 2018, the Company received insurance proceeds of $2.4 million and $4.1 million, respectively, related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See Note 7, Commitments and Contingencies, Legal Matters.

Loss on Disposition of Restaurants

During the thirteen and twenty-six weeks ended June 26, 2019, the Company completed the sale of four company-operated restaurants within the San Francisco area to an existing franchisee and seven company-operated restaurants in the Phoenix area to another existing franchisee. The Company has determined that these restaurant dispositions represent multiple element arrangements, and as a result, the cash consideration received was allocated to the separate elements based on their relative selling price. Cash proceeds included upfront consideration for the sale of the restaurants and franchise fees, as well as future cash consideration for royalties and lease payments. The Company considered the future lease payments in allocating the initial cash consideration received. The cash consideration per restaurant for franchise fees is consistent with the amounts stated in the related franchise agreements, which are charged for separate standalone arrangements. The Company initially defers and subsequently recognizes the franchise fees over the term of the franchise agreement. Future royalty income is also recognized in revenue as earned.

These sales resulted in cash proceeds of $4.8 million and a net loss on sale of restaurants of $0.9 million and $5.1 million for the thirteen and twenty-six weeks ended June 26, 2019, respectively. These restaurants are now included in the total number of franchised El Pollo Loco restaurants.

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 December 27, 2018. See “Condensed 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 December 27, 2018 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 was effective for fiscal years beginning after December 15, 2018, including interim periods therein. 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 as of December 27, 2018. See “Changes in Accounting Policies” below for further details.

Subsequent Events

Subsequent to June 26, 2019, the Company made an $8.0 million borrowing on the 2018 Revolver, related primarily to repurchases under the 2018 Stock Repurchase Agreement.

The Company evaluated subsequent events that have occurred after June 26, 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 one supplier for which amounts due totaled 37.1% of the Company’s accounts payable at June 26, 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 30.3% and 28.8% of total expenses for the thirteen and twenty-six weeks ended June 26, 2019, respectively, and 29.1% and 28.6% of total expenses for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 69.3% of total revenue for each of the thirteen and twenty-six weeks ended June 26, 2019, and 68.5% and 68.8% for the thirteen and twenty-six weeks ended June 27, 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 determined there was no decrement of goodwill related to the disposition of the restaurants during the thirteen and twenty-six weeks ended June 26, 2019.

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 and twenty-six weeks ended June 26, 2019 or June 27, 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 June 26, 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 and twenty-six weeks ended June 26, 2019, reflecting certain property and equipment assets for which an impairment loss was recognized during the corresponding periods, as discussed immediately below under "Impairment of Long-Lived Assets."

		Fair Value Measurements at June 26, 2019 Using			Thirteen Weeks Ended June 26, 2019	Twenty-Six Weeks Ended June 26, 2019
	Total	Level 1	Level 2	Level 3	Impairment Losses	Impairment Losses
Property and equipment owned, net	$ —	$ —	$ —	$ —	$ 227	$ 227

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

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

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying value of certain assets may not be recoverable. The Company considers a triggering event to have occurred related to a specific restaurant if the restaurant’s cash flows for the last twelve months are less than a minimum threshold or if consistent levels of undiscounted cash flows for the remaining lease period are less than the carrying value of the restaurant’s assets. If the Company concludes that the carrying value of certain assets will not be recovered based on expected undiscounted future cash flows, an impairment loss is recorded to reduce the assets to their estimated fair value. The fair value is measured on a nonrecurring basis using unobservable (Level 3) inputs. There is uncertainty in the projected undiscounted future cash flows used in the Company’s impairment review analysis, which requires the use of estimates and assumptions. If actual performance does not achieve the projections, or if the assumptions used change in the future, the Company may be required to recognize impairment charges in future periods, and such charges could be material. Based on the results of the analysis, the Company recorded a non-cash impairment charge of $0.2 million for each of the thirteen and twenty-six weeks ended June 26, 2019, primarily related to the carrying value of one restaurant in California. The Company recorded a non-cash impairment charge of $1.7 million for each of the thirteen and twenty-six weeks ended June 27, 2018, primarily related to the carrying value of the assets of one restaurant in Arizona. 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 June 27, 2018, the Company closed two restaurants in Texas, both of which were previously impaired during the third quarter of 2017. During the twenty-six weeks ended June 27, 2018, the Company closed four restaurants in Texas, all of which were previously impaired during the third quarter of 2017, and decided not to move forward with the development of a third location in Texas. This resulted in closed-store reserve expense of $2.3 million and $5.1 million for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

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 twenty-six weeks ended June 26, 2019, the Company closed one restaurant in California and one in Texas and recognized $0.3 million and $0.6 million of closed-store reserve expense for the thirteen and twenty-six weeks ended June 26, 2019, respectively, 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 June 26, 2019 or at December 26, 2018, and did not recognize interest or penalties during the thirteen or twenty-six weeks ended June 26, 2019 or June 27, 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.

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 and twenty-six weeks ended June 26, 2019, we recorded income tax receivable agreement income of $0.1 million and income tax receivable agreement expense of $0.1 million, respectively, and for the thirteen and twenty-six weeks ended June 27, 2018, we recorded income tax receivable agreement expense of $0.7 million and income tax receivable agreement income of $0.2 million, respectively, related to the amortization of interest expense related to our total expected TRA payments and changes in estimates for actual tax returns filed and future forecasted taxable income.

Changes in Accounting Policies

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

The Company adopted 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. See Note 11, "Leases," for further details.

2. PROPERTY AND EQUIPMENT

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

	June 26, 2019	December 26, 2018
Land	$ 12,323	$ 12,323
Buildings and improvements	148,000	156,806
Other property and equipment	74,081	76,061
Construction in progress	2,352	2,989
	236,756	248,179
Less: accumulated depreciation and amortization	(145,497)	(144,034)
	$ 91,259	$ 104,145

Depreciation expense was $4.5 million and $4.3 million for the thirteen weeks ended June 26, 2019 and June 27, 2018, respectively, and $9.2 million and $8.6 million for the twenty-six weeks ended June 26, 2019 and June 27, 2018, respectively.

Based on the Company's review of its long-lived assets for impairment, the Company recorded non-cash impairment charges of $0.2 million for each of the thirteen and twenty-six weeks ended June 26, 2019, and $1.7 million for each of the thirteen and twenty-six weeks ended June 27, 2018.

3. STOCK-BASED COMPENSATION

At June 26, 2019, options to purchase 2,303,921 shares of common stock were outstanding, including 1,708,169 vested and 595,752 unvested. Unvested options vest over time; however, upon a change in control, the board may accelerate vesting. At June 26, 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 June 26, 2019 and changes during the twenty-six weeks ended June 26, 2019 is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding - December 26, 2018	2,102,404	$ 7.68
Grants	320,536	11.47
Exercised	(6,709)	11.94
Forfeited, cancelled or expired	(112,310)	13.41
Outstanding - June 26, 2019	2,303,921	$ 7.92
Vested and expected to vest at June 26, 2019	2,289,608	$ 7.89
Exercisable at June 26, 2019	1,708,169	$ 6.71

The fair value of each stock option was estimated on the grant date using an exercise price of the closing stock price on the day prior to date of grant and the Black-Scholes option-pricing model with the following weighted average assumptions:

	Twenty-Six Weeks Ended June 26, 2019	Twenty-Six Weeks Ended June 27, 2018
Expected volatility	28.7%	28.3%
Risk-free interest rate	2.33%	2.88%
Expected term (years)	6.25	6.25
Expected dividends	—	—

At June 26, 2019, the Company had total unrecognized compensation expense of $2.1 million related to unvested stock options, which it expects to recognize over a weighted-average period of 3.41 years.

A summary of restricted share activity as of June 26, 2019 and changes during the twenty-six weeks ended June 26, 2019 is as follows:

	Shares		Weighted-Average Fair Value
Unvested shares at December 26, 2018	490,700	$	10.91
Granted	285,996	$	11.47
Released	(89,862)	$	10.09
Forfeited, cancelled, or expired	(44,722)	$	11.83
Unvested shares at June 26, 2019	642,112	$	11.21

Unvested shares at June 26, 2019, included 517,389 unvested restricted shares, 36,058 unvested performance stock units and 88,665 unvested restricted units outstanding.

At June 26, 2019, the Company had unrecognized compensation expense of $5.3 million related to unvested restricted shares, which it expects to recognize over a weighted-average period of 3.22 years, unrecognized compensation expense of $0.1 million related to performance stock units, which it expects to recognize over a weighted-average period of 3.87 years and unrecognized compensation expense of $0.9 million related to unvested restricted units, which it expects to recognize over a weighted-average period of 3.00 years.

Total stock-based compensation expense was $0.6 million and $1.1 million for the thirteen and twenty-six weeks ended June 26, 2019, respectively, and $0.6 million and $1.2 million for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

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 3.90% to 6.00% for each of the thirteen and twenty-six weeks ended June 26, 2019, respectively, and 3.60% to 3.70% and 3.30% to 3.70% for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

The 2018 Credit Agreement contains certain financial covenants. The Company was in compliance with the financial covenants as of June 26, 2019.

At June 26, 2019, $8.5 million of letters of credit and $85.0 million of the 2018 Revolver were outstanding. The amount available under the 2018 Revolver was $56.5 million at June 26, 2019.

Maturities

During the thirteen and twenty-six weeks ended June 26, 2019, the Company borrowed $14.0 million and $11.0 million, respectively, net of pay downs of $12.0 million and $15.0 million, respectively, on the Company’s 2018 Revolver, primarily to fund settlement payments. See Note 7 for further details regarding the settlement payments. During the thirteen and twenty-six weeks ended June 27, 2018, the Company elected to pay down $5.0 million and $13.0 million of outstanding borrowings on the Company’s 2014 Revolver, respectively. 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):

	June 26, 2019	December 26, 2018
Accrued sales and property taxes	$ 3,600	$ 5,016
Gift card liability	2,346	2,512
Accrued legal settlements and professional fees	16,584	38,639
Other [(1)]	3,568	5,597
Total other accrued expenses and current liabilities	$ 26,098	$ 51,764

(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):

	June 26, 2019	December 26, 2018
Deferred rent [(1)]	$ —	$ 10,660
Deferred franchise and development fees	5,775	5,224
Other [(2)]	67	4,140
Total other noncurrent liabilities	$ 5,842	$ 20,024

(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. On May 13, 2019, the Court granted preliminary approval of the settlement. On July 17, 2019, Plaintiffs filed the Motion for Final Approval of Class Action Settlement and Approval of Plan of Allocation and the Motion for an Award of Attorneys' Fees and Expenses and Awards to Lead Plaintiffs Pursuant to 15 U.S.C. §78u-4(a)(4). The hearing on both motions is scheduled for August 21, 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 and all settlement payments were made during the thirteen and twenty-six weeks ended June 26, 2019

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 June 26, 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 June 26, 2019, the Company's total estimated commitment to purchase chicken was $14.8 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 June 26, 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 $2.2 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at June 26, 2019 was $1.8 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 $0.1 million and $0.4 million of expenses related to employment agreements for the thirteen and twenty-six weeks ended June 26, 2019, respectively, and incurred $0.4 million and $0.8 million of expenses related to employment agreements for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

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 and twenty-six weeks ended June 26, 2019 and June 27, 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		Twenty-Six Weeks Ended	
	June 26, 2019	June 27, 2018	June 26, 2019	June 27, 2018
Numerator:				
Net income	$ 14,087	$ 5,052	$ 15,000	$ 7,581
Denominator:				
Weighted-average shares outstanding—basic	37,939,912	38,482,074	38,296,807	38,473,641
Weighted-average shares outstanding—diluted	38,580,722	39,043,434	39,043,477	39,015,259
Net income per share—basic	$ 0.37	$ 0.13	$ 0.39	$ 0.20
Net income per share—diluted	$ 0.37	$ 0.13	$ 0.38	$ 0.19
Anti-dilutive securities not considered in diluted EPS calculation	733,449	570,774	438,547	570,774

Below is a reconciliation of basic and diluted share counts.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 26, 2019	June 27, 2018	June 26, 2019	June 27, 2018
Weighted-average shares outstanding—basic	37,939,912	38,482,074	38,296,807	38,473,641
Dilutive effect of stock options and restricted shares	640,810	561,360	746,670	541,618
Weighted-average shares outstanding—diluted	38,580,722	39,043,434	39,043,477	39,015,259

9. RELATED PARTY TRANSACTIONS

Trimaran Pollo Partners, L.L.C. (“LLC”), owns approximately 44.4% 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 point's terms. As of June 26, 2019 and December 26, 2018, the revenue allocated to loyalty points that have not been redeemed are $1.3 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 June 26, 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		Twenty-Six Weeks Ended	
	June 26, 2019	June 27, 2018	June 26, 2019	June 27, 2018
Core Market[(1)]:				
Company-operated restaurant revenue	$ 88,808	$ 86,842	$ 174,114	$ 169,804
Franchise revenue	4,174	3,609	7,673	6,985
Franchise advertising fee revenue	2,806	2,769	5,523	5,378
Total core market	$ 95,788	$ 93,220	$ 187,310	$ 182,167
Non-Core Market[(2)]:			—	—
Company-operated restaurant revenue	$ 11,331	$ 12,785	$ 23,175	$ 24,376
Franchise revenue	3,744	2,944	6,689	5,674
Franchise advertising fee revenue	2,877	2,684	5,543	5,172
Total non-core market	$ 17,952	$ 18,413	$ 35,407	$ 35,222
Total revenue	**$ 113,740**	**$ 111,633**	**$ 222,717**	**$ 217,389**

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

The following table presents our revenues disaggregated by geographic market:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 26, 2019	June 27, 2018	June 26, 2019	June 27, 2018
Greater Los Angeles area market	69.3%	68.5%	69.3%	68.8%
Other markets	30.7%	31.5%	30.7%	31.2%
Total	**100%**	**100%**	**100%**	**100%**

Contract balances

The following table provides information about the change in the franchise contract liability balances during the twenty-six weeks ended June 26, 2019 and June 27, 2018 (in thousands):

December 26, 2018	$ 5,593
Revenue recognized - beginning balance	(203)
Additional contract liability	1,257
Revenue recognized - additional contract liability	(88)
June 26, 2019	**$ 6,559**

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

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

For the thirteen and twenty-six weeks ended June 26, 2019, there was an increase to the contract liability balance due to the Company's completion of the sale of four company-operated restaurants within the San Francisco area to an existing franchisee and seven company-operated restaurants in the Phoenix area to another existing franchisee. This resulted in an additional contract liability of $0.7 million, relating to allocation of the transaction price to various performance obligations under the contract of the sale.

The following table illustrates the estimated revenue to be recognized in the future related to performance obligations that are unsatisfied as of June 26, 2019:

Franchise revenues (in thousands):		
2019	$	414
2020		701
2021		491
2022		411
2023		385
Thereafter		4,157
Total	**$**	**6,559**

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 June 26, 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.

During the thirteen and twenty-six weeks ended June 26, 2019, the Company reassessed the lease terms on three restaurants due to the addition of significant leasehold improvements with useful lives that extend past the current lease expiration. This resulted in an additional $1.2 million of ROU Asset and lease liability, which will be recognized over the new lease term. The reassessment did not have any impact on the original lease classification. Additionally, as the Company adopted all practical expedients, no reallocation between lease and non-lease components was necessary.

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 June 26, 2019			Twenty-Six Weeks Ended June 26, 2019		
	Property Leases	**Equipment Leases**	**Total**	**Property Leases**	**Equipment Leases**	**Total**
Finance lease cost:						
Amortization of right-of-use assets	3	—	3	9	—	9
Interest on lease liabilities	7	—	7	15	—	15
Operating lease cost	6,585	327	6,912	13,187	654	13,841
Short-term lease cost	—	9	9	—	17	17
Variable lease cost	127	27	154	224	98	322
Sublease income	(511)	—	(511)	(901)	—	(901)
Total lease cost	6,211	363	6,574	12,534	769	13,303

The following table presents the Company's total lease cost on the Condensed Consolidated Statement of Income (in thousands):

	Thirteen Weeks Ended June 26, 2019	**Twenty-Six Weeks Ended June 26, 2019**
Lease cost – Occupancy and other operating expenses	6,256	12,659
Lease cost – General & administrative	114	233
Lease cost – Depreciation and amortization	3	9
Lease cost – Interest expense	7	15
Lease cost - Closed-store reserve	194	387
Total lease cost	6,574	13,303

During the twenty-six weeks ended June 26, 2019, the Company had the following cash and non-cash activities associated with its leases (in thousands):

	Twenty-Six Weeks Ended June 26, 2019		
	Property Leases	Equipment Leases	Total
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows used for operating leases	12,361	654	13,015
Financing cash flows used for finance leases	53	—	53
Non-cash investing and financing activities:			
Operating lease ROU Assets obtained in exchange for lease liabilities:			
Operating lease ROU Assets	4,995	—	4,995
Operating lease ROU Assets obtained and liabilities incurred as a result of adoption of ASC 842:			
Operating lease ROU Assets	200,555	4,668	205,223
Operating lease liabilities	217,615	4,668	222,283
Other Information			
Weighted-average remaining lease term—finance leases	3.33	—	
Weighted-average remaining lease term—operating leases	12.23	3.55	
Weighted-average discount rate—finance leases	11.1%	—	
Weighted-average discount rate—operating leases	4.38%	3.98%	

Information regarding the Company’s minimum future lease obligations as of June 26, 2019 is as follows (in thousands):

	Finance	Operating Leases	
For the Years Ending	Minimum Lease Payments	Minimum Lease Payments	Minimum Sublease Income
December 25, 2019	$ 27	$ 13,263	$ 695
December 30, 2020	54	26,387	1,108
December 29, 2021	54	26,050	1,078
December 28, 2022	45	25,043	1,001
December 28, 2023	—	22,634	989
Thereafter	—	154,940	2,612
Total	$ 180	$ 268,317	$ 7,483
Less: imputed interest (3.96% to 11.1%)	(49)	(50,978)	
Present value of lease obligations	131	217,339	
Less: current maturities	(31)	(18,727)	
Noncurrent portion	$ 100	$ 198,612	

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

For the Years Ending	Capital Leases Minimum Lease Payments	Operating Leases Minimum Lease Payments	Operating Leases Minimum Sublease Income
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 three 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 thirteen and twenty-six weeks ended June 26, 2019, the Company received $0.2 million and $0.3 million of lease income, respectively, 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 June 26, 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 twenty-six weeks ended June 26, 2019, we opened no new company-operated restaurants and two franchised restaurants in California. In 2019, we intend to open two to three new company-operated and two to three new franchised restaurants. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend. These growth rates are not guaranteed.

Highlights and Trends

Comparable Restaurant Sales

System-wide, for the thirteen and twenty-six weeks ended June 26, 2019, comparable restaurant sales increased by 0.7% and 1.5%, respectively, from the comparable periods in the prior year. For company-operated restaurants, comparable restaurant sales, for the thirteen and twenty-six weeks ended June 26, 2019, increased by 0.4% and 1.0%, respectively. For company-operated restaurants, the quarter’s change in comparable restaurant sales consisted of a 3.1% increase in average check size, and a 2.7% decline in transactions and the year-to-date change in comparable restaurant sales consisted of a 3.9% increase in average check size, and a 2.9% decline in transactions. For franchised restaurants, comparable restaurant sales increased 0.9% and 2.0% for the thirteen and twenty-six weeks ended June 26, 2019, respectively.

Restaurant Development

Our restaurant counts at the beginning and end of each of the last three fiscal years and the twenty-six weeks ended June 26, 2019, were as follows.

	Twenty-Six Weeks Ended	Fiscal Year Ended		
	June 26, 2019	2018	2017	2016
Company-operated restaurant activity:				
Beginning of period	213	212	201	186
Openings	—	8	16	18
Restaurant sale to franchisee	(11)	—	—	(1)
Closures	(2)	(7)	(5)	(2)
Restaurants at end of period	200	213	212	201
Franchised restaurant activity:				
Beginning of period	271	265	259	247
Openings	2	9	7	13
Restaurant sale to franchisee	11	—	—	1
Closures	—	(3)	(1)	(2)
Restaurants at end of period	284	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 June 26, 2019, together with our franchisees, we had remodeled 31 company-operated and 44 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 June 26, 2019, including new builds and remodels, we had 116 restaurants open with the Vision design in our system. Remodeling is a use of cash and has implications for our net property and equipment owned and depreciation and amortization line items on our condensed consolidated balance sheets and consolidated statements of income, among others. The cost of our restaurant remodels varies depending on the scope of work required, but on average, the investment is $0.3 million to $0.4 million per restaurant. We believe that our remodeling program will result in higher restaurant revenue and a strengthened brand.

Loco Rewards

During the second quarter of 2017, we introduced a new loyalty rewards points program in an effort to increase sales and loyalty among our customers, by offering rewards that incentivize customers to visit our restaurants more often each month. Customers earn 1 point for each $1 spent and 100 points can be redeemed for a $10 reward to be used for a future purchase. In addition, customers can earn additional points and free entrées for a variety of engagement activities. As points are available for redemption past the quarter earned, a portion of the revenue associated with the earned points will be deferred until redemption. As of June 26, 2019, the amount of revenue deferred related to the earned points, net of redemptions, is $1.3 million. The Company had over 1.3 million loyalty program members as of June 26, 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 Operations” 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 to Item I above, 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, expenses incurred in support of franchisee information technology systems, and the franchisee’s portion of advertising expenses.

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 June 26, 2019 and June 27, 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.

	Thirteen Weeks Ended					
	June 26, 2019		June 27, 2018		Increase / (Decrease)	
Statements of Income Data	**($,000)**	**(%)**	**($,000)**	**(%)**	**($,000)**	**(%)**
Company-operated restaurant revenue	$ 100,139	88.0	$ 99,627	89.2	$ 512	0.5
Franchise revenue	7,918	7.0	6,553	5.9	1,365	20.8
Franchise advertising fee revenue	5,683	5.0	5,453	4.9	230	4.2
Total revenue	**113,740**	**100.0**	**111,633**	**100.0**	**2,107**	**1.9**
Cost of operations						
Food and paper costs(1)	27,886	27.8	28,681	28.8	(795)	(2.8)
Labor and related expenses(1)	29,272	29.2	27,856	28.0	1,416	5.1
Occupancy and other operating expenses(1)	23,032	23.0	22,913	23.0	119	0.5
Company restaurant expenses(1)	**80,190**	**80.1**	**79,450**	**79.7**	**740**	**0.9**
General and administrative expenses	9,348	8.2	12,474	11.2	(3,126)	(25.1)
Franchise expenses	7,542	6.6	6,250	5.6	1,292	20.7
Depreciation and amortization	4,454	3.9	4,344	3.9	110	2.5
Loss (gain) on disposal of assets	134	0.1	(8)	—	142	(1,775.0)
Recovery of securities lawsuits related legal expenses	(10,000)	(8.8)	(2,429)	(2.2)	(7,571)	311.7
Asset impairment and closed-store reserves	565	0.5	3,963	3.6	(3,398)	(85.7)
Loss on disposition of restaurants	927	0.8	—	—	927	NA
Total expenses	**93,160**	**81.9**	**104,044**	**93.2**	**(10,884)**	**(10.5)**
Income from operations	**20,580**	**18.1**	**7,589**	**6.8**	**12,991**	**171.2**
Interest expense, net of interest income	922	0.8	960	0.9	(38)	(4.0)
Income tax receivable agreement (income) expense	(94)	(0.1)	712	0.6	(806)	(113.2)
Income before provision for income taxes	**19,752**	**17.4**	**5,917**	**5.3**	**13,835**	**233.8**
Provision for income taxes	5,665	5.0	865	0.8	4,800	554.9
Net income	**$ 14,087**	**12.4**	**$ 5,052**	**4.5**	**$ 9,035**	**178.8**

(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.

Statement of Operations Data	Twenty-Six Weeks Ended June 26, 2019 ($,000)	June 26, 2019 (%)	June 27, 2018 ($,000)	June 27, 2018 (%)	Increase / (Decrease) ($,000)	Increase / (Decrease) (%)
Company-operated restaurant revenue	$ 197,289	88.6	$ 194,180	89.3	$ 3,109	1.6
Franchise revenue	14,362	6.4	12,659	5.8	1,703	13.5
Franchise advertising fee revenue	11,066	5.0	10,550	4.9	516	4.9
Total revenue	**222,717**	**100.0**	**217,389**	**100.0**	**5,328**	**2.5**
Cost of operations						
Food and paper costs(1)	55,038	27.9	55,916	28.8	(878)	(1.6)
Labor and related expenses(1)	58,848	29.8	55,518	28.6	3,330	6.0
Occupancy and other operating expenses(1)	46,259	23.4	44,832	23.1	1,427	3.2
Company restaurant expenses(1)	**160,145**	**81.2**	**156,266**	**80.5**	**3,879**	**2.5**
General and administrative expenses	20,696	9.3	25,676	11.8	(4,980)	(19.4)
Franchise expenses	13,686	6.1	12,082	5.6	1,604	13.3
Depreciation and amortization	9,215	4.1	8,556	3.9	659	7.7
Loss on disposal of assets	178	0.1	53	—	125	235.8
Recovery of securities lawsuits related legal expenses	(10,000)	(4.5)	(4,063)	(1.9)	(5,937)	146.1
Asset impairment and closed-store reserves	874	0.4	6,782	3.1	(5,908)	(87.1)
Loss on disposition of restaurants	5,051	2.3	—	—	5,051	NA
Total expenses	**199,845**	**89.7**	**205,352**	**94.5**	**(5,507)**	**(2.7)**
Income from operations	**22,872**	**10.3**	**12,037**	**5.5**	**10,835**	**90.0**
Interest expense, net of interest income	1,781	0.8	1,848	0.9	(67)	(3.6)
Income tax receivable agreement expense (income)	77	0.0	(206)	(0.1)	283	(137.4)
Income before provision for income taxes	**21,014**	**9.4**	**10,395**	**4.8**	**10,619**	**102.2**
Provision for income taxes	6,014	2.7	2,814	1.3	3,200	113.7
Net income	**$ 15,000**	**6.7**	**$ 7,581**	**3.5**	**$ 7,419**	**97.9**

Company-Operated Restaurant Revenue

For the quarter, company-operated restaurant revenue increased $0.5 million, or 0.5%, from the comparable period in the prior year. The growth in company-operated restaurant sales was primarily due to an increase of $2.2 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 $0.4 million from a 0.4% increase in company-operated comparable sales. This restaurant sales increase was partially offset by the closure of seven restaurants during or subsequent to the second quarter of 2018 and the sale of eleven company-operated locations to existing franchisees. The company-operated comparable restaurant sales increase consisted of an increase in average check size of 3.1% partially offset by a decline in transactions of 2.7%.

Year-to-date, company-operated restaurant revenue increased $3.1 million, or 1.6%, from the comparable period in the prior year. The growth in company-operated restaurant sales was primarily due to an increase of $5.5 million of non-comparable restaurant sales on restaurants that had not been open the fifteen months required to be included in comparable restaurant sales and an increase of $1.8 million from a 1.0% increase in company-operated comparable sales. This restaurant sales increase was partially offset by the closure of nine restaurants during or subsequent to the first quarter of 2018 and the sale of eleven company-operated locations to existing franchisees. The company-operated comparable restaurant sales increase consisted of an increase in average check size of 3.9% partially offset by a decline in transactions of 2.9%.

Franchise Revenue

For the quarter, franchise revenue increased $1.4 million, or 20.8%, from the comparable period in the prior year. This increase was primarily due to higher fees received from franchised restaurants related to their use of our point-of-sales system, a franchise comparable restaurant sales increase of 0.9%, the opening of eight new franchised restaurants during or after the prior year quarter and the eleven units transferred from company-operated to franchise locations. This was partially offset by the closure of three franchise locations during the same period.

Year-to-date, franchise revenue increased $1.7 million, or 13.5%, from the comparable period in the prior year. This increase was primarily due to higher fees received from franchised restaurants related to their use of our point-of-sales system, a franchise comparable restaurant sales increase of 2.0%, the opening of eleven new franchised restaurants during or after the first quarter of the prior and the eleven units transferred from company-operated to franchise locations. This was partially offset by the closure of three franchise locations during the same period.

Franchise Advertising Fee Revenue

For the quarter, franchise advertising fee revenue increased $0.2 million, or 4.2%, from the comparable period in the prior year. This increase was primarily due to an increase in the number of franchise locations and increased franchise comparable restaurant sales.

Year-to-date, franchise advertising fee revenue increased $0.5 million, or 4.9%, from the comparable period in the prior year. This increase was primarily due to an increase in the number of franchise locations and increased franchise comparable restaurant sales.

Food and Paper Costs

For the quarter, food and paper costs decreased $0.8 million, or 2.8%, from the comparable period in the prior year, primarily due to food costs. Year-to-date, food and paper costs decreased $0.9 million, or 1.6%, from the comparable period in the prior year, due to a $1.0 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 and year-to-date periods, resulted primarily from lower company transactions.

For the quarter, food and paper costs as a percentage of company-operated restaurant revenue were 27.8%, down from 28.8% in the comparable period of the prior year. Year-to-date, 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 and year-to-date periods was due primarily to an increase in pricing and a favorable sales mix, partially offset by commodity inflation.

Labor and Related Expenses

For the quarter, labor and related expenses increased $1.4 million, or 5.1%, from the comparable period in the prior year. Year-to-date, labor and related expenses increased $3.3 million, or 6.0%, from the comparable period in the prior year. The increase for the quarter and year-to-date periods was due primarily to increased labor costs resulting from new restaurants opened in fiscal 2018, the impact of the wage increases in California and Los Angeles during fiscal 2018 and the first quarter of fiscal 2019 and higher workers' compensation expense due to increased claims activity, partially offset by reduction in labor by restaurants closed and sold to franchisees.

For the quarter, labor and related expenses as a percentage of company-operated restaurant revenue were 29.2%, up from 28.0% in the comparable period in the prior year. Year-to-date payroll and benefit expenses as a percentage of company-operated restaurant revenue were 29.8%, up from 28.6% in the comparable period in the prior year. The increases for the quarter and year-to-date periods were due primarily to wage increases in California and Los Angeles and 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 $0.1 million, or 0.5%, from the comparable period of the prior year. The increase was primarily due to a $0.2 million increase in occupancy costs, primarily related to rent expense from lease renewal inflation, a $0.2 million increase in customer order delivery fees and a $0.1 million increase in utilities costs. These increases were partially offset by a decrease in advertising fees and other operating expenses. Year-to-date, occupancy and other operating expenses increased $1.4 million, or 3.2%, from the comparable period of the prior year. The increase was primarily due to a $0.4 million increase in occupancy costs, due primarily to additional rent and property tax, a $0.4 million increase in utilities costs, $0.3 million increase in repair and maintenance costs and a $0.3 million increase in customer order delivery fees.

For the quarter, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 23.0%, which is consistent with the comparable period of the prior year. Year-to-date, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 23.4%, up from 23.1% 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 $3.1 million, or 25.1%, from the comparable period in the prior year. The decrease for the quarter was due primarily due to a decrease in legal expenses related primarily to a decrease in securities class action litigation costs.

Year-to-date, general and administrative expenses decreased $5.0 million, or 19.4%, from the comparable period in the prior year. The decrease for the year-to-date period was due primarily to (i) a $4.5 million decrease in legal expenses related primarily to a decrease in securities class action litigation costs and (ii) a $0.4 million decrease in restaurant pre-opening costs, (iii) a $0.3 million decrease in travel expense, (iv) a $0.2 million decrease in dead site costs related to costs incurred for potential new restaurant locations that we chose not to continue to pursue, and (v) a $0.1 million decrease in other costs. 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 8.2%, down from 11.2% in the comparable period of the prior year. Year-to-date, general and administrative expenses as a percentage of total revenue were 9.3%, down from 11.8% in the comparable period of the prior year. The percentage decrease is primarily due to the cost decreases discussed above.

Recovery of Securities Class Action Legal Expense

During the thirteen and twenty-six weeks ended June 26, 2019, we received insurance proceeds of $10.0 million related to the settlement of the securities class action lawsuit. During the thirteen and twenty-six weeks ended June 27, 2018, we received insurance proceeds of $2.4 million and $4.1 million, respectively, related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See Note 7, Commitments and Contingencies, Legal Matters.

Loss on Disposition of Restaurants

During the thirteen and twenty-six weeks ended June 26, 2019, we completed the sale of four company-operated restaurants within the San Francisco area to an existing franchisee and seven company-operated restaurants in the Phoenix area to another existing franchisee. We determined that these restaurant dispositions represent multiple element arrangements, and as a result, the cash consideration received was allocated to the separate elements based on their relative selling price. Cash proceeds included upfront consideration for the sale of the restaurants and franchise fees, as well as future cash consideration for royalties and lease payments. We also considered the future lease payments in allocating the initial cash consideration received. The cash consideration per restaurant for franchise fees is consistent with the amounts stated in the related franchise agreements, which are charged for separate standalone arrangements. We initially defer and subsequently recognize the franchise fees over the term of the franchise agreement. Future royalty income is also recognized in revenue as earned.

These sales resulted in cash proceeds of $4.8 million and a net loss on sale of restaurants of $0.9 million and $5.1 million for the thirteen and twenty-six weeks ended June 26, 2019, respectively. These restaurants are included in the total number of franchised El Pollo Loco restaurants.

Asset Impairment and Closed-Store Reserves

During each of the thirteen and twenty-six weeks ended June 27, 2018, we recorded a non-cash impairment charge of $0.2 million, primarily related to the carrying value of one restaurant in California. We recorded a non-cash impairment charge of $1.7 million for each of the thirteen and twenty-six weeks ended June 27, 2018, primarily related to the carrying value of the assets of one restaurant in Arizona. 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.

During the thirteen weeks ended June 27, 2018, we closed two restaurants in Texas, both of which were previously impaired during the third quarter of 2017. During the twenty-six weeks ended June 27, 2018, we closed four restaurants in Texas, all of which were previously impaired during the third quarter of 2017, and decided not to move forward with the development of a third location in Texas. This resulted in closed-store reserve expense of $2.3 million and $5.1 million for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

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 and twenty-six weeks ended June 26, 2019, the Company closed one restaurant in California and one in Texas and recognized $0.3 million and $0.6 million, respectively, 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 and twenty-six weeks ended June 26, 2019 we recorded income tax receivable agreement income of $0.1 million and income tax agreement expense of $0.1 million, respectively, and for the thirteen and twenty-six weeks ended June 27, 2018, we recorded income tax receivable agreement expense of $0.7 million and income tax receivable agreement income of $0.2 million, respectively.

Provision for Income Taxes

For the quarter ended June 26, 2019, we recorded an income tax provision of $5.7 million, reflecting an estimated effective tax rate of 28.7%. For the quarter ended June 27, 2018, we recorded an income tax provision of $0.9 million, reflecting an estimated effective tax rate of approximately 14.6%. Year-to-date ended June 26, 2019, we recorded an income tax provision of $6.0 million, reflecting an estimated effective tax rate of approximately 28.6%. Year-to-date ended June 27, 2018 we recorded an income tax provision of $2.8 million, reflecting an estimated effective tax rate of approximately 27.1%. The difference between the 21.0% statutory rate and the Company’s effective tax rate of 28.6% for the year-to-date ended June 26, 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 June 26, 2019 and June 27, 2018, there were 459 and 447 comparable restaurants, 199 and 194 company-operated and 260 and 253 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 June 26, 2019	Thirteen Weeks Ended June 27, 2018	Twenty-Six Weeks Ended June 26, 2019	Twenty-Six Weeks Ended June 27, 2018
Restaurant contribution:				
Income from operations	$ 20,580	$ 7,589	$ 22,872	$ 12,037
Add (less):				
General and administrative expenses	9,348	12,474	20,696	25,676
Franchise expenses	7,542	6,250	13,686	12,082
Depreciation and amortization	4,454	4,344	9,215	8,556
Loss (gain) on disposal of assets	134	(8)	178	53
Franchise revenue	(7,918)	(6,553)	(14,362)	(12,659)
Franchise advertising fee revenue	(5,683)	(5,453)	(11,066)	(10,550)
Recovery of securities lawsuits related legal expenses	(10,000)	(2,429)	(10,000)	(4,063)
Asset impairment and closed-store reserves	565	3,963	874	6,782
Loss on sale of restaurants	927	—	5,051	—
Restaurant contribution	$ 19,949	$ 20,177	$ 37,144	$ 37,914
Company-operated restaurant revenue:				
Total revenue	$ 113,740	$ 111,633	$ 222,717	$ 217,389
Less:				
Franchise revenue	(7,918)	(6,553)	(14,362)	(12,659)
Franchise advertising fee revenue	(5,683)	(5,453)	(11,066)	(10,550)
Company-operated restaurant revenue	$ 100,139	$ 99,627	$ 197,289	$ 194,180
Restaurant contribution margin (%)	19.9%	20.3%	18.8%	19.5%

New Restaurant Openings

The number of restaurant openings reflects the number of new restaurants opened by us and our franchisees during a particular reporting period. Before a new restaurant opens, we and our franchisees incur pre-opening costs, as described below. New restaurants often open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. New restaurants typically experience normal inefficiencies in the form of higher food and paper, labor, and other direct operating expenses and, as a result, restaurant contribution margins are generally lower during the start-up period of operation. The average start-up period after which our new restaurants' revenue and expenses normalize is approximately fourteen weeks. When we enter new markets, we may be exposed to start-up times and restaurant contribution margins that are longer and lower than reflected in our average historical experience.

EBITDA and Adjusted EBITDA

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

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

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

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

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(Amounts in thousands)	**June 26, 2019**	**June 27, 2018**	**June 26, 2019**	**June 27, 2018**
Net income	**$ 14,087**	**$ 5,052**	**$ 15,000**	**$ 7,581**
Non-GAAP adjustments:				
Provision (benefit) for income taxes	5,665	865	6,014	2,814
Interest expense, net of interest income	922	960	1,781	1,848
Depreciation and amortization	4,454	4,344	9,215	8,556
EBITDA	**$ 25,128**	**$ 11,221**	**$ 32,010**	**$ 20,799**
Stock-based compensation expense (a)	641	298	1,129	443
Loss (gain) on disposal of assets (b)	134	(8)	178	53
Recovery of securities lawsuits related legal expense (c)	(10,000)	(2,429)	(10,000)	(4,063)
Asset impairment and closed-store reserves (recovery) (d)	565	3,963	874	6,782
Loss on disposition of restaurants (e)	927	—	5,051	—
Income tax receivable agreement (income) expense (f)	(94)	712	77	(206)
Securities class action legal expense (g)	491	3,169	2,630	6,873
Pre-opening costs (h)	35	211	35	423
Executive transition costs (i)	63	373	100	1,019
Adjusted EBITDA	**$ 17,890**	**$ 17,510**	**$ 32,084**	**$ 32,123**

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

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

(c) During the thirteen and twenty-six weeks ended June 26, 2019 we received insurance proceeds of $10.0 million related to the settlement of the securities class action lawsuit and during the thirteen and twenty-six weeks ended June 27, 2018, we received insurance proceeds of $2.4 million and $4.1 million, respectively, related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See Note 7, Commitments and Contingencies, Legal Matters.

(d) Includes costs related to impairment of long-lived assets and closing restaurants. During the thirteen and twenty-six weeks ended June 27, 2018 we recorded a non-cash impairment charge of $0.2 million, primarily related to the carrying value of one restaurant in California. We recorded a non-cash impairment charge of $1.7 million for each of the thirteen and twenty-six weeks ended June 27, 2018, primarily related to the carrying value of the assets of one restaurant in Arizona.

During the thirteen and twenty-six weeks ended June 26, 2019, the Company recognized $0.3 million and $0.6 million, respectively, of closed-store reserve expense, primarily related to the amortization of ROU Assets for closed stores. During the thirteen weeks ended June 27, 2018, we closed two restaurants in Texas, both of which were previously impaired during the third quarter of 2017. During the twenty-six weeks ended June 27, 2018, we closed four restaurants in Texas, all of which were previously impaired during the third quarter of 2017, and decided not to move forward with the development of a third location in Texas. This resulted in closed-store reserve expense of $2.3 million and $5.1 million for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

(e) During the thirteen and twenty-six weeks ended June 26, 2019, we completed the sale of four company-operated restaurants within the San Francisco area to an existing franchisee and seven company-operated restaurants in the Phoenix area to another existing franchisee. These sales resulted in cash proceeds of $4.8 million and a net loss on sale of restaurants of $0.9 million and $5.1 million, respectively. These restaurants are now included in our franchised restaurant totals.

(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 and twenty-six weeks ended June 26, 2019 and June 27, 2018, income tax receivable agreement (income) expense 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 "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.

	Twenty-Six Weeks Ended	
(Amounts in thousands)	**June 26, 2019**	**June 27, 2018**
Net cash provided by (used in)		
Operating activities	$ 12,859	$ 25,630
Investing activities	(1,128)	(13,952)
Financing activities	(7,419)	(7,143)
Net decrease in cash	$ 4,312	$ 4,535

Operating Activities

For the twenty-six weeks ended June 26, 2019, net cash provided by operating activities decreased by approximately $12.8 million from the comparable periods of the prior year. This was due primarily due to a $10.0 million payment, net of insurance reimbursements, related to our securities litigation settlement (see Note 7) and less favorable working capital fluctuations in the current period.

Investing Activities

For the twenty-six weeks ended June 26, 2019, net cash used in investing activities decreased by $12.8 million from the comparable period of the prior year. This was due primarily to opening no new company restaurants and completing three remodels in the twenty-six weeks ended June 26, 2019 compared to three new company restaurants and six completed remodels in the twenty-six weeks ended June 27, 2018, and cash proceeds of $4.8 million received related to the sale of four company-operated restaurants within the San Francisco area to an existing franchisee and seven company-operated restaurants in the Phoenix area to another existing franchisee.

For the year ending December 25, 2019, we expect to incur capital expenditures of $12.0 million to $15.0 million, consisting of $4.0 to $7.0 million related to new restaurants, $2.0 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 twenty-six weeks ended June 26, 2019, net cash used in financing activities increased by $0.3 million from the comparable period of the prior year. This was due primarily to an $18.2 million increase in cash outflow related to stock buybacks in the current period and net stock activity of $0.1 million. This was partially offset by an increase in net borrowings of $18.0 million on the revolving debt facilities during the twenty-six weeks ended June 26, 2019 compared to the twenty-six weeks ended June 27, 2018.

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 3.90% to 6.00% for each of the thirteen and twenty-six weeks ended June 26, 2019, respectively, and 3.60% to 3.70% and 3.30% to 3.70% for the thirteen and twenty-six weeks ended June 27, 2018, respectively.

The 2018 Credit Agreement contains certain financial covenants. The Company was in compliance with the financial covenants as of June 26, 2019.

At June 26, 2019, $8.5 million of letters of credit and $85.0 million of the 2018 Revolver were outstanding. The amount available under the 2018 Revolver was $56.5 million at June 26, 2019.

Contractual Obligations

Our contractual commitments outstanding on June 26, 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 June 26, 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 June 26, 2019, we had outstanding borrowings of $85.0 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 $0.9 million on an annualized basis.

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

Inflation

Inflation has an impact on food, paper, construction, utility, labor and benefits, general and administrative, and other costs, all of which can materially impact our operations. We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state, or local minimum wage, and increases in the minimum wage will increase our labor costs. In general, we have been able to substantially offset cost increases resulting from inflation by increasing menu prices, managing menu mix, improving productivity, or making other adjustments. We may not be able to offset cost increases in the future.

Commodity Price Risk

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

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

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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 the 2018 Stock Repurchase Program (as defined below) in the quarterly period ended June 26, 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
March 28, 2019 to April 24, 2019	282,371	$ 12.60	282,371	$ 12,079
April 25, 2019 to May 22, 2019	363,543	$ 11.78	363,543	$ 7,795
May 23, 2019 to June 26, 2019	657,368	$ 10.80	657,368	$ 693
Total	1,303,282		1,303,282	

On August 2, 2018, the Company announced that the Board of Directors had authorized a 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 "2018 Stock Repurchase Plan"), which allowed the repurchase of up to $20.0 million of the Company’s common stock. The 2018 Stock Repurchase Plan commenced purchases on November 6, 2018 and terminated on June 26, 2019.

On April 30, 2019, as part of the Company’s focus on shareholder returns, the Board of Directors approved a new 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, May 17, 2019 (the “2019 Stock Repurchase Plan”), which allowed for the repurchase up to $30.0 million of the Company’s outstanding common stock. The 2019 Stock Repurchase Program commenced purchases on June 27, 2019, and will terminate on March 25, 2020, if not terminated sooner by other provisions of the 2019 Stock Repurchase Program, and may also be suspended or terminated at any time upon prior notice.

Under the 2019 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

Number	Description	Filed Herewith	Form	Period Ended	Exhibit	Filing Date	SEC File Number
3.1	Amended and Restated Certificate of Incorporation of El Pollo Loco Holdings, Inc.		10-Q	6/25/2014	3.1	9/5/2014	001-36556
3.2	Amended and Restated By-Laws of El Pollo Loco Holdings, Inc.		10-Q	6/25/2014	3.2	9/5/2014	001-36556
10.1	Employment Agreement between Miguel Lozano and El Pollo Loco, Inc.		10-Q	3/27/2019	10.31	5/3/2019	001-36556
31.1	Certification of Principal Executive Officer under section 302 of the Sarbanes–Oxley Act of 2002	X					
31.2	Certification of Principal Financial Officer under section 302 of the Sarbanes–Oxley Act of 2002	X					
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	X					
101.SCH	XBRL Taxonomy Extension Schema Document	X					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X					

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

SIGNATURES

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

	El Pollo Loco Holdings, Inc.
	(Registrant)
August 2, 2019	/s/ Bernard Acoca
Date	Bernard Acoca President and Chief Executive Officer
August 2, 2019	/s/ Laurance Roberts
Date	Laurance Roberts Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, Bernard Acoca, certify that:

1. I have reviewed this quarterly report on Form 10-Q of El Pollo Loco Holdings, Inc.;

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ Bernard Acoca

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

Exhibit 31.2

CERTIFICATIONS

I, Laurance Roberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of El Pollo Loco Holdings, Inc.;

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

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

Date: August 2, 2019

/s/ Bernard Acoca

Bernard Acoca
President and Chief Executive Officer

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer