UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 27, 2017

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☒

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

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

As of June 28, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common equity held by non-affiliates was approximately $308 million deeming purely for purposes of this calculation all directors and executive officers, and Trimaran Pollo Partners, L.L.C. to be affiliates.

As of February 27, 2018, there were 38,661,850

shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III hereof incorporates by reference certain portions of the registrant's definitive proxy statement for its 2018 annual meeting of stockholders to be filed not later than 120 days after the end of the registrant's 2017 fiscal year.

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FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking. Those statements reflect our current views with respect to our business, future events, financial performance, and our industry in general. Statements that include the words such as “expect,” “intend,” "strive," “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “should,” and “anticipate” may be forward-looking. We base forward-looking statements on history, experience, expectations, and projections. Forward-looking statements address matters that involve risks and uncertainties. We caution you therefore not to place undue reliance on forward-looking statements. We make no guarantees regarding outcomes, and assume no obligations to update the forward-looking statements herein, except pursuant to law. A non-exhaustive list of factors that could cause outcomes to differ materially from our expectations includes:

- the adverse impact of economic conditions on our (i) operating results and financial condition, (ii) ability to comply with the terms and covenants of our debt agreements, and (iii) ability to pay or refinance our existing debt or to obtain additional financing;
- vulnerability to changes in consumer preferences and economic conditions;
- vulnerability to conditions in the greater Los Angeles area;
- vulnerability to natural disasters given the geographic concentration and real estate intensive nature of our business;
- ability to open new restaurants in new and existing markets, including difficulty in finding sites and in negotiating acceptable leases;
- delayed or canceled future restaurant openings;
- restaurant closures, due to financial performance or otherwise;
- increases in chicken and other input costs;
- negative publicity, whether or not valid;
- concerns about food safety and quality and about food-borne illness, particularly avian flu;
- dependence on frequent and timely deliveries of food and supplies;
- problems with our primary distributor;
- our history of net losses, including the possibility of future net losses;
- our ability to service our level of indebtedness;
- our ability to compete successfully with other quick-service and fast casual restaurants;
- underperformance of new menu items, advertising campaigns, and restaurant designs and remodeling activity;
- our reliance on our franchisees, who may incur financial hardships, lose access to credit, close restaurants, or declare bankruptcy;
- our limited control over our franchisees;
- potential liability for franchisee acts;
- ability to protect our name and logo and other proprietary intellectual property;
- loss of the abilities, experience, and knowledge of current directors and officers;
- difficulties in acclimating a new Chief Executive Officer ("CEO");
- matters relating to employment and labor laws;
- impact from litigation such as wage and hour class action lawsuits;
- labor shortages and increased labor costs;
- our ability and the ability of our franchisees to renew leases at the end of their terms;
- status of our relationships with franchisees;
- impact from federal, state, and local regulations relating to preparation and sale of food, zoning and building codes, and employee, environmental, taxation and other matters;
- impact from our income tax receivable agreement (the “TRA”);
- conflicts of interest with our largest stockholders;

- that El Pollo Loco Holdings, Inc. is a holding company with no operations that relies on its operating subsidiaries to provide it with funds;
- timing of our emerging growth company eligibility under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”);
- the impact of any security breaches of confidential customer information in connection with our electronic process of credit and debit card transactions;
- the impact of any failure of our information technology system or any breach of our network security;
- changes in accounting standards; and
- other risks described under Risk Factors.

PART I

Unless otherwise specified, or the context otherwise requires, terms “El Pollo Loco,” “the Company,” “our company,” “we,” “us,” and “our” mean El Pollo Loco Holdings, Inc. (“Holdings”), together with its subsidiaries.

ITEM 1. BUSINESS

Our Company

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. Every day in every restaurant, we marinate and fire-grill our chicken over open flames, and slice whole tomatoes, avocados, serrano peppers, and cilantro to make our salsas, guacamole, and cilantro dressings from scratch. The design of our kitchens reveals our Mexican-inspired cooking process and allows our customers to watch our Grill Masters and team members fire-grill and hand-cut our signature chicken, as well as team members make burritos, salads, tostadas, bowls, stuffed quesadillas, and chicken entrees.

We offer our customers healthier alternatives to traditional food on the go, served by our team members in a colorful, bright, and contemporary restaurant environment. We serve individual and family-sized chicken meals, a variety of Mexican-inspired entrees, and sides, and, throughout the year, on a limited-time basis, additional proteins like shrimp and beef. Our entrees include favorites such as our Chicken Avocado Burrito, Under 500 Calorie entrees, Double Pollo Bowl, and Stuffed Chicken Avocado Quesadilla. Our famous Creamy Cilantro dressings and salsas are prepared fresh daily, allowing our customers to create their favorite flavor profiles to enhance their culinary experience. Our distinctive menu with healthier alternatives appeals to consumers across a wide variety of socio-economic backgrounds and drives our balanced composition of sales throughout the day (our “day-part mix”), including at lunch and dinner.

El Pollo Loco is Spanish for “The Crazy Chicken.” We were organized as a Delaware corporation in 2005. We opened our first location on Alvarado Street in Los Angeles, California, in 1980, and have grown our restaurant system to 477 restaurants, comprised of 212 company-operated and 265 franchised restaurants as of December 27, 2017. Our restaurants are located in California, Arizona, Nevada, Texas, and Utah. Our typical restaurant is a free-standing building with drive-thru service that ranges in size from 2,200 to 3,000 square feet with seating for approximately 50-70 people.

The Company operates in one operating segment. Financial information about our operations, including our revenues and net income for fiscal 2017, 2016 and 2015, and our total assets as of the end of fiscal 2017 and 2016, is included in our consolidated financial statements and accompanying notes, see Item 8, "Financial Statements and Supplementary Data."

Our Industry

The restaurant industry is divided into two segments: full service and limited service. Full service is comprised of the casual dining, mid-scale, and fine dining sub-segments. Limited service is comprised of the QSR and fast casual sub-segments. QSRs are traditional fast food restaurants with average check sizes of $3.00 to $8.00. Fast casual is a limited or self-service format with average check sizes of $8.00 to $12.00 that offers food prepared to order within a generally more upscale and developed establishment.

We operate within the broader LSR segment, and we strive to offer the food and dining experience of a fast casual restaurant and the speed, value, and convenience of a QSR. We strive to offer the method of preparation, quality of food, and dining experience typical of fast casual restaurants.

Our Competitive Strengths

We believe that the following strengths differentiate us from our competitors and serve as the foundation for our continued growth:

Differentiated Restaurant Concept with Broad Appeal. We believe that our food, served in contemporary restaurant environments at reasonable prices, positions us well to satisfy the needs of a large segment of time-pressured mainstream food enthusiasts who seek real food, real fast, and at reasonable prices. We provide our customers with the opportunity to enjoy citrus-marinated fire-grilled chicken and Mexican-inspired entrees containing distinctive ingredients such as avocados, mangos, and serrano peppers at price points that appeal to a broad consumer base. We believe that our entree prices are typically lower than the fast casual segment, and a slight premium to the QSR segment. We prepare our entrees to order in approximately four minutes and allow our customers the option to create their favorite flavor profiles using our freshly-prepared salsas before they enjoy their meals in our dining rooms or take their meals to go from the counter or the drive-thru. We also believe that our concept, which integrates the complexity of creating real food in real kitchens with the speed of our service model and the skill of our trained Grill Masters, provides a layer of competitive insulation around our restaurant model. We believe that our positioning appeals to a broad customer base, and that our brand crosses over traditional age, ethnic, and income demographics, giving consumers the best of both the fast casual and QSR segments. We seek to position ourselves as a differentiated QSR+ business, which we believe sources traffic from both dining segments and, as a result, we expect it to drive transaction growth in the future.

Mexican-Inspired, Fresh-Made Fire-Grilled Chicken and Entrees. Our signature product is our chicken, marinated with a proprietary recipe of citrus juice, garlic, and spices, which serves as the foundation of our distinctive menu of flavorful bone-in chicken meals and Mexican-inspired entrees. With menu items such as our Chicken Avocado Burrito, Chicken Tostada Salad, Pollo Bowl®, and Chicken Avocado Stuffed Quesadilla, we believe that we offer our customers a healthier alternative to traditional food on-the-go. Our entrees are prepared using fresh ingredients with recipes inspired by Mexican cuisine. The majority of our menu items are made from scratch, including our bone-in chicken and chicken breasts, rice, salsas, and cilantro dressing, meaning that we make them without pre-prepared ingredients. These items start with our chicken, which is marinated in our restaurants daily. From there, our Grill Masters fire-grill and hand-chop our chicken, forming the foundation for our entrees. To complement our entrees, our team members prepare tomatoes, avocados, serrano peppers, and cilantro to create our salsas, and cilantro dressings. In addition, our rice is seasoned, and simmered in our restaurants daily.

Our bone-in chicken meals and Mexican-inspired entrees accounted for 46% and 54% of our company-operated restaurant sales, respectively, in 2017. Our individual and family-sized chicken meals appeal to customers looking to dine at the restaurant or take out during dinnertime, while our more-portable Mexican-inspired entrees draw traffic from customers at lunchtime or for an afternoon snack, enabling us to generate sales almost equally between lunch and dinner. We believe that our family-sized chicken meals provide a healthier and convenient alternative for mothers and families looking to solve the “dinnertime dilemma” of providing their families with high-quality meals without investing significant time or money. In 2017, approximately 28% of our company-operated sales were generated from family-sized meals.

Inviting Experience that Welcomes Our Customers. We believe that our restaurant design creates an inviting restaurant environment. The interiors of our restaurants feature large, open kitchens that allow customers to watch our Grill Masters prepare our fire-grilled chicken. Our restaurants also feature complimentary self-serve salsa bars showcasing our variety of fresh salsas. The salsa bars invite customers to customize their meals with several salsas prepared in our kitchens every day. Our dining rooms include comfortable booths and chairs, while large windows and soft lighting fill our restaurants with light and warmth.

We believe that the atmosphere and quality of service that we strive to provide to our customers encourages repeat visits and brand advocacy and drives increased sales. Our team members are trained to engage with our customers in a genuine way to provide a personalized experience, and strive to make each experience in our restaurant better than the last.

Well-Developed Operations Infrastructure that Allows for Real-Time Control, Fast Feedback, and Innovation. We believe that satisfying our customers’ dining needs is the foundation for our business, and we have a well-developed operations platform that allows us to measure our performance in meeting and exceeding those needs. We utilize an operations dashboard that aggregates real-time, restaurant-level information for many aspects of our business. The dashboard provides corporate and field management, as well as restaurant-level operators, with insight into how we are performing both from the customer’s perspective and also through the eyes of experienced third-party auditors.

Developing High Average Unit Volumes (“AUVs”) and Strong Unit Economics One Chicken at a Time. We seek to position ourselves as a differentiated QSR+ business, which we believe drives restaurant operating results that are competitive with other leading restaurant concepts in both the fast casual and QSR industry segments. We believe that our restaurant model is designed to generate strong cash flow, consistent restaurant-level financial results, and high returns on invested capital. In 2017, our company-operated restaurants generated average annual sales per restaurant of approximately $1.8 million and restaurant-level contribution margins of 19.8%.

Experienced Leadership. Our senior management team has extensive operating experience, with an average of over 20 years of experience each in the restaurant industry. Effective March 12, 2018, we will be led by our new President and Chief Executive Officer, Bernard Acoca. Our current CEO, Stephen J. Sather will retire as CEO effective March 12, 2018. Mr. Sather will serve in an advisory role for a short period of time to help facilitate the transition. See "Recent Developments."

Other members of the senior leadership team include Larry Roberts as our Chief Financial Officer, Ed Valle as our Chief Marketing Officer and Gus Siade as our Senior Vice President, Operations.

Our Growth Strategy

We believe that we are well-positioned for sales growth because of our QSR+ strategy, signature fire-grilled chicken, disciplined business model, and strong unit economics. We plan to continue to expand our business, drive restaurant sales growth, maintain strong margins, and enhance our competitive positioning by executing on the following strategies:

Expand Our Restaurant Base. As discussed below under "—Site Selection and Expansion—New Restaurant Development," we plan to continue to expand our restaurant base.

While most of our growth in 2017 was derived from the expansion of our company-operated restaurant base, we will continue to strategically develop our franchisee relationships and grow our franchised portfolio within existing and new markets.

We believe that our restaurant model is designed to generate strong cash flow, attractive restaurant-level financial results, and high returns on invested capital. Our current investment model targets an average new unit cash investment of approximately $0.8 to $1.7 million, net of tenant allowances, and in a restaurant's third full year of operations, an AUV of approximately $1.8 million and a cash-on-cash return in excess of 20%, although there is no guarantee that these targets will be met. New restaurant performance in outer markets, which include San Francisco/San Jose, Sacramento, Phoenix, Houston and Dallas have been mixed, but are currently below our expectations overall.

Increase Our Comparable Restaurant Sales. Our system has experienced annual comparable restaurant sales growth for seven consecutive years through our fiscal year ended December 27, 2017. We aim to build on this momentum by increasing customer frequency, attracting new customers, and improving per-person spend. Furthermore, we believe that we are well positioned to benefit from shifting culinary and demographic trends in the United States.

Menu Strategy and Evolution. We will continue to adapt our menu to create entrees that complement our signature fire-grilled chicken and that reinforces our QSR+ strategy. We believe that we have opportunities for menu innovation as we look to increase customer frequency. In addition, we will continue to tap in to the need for healthier offerings by building on the success of our popular "Under 500 Calorie" menu and other "better for you" products. Our marketing and operations teams collaborate to ensure that the items developed in our test kitchen can be executed to our high standards in our restaurants with the speed and value that our customers have come to expect.

Increase Brand Awareness and Consumer Engagement. We engage customers through our 9-module product calendar, which features seasonal favorites from our "Under 500 Calorie" low calorie menu to Chicken Tostada Salads, and Stuffed Quesadillas. Our key points of differentiation are communicated through our advertising campaign, which highlights the brand's authenticity and our Grill Masters' expertise and dedication to high-quality grilled chicken. We tailor our message from television and direct mail, which garners broad exposure, to our Loco Rewards loyalty program and social media platform where we engage in one-to-one marketing.

The Loco Rewards loyalty program was launched on June 13, 2017. As of December 27, 2017, there were 512,842 members in the Loco Rewards loyalty program. The program offers one point for every dollar customers spend and a $10 reward when they achieve 100 points. Customers earn points primarily by scanning the El Pollo Loco app on Apple iOS or Android at the point of purchase, or by using the app to scan the barcode on their paper receipt anytime within 24 hours of their purchase. We build segmented dynamic campaigns with the goals of reducing the number of days lapsed since each customer's last visit, increasing visit frequency and increasing overall spend.

Within our restaurants we continue to engage our customers with point-of-purchase marketing material at various points along their path to purchase to further drive our differentiation.

Restaurant Design. In 2016 we launched our newest restaurant design called Vision. 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 December 27, 2017, including new builds and remodels, we had 44 restaurants open with the Vision design in our system.

Maintain Strong Margins. Since 2011, we have increased our restaurant contribution margin by 113 basis points. While rising labor costs as a result of tighter labor markets and rising minimum wages, along with moderate commodity inflation, continue to challenge unit profitability, we believe we can maintain strong margins through a combination of growing sales, price increases, labor efficiencies and other cost savings.

Site Selection and Expansion

Restaurant Development

We believe that our restaurant model is designed to generate strong cash flow, attractive restaurant-level financial results, and high returns on invested capital, which we believe provide us with a strong foundation for unit growth over the long-term. In

2017, we opened 16 new company-operated restaurants and 7 new franchised restaurants. New restaurant performance in outer markets, which include San Francisco/San Jose, Sacramento, Phoenix, Houston and Dallas has been mixed, but is currently below our expectations overall.

In 2014, we opened our first Houston restaurant and by the end of 2017, we had 12 company locations, and two franchised locations in Houston. Additionally, in 2016, we launched the El Pollo Loco brand in the Dallas-Fort Worth market, where we ended 2017 with seven company-operated and four franchised restaurants. We have previously announced that sales and profit performance in the Houston and Dallas-Fort Worth markets are below our expectations. While we continue to execute operations and marketing initiatives to improve the sales and profit performance, we are slowing our growth in Houston and Dallas-Fort Worth. As a result, we expect that overall unit development in 2018 will be lower than 2017. During 2017, we closed four restaurants in Texas and one restaurant in Arizona. For a discussion of the impairment of these restaurants, see Item 1A, Risk Factors—Risks Related to Our Business and Industry—We have incurred, and may continue to incur, significant impairment of certain of our assets, in particular in our new markets.

In fiscal 2018, we intend to open 6 to 8 new company-operated and 6 to 8 new franchised restaurants. There is no guarantee that we will be able to open new company-operated or franchised restaurants, or to increase the overall number of our restaurants. We may be unsuccessful in expanding within existing or into new markets for a variety of reasons described in Item 1A, "Risk Factors," including competition for customers, sites, franchisees, employees, licenses, and financing.

Site Selection Process

We consider the location of a restaurant to be a critical variable in its long-term success and as such, we devote significant effort to the investigation and evaluation of potential restaurant locations. Our in-house development team has extensive experience building such brands as Taco Bell, Starbucks, Hardee's, Jack-in-the-Box, Wendy's, Denny's, Johnny Rockets and Dunkin' Brands. We use a combination of our in-house development team and outside real estate consultants to locate, evaluate, and negotiate new sites using various criteria, including demographic characteristics, daytime population thresholds, and traffic patterns, along with the potential visibility of, and accessibility to, the restaurant. The process for selecting locations incorporates management's experience and expertise and includes extensive data collection and analysis. Additionally, we use information and intelligence gathered from managers and other restaurant personnel that live in or near the neighborhoods that we are considering.

Based on our experience and results, we are currently focused on developing freestanding sites with drive-thrus. Our restaurants perform well in a variety of neighborhoods, which gives us greater flexibility and lowers operating risk when selecting new restaurant locations.

We approve new restaurants only after formal review by our real estate site approval committee, which includes most of our senior management, and we monitor restaurants' on-going performances to inform future site selection decisions.

Restaurant Construction

After identifying a lease site, we commence our restaurant build-out. Our new restaurants are either ground-up prototypes or conversions. We estimate that each ground-up build-out of a restaurant requires an average total cash investment of approximately $1.6 to $1.7 million, net of tenant allowances. We estimate that each conversion requires a total cash investment of approximately $0.8 to $1.1 million. On average, it takes approximately 12 to 18 months from specific site identification to restaurant opening. In order to maintain consistency of food and customer service, as well as our colorful, bright, and contemporary restaurant environment, we have set processes and timelines to follow for all restaurant openings.

Our restaurants are constructed in approximately 12 to 15 weeks, and the development and construction of our new sites is the responsibility of our development department. A conversion typically takes approximately two months to complete. One real estate manager and one real estate director are responsible for locating and leasing potential restaurant sites. Construction managers are then responsible for building our restaurants, and several staff members manage purchasing, budgeting, scheduling, and other related administrative functions.

Restaurant Management and Operations

Service

We are extremely focused on customer service. We aim to provide fast, friendly service on a solid foundation of dedicated, driven team members and managers. Our cashiers are trained on the menu items that we offer, and offer customers thoughtful suggestions to enhance the ordering process. Our team members and managers are responsible for our service and dining room environment, with a focus on hospitality, team members seek to engage in conversation with our customers to ensure satisfaction. In addition, constant monitoring of the dining room occurs to ensure the fresh salsa bar and beverage station are clean and supplied with products.

Operations

We utilize systems that are aimed at measuring our ability to deliver a “best in class” experience for our customers. These systems include customer surveys, mystery shopper scores, and speed-of-service performance trends. The operational results from all of these sources are then presented on an operations dashboard that displays the measures in an easy-to-read online format that corporate and restaurant-level management and franchisees can utilize in order to identify strengths and opportunities and to develop specific plans for continuous performance improvement.

We have food safety and quality assurance programs designed to maintain the highest standards for the food and the food preparation procedures that are used by both company-operated and franchised restaurants. We have a quality assurance team and employ third-party auditors that perform our work place and food safety restaurant audits.

Managers and Team Members

Each of our restaurants typically has a general manager, an assistant manager, and two to three shift leaders. There are between 20 and 35 team members per restaurant, who prepare our food fresh daily and provide customer service. To lead our restaurant management teams, we have area leaders, each of whom is responsible for eight to 12 restaurants. Overseeing the area leaders are three directors of operations who report to a senior director of operations. An additional senior director of operations oversees our area leaders in Texas. Our franchise operations are supported by three directors of franchise who report to a vice president of franchise operations. Our senior vice president of operations leads our company-operated restaurants, managing sales, profitability, customer service targets, and franchise operations support.

Training

Our people are the center of the El Pollo Loco customer experience. Creating a culture of constant learning has been essential in equipping our people with the skills to deliver our high standards and commitments to our guests and employees. We strive to find ways to simplify our methodology and invest in elevating our people. In a rapidly evolving landscape, effective training is not only dependent on quality of content, but also on method of delivery. To engage our growing base of millennial employees, we employ a Learning Management System called Pollo Zone, our tablet-based learning tool. This platform is a central hub for all training efforts and features individual learner profiles to support engagement and accountability on our path toward investing in our people and their growth.

Franchise Program

We use a franchising strategy to increase new restaurant growth in certain markets, leveraging the ownership of entrepreneurs with specific local market expertise, and requiring a relatively minimal capital commitment by us. As of December 27, 2017, there were a total of 265 franchised restaurants. Franchisees range in size from single-restaurant operators to the largest franchisee, which owned 61 restaurants as of December 27, 2017. Our existing franchise base consists of many successful, longstanding, multi-unit restaurant operators. As of December 27, 2017, approximately 75% of franchised restaurants were owned and operated by franchisees that had been with us for over 20 years.

We believe that the franchise revenue generated from our franchise base has historically served as an important source of stable and recurring cash flows to us, and we accordingly plan to expand our base of franchised restaurants. In existing markets, we encourage growth from current franchisees. In our expansion markets, we seek highly-qualified and experienced new franchisees for multi-unit development opportunities.

We believe that creating a foundation of initial and on-going support is important for future success, both for our franchisees and for our brand. Therefore, we have structured our corporate staff, programs, and communication systems to ensure that we are delivering high-quality support to our franchisees.

Our franchise training program is a key element in ensuring our franchise owners and their managers are equipped with the knowledge and skills necessary for success. The program introduces new franchise members to El Pollo Loco with hands-on training in the operation and management of our restaurants. This foundational training is conducted by a general training manager who has been certified by our operations group. Training must be successfully completed before a trainee can be assigned to a restaurant as a manager.

Once introductory training has been completed, we offer a path toward constant learning for all crew members by providing instructional materials that span management training, operations, new product introductions, food safety and a number of other essential restaurant functions. Many of these programs are distributed through Pollo Zone, as a central hub for all training efforts and features individual learner profiles that will provide our franchise owners with real-time access to the progress of learning in their restaurants.

Marketing and Advertising

We promote our restaurants and products emphasizing our points of differentiation, from our fresh ingredients and scratch preparation, to the cooking of our citrus-marinated chicken on open fire grills in full view in our kitchens.

We use multiple marketing channels, including television, digital, and print, to broadly drive brand awareness and purchases of our featured products. We advertise on local broadcast and cable television.

Through our public relations efforts, we engage notable food editors and bloggers on a range of topics to help promote our products. In addition, we engage in one-on-one conversations using a portfolio of social media platforms, including Facebook, Instagram and Twitter. We also use social media as a research and customer service tool, and apply insights gained to future marketing efforts.

Our Loco Rewards loyalty program uses points, rewards, and offers to build engagement and sales by campaigning to customers on a one-to-one basis. Customers access the program on elpolloloco.com and the El Pollo Loco iOS Apple and Android app. We build segmented dynamic campaigns with the goals of reducing the number of days lapsed since each customer’s last visit, increasing visit frequency and increasing overall spend. To keep customers engaged with the program, unannounced offers, called "Surprise and Delights" are awarded based on that customer’s transaction history. We communicate offers, points updates and other Loco Rewards campaigns to customers via in-app messaging, mobile phone push notifications and email.

Our online ordering program makes it easy for customers to skip the line and order ahead. Available for every location and accessible from elpolloloco.com or the El Pollo Loco mobile app, any order can be placed and paid for before arriving at the restaurant. For additional convenience, as of December 27, 2017, 66 company and 38 franchise locations offered integrated delivery through third party services such as Uber Rush. The delivery fee, which on average is $7.67, is passed through to the customer.

In September 2017, El Pollo Loco participated in Share our Strength’s No Kid Hungry campaign at participating locations.
Through point-of-purchase marketing, social media and public relations, we campaigned for customers to donate $1, $5 or any other amount to the charity. For a $1 donation a free churro certificate was given to the customer valid on their next visit. Customers donating $5 received a coupon book with over $35 dollars in savings on future visits to El Pollo Loco. During the 5 week promotion, we raised approximately $0.2 million for the campaign, which aims to reduce childhood hunger by funding breakfasts and lunches for children in need throughout the United States. In 2004 we created El Pollo Loco Charities, a non-profit charity, to support the communities surrounding our restaurants. El Pollo Loco Charities has provided over 10,000 meals per year to underprivileged families, through organizations like Food on Foot, Habitat for Humanity, Children’s Institute, and Court Appointed Special Advocates (“CASA”). In 2017, El Pollo Loco Charities also provided donations for Hurricane Harvey and Hurricane Maria disaster relief.

Purchasing and Distribution

Maintaining a high degree of quality in our restaurants depends in part on our ability to acquire fresh ingredients, and other necessary supplies that meet our specifications, from reliable suppliers. We regularly inspect our vendors to ensure that products purchased conform to our standards and that prices offered are competitive. We have a quality assurance team and third party accredited auditors that perform comprehensive supplier audits on a frequency schedule based on the potential food safety risk for each product. We contract with McLane Company (our “primary distributor”), a major foodservice distributor, for substantially all of our food and supplies, including the poultry that our restaurants receive from suppliers. Our primary distributor delivers supplies to most of our restaurants three times per week. Our restaurants in Texas utilize regional distributors for produce. Our franchisees are required to use our primary distributor or an approved regional distributor, and franchisees must purchase food and supplies from approved suppliers. Poultry is our largest product cost item and represented approximately 40% of our total food and paper costs for 2017. Fluctuations in supply and in price can significantly impact our restaurant service and profit performance. We actively manage cost volatility for poultry by negotiating with multiple suppliers and entering into what we believe are the most favorable contract terms given existing market conditions. In the past, we have entered into contracts ranging from two months to three years, depending on current and expected market conditions. We currently source poultry from six suppliers, with two accounting for approximately 75% of our planned purchases for fiscal 2018. We have fixed prices for 100% of our poultry supply through the end of 2018.

Intellectual Property

We have registered El Pollo Loco ® , Pollo Bowl ® , The Crazy Chicken ® , and certain other names used by our restaurants as trademarks or service marks with the U.S. Patent and Trademark Office (the “PTO”), and El Pollo Loco ® in approximately 42 foreign countries. In addition, the El Pollo Loco logo, website name and address, Facebook, Twitter, Instagram and YouTube accounts are our intellectual property. Our policy is to pursue and maintain registration of service marks and trademarks in those countries where business strategy requires us to do so, and to oppose vigorously any infringement or dilution of the service marks or trademarks in those countries. We maintain the recipe for our chicken marinade, as well as certain proprietary standards, specifications, and operating procedures, as trade secrets or as confidential proprietary information.

Competition

We operate in the restaurant industry, which is highly competitive and fragmented. The number, size, and strength of competitors varies by region. Our competition includes a variety of locally-owned restaurants and national and regional chains that offer dine-in, carry-out, and delivery services. Our competition from the broadest perspective includes restaurants, pizza parlors, convenience food stores, delicatessens, supermarkets, and club stores. There are no significant direct competitors with respect to menus that feature marinated, fire-grilled chicken. However, we indirectly compete with fast casual restaurants, including Chipotle, Panera, Qdoba, Rubio's, and Taco Cabana, among others, and with chicken-specialty QSRs and Mexican QSRs, such as Chick-fil-A, Church's Chicken, KFC, Popeyes Louisiana Kitchen, and Taco Bell, among others.

We believe that competition within the fast casual restaurant segment is based primarily on ambience, price, taste, quality, and freshness of menu items, as well as on the convenience of drive-thru service. We also believe that QSR competition is based primarily on quality, taste, speed of service, value, brand recognition, restaurant location, and customer service. In addition, we compete with franchisors of other restaurant concepts for prospective franchisees.

Environmental Matters

Our operations are also subject to federal, state, and local laws and regulations relating to environmental protection, including regulation of discharges into the air and water, storage and disposal of waste, and clean-up of contaminated soil and groundwater. Under various federal, state, and local laws, an owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, in, or emanating from that property. Such liability may be imposed without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances.

Certain of our properties may be located on sites that we know or suspect have been used by prior owners or operators as retail gas stations. Such properties previously contained underground storage tanks ("USTs"), and while we are not aware of any sites with USTs remaining, it is possible that some of these properties may currently contain abandoned USTs. We are aware of contamination from a release of hazardous materials by a previous owner at two of our owned properties and one of our leased properties. We do not believe that we have contributed to the contamination at any of these properties. The appropriate state agencies have been notified, and these issues are being handled without disruption to our business. It is possible that petroleum products and other contaminants may have been released at other properties into the soil or groundwater. Under applicable federal and state environmental laws, we, as the current owner or operator of these sites, may be jointly and severally liable for the costs of investigation and remediation for any contamination. Although we lease most of our properties, and, when we own, we obtain certain assurances from the prior owner or often obtain indemnity agreements from third parties, we cannot assure you that we will not be liable for environmental conditions relating to our prior, existing, or future restaurants or restaurant sites. If we were found liable for the cost of remediation of contamination at, or emanating from, any of our properties, our operating expenses would likely increase and our operating results would likely be materially and adversely affected.

Since 2000, we have obtained "Phase One" environmental reports for new restaurants. Where warranted, we obtain updated reports, and, if necessary, in rare cases, we obtain "Phase Two" reports. We have not conducted a comprehensive environmental review of all of our properties or operations. No assurance can be given that we have identified all of the potential environmental liabilities at our properties or that such liabilities will not have a material adverse effect on our financial condition.

Regulation and Compliance

We are subject to extensive federal, state, and local government regulations, including those relating to, among other things, public health and safety, zoning and fire codes, and franchising. Failures to obtain or retain food or other licenses and registrations, or exemptions thereto, would adversely affect the operations of restaurants. Although we have not experienced, and do not anticipate, any significant problems in obtaining required licenses, permits, or approvals, any difficulties, delays, or failures in obtaining such licenses, permits, registrations, exemptions, or approvals could delay or prevent the opening of, or adversely impact the viability of, a restaurant in a particular area.

The development and construction of additional restaurants will be subject to compliance with applicable zoning, land use and environmental regulations. We believe that federal and state environmental regulations have not had a material effect on operations, but more stringent and varied requirements of local government bodies with respect to zoning, land use, and environmental factors could delay construction and increase development costs for new restaurants.

We are also subject to the Fair Labor Standards Act, the Immigration Reform and Control Act of 1986, and various federal, state and local laws governing such matters as minimum wages, overtime, unemployment tax rates, workers' compensation rates, citizenship requirements, and other working requirements and conditions. A significant portion of our hourly staff is paid at rates consistent with the applicable federal, state, or local minimum wage and, accordingly, increases in the applicable minimum wage will increase our labor costs. We are also subject to the Americans with Disabilities Act, which prohibits discrimination on the basis of disability in public accommodations and employment, and which may require us to design or modify our restaurants to make reasonable accommodations for disabled individuals.

For a discussion of the various regulatory and compliance risks that we face, see Item 1A, "Risk Factors."

Management Information Systems

All of our company-operated and franchised restaurants use computerized point-of-sale and back-office systems, which we believe can scale to support our long-term growth plans. Our point-of-sale system provides a touch-screen interface and is integrated with segmented EMV tokenized high speed credit and gift card processing hardware. Our point-of-sale system is used to collect daily transaction data, which provides daily sales and product mix information that we actively analyze.

Our in-restaurant back-office computer system is designed to assist in the management of our restaurants and to provide labor and food cost management tools. The system also provides corporate headquarters and restaurant operations management quick access to detailed business data, and reduces the time spent by restaurant managers on administrative needs. The system further provides sales, bank deposit, and variance data to our accounting department on a daily basis. For company-operated restaurants, we use this data to generate weekly consolidated reports regarding sales and other key measures, as well as preliminary weekly profit and loss statements for each location, with final reports following the end of each period.

Employees

As of December 27, 2017, we had approximately 5,637 employees, of whom approximately 5,477 were hourly restaurant employees comprised of 4,536 crewmembers, 204 general managers, 231 assistant managers, 378 shift leaders, and 128 employees in limited-time roles as acting managers or as managers in training. The remaining 160 employees were corporate and office personnel. None of our employees are part of a collective bargaining agreement, and we believe that our relationships with our employees are satisfactory.

Seasonality

Seasonal factors, including weather 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 transactions 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 restaurant revenue and comparable restaurant sales may fluctuate.

Recent Developments

As disclosed in our Current Report on Form 8-K filed on February 28, 2018, our board of directors appointed Bernard Acoca as the Company's President and CEO and as a Director of the Board, effective March 12, 2018. Mr. Acoca will serve as a Class I director, which class will stand for re-election at the 2018 annual meeting of stockholders. Mr. Acoca will succeed Steve Sather, who previously announced his intent to retire during fiscal 2017. Mr. Sather has agreed to remain as an employee of the Company in the capacity as Special Advisor through March 31, 2018 in order to assist the Company with the transition to the new CEO

On February 15, 2018, we entered into an employment agreement with Mr. Acoca,, filed herewith as Exhibit 10.29, which sets forth the terms and conditions under which he will serve as the Company's President and CEO. The term of the agreement will commence on March 12, 2018 and will expire on the fifty-month anniversary thereof, provided that the term will automatically extend for an additional one-year period on each expiration date thereof (with non-renewal thereof by us treated the same as termination without cause). Mr. Acoca will receive an initial annual base salary of $550,000, a target annual bonus equal to 100% of base salary and, starting in 2019, an annual discretionary equity grant, as determined by the Board of Directors. During the term of the employment agreement Mr. Acoca will be entitled to employee benefits on the same basis as those generally available to other senior executives. Mr. Acoca will also be entitled to at least four weeks of vacation per year and an automobile allowance substantially similar to that provided to other similarly situated senior executives.

The employment agreement provides that in connection with his hiring Mr. Acoca will receive a one-time sign-on grant of approximately $750,000 worth of time-vested options (vesting ratably over four years), approximately $1,000,000 worth of time-vested restricted stock units or restricted shares (vesting ratably over four years) and approximately $750,000 worth of performance-vested restricted stock units or restricted shares (50% vesting upon achievement of $15 stock price and 50% upon achievement of $20 stock price, in each case during a minimum of 20 consecutive trading days prior to the 5th anniversary of grant or, if earlier, in connection with the occurrence of a change in control, as such term is defined in the employment agreement). Mr. Acoca will also be entitled to a one-time lump sum payment equal to $250,000, provided that Mr. Acoca is obligated to repay such amount if his employment is terminated without good reason or for cause, as such terms are defined in the employment agreement, within one year of March 12, 2018 and he will repay half of such amount if his employment is terminated without good reason or for cause between the twelve and eighteen month anniversaries of March 12, 2018. Mr. Acoca is also entitled to a $100,000 lump sum payment in order to assist with relocation expenses.

The employment agreement provides that in the event that Mr. Acoca's employment is terminated due to death or disability he will be entitled to a prorated annual bonus for the year of termination based on actual performance. The employment agreement also provides that in the event that Mr. Acoca's employment is terminated without cause or for good reason, then he will be entitled to receive a prorated annual bonus for the year of termination based on actual performance and continuation of payment of base salary for eighteen months, subject, in each case, to the execution of a general release and compliance with applicable restrictive covenants. In the event that Mr. Acoca's employment is terminated without cause or for good reason within two years following a change in control, except for performance vesting awards with respect to which performance under their terms is tested at the time of a change in control, Mr. Acoca will be entitled to accelerated vesting of his outstanding equity awards with performance vesting conditions deemed achieved at target, subject to the execution of a general release and compliance with applicable restrictive covenants.

The employment agreement contains a perpetual confidentiality covenant, a one-year post-termination non-interference covenant applicable to the Company's relationships with suppliers, customers and partners and a one-year post-termination non-solicitation covenant applicable to Company employees. Mr. Acoca is being indemnified under the Company's standard director and officer indemnification agreement

On February 28, 2018, we entered into a retirement agreement with Mr. Sather, filed herewith as Exhibit 10.30. Under the terms of the agreement, Mr. Sather agreed to remain as Special Advisor through March 31, 2018; Mr. Sather will continue to receive his standard compensation and benefits until March 31, 2018; and we agreed to accelerate the vesting of his options which would have otherwise vested in May 2018 (options with respect to 33,545 shares) and to extend the exercise ability of all of his vested and outstanding options until the expiration of the original term of such options (i.e., disregarding the termination of his employment). Mr. Sather will continue to abide by all of his restrictive covenants and has agreed to provide us with ongoing cooperation in certain matters for which he has knowledge prior to his termination.

Available Information

We make available free of charge on our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (15 U.S.C. 78m(a) or 78o(d)), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our Internet address is www.elpolloloco.com. The contents of our Internet website are not part of this annual report, and are not incorporated by reference. Our Internet address is provided as an inactive textual reference only.

The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at http://www.sec.gov.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors, as well as other information contained in this report, including our financial statements and the notes related to those statements. The occurrence of any of the following risks could materially and adversely affect our business, prospects, financial condition, results of operations, and cash flow.

Risks Related to Our Business and Industry

A prolonged economic downturn could materially affect us in the future.

The restaurant industry is dependent upon consumer discretionary spending. A prolonged economic downturn or an economic recession could impact the public's ability and desire to spend discretionary dollars as a result of job losses, home foreclosures, significantly-reduced home values, investment losses, bankruptcies, and reduced access to credit, which could result in lower levels of customer transactions and lower average check sizes in our restaurants. If the economy experiences another significant decline, our business, results of operations, and ability to comply with the terms of our secured revolving credit facility could be materially and adversely affected, and we and our franchisees might decelerate the number and timing of new restaurant openings. Deterioration in customer transactions or a reduction in average check size would negatively impact our revenues and our profitability and could result in further reductions in staff levels, additional impairment charges, and potential restaurant closures.

We are vulnerable to changes in consumer preferences and economic conditions that could harm our business, financial condition, results of operations, and cash flow.

Food service businesses depend on consumer discretionary spending and are often affected by changes in consumer tastes, national, regional, and local economic conditions, and demographic trends. Factors such as traffic patterns, weather, fuel prices, local demographics, and the type, number, and locations of competing restaurants may adversely affect the performances of individual locations. In addition, economic downturns, inflation, or increased food or energy costs could harm the restaurant industry in general and our locations in particular. Adverse changes in any of these factors could reduce consumer transactions or impose practical limits on pricing that could harm our business, financial condition, results of operations, and cash flow. There can be no assurance that consumers will continue to regard chicken-based or Mexican-inspired food favorably or that we will be able to develop new products that appeal to consumer preferences. Our business, financial condition, and results of operations depend in part on our ability to anticipate, identify, and respond to changing consumer preferences and economic conditions.

Political and social factors, including regarding trade, immigration or customer preferences, could negatively impact our business.

Our success is dependent upon continued customer acceptance of our Mexican-inspired food. Increases in tariffs, restrictions on trade, or other deterioration in American political or economic relations with Mexico, or a decrease in American consumers' interest in Mexican-inspired food, could harm our brand and profitability. Additionally, changes in trade, labor, or immigration policy could raise our input prices, or reduce the supply of immigrants who are in many cases our customers or employees, diminishing our sales and increasing our labor costs.

Our business is geographically concentrated in the greater Los Angeles area, and we could be negatively affected by conditions specific to that region.

Our company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 73% of our revenue in fiscal 2017 and approximately 75% in fiscal 2016. Adverse changes in demographic, unemployment, economic, or regulatory conditions in the greater Los Angeles area or in the State of California, including, but not limited to, enforcement policies for and changes in immigration law, have had and may continue to have material adverse effects on our business. We believe that an increase in unemployment would have a negative impact on transactions in our restaurants. As a result of our concentration in the greater Los Angeles area, we have been disproportionately affected by the above adverse economic conditions as compared to other national chain restaurants.

Our business is vulnerable to natural disasters given its geographic concentration and real estate intensive nature.

Since our business is geographically concentrated in the greater Los Angeles area, we could be negatively affected by weather conditions specific to that region, including fires, earthquakes, or other natural disasters. Additionally, outside of Los Angeles, many of our restaurants are clustered around major cities in Northern California, Texas, and elsewhere, and prolonged or severe inclement weather could affect our sales at restaurants in locations that experience such conditions. Localized disasters, especially exacerbated by climate change, including wildfires, hurricanes, and flooding, could impair our assets and operations in those areas. For example, in the third quarter of 2017, the Houston metropolitan area was impacted by Hurricane Harvey and resultant flooding. This caused for us, among other effects, temporary store closures and food spoilage. We may also suffer unexpected losses resulting from natural disasters or other catastrophic events affecting our areas of operation, such as earthquakes, fires, droughts, local strikes, terrorist attacks, increases in energy prices, explosions, or other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable, and our losses from catastrophes could be substantial.

Our growth strategy depends in part on opening new restaurants in existing and new markets and expanding our franchise system. We may be unsuccessful in opening new company-operated or franchised restaurants or in establishing new markets, which could adversely affect our growth.

One of the key means to achieving our growth strategy is and will be through opening new restaurants and operating those restaurants on a profitable basis. We opened 16 new company-operated restaurants in fiscal 2017 and plan to open 6 to 8 in fiscal 2018. Our franchisees opened 7 new restaurants in fiscal 2017 and plan to open 6 to 8 in fiscal 2018. The ability to open new restaurants is dependent upon a number of factors, many of which are beyond our control, including our and our franchisees' abilities to:

- identify available and suitable restaurant sites;
- compete for restaurant sites;
- reach acceptable agreements regarding the lease or purchase of locations;
- obtain or have available the financing required to acquire and operate a restaurant, including construction and opening costs;
- respond to unforeseen engineering or environmental problems with leased premises;
- avoid the impact of inclement weather and natural and man-made disasters;
- hire, train, and retain the skilled management and other employees necessary to meet staffing needs;
- obtain, in a timely manner and for an acceptable cost, required licenses, permits, and regulatory approvals;
- respond effectively to any changes in local, state, and federal law and regulations that adversely affect our and our franchisees' costs or abilities to open new restaurants; and
- control construction and equipment cost increases for new restaurants.

There is no guarantee that a sufficient number of suitable restaurant sites will be available in desirable areas or on terms that are acceptable to us in order to achieve our growth plan. If we are unable to open new restaurants or sign new franchisees, or if restaurant openings are significantly delayed, our earnings or revenue growth and our business could be materially and adversely affected, as we expect a portion of our growth to come from new locations.

As part of our longer-term growth strategy, we may enter into geographic markets in which we have little or no prior operating or franchising experience, through company-operated restaurant growth and franchise development agreements. The challenges of entering new markets include (i) difficulties in hiring experienced personnel, (ii) unfamiliarity with local real estate markets and demographics, (iii) consumer unfamiliarity with our brand, and (iv) competitive and economic conditions, consumer tastes, and discretionary spending patterns that are different from and more difficult to predict or satisfy than in our existing markets. Consumer recognition of our brand has been important for our success in our existing markets. In addition, restaurants that we open in new markets may take longer to reach expected sales and profit levels on a consistent basis, and may have higher construction, occupancy, and operating costs, than restaurants that we open in existing markets, thereby affecting our overall profitability. Any failure on our part to recognize or respond to these challenges may adversely affect the success of any new restaurants. Expanding our franchise system could require the implementation, expense, and successful management of enhanced business support systems, management information systems, and financial controls, as well as additional staffing, franchise support, and capital expenditures and working capital.

At the end of fiscal 2009, we had 21 system-wide restaurants, all originally developed by franchisees, open east of the Rocky Mountains. However, by 2012, all of these restaurants had been closed. We may encounter similar issues with our current growth strategy, which could materially and adversely affect our business, financial condition, results of operations, and cash flow.

Due to brand recognition and logistical synergies, as part of our growth strategy, we also intend to open new restaurants in areas where we have existing restaurants. The operating results and comparable restaurant sales for our restaurants could be adversely affected due to increasing proximity among our restaurants and due to market saturation.

We have incurred, and may continue to incur, significant impairment of certain of our assets, in particular in our new markets.

During fiscal 2017, we determined that the carrying value of the assets of 21 restaurants, in Arizona, California and Texas, may not be recoverable. Additionally, we made a strategic decision to close two additional restaurants in Texas. As a result, we recorded a $32.6 million impairment expense. The impairment expense for fiscal 2017 includes an impairment expense of $27.7 million, representing the entire remaining value of capitalized assets of all of our company-operated restaurants in Texas, net of previously recorded depreciation. Factors which led to the impairment of our Texas restaurants include recent results, which indicates that the restaurants have not achieved the sales volumes required to generate positive cash flows or improve profitability in the Texas market, along with the related future cash flow assumptions, including comparable sales rate growth and restaurant operating costs, over the remaining lease terms and the age of the restaurants in Texas. The restaurants in Texas began opening in late 2014, causing a higher net book value at the time of impairment testing, and increased difficulty projecting results for newer restaurants in newer markets. Given the difficulty in projecting results for newer restaurants in newer markets, we are also monitoring the recoverability of the carrying value of the assets of several other restaurants on an ongoing basis, including those in the Arizona and Northern California markets. For those restaurants, if expected performance improvements are not realized, an impairment charge may be recognized in future periods, and such charge could be material. Asset impairments outside of Texas, or impairments to new units or future capital expenditures could present additional exposure. Closures could also require additional expenditures. Furthermore, franchised unit closings could result in the loss of franchise revenue and have other adverse effects on us.

Changes in food and supply costs, especially for chicken, could adversely affect our business, financial condition, and results of operations.

Our profitability depends in part on our ability to anticipate and react to changes in food and supply costs. We are susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal economic fluctuations, weather conditions, global demand, food safety concerns, infectious diseases, fluctuations in the U.S. dollar, product recalls, and government regulations, including tariffs and other import restrictions on foreign produce and other goods. At times the costs of many foods for humans and animals, including corn, wheat, corn flour and other flour, rice, and cooking oil, have increased markedly, resulting in upward pricing pressures on almost all of our raw ingredients, including chicken and other meats, and increasing our food costs. Environmental and weather-related issues, such as freezes, drought and climate change, may also lead to increases, temporary or permanent, or spikes in the prices of some ingredients, such as produce and meat. Issues affecting the availability of produce, poultry, or other proteins such as shrimp, including blight, disease, and overfishing, have in the past and may in the future also raise their prices. Any increase in the prices of the ingredients most critical to our menu, such as chicken, corn, cheese, avocados, beans, rice, and tomatoes, could adversely compress our margins, or cause us to raise our prices, reducing customer demand. Alternatively, in the event of cost increases with respect to one or more of our raw ingredients, we might choose to temporarily suspend serving menu items, such as guacamole or one or more of our salsas, rather than pay the increased cost. Any such changes to our menu prices or available menu could negatively impact our restaurant transactions, business, and comparable restaurant sales during the shortage and thereafter.

Our principal food product is chicken. In fiscal 2017, 2016, and 2015, the cost of chicken included in our product cost was approximately 11.3%, 12.4%, and 13.4%, respectively, of our revenue from company-operated restaurants. Material increases in the cost of chicken could materially and adversely affect our business, operating results, and financial condition. Changes in the cost of chicken can result from a number of factors, including seasonality, increases in the cost of grain, disease, and other factors that affect domestic and international supply of and demand for chicken products. A major driver of the price of corn, which is the primary feed source for chicken, has been the increasing demand for corn by the ethanol industry as an alternative fuel source, as most ethanol plants in the United States primarily use corn to make ethanol. This increased demand on the nation’s corn crop has had and may continue to have an unfavorable impact on chicken prices. Additionally, environmental and animal rights regulations or voluntary programs could increase the cost or supply of chicken and other foods. We often ask our suppliers to use fixed price contracts or other financial risk management strategies to reduce potential price fluctuations in the cost of chicken and other commodities. We have implemented menu price increases in the past to significantly offset increased chicken prices, due to competitive pressures and compressed profit margins. We may not be able to offset all or any portion of increased food and supply costs through higher menu prices in the future. If we implement further menu price increases in the future to protect our margins, average check size and restaurant transactions could be materially and adversely affected, at both company-operated and franchised restaurants.

Negative publicity could reduce sales at some or all of our restaurants.

We are, from time to time, faced with negative publicity at one or more of our restaurants relating to (i) food quality; (ii) the safety, sanitation, and welfare of chicken, which is our principal food product; (iii) restaurant facilities; (iv) customer complaints or litigation alleging illness or injury; (v) health inspection scores; (vi) integrity of our or our suppliers’ food processing and other policies, practices, and procedures; (vii) employee relationships; or (viii) other matters. Negative publicity can adversely affect us, regardless of whether an allegation is valid or whether we are held to be responsible. In addition, the negative impact of adverse publicity relating to one restaurant may extend far beyond the restaurant involved to affect some or all of our other restaurants, including our franchised restaurants. For example, we, or other chicken purveyors or restaurant companies generally, could come under criticism from animal rights and welfare activists for our business practices or those of our suppliers. Such criticisms could impair our brand, our restaurant sales, our hiring, our expansion plans, and the performance of our franchisees. If we changed our practices because of concerns about animal welfare, or in response to such criticisms, our costs might increase, or we might have to change our suppliers or our menu. The risk of negative publicity is particularly great with respect to our franchised restaurants, because we are limited in the manner in which we can regulate them, especially on a real-time basis. A similar risk exists with respect to food service businesses unrelated to us, if customers mistakenly associate those unrelated businesses with our operations.

Employee claims against us or our franchisees based on, among other things, wage and hour violations, discrimination, harassment, or wrongful termination may also create not only legal and financial liability but negative publicity that could adversely affect us and divert our financial and management resources that could otherwise be used to benefit the future performance of our operations. These types of employee claims could also be asserted against us, on a co-employer theory, by employees of our franchisees. A significant increase in the number of these claims, or an increase in the number of successful claims, could materially and adversely affect our business, financial condition, results of operations, and cash flows.

Food-borne illness and other food safety and quality concerns may negatively impact our business and profitability.

Incidents or reports of food- or water-borne illness or other food safety issues, food contamination or tampering, employee hygiene or cleanliness failures, or improper employee conduct at our restaurants could lead to product liability or other claims. Such incidents or reports could negatively affect our brand and reputation as well as our business, revenues, and profits. Similar incidents or reports occurring at quick-service restaurants unrelated to us could likewise create negative publicity, which could negatively impact consumer behavior towards us.

We cannot guarantee that our internal controls and training will be fully effective in preventing all food-borne illnesses. Furthermore, our reliance on third-party food processors makes it difficult to monitor food safety compliance, and may increase the risk that a food-borne illness would affect multiple locations rather than a single restaurant. Some food-borne illness incidents could be caused by third-party food suppliers and transporters outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise that could cause claims or allegations on a retroactive basis. One or more instances of food-borne illness in one of our company-operated or franchised restaurants could negatively affect sales at all of our restaurants if highly publicized. This risk would exist even if it were later determined that an illness had been wrongly attributed to one of our restaurants. A number of other restaurant chains have experienced incidents related to food-borne illnesses that have had material adverse impacts on their operations, and we cannot guarantee that we could avoid a similar impact upon the occurrence of a similar incident at one of our restaurants. Additionally, even if food-borne illnesses were not identified at El Pollo Loco restaurants, our restaurant sales could be adversely affected if instances of food-borne illnesses at other restaurant chains were highly publicized. In addition, our restaurant sales could be adversely affected by publicity regarding other high-profile illnesses such as avian flu that customers may associate with our food products.

We rely on only one company to distribute substantially all of our products to company-operated and franchised restaurants, and on a limited number of companies to supply chicken. Failure to receive timely deliveries of food or other supplies could result in a loss of revenue and materially and adversely impact our operations.

Our and our franchisees’ ability to maintain consistent quality menu items and prices significantly depends upon our ability to acquire fresh food products, including the highest-quality chicken and related items, from reliable sources, in accordance with our specifications and on a timely basis. Shortages or interruptions in the supply of fresh food products, caused by unanticipated demand, problems in production or distribution, contamination of food products, an outbreak of poultry disease, inclement weather, or other conditions, could materially and adversely affect the availability, quality, and cost of ingredients, which would adversely affect our business, financial condition, results of operations, and cash flows. We have contracts with a limited number of suppliers for the chicken and other food and supplies for our restaurants. In addition, one company distributes substantially all of the products that we receive from suppliers to company-operated and franchised restaurants. If that distributor or any supplier fails to perform as anticipated or seeks to terminate agreements with us, or if there is any disruption in any of our supply or distribution relationships for any reason, our business, financial condition, results of operations, and cash flows could be materially and adversely affected. If we or our franchisees temporarily close a restaurant or remove popular items from a restaurant’s menu as a result of such a disruption, that restaurant may experience a significant reduction in revenue if our customers change their dining habits as a result.

We have a history of net losses, and may incur losses in the future.

Although we have exhibited positive net income in 2014 to 2017, before fiscal 2014, we incurred net losses in each of the preceding seven fiscal years. We may incur net losses in the future, and we cannot guarantee that we will sustain profitability.

The failure to comply with our debt covenants, and the volatile credit and capital markets, could have material adverse effects on our financial condition.

Our ability to manage our debt is dependent upon our level of positive cash flow from company-operated and franchised restaurants, net of costs. An economic downturn could negatively impact our cash flow. Credit and capital markets can be volatile, making it difficult for us to refinance our existing debt or to obtain additional debt or equity financings in the future. Such constraints could increase our costs of borrowing and could restrict our access to other potential sources of future liquidity. Our failure to comply with the debt covenants in our secured revolving credit facility or to have sufficient liquidity to make interest and other payments required by our debt could result in a default on our debt and acceleration of our borrowings, which would have a material adverse effect on our business and financial condition.

Our level of indebtedness could materially and adversely affect our business, financial condition, and results of operations.

We have substantial debt service obligations. At December 27, 2017, our total debt was $93.3 million (including capital lease obligations), and we had $99.3 million of credit available under our secured revolving credit facility, which was reduced by $7.7 million from outstanding letters of credit.

Our level of indebtedness could have significant effects on our business, such as:

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy, and other purposes;
- requiring us to dedicate a portion of our cash flow from operations to pay interest on our debt, which could reduce availability of our cash flow to fund working capital, capital expenditures, acquisitions, execution of our growth strategy, and other general corporate purposes;
- making us more vulnerable to adverse changes in general economic, industry, government regulatory, and competitive conditions in our business by limiting our ability to plan for and react to changing conditions;
- placing us at a competitive disadvantage compared with our competitors with less debt; and
- exposing us to risks inherent in interest rate fluctuations, because our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

In addition, we may not be able to generate sufficient cash flow from our operations to repay our indebtedness when it becomes due and to meet our other cash needs. If we are not able to pay our debts as they become due, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness, or selling additional debt or equity securities. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, and if we have to sell our assets, that sale may negatively affect our ability to generate revenue.

Our secured revolving credit facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to (i) incur additional indebtedness, (ii) issue preferred stock, (iii) create liens on assets, (iv) engage in mergers or consolidations, (v) sell assets, (vi) make investments, loans, or advances, (vii) make certain acquisitions, (viii) engage in certain transactions with affiliates, (ix) authorize or pay dividends, and (x) change our lines of business or fiscal year. In addition, our secured revolving credit facility requires us (i) to maintain, on a consolidated basis, a minimum consolidated fixed charge coverage ratio and (ii) not to exceed a maximum lease adjusted consolidated leverage ratio. Our ability to borrow under our secured revolving credit facility depends on our compliance with these tests. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet these tests. We cannot guarantee that we will meet these tests in the future, or that our lenders will waive any failure to meet these tests.

We may not be able to compete successfully with other quick-service and fast casual restaurants. Intense competition in the restaurant industry could make it more difficult to expand our business, and could also have a negative impact on our operating results, if customers favor our competitors or if we are forced to change our pricing and other marketing strategies.

The food service industry, and particularly its quick-service and fast casual segments, is intensely competitive. In addition, the greater Los Angeles area, the primary market in which we compete, consists of what we believe to be the most competitive Mexican-inspired quick-service and fast casual market in the United States. We expect competition in this market and in each of our other markets to continue to be intense, because consumer trends are favoring limited service restaurants that offer healthier menu items made with better-quality products, and many limited service restaurants are responding to these trends. Competition in our industry is primarily based on price, convenience, quality of service, brand recognition, restaurant location, and type and quality of food. If our company-operated and franchised restaurants cannot compete successfully with other quick-service and fast casual restaurants in new and existing markets, we could lose customers and our revenue could decline. Our market position is based on balancing price and quality, and drift in our competitive position, popular perception of our position, or popular interest in our position, could harm our sales, brand, and support among customers. Our company-operated and franchised restaurants compete with national and regional quick-service and fast casual restaurant chains for customers, restaurant locations, and qualified management and other staff. Compared with us, some of our competitors have substantially greater financial and other resources, have been in business longer, have greater brand recognition, or are better-established in the markets where our restaurants are located or are planned to be located. These competitive factors are particularly applicable in markets in which we have expanded relatively rapidly and relatively recently, such as Texas. Any of these competitive factors may materially and adversely affect our business, financial condition, and results of operations.

Our marketing programs may not be successful, and our new menu items, advertising campaigns, and restaurant designs and remodels may not generate increased sales or profits.

We incur costs and expend other resources in our marketing efforts on new menu items, advertising campaigns, and restaurant designs and remodels, to raise brand awareness and to attract and retain customers. Our initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues. Additionally, some of our competitors have greater financial resources than we do, enabling them to spend significantly more on marketing, advertising, and other initiatives. Should our competitors increase spending on marketing, advertising, and other initiatives, or our marketing funds decrease for any reason, or should our advertising, promotions, new menu items, and restaurant designs and remodels be less effective than those of our competitors, there could be a material adverse effect on our results of operations and financial condition.

The challenging economic environment may affect our franchisees, with adverse consequences to us.

We rely in part on our franchisees and the manner in which they operate their locations to develop and promote our business. As of December 27, 2017, our top 10 franchisees operated over 66% of our franchised restaurants and two franchisees operated over 35% of our franchised restaurants. Due to the continuing challenging economic environment, it is possible that some franchisees could file for bankruptcy or become delinquent in their payments to us, which could have significant adverse impacts on our business, due to loss or delay in payments of (i) royalties, (ii) information technology (“IT”) support service fees, (iii) contributions to our advertising funds, and (iv) other fees. Bankruptcies by our franchisees could (i) prevent us from terminating their franchise agreements, so that we could offer their territories to other franchisees, (ii) negatively impact our market share and operating results, as we might have fewer well-performing restaurants, and (iii) adversely impact our ability to attract new franchisees.

As of December 27, 2017 we had executed development agreements that represent commitments to open 55 franchised restaurants at various dates through 2022. Although we have developed criteria to evaluate and screen prospective developers and franchisees, we cannot be certain that the developers and franchisees that we select will have the business acumen or financial resources necessary to open and operate successful franchises in their franchise areas, and state franchise laws may limit our ability to terminate or modify these franchise arrangements. Moreover, franchisees may fail to operate their restaurants in fashions consistent with our standards and requirements, or to hire and train qualified managers and other restaurant personnel. Failures of developers and franchisees to open and operate franchises successfully could materially and adversely affect our reputation, brand, business, financial condition, results of operations, cash flows, and ability to attract prospective franchisees.

Franchisees may not have access to the financial or management resources that they need to open the restaurants contemplated by their agreements with us, or be able to find suitable sites on which to develop those restaurants. Franchisees may not be able to negotiate acceptable lease or purchase terms for restaurant sites, obtain necessary permits and government approvals, or meet construction schedules. Any of these problems could slow our growth and reduce our franchise revenue. Additionally, our franchisees typically depend on financing from banks and other financial institutions, which may not always be available to them, in order to construct and open new restaurants. For these reasons, franchisees operating under development agreements may not be able to meet the new restaurant opening dates required under those agreements. Also, we sublease certain restaurants to some existing California franchisees. If any such franchisees cannot meet their financial obligations under their subleases, or otherwise fail to honor or default under the terms of their subleases, we will be financially obligated under a master lease and could be materially and adversely affected. In the past, franchisees have entered bankruptcy or receivership, which can lead to sale or closure of franchises, cause underperformance or underinvestment in capital expenditures, or lead to nonpayment of us or other creditors, and these circumstances could recur in the future.

We have limited control with respect to the operations of our franchisees, which could have a negative impact on our business.

Franchisees are independent business operators. They are not our employees, and we do not exercise control over the day-to-day operations of their restaurants. We provide training and support to franchisees, and set and monitor operational standards, but the quality of franchised restaurants may be diminished by any number of factors beyond our control. Consequently, franchisees may fail to operate their restaurants in fashions consistent with our standards and requirements, or to hire and train qualified managers and other restaurant personnel. If franchisees do not operate to our expectations, our image and reputation, and the images and reputations of other franchisees, may suffer materially, and system-wide sales could decline significantly.

If our relations with existing or potential franchisees deteriorate, restaurant performance and our development pipeline could suffer.

Our growth depends on maintaining amicable relations with our franchisees. Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under the franchise agreement. Disagreement may lead to disputes with our franchisees, and we expect such disputes to occur from time to time as we continue to offer franchises. Disputes between us and our franchisees, whether in court or otherwise, could relate to either party's violation of its contractual obligations. Unfavorable judgments or settlements relating to franchisee disputes could result in monetary or injunctive relief against us, including the voiding of non-compete, territorial exclusivity, or other development-related provisions upon which we rely. For example, in a recent suit where a franchisee challenged the enforceability of the territorial exclusivity clause in its franchise agreement with us, a jury found in favor of the franchisee. Although we intend to vigorously appeal the judgement, if this or similar clauses were held unenforceable, we and other franchisors could be materially negatively impacted. To the extent that we have such disputes, the attention, time, and financial resources of our management and our franchisees will be diverted from our restaurants, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Even our success in franchisee disputes could damage our franchisees' finances or operations, or our relationships with them.

Our self-insurance programs may expose us to significant and unexpected costs and losses.

We currently maintain employee health insurance coverage on a self-insured basis. We do maintain stop loss coverage which sets a limit on our liability for both individual and aggregate claim costs.

We currently record a liability for our estimated cost of claims incurred and unpaid as of each balance sheet date. Our estimated liability is recorded on an undiscounted basis and includes a number of significant assumptions and factors, including historical trends, expected costs per claim, actuarial assumptions, and current economic conditions. Our history of claims activity for all lines of coverage is closely monitored, and liabilities are adjusted as warranted based on changing circumstances. It is possible, however, that our actual liabilities may exceed our estimates of loss. We may also experience an unexpectedly large number of claims that result in costs or liabilities in excess of our projections, and therefore we may be required to record additional expenses. For these and other reasons, our self-insurance reserves could prove to be inadequate, resulting in liabilities in excess of our available insurance and self-insurance. If a successful claim is made against us and is not covered by our insurance or exceeds our policy limits, our business may be negatively and materially impacted.

Information technology system failures or breaches of our network security could interrupt our operations and adversely affect our business.

We rely on our computer systems and network infrastructure across our operations, including point-of-sale processing at our restaurants. Our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure, and other catastrophic events, as well as from internal and external security breaches, viruses, and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us to litigation or to actions by regulatory authorities. Moreover, these systems, infrastructures, and operations rely upon third-party software and vendors, and we may therefore have a limited ability to guard against, learn about, or remedy problems that could harm us, including bugs and glitches, system outages, and hacks that exploit security vulnerabilities to steal or ransom information.

If we are unable to protect our customers' payment method data, we could be exposed to data loss, litigation, liability, and reputational damage.

We accept electronic payment cards from our customers in our restaurants. For the fiscal year ended December 27, 2017, approximately 53% of our sales were attributable to credit/debit card transactions, and credit/debit card usage could continue to increase. A number of restaurant operators and retailers have experienced actual or potential security breaches in which credit/debit card information may have been stolen. While we have taken reasonable steps to prevent the occurrence of security breaches in this respect, we may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit/debit card information, and we may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit/debit card information may be brought by payment card providers, banks, and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit), and federal and state regulators. Any such proceedings could distract our management team members from running our business and cause us to incur significant unplanned losses and expenses.

We also sell and accept for payment El Pollo Loco gift cards, and our loyalty rewards program provides points that can be redeemed for purchases. Like credit and debit cards, gift cards and rewards points are vulnerable to theft, whether physical or electronic. We believe that our gift cards are primarily vulnerable to physical theft, as we have implemented gift card policies such as requiring a physical card to be presented when redeeming value from a gift card; however, there could be instances of non-compliance with these policies. We believe that, due to their electronic nature, rewards points are primarily vulnerable to hacking. Customers affected by any loss of data or funds could litigate against us, and security breaches or even unsuccessful attempts at hacking could harm our reputation, and guarding against or responding to hacks could require significant time and resources.

We also receive and maintain certain personal information about our customers and team members. The use of this information by us is regulated at the federal and state levels. If our security and information systems are compromised or our team members fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, as well as the results of operations, and could result in litigation against us or the imposition of penalties. In addition, our ability to accept credit/debit cards as payment in our restaurants and online depends on us maintaining our compliance status with standards set by the PCI Security Standards Council. These standards, set by a consortium of the major credit card companies, require certain levels of system security and procedures to protect our customers' credit/debit card information as well as other personal information. Privacy and information security laws and regulations change over time, and compliance with those changes may result in cost increases due to necessary system and process changes.

The failure to enforce and maintain our trademarks and protect our other intellectual property could materially and adversely affect our business, including our ability to establish and maintain brand awareness.

We have registered El Pollo Loco ®, Pollo Bowl ®, The Crazy Chicken ®, and certain other names used by our restaurants as trademarks or service marks with the PTO and El Pollo Loco® in approximately 42 foreign countries. In addition, the El Pollo Loco logo, website name and address, and Facebook, Twitter, Instagram and YouTube accounts are our intellectual property. The success of our business strategy depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products. If our efforts to protect our intellectual property are inadequate, or if any third party misappropriates or infringes upon our intellectual property, whether in print, on the Internet, or through other media, our brands and branded products could fail to maintain or achieve market acceptance and the value of our brands could be harmed, materially and adversely affecting our business. There can be no assurance that all of the steps that we have taken to protect our intellectual property in the United States and in foreign countries will be adequate. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States.

We maintain the recipe for our chicken marinade, as well as certain proprietary standards, specifications, and operating procedures, as trade secrets or confidential proprietary information. We may not be able to prevent the unauthorized disclosure or use of our trade secrets or proprietary information, despite the existence of confidentiality agreements and other measures. While we try to ensure that the quality of our brands and branded products is maintained by all of our franchisees, we cannot be certain that these franchisees will not take actions that adversely affect the value of our intellectual property or reputation. If any of our trade secrets or proprietary information were to be disclosed to or independently developed by a competitor, our business, financial condition, and results of operations could be materially and adversely affected.

We depend upon our board of directors, executive officers, and key employees.

We rely upon the accumulated knowledge, skills, and experience of the members of our board of directors, our executive officers, and our key employees. If they were to leave us or become incapacitated, we might suffer in our planning and execution of business strategy and operations, impacting our brand and financial results. We also do not maintain any key man life insurance policies for any of our employees.

If we do not successfully manage the transition associated with the resignation of our former CEO and the appointment of a new CEO, it could be viewed negatively by our customers and shareholders and could have an adverse impact on our business.

Stephen J. Sather will resign from his position as the Company's President Chief Executive Officer and from the Board effective March 12, 2018. Bernard Acoca has been appointed as the Company's President and CEO, effective March 12, 2018. Such leadership transitions can be inherently difficult to manage, and an inadequate transition of our CEO may cause disruption to our business, including to our relationships with customers, vendors and employees. It may also make it more difficult to retain and hire key employees.

Matters relating to employment and labor law may adversely affect our business.

Various federal, state and local labor laws govern our relationships with our employees and affect operating costs. These laws include employee classifications as exempt or non-exempt, minimum wage requirements, unemployment tax rates, workers' compensation rates, citizenship requirements, and other wage and benefit requirements for employees classified as non-exempt. Significant additional government regulations and new laws mandating increases in minimum wages or benefits such as health insurance could materially affect our business, financial condition, operating results, and cash flow. Furthermore, the unionization of our employees and of the employees of our franchisees could materially affect our business, financial condition, operating results, and cash flow.

We are also subject in the ordinary course of business to employee claims against us based, among other things, on discrimination, harassment, wrongful termination, or violation of wage and labor laws. Such claims could also be asserted against us by employees of our franchisees. These claims may divert our financial and management resources that would otherwise be used to benefit our operations. The on-going expense of any resulting lawsuits, and any substantial settlement payment or damage award against us, could adversely affect our business, brand image, employee recruitment, financial condition, operating results, or cash flows.

Restaurant companies have been the targets of class action lawsuits and other proceedings alleging, among other things, violations of federal and state workplace and employment laws. Proceedings of this nature are costly, divert management attention, and, if successful, can result in payment of substantial damages or settlement costs.

Our business is subject to the risk of litigation by employees, consumers, suppliers, stockholders, and others through private actions, class actions, administrative proceedings, regulatory actions, and other litigation. The outcome of litigations, particularly class and regulatory actions, is difficult to assess or quantify. In recent years, restaurant companies, including us, have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state laws regarding workplace and employment conditions, discrimination, and similar matters. A number of these lawsuits have resulted in payments of substantial damages by the defendants. Similar lawsuits have been instituted from time to time alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal deductions, overtime eligibility of managers, and failure to pay for all hours worked. In the past, we have been a party to wage and hour class action lawsuits and are currently a party to such lawsuits on behalf of purported classes. See Item 3, "Legal Proceedings."

Occasionally, our customers file complaints or lawsuits against us alleging that we are responsible for some illnesses or injuries that they suffered at or after a visit to one of our restaurants, including actions seeking damages resulting from food-borne illnesses or accidents in our restaurants. We are also subject to a variety of other claims from third parties arising in the ordinary course of our business, including contract claims. The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their customers. We may also be subject to lawsuits from our employees, the U.S. Equal Employment Opportunity Commission, or others, alleging violations of federal or state laws regarding workplace and employment conditions, discrimination, and similar matters.

Regardless of whether any claims against us are valid and whether we are liable, claims may be expensive to defend against and divert time and money away from operations. In addition, claims may generate negative publicity, which could reduce customer traffic and sales. Although we maintain what we believe to be adequate levels of insurance, insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims, or any adverse publicity resulting from claims, could adversely affect our business and results of operations.

If we or our franchisees face labor shortages or increased labor costs, our results of operations and growth could be adversely affected.

Labor is a primary component in the cost of operating our company-operated and franchised restaurants. If we or our franchisees face labor shortages or increased labor costs, because of increased competition for employees, a decrease in the labor supply due to changes in immigration policy including barriers to immigrants entering, working in, or remaining in the United States, higher employee-turnover rates, unionization of restaurant workers, or increases in federal, state, or local minimum wages or in other employee benefits costs (including costs associated with health insurance coverage or workers' compensation insurance), our and our franchisees' operating expenses could increase, and our growth could be adversely affected.

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 and the labor costs of our franchisees. The California minimum wage rose to $10.50 per hour on January 1, 2017 and $11.00 per hour on January 1, 2018 and is scheduled to rise to (i)$12.00 per hour on January 1, 2019, (ii) $13.00 per hour on January 1, 2020, (iii) $14.00 per hour on January 1, 2021, and (iv) $15.00 per hour on January 1, 2022, subject, in each case, to the governor's ability to pause any scheduled increase ("off-ramp" provisions) for one year if either economy or budget conditions are met. Initial determinations are to be made by the governor by August 1 of each year prior to a January increase. The governor makes the final determination by September 1. Thereafter, the state minimum wage is to be indexed annually for inflation.

Local minimum wages may exceed or ramp up faster than state levels. In particular, the minimum wage in the City of Los Angeles and the unincorporated areas of the County of Los Angeles is scheduled to rise to $15.00 by July 1, 2020 in accordance with a June, 2015 ordinance: (i) from July 1, 2017, $12.00, (ii) from July 1, 2018, $13.25, (iii) from July 1, 2019, $14.25, (iv) from July 1, 2020, $15.00, (v) from July 1, 2022, indexed to inflation. On September 29, 2015, the Board of Supervisors of the County of Los Angeles adopted an ordinance amending the Los Angeles County Code and establishing a countywide minimum wage covering unincorporated areas of the county following the same schedule.

Other municipalities in the County of Los Angeles and elsewhere have followed and may continue to follow. For example:

On January 19, 2016, the City Council of the City of Long Beach approved a plan to raise the minimum wage on the following schedule: (i) from January 1, 2017, $10.50, (ii) from January 1, 2018, $12.00, and (iii) from January 1, 2019, $13.00. Thereafter, pursuant to further study, the minimum wage for the City of Long Beach could rise to $14.00 in 2020 and $15.00 in 2021.

In 2017, approximately 73% of our revenue came from company-operated and franchised restaurants in the greater Los Angeles area, including 11% from the City of Los Angeles, 42% from other incorporated cities in the County of Los Angeles, and 1% from unincorporated areas of the County of Los Angeles. Those restaurants that are not directly covered by these ordinances may be covered by future ordinances, may face competitive or political pressures to match these wage levels, or may suffer from any regional economic distress caused by these ordinances.

Federally-mandated, state-mandated, or locally-mandated minimum wages may be further raised in the future. We may be unable to increase our menu prices in order to pass future increased labor costs on to our customers, in which case our margins would be negatively affected. Also, reduced margins of franchisees could make it more difficult to sell franchises. And if menu prices were increased by us and our franchisees to cover increased labor costs, the higher prices could adversely affect sales and thereby reduce our margins and the royalties that we receive from franchisees.

In addition, our success depends in part upon our and our franchisees' ability to attract, motivate, and retain a sufficient number of well-qualified restaurant operators, management personnel, and other employees. Qualified individuals needed to fill these positions can be in short supply in some geographic areas. In addition, limited service restaurants have traditionally experienced relatively high employee turnover rates. Although we have not yet experienced any significant problems in recruiting or retaining employees, our and our franchisees' inability to recruit and retain qualified individuals could delay planned openings of new restaurants or result in higher employee turnover in existing restaurants, which could increase our and our franchisees' labor costs and have a material adverse effect on our business, financial condition, results of operations, and cash flows. If we or our franchisees are unable to recruit and retain sufficiently qualified individuals, our business and our growth could be adversely affected. Competition for qualified employees could require us or our franchisees to pay higher wages, which could also result in higher labor costs.

We are locked into long-term and non-cancelable leases, and may be unable to renew leases at the ends of their terms.

Many of our restaurant leases are non-cancelable and typically have initial terms of up to 20 years and up to three renewal terms of five years that we may exercise at our option. Even if we close a restaurant, we may remain committed to perform our obligations under the applicable lease, which could include, among other things, payment of the base rent for the balance of the lease term. In addition, in connection with leases for restaurants that we will continue to operate, we may, at the end of the lease term and any renewal period for a restaurant, be unable to renew the lease without substantial additional cost, if at all. As a result, we may close or relocate the restaurant, which could subject us to construction and other costs and risks. Additionally, the revenue and profit, if any, generated at a relocated restaurant might not equal the revenue and profit generated at its prior location.

We and our franchisees are subject to extensive government regulations that could result in claims leading to increased costs and restrict our ability to operate or sell franchises.

We and our franchisees are subject to extensive government regulations at the federal, state, and local levels, including, but not limited to, regulations relating to preparation and sale of food, zoning and building codes, franchising, land use, and employee, health, sanitation, and safety matters. We and our franchisees are required to obtain and maintain a wide variety of government licenses, permits, and approvals. Difficulty or failure in obtaining these in the future could result in delaying or canceling the opening of new restaurants. Local authorities may suspend or deny renewal of our government licenses if they determine that our operations do not meet their standards for initial grant or renewal. This risk will increase if there is a major change in the licensing requirements affecting our types of restaurants.

The Patient Protection and Affordable Care Act of 2010 (the “PPACA”) requires employers such as us to provide adequate and affordable health insurance for all qualifying employees or to pay a monthly per-employee fee or penalty for non-compliance. In past years, we experienced a marginal enrollment increase in our health plans with newly eligible employees as a result of the PPACA. In early 2017, the PPACA was undermined through executive and Congressional action and in March 2017, the U.S. House of Representatives introduced legislation known as the American Health Care Act, which, if enacted, would amend or repeal significant portions of the PPACA. It is uncertain when or if the provisions in the American Health Care Act will become law, or the extent to which any changes may impact our business. Any future cost increases may be material and could lead to future modifications to our business practices that may be disruptive to our operations and impact our ability to attract and retain personnel.

We are also subject to regulation by the Federal Trade Commission and subject to state laws that govern the offer, sale, renewal, and termination of franchises and our relationships with our franchisees. Failure to comply with these laws and regulations in any jurisdiction or to obtain required approvals could result in a ban on or temporary suspension of franchise sales, fines, or the requirement that we make a rescission offer to our franchisees, any of which could affect our ability to open new restaurants in the future and thus could materially and adversely affect our business and operating results. Any such failure could also subject us to liability to our franchisees.

We are increasingly subject to environmental regulations, which may increase our cost of doing business and affect the manner in which we operate. Environmental regulations could increase the level of our taxation and future regulations could impose restrictions or increase the costs associated with food, food packaging, and other supplies, transportation costs, and utility costs. Complying with environmental regulations may cause our results of operations to suffer. We cannot predict what environmental regulations or legislation will be enacted in the future, how existing or future environmental laws will be administered or applied, or the level of costs that we may incur to comply with, or satisfy claims relating to, such laws and regulations.

Changes in health, safety, construction, labor, environmental, or other laws or regulations, including changes to or repeal of the PPACA, could impose costs upon us, including transition costs. Such transition costs could include uncertainties about how the new laws or regulations might be interpreted, enforced, or litigated by either regulators or private parties. Such changes could also have economic implications for our customers. For example, changes to health insurance law could diminish our customers’ disposable incomes and thus reduce their frequency of eating or ordering out, even from QSR or fast casual restaurants, including us.

Legislation and regulations requiring the display and provision of nutritional information for our menu offerings, new information or attitudes regarding diet and health, or adverse opinions about the health effects of consuming our menu offerings, could affect consumer preferences and negatively impact our results of operations.

Government regulation and consumer eating habits may impact our business as a result of changes in attitudes regarding diet and health or new information regarding the health effects of consuming our menu offerings. These changes have resulted in, and may continue to result in, the enactment of laws and regulations that impact the ingredients and nutritional content of our menu offerings, or laws and regulations requiring us to disclose the nutritional content of our food offerings.

The PPACA establishes a uniform, federal requirement for certain restaurants to post certain nutritional information on their menus. Specifically, the PPACA amended the Federal Food, Drug, and Cosmetic Act to require that chain restaurants with 20 or more locations, operating under the same name and offering substantially the same menus, publish the total number of calories of standard menu items on menus and menu boards, along with a statement that puts this calorie information in the context of a total daily calorie intake. The PPACA also requires covered restaurants to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus and menu boards about the availability of this information. The PPACA further permits the U.S. Food and Drug Administration to require covered restaurants to make additional nutrient disclosures, such as disclosure of trans-fat content. An unfavorable report on, or reaction to, our menu ingredients, the size of our portions, or the nutritional content of our menu items could negatively influence the demand for our offerings. Currently, it is uncertain how proposed legislative changes will impact the PPACA or the extent to which any changes may impact our business.

Furthermore, a number of states, counties, and cities have enacted menu labeling laws requiring multi-unit restaurant operators to disclose certain nutritional information to customers, or have enacted legislation restricting the use of certain types of ingredients in restaurants. California, our largest market, is one of these, although its menu labeling law has been superseded by the PPACA.

While we believe that our food is generally healthier than that of our peers, customers may disagree or change their dining habits to avoid QSR-like restaurants altogether.

Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming. Additionally, if consumer health regulations or consumer eating habits change significantly, we may be required to modify or discontinue certain menu items, and we may experience higher costs associated with the implementation of those changes. Additionally, some government authorities are increasing regulations regarding trans-fats and sodium, which may require us to limit or eliminate trans-fats and sodium in our menu offerings, or switch to higher-cost ingredients, or which may hinder our ability to operate in certain markets. Some jurisdictions have banned certain cooking ingredients, such as trans-fats, which a small number of our ingredients contain in trace amounts, or have discussed banning certain products, such as large sodas. Removal of these products and ingredients from our menus could affect product tastes, customer satisfaction levels, and sales volumes, whereas if we were to fail to comply with these laws or regulations, our business could experience a material adverse effect.

We cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions, to successfully implement nutritional content disclosure requirements, or to adapt our menu offerings to trends in eating habits. The imposition of additional menu labeling laws could have an adverse effect on our results of operations and financial position, as well as on the restaurant industry in general.

We may become subject to liabilities arising from environmental laws that could likely increase our operating expenses and materially and adversely affect our business and results of operations.

We are subject to federal, state, and local laws, regulations, and ordinances that:

- govern activities or operations that may have adverse environmental effects, such as discharges into the air and water, as well as waste handling and disposal practices for solid and hazardous wastes; and
- impose liability for the costs of cleaning up, and the damage resulting from, sites of past spills, disposals, or other releases of hazardous materials.

In particular, under applicable environmental laws, we may be responsible for remediation of environmental conditions and subject to associated liabilities, including liabilities for clean-up costs, personal injury, or property damage, relating to our restaurants and the land on which our restaurants are located, regardless of whether we lease or own the restaurants or land in question and regardless of whether such environmental conditions were created by us or by a prior owner or tenant. If we are found liable for the costs of remediation of contamination at any of our properties, our operating expenses would likely increase and our results of operations would be materially and adversely affected. See Item 1, “Business—Environmental Matters.”

We are required to pay our pre-IPO owners for certain tax benefits, which amounts are expected to be material.

We have entered into an income tax receivable agreement (the “TRA”) with our pre-IPO stockholders, which provides for payment by us to our pre-IPO stockholders of 85% of the amount of cash savings, if any, in federal, state, local, and foreign income tax that we and our subsidiaries actually realize (or are deemed to realize in the case of an early termination by us or a change of control) as a result of the utilization of our net operating losses and other tax attributes attributable to periods prior to July 2014 together with interest accrued at a rate of LIBOR plus 200 basis points from the date the applicable tax return is due (without extension) until paid.

Our payments under the TRA may be material. As of December 27, 2017, we had an accrued payable related to this agreement of approximately $22.0 million. In fiscal 2017, we paid $11.1 million to our pre-IPO stockholders under the TRA.

TRA payment obligations are obligations of Holdings and not of its subsidiaries. The actual amounts and utilization of net operating losses and other tax attributes, as well as the amounts and timing of any payments under the TRA, will vary depending upon a number of factors, including the amount, character, and timing of Holdings’ and its subsidiaries’ taxable income in the future.

Our counterparties under the TRA will not reimburse us for any benefits that are subsequently disallowed, although any future payments would be adjusted to the extent possible to reflect the result of such disallowance. As a result, in such circumstances, we could make payments under the TRA greater than our actual cash tax savings.

If we undergo a change of control as defined in the TRA, the TRA will terminate, and we will be required to make a payment equal to the present value of expected future payments under the TRA, which payment would be based on certain assumptions, including assumptions related to our future taxable income. Additionally, if we or a direct or indirect subsidiary transfer any asset to a corporation with which we do not file a consolidated tax return, we will be treated as having sold that asset for its fair market value in a taxable transaction for purposes of determining the cash savings in income tax under the TRA. Any such payment resulting from a change of control or asset transfer could be substantial and could exceed our actual cash tax savings.

Risks Related to Ownership of Our Common Stock

If the ownership of our common stock continues to be highly concentrated, it may prevent you and other minority stockholders from influencing significant corporate decisions and may result in conflicts of interest.

Trimaran Pollo Partners, L.L.C. ("LLC"), owns approximately 43.3% of our 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 our assets, decisions affecting our capital structure, amendments to our certificate of incorporation or our by-laws, and our 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 our common stock, and (ii) stockholders representing 40% or greater ownership may cause special stockholder meetings to be called. Currently, three of our nine directors, including our chairman, are affiliated with Trimaran or Freeman Spogli.

This concentration of ownership may delay, deter, or prevent acts that would be favored by our other stockholders. While our board has determined that director John Roth, a general partner of Freeman Spogli and its CEO, satisfies the criteria for an independent director under NASDAQ rules, the interests of Trimaran and Freeman Spogli may not always coincide with our interests or the interests of our other stockholders. This concentration of ownership may also have the effect of delaying, deterring, or preventing a change in control of us. Also, Trimaran and Freeman Spogli may seek to cause us to take courses of action that, in their judgments, could enhance their investments in us, but that might involve risks to our other stockholders or adversely affect us or our other stockholders. As a result, the market price of our common stock could decline, or stockholders might not receive a premium over the then-current market price of our common stock upon a change in control. In addition, this concentration of ownership may adversely affect the trading price of our common stock, because investors may perceive disadvantages in owning shares of a company with significant stockholders.

The interests of Trimaran and Freeman Spogli may conflict with ours or our stockholders' in the future.

Trimaran and Freeman Spogli engage in a range of investing activities, including investments in restaurants and other consumer-related companies in particular. While our board has determined that director John Roth, a general partner of Freeman Spogli and its CEO, satisfies the criteria for an independent director under NASDAQ rules, in the ordinary course of their business activities, Trimaran and Freeman Spogli may engage in activities where their interests conflict with our interests or those of our stockholders. Our amended and restated certificate of incorporation provides that none of LLC or any of its officers, directors, employees, agents, shareholders, members, partners, principals, affiliates and managers (including, inter alia, Trimaran and Freeman Spogli) has a duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. For example, in the third quarter of 2017, Cafe Rio, a high-growth, fast-casual Mexican restaurant company, announced that Freeman Spogli had acquired a majority interest in it. Trimaran and Freeman Spogli also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, Trimaran and Freeman Spogli may have an interest in pursuing acquisitions, divestitures, and other transactions that, in their judgment, could enhance their investment in us, even though those transactions might involve risks to you, such as debt-financed acquisitions.

We are a holding company with no operations, and we rely on our operating subsidiaries to provide us with the funds necessary to meet our financial obligations and to pay dividends.

We are a holding company with no material direct operations. Our principal assets are the equity interests that we indirectly hold in our operating subsidiary, El Pollo Loco, Inc. ("EPL"), which owns our operating assets. As a result, we are dependent on loans, dividends, and other payments from EPL, our operating company and indirect wholly owned subsidiary, and from EPL Intermediate, Inc. ("Intermediate"), our direct wholly owned subsidiary, to generate the funds necessary to meet our financial obligations and to pay dividends on our common stock. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions. Although we do not expect to pay dividends on our common stock for the foreseeable future, if we are unable to obtain funds from our subsidiaries, we may be unable to, or our board may exercise its discretion not to, pay dividends.

Under our secured revolving credit facility, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by our past or present officers, directors, or employees (or their estates) upon death, disability, or termination of employment, (ii) make payments under the TRA, and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5.0 million in other restricted payments per year, and (d) make other restricted payments, provided that such payments would not cause, in each case, on a pro forma basis, (x) its lease-adjusted consolidated leverage ratio to equal or exceed 4.25 times and (y) its consolidated fixed charge coverage ratio to be less than 1.75 times.

We do not anticipate paying any dividends on our common stock in the foreseeable future.

We do not expect to declare or pay any cash or other dividends in the foreseeable future on our common stock, because we intend to use cash flow generated by operations to grow our business. Our secured revolving credit facility restricts our ability to pay cash dividends on our common stock. We may also enter into other credit agreements or other borrowing arrangements in the future that restrict or limit our ability to pay cash dividends on our common stock.

As a public company, we incur significant costs to comply with the laws and regulations affecting public companies, which could harm our business and results of operations.

As a public company, we are subject to the reporting requirements of the Exchange Act and of the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"), to the listing requirements of the NASDAQ Global Select market (the "NASDAQ"), and to other applicable securities statutes and regulations. These statutes and regulations have increased, and will continue to increase, our legal, accounting, and financial compliance costs, and have made, and will continue to make, some activities more time-consuming and costly, particularly after we cease to be an "emerging growth company," as defined in the JOBS Act. For example, these statutes and regulations could make it more difficult and costly for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or to incur substantial costs to maintain the same or similar coverage. These statutes and regulations could also make it more difficult for us to attract and retain qualified individuals to serve on our board of directors, on board committees, or as executive officers. Our management and other personnel devote a substantial amount of time to compliance initiatives. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have hired additional employees to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

Our management team and other personnel devote a substantial amount of time to new compliance initiatives, and we may not successfully or efficiently manage our transition to being a public company. To comply with the requirements of being a public company, including the Sarbanes–Oxley Act, we may need to undertake various actions, such as implementing new internal controls and procedures, and hiring accounting or internal audit staff, which would require us to incur additional expenses, and could harm our results of operations.

For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.

We are an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the JOBS Act. As such, we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes–Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and of stockholder approval of any golden parachute payments not previously approved. We may take advantage of some of these exemptions. If we do, we do not know if some investors will find our common stock less attractive as a result. The result may be a less-active trading market for our common stock and increased stock price volatility.

In addition, Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise 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 emerging growth companies.

We can remain an "emerging growth company" for up to five years from our IPO, or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed $1 billion, (b) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than $1 billion in non-convertible debt securities in the preceding three-year period.

We were not previously required to assess the effectiveness of our internal control over financial reporting; we have and may continue to identify deficiencies as we do so.

Section 404(a) of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of internal control over financial reporting, starting with our second annual report. Prior to our second annual report, we were not subject to this requirement. Accordingly, as we continue to mature as a public company and follow the necessary procedures and practices related to internal control over financial reporting, we may identify deficiencies.

In particular, as disclosed under Item 9A, “Controls and Procedures,” in the Form 10-K for 2016, in the process of evaluating the effectiveness of our internal control over financial reporting, we identified material weaknesses, in our internal control over financial reporting as of December 28, 2016. These and future deficiencies or weaknesses, whether or not identified or remediated, or failure to achieve and maintain an effective internal control environment generally, could have a material adverse effect on our business, our finances and financial reporting, and our stock price.

The market price and trading volume of our common stock have been and may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our common stock has fluctuated and may continue to fluctuate, or may decline significantly in the future. Shares of our common stock were sold in our IPO in July 2014 at a price of $15.00 per share, and our common stock has subsequently traded as high as $41.70 and as low as $9.25. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- variations in our quarterly or annual operating results;
- changes in our earnings estimates, if provided, or differences between our actual financial and operating results and those expected by investors and analysts;
- the contents of published research reports about us or our industry, or the failure of securities analysts to cover our common stock;
- additions or departures of key management personnel;
- any increased indebtedness that we may incur in the future;
- announcements by us or others and developments affecting us;
- actions by institutional stockholders;
- litigation and governmental investigations;
- legislative or regulatory changes;
- judicial pronouncements interpreting laws and regulations;
- changes in government programs;
- changes in market valuations of similar companies;
- speculation or reports by the press or investment community with respect to us or our industry in general;
- announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic relationships, joint ventures, or capital commitments; and
- general market, political, and economic conditions, including local conditions in the markets in which we operate.

These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. The stock market in general has from time to time experienced extreme price and volume fluctuations, including recently. In addition, in the past, following periods of volatility in the overall market and decreases in the market price of a company’s securities, securities class action litigation has often been instituted against that company. We are currently defending against such litigation. See Item 3, “Legal Proceedings”. Such litigation could result in substantial costs and a diversion of our management’s attention and resources.

Future offerings of debt or equity securities by us may adversely affect the market price of our common stock.

In the future, we may attempt to obtain financing, or to further increase our capital resources, by issuing additional shares of our common stock or by offering other equity securities, or debt, including senior or subordinated notes, debt securities convertible into equity, or shares of preferred stock. Opening new company-operated restaurants in existing and new markets could require substantial additional capital in excess of cash from operations. We would expect to finance the capital required for new company-operated restaurants through a combination of additional issuances of equity, corporate indebtedness, and cash from operations.

Issuing additional shares of our common stock or other equity securities or securities convertible into equity may dilute the economic and voting rights of our existing stockholders, reduce the market price of our common stock, or both. In a liquidation, holders of any such debt securities or preferred stock, and lenders with respect to other borrowings, could receive distributions of our available assets prior to the holders of our common stock. Debt securities convertible into equity could be subject to adjustments in their conversion ratios under certain circumstances, increasing the number of equity securities issuable upon conversion. Preferred stock, if issued, could have a preference with respect to liquidating distributions, or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control that may adversely affect the amount, timing, or nature of our future offerings. Thus, holders of our common stock bear the risk that our future offerings may reduce the market price of our common stock and dilute their stockholdings in us.

The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that such sales could occur. No lock-up agreements presently are in effect. LLC presently owns approximately 43.3% of our outstanding common stock and could sell stock publicly either if the stock were registered or if the exemption requirements of Rule 144 were satisfied.

Pursuant to our stockholders agreement, LLC and, in certain instances, Freeman Spogli, may require us to file registration statements under the Securities Act at our expense, covering resales of our common stock held by them or LLC or piggyback on a registration statement in certain circumstances. Any such sales, or the prospect of any such sales, could materially impact the market price of our common stock.

The future issuance of additional common stock in connection with our incentive plan, acquisitions, or otherwise will dilute all other stockholdings.

As of February 27, 2018, we had an aggregate of 158,472,763 shares of common stock authorized, unissued, and not reserved for incentive plan issuance. We may issue all of these shares of common stock without any action or approval by our stockholders, subject to certain exceptions. Any common stock issued in connection with our incentive plan, the exercise of outstanding stock options, or otherwise would dilute the percentage ownership held by all other stockholders.

Delaware law, our organizational documents, and our existing and future debt agreements may impede or discourage a takeover, depriving our investors of the opportunity to receive a premium for their shares.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. In addition, provisions of our amended and restated certificate of incorporation and by-laws may make it difficult for, or prevent, a third party from acquiring control of us without the approval of our board of directors. Among other things, these provisions:

- provide for a classified board of directors with staggered three-year terms;
- do not permit cumulative voting in the election of directors, which would allow a minority of stockholders to elect director candidates;
- delegate the sole power to a majority of the board of directors to fix the number of directors;
- provide the power to our board of directors to fill any vacancy on our board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- authorize the issuance of “blank check” preferred stock without any need for action by stockholders;
- eliminate the ability of stockholders to call special meetings of stockholders;
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and
- provide that, on or after the date that LLC ceases to beneficially own at least 40% of the total votes eligible to be cast in the election of directors, a 75% supermajority vote will be required to amend or repeal provisions relating to, among other things, the classification of the board of directors, the filling of vacancies on the board of directors, and the advance notice requirements for stockholder proposals and director nominations.

In addition, our secured revolving credit facility imposes, and we anticipate that documents governing our future indebtedness may impose, limitations on our ability to enter into change of control transactions. Under our secured revolving credit facility, the occurrence of a change of control transaction can constitute an event of default permitting acceleration of the debt, thereby impeding our ability to enter into change of control transactions.

The foregoing factors, as well as significant common stock ownership by Trimaran and Freeman Spogli, could impede a merger, takeover, or other business combination, or discourage a potential investor from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 27, 2017, our restaurant system consisted of 477 restaurants, comprised of 212 company-operated restaurants and 265 franchised restaurants, located in California, Arizona, Nevada, Texas, and Utah. In addition, we currently license our brand to two restaurants in the Philippines. We have not included these two licensed restaurants as part of our unit count as presented in this annual report. The table below sets forth the locations (by state) for all restaurants in operation.

State	Company-Operated	Franchised	Total
California	163	216	379
Nevada	22	5	27
Arizona	7	20	27
Texas	19	20	39
Utah	1	4	5
Total	212	265	477

Our restaurants are either free-standing facilities, typically with drive-thru capability, or in-line. A typical restaurant generally ranges from 2,200 to 3,000 square feet, with seating for approximately 50-70 people. For a majority of our company-operated restaurants, we lease land on which our restaurants are built. Our leases generally have terms of 20 years, with two or three renewal terms of five years.

Restaurant leases provide for a specified annual rent, and some leases call for additional or contingent rent based on revenue above specified levels. Generally, our leases are “net” leases that require us to pay a pro rata share of taxes, insurance, and maintenance costs. We own 15 properties, currently operating 12 and licensing three to franchisees. In addition, we operate 200 company-operated restaurants on leased real estate, an owned operating unit with additional parking on leased real estate, and have another 15 leased sites that are subleased or assigned to franchisees who operate El Pollo Loco restaurants. We also have six closed units and two units subleased for uses other than El Pollo Loco.

We lease our headquarters, consisting of approximately 29,880 square feet in Costa Mesa, California, for a term expiring in 2023, plus one three-year extension option. Our headquarters is located at 3535 Harbor Boulevard, Suite 100, Costa Mesa, California 92626, and our telephone number is (714) 599-5000. We believe that our current office space is suitable and adequate for its intended purposes and our near-term expansion plans.

ITEM 3. LEGAL PROCEEDINGS

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, under the caption Elliott Olvera, et al v. El Pollo Loco, Inc., et al (Case No. 30-2014-00707367-CU-OE-CXC) on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff’s requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys’ fees and costs. No specific amount of damages sought was specified in the complaint. The parties executed a Stipulation of Class Settlement and Release which the court refused to approve on the grounds that it did not provide sufficient compensation for the putative class members. Further settlement discussions were not successful, and the litigation is moving forward with the filing deadline for plaintiff’s class certification motion postponed until May 4, 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 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 Defendants’ opposition was filed on March 8, 2018. Defendants intend to continue to defend against the claims asserted.

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

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

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

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 Ethe Handlers Bryman Trust (collectively, “Plaintiffs”), filed suit against us alleging, among other things, that we “imposed unreasonable time limitations” on their development of additional restaurant locations in Lancaster, California, and that we thereafter developed company-owned El Pollo Loco restaurants in the “market area” of Plaintiffs’ existing El Pollo Loco restaurant in Lancaster. Plaintiffs’ asserted claims against us for, among other things, (i) breach of the covenant of good faith and fair dealing, (ii) intentional interference with prospective business, and (iii) unfair business practices. In addition to an unspecified amount of damages and costs of the lawsuit, Plaintiffs sought reformation of the contract, declaratory relief, disgorgement of alleged revenues and profits, injunctive relief, and a judicial mandate requiring us to either transfer the company-owned locations to Plaintiffs or to continuously disgorge to Plaintiffs the unjust enrichment allegedly obtained by us through the operation of the company-owned restaurants in Lancaster. We denied Plaintiffs' allegations as the franchise agreement did not grant Plaintiffs any exclusive territorial rights and, instead, expressly reserved for us the right to open and operate and the right to grant others the right to open and operate - El Pollo Loco restaurants "in the immediate vicinity of or adjacent to" Plaintiffs' restaurant in Lancaster. On June 7, 2016, we filed a cross-complaint against Plaintiffs for breach of the franchise agreement due to Plaintiffs' failure to pay to us liquidated damages 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 but continued in a related action before the San Bernardino Superior Court titled El Pollo Loco, Inc. v. EPL 3766, Inc. On April 24, 2017, four days before the commencement of trial, Plaintiffs filed a voluntary dismissal, without prejudice, of the Lancaster Lawsuit without any payment or other concession by us. The corresponding dismissal was entered by the court on April 25, 2017. On May 22, 2017, Plaintiffs filed a motion for relief from the dismissal which was granted by the court on June 29, 2017. The trial in the case was bifurcated between the liability and damages phases. The liability phase went forward on November 16, 2017. The only cause of action that the court allowed to go to the jury was the cause of action for breach of the covenant of good faith and fair dealing. The court elected not to present the cause of action for intentional interference with prospective business to the jury. (The causes of action for reformation due to mistake and unconscionability, unfair business practices under California Business & Professions Code §§ 17200 et seq. , and declaratory relief were not presented to the jury as these types of equitable claims are to be decided by the court as a matter of law.). On December 11, 2017, the jury returned a verdict in favor of Plaintiffs on the cause of action for breach of the covenant of good faith and fair dealing.

The December 11, 2017 verdict did not include a determination of damages. The damages phase of the trial is currently scheduled to begin on April 20, 2018.

The Court has recently allowed Plaintiffs to reopen discovery on damages related to new claims involving the opening of a second company-owned location in Lancaster, California and that El Pollo Loco did not offer the new restaurant locations to Plaintiffs. Experts will be allowed to update their damages calculations to account for the updated information and these new claims. These unknown variables preclude us from providing a reasonable estimation of the range of damages that may be awarded. Although we cannot predict the ultimate outcome of this lawsuit, the Company believes the jury's verdict is in error due to express language of the franchise agreement and prejudicial and reversible errors in either earlier phases of the litigation or during the liability phase of the trial. El Pollo Loco intends to file a motion challenging the verdict, a motion for new trial and, if unsuccessful, will appeal the verdict and various other rulings in the case.

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.

ITEM 4. MINE SAFETY DISCLOSURE

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has been listed on the NASDAQ under the symbol "LOCO" since July 25, 2014.

The following table sets forth, for the periods indicated, the high and low intraday sale prices for our common stock on the NASDAQ, as reported by the NASDAQ. Such quotations represent interdealer prices without retail markup, markdown, or commission, and may not necessarily represent actual transactions.

	Low		High	
Fiscal 2016:				
First Quarter (December 31, 2015-March 30, 2016)	$	10.21	$	15.44
Second Quarter (March 31, 2016-June 29, 2016)	$	10.50	$	14.98
Third Quarter (June 30, 2016-September 28, 2016)	$	12.16	$	14.61
Fourth Quarter (September 29, 2016-December 28, 2016)	$	10.08	$	13.50
Fiscal 2017:				
First Quarter (December 29, 2016-March 29, 2017)	$	10.75	$	13.55
Second Quarter (March 30, 2017-June 28, 2017)	$	11.50	$	14.85
Third Quarter (June 29, 2017-September 27, 2017)	$	11.00	$	14.35
Fourth Quarter (September 28, 2017-December 27, 2017)	$	9.55	$	12.55

As of February 27, 2018, the closing price per share of our common stock on the NASDAQ was $9.85.

As of February 27, 2018, there were approximately 50 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered at such date and does not include holders of shares in "street name" or persons, partnerships, associates, corporations, or other entities in security position listings maintained by depositories. As of the same date, there were approximately 20,000 registered and beneficial accounts.

Dividend Policy

We did not pay dividends in 2017 and 2016 and do not expect to pay dividends in the foreseeable future because we intend to use cash flow generated by operations to grow our business. Any future determination otherwise will be at the discretion of our board of directors and depend upon our financial condition, results of operations, capital requirements, and other factors. In addition, the 2014 Revolver (defined below) restricts our ability to pay dividends. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Debt and Other Obligations-Current Credit Agreement, "Item 1A, "Risk Factors—Risks Related to Ownership of Our Common Stock," and Note 1 to our consolidated financial statements included elsewhere in this report.

Issuer Purchases of Equity Securities

In the quarterly period ended December 27, 2017, neither we nor any affiliated purchaser made or had made on our or its behalf any purchases of equity securities, including for exercise price and tax withholdings related to awards under our compensation plans.

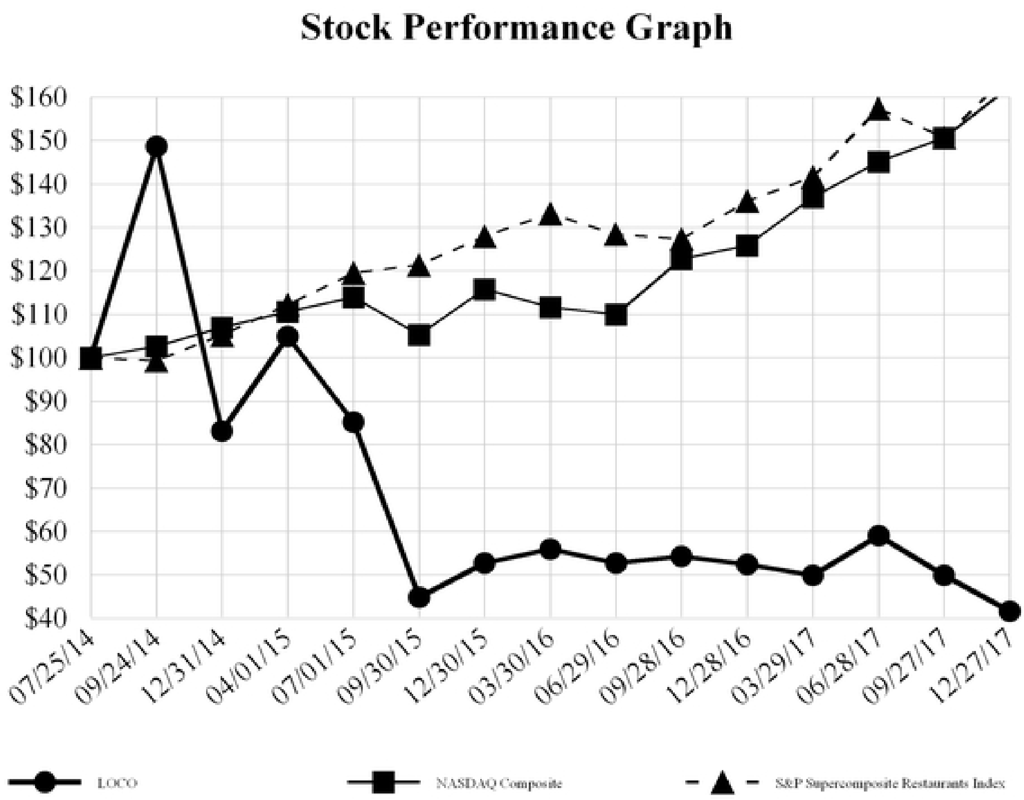
Recent Sales of Unregistered Securities

None.

Stock Performance Graph

The following graph and table illustrate the total return from July 25, 2014, through December 27, 2017, for (i) our common stock, (ii) the NASDAQ Composite Total Return Index, and (iii) the Standard and Poor's Supercomposite Restaurants Index, assuming the investment of $100 at the beginning of the period (at the closing price on our first day of trading of $24.03), reinvestment of dividends, and no transaction costs.

The graph and table are furnished and not filed with the SEC, and are not incorporated by reference into any other filing. They are not a forecast of future performance.



Date	LOCO		NASDAQ Composite		S&P Supercomposite Restaurants Index	
July 25, 2014	$	100.00	$	100.00	$	100.00
September 24, 2014	$	148.65	$	102.61	$	99.36
December 31, 2014	$	83.10	$	107.02	$	105.22
April 1, 2015	$	104.91	$	110.61	$	112.22
July 1, 2015	$	85.19	$	113.95	$	119.52
September 30, 2015	$	44.86	$	105.30	$	121.36
December 30, 2015	$	52.77	$	115.81	$	127.95
March 30, 2016	$	55.97	$	111.68	$	133.22
June 29, 2016	$	52.73	$	109.97	$	128.46
September 28, 2016	$	54.35	$	122.74	$	127.33
December 28, 2016	$	52.43	$	125.90	$	136.03
March 29, 2017	$	49.94	$	136.91	$	141.62
June 28, 2017	$	59.09	$	145.13	$	157.36
September 27, 2017	$	49.94	$	150.61	$	150.68
December 27, 2017	$	41.61	$	162.38	$	165.58

ITEM 6. SELECTED FINANCIAL DATA

The following tables contain selected historical consolidated financial data as of and for the last five fiscal years, derived from our audited consolidated financial statements. Not all periods shown are discussed in this Annual Report. You should read these tables in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited consolidated financial statements and the notes thereto.

	Fiscal Year				
	2017	2016	2015	2014	2013
Statements of Income Data:					
Revenue					
Company-operated restaurant revenue	$ 376,615	$ 355,468	$ 332,040	$ 322,516	$ 294,327
Franchise revenue	25,086	24,655	23,017	22,345	20,400
Total revenue	401,701	380,123	355,057	344,861	314,727
Cost of operations					
Food and paper costs	109,898	107,218	105,917	102,611	93,589
Labor and related expenses	106,584	97,471	84,231	80,646	75,669
Occupancy and other operating expenses	85,631	78,263	69,977	68,538	63,150
Gain on recovery of insurance proceeds, lost profits	—	(502)	—	—	—
Company restaurant expenses	302,113	282,450	260,125	251,795	232,408
General and administrative expenses	38,523	34,661	28,997	29,519	25,506
Franchise expenses	3,335	3,823	3,456	3,704	3,841
Depreciation and amortization	18,128	16,053	13,092	11,538	10,213
Loss on disposal of assets	799	674	471	646	868
Expenses related to fire loss	—	48	—	—	—
Gain on recovery of insurance proceeds, property, equipment and expenses	—	(741)	—	—	—
Recovery of securities lawsuits related legal expenses	(1,666)	—	—	—	—
Asset impairment and closed-store reserves	33,645	8,554	92	1,033	(101)
Total expenses	394,877	345,522	306,233	298,235	272,735
Gain on disposition of restaurants	—	28	—	2,658	400
Income from operations	6,824	34,629	48,824	49,284	42,392
Interest expense, net	3,278	3,155	3,707	18,062	36,334
Early extinguishment of debt	—	—	—	9,718	21,530
Expenses related to selling shareholders	—	—	50	667	—
Income tax receivable agreement (income) expense	(5,570)	352	156	41,382	—
Income (loss) before (provision) benefit for income taxes	9,116	31,122	44,911	(20,545)	(15,472)
(Provision) benefit for income taxes	(497)	(12,783)	(20,857)	63,008	(1,401)
Net income (loss)	$ 8,619	$ 18,339	$ 24,054	$ 42,463	$ (16,873)
Per Share Data:					
Net income (loss) per share					
Basic	$ 0.22	$ 0.48	$ 0.63	$ 1.32	$ (0.59)
Diluted	$ 0.22	$ 0.47	$ 0.62	$ 1.24	$ (0.59)
Weighted average shares used in computing net income (loss) per share					
Basic	38,453,347	38,357,805	37,949,316	32,285,484	28,712,622
Diluted	39,086,676	39,026,950	39,039,558	34,346,241	28,712,622
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$ 53,671	$ 49,299	$ 57,971	$ 26,085	$ 19,700
Net cash used in investing activities	$ (36,238)	$ (35,202)	$ (30,835)	$ (21,401)	$ (13,787)
Net cash used in financing activities	$ (11,051)	$ (18,030)	$ (32,534)	$ (10,200)	$ (10,385)

	Fiscal Year				
	2017	2016	2015	2014	2013
Balance Sheet Data—Consolidated (at period end):					
Cash and cash equivalents	$ 8,550	$ 2,168	$ 6,101	$ 11,499	$ 17,015
Net property (1)	$ 102,794	$ 118,470	$ 102,421	$ 82,090	$ 68,641
Total assets	$ 442,711	$ 471,305	$ 461,028	$ 455,306	$ 416,942
Total debt (2)	$ 93,316	$ 104,461	$ 123,638	$ 165,846	$ 289,242
Total stockholders’ equity	$ 274,950	$ 265,182	$ 244,633	$ 210,400	$ 48,536

(1) Net property consists of property owned, net of accumulated depreciation and amortization.

(2) Total debt consists of borrowings under the 2014 Revolver, 2013 Credit Agreements, and 2011 Financing Agreements (each, as defined in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Other Obligations”), and our capital lease obligations.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Item 6, “Selected Financial Data,” and our consolidated financial statements and the notes thereto included elsewhere in this report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause actual results to differ materially from management’s expectations. See “Forward-Looking Statements” and Item 1A, “Risk Factors.” We assume no obligation to update any of these forward-looking statements.

Basis of Presentation

We use a 52- or 53-week fiscal year ending on the last Wednesday of each calendar year. Fiscal 2017, 2016, and 2015 ended on December 27, 2017, December 28, 2016 and December 30, 2015, respectively. 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. Approximately every six or seven years a 53-week fiscal year occurs. Fiscal 2017, 2016, and 2015 were 52-week fiscal years. 53-week years may cause revenues, expenses, and other results of operations to be higher due to the additional week of operations. Fiscal years are identified in this report according to the calendar years in which they ended. For example, references to fiscal 2017 refer to the fiscal year ended December 27, 2017.

Overview

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

Growth Strategies and Outlook

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

- expand our restaurant base;

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

As of December 27, 2017, we had 477 locations in five states. In fiscal 2017, we opened 16 new company-operated and 7 new franchised restaurants across Arizona, California, Nevada, Utah and Texas. In fiscal 2016, we opened 18 new company-operated and 13 new franchised restaurants across Arizona, California, Nevada, Utah and Texas. In 2018, we intend to open 6 to 8 new company-operated and 6 to 8 new franchised restaurants in Arizona, California, Nevada, Utah and Texas. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend.

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, system-wide sales, comparable restaurant sales, company-operated average unit volumes, restaurant contribution, restaurant contribution margin, new restaurant openings, EBITDA, and Adjusted EBITDA. In fiscal 2017, our restaurants generated company-operated restaurant revenue of $376.6 million and system-wide sales of $841.8 million, and system comparable sales increased 1.5%, consisting of company-operated restaurant comparable sales growth of 1.0% and franchised comparable sales growth of 1.8%. The company-operated comparable sales increase consisted of a 1.9% check growth, partially offset by a 0.9% transaction decrease. In fiscal 2017, for company-operated restaurants, our annual Average Unit Volume ("AUV") was $1.8 million, restaurant contribution margin was 19.8%, and Adjusted EBITDA was $65.3 million.

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 transactions 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.

System-Wide Sales

System-wide sales are neither required by, nor presented in accordance with, accounting principles generally accepted in the United States of America (“GAAP”). System-wide sales are the sum of company-operated restaurant revenue and sales from franchised restaurants. Our total revenue in our consolidated statements of income is limited to company-operated restaurant revenue and franchise revenue from our franchisees. Accordingly, system-wide sales should not be considered in isolation or as a substitute for our results as reported under GAAP. Management believes that system-wide sales are an important figure for investors, because they are widely used in the restaurant industry, including by our management, to evaluate brand scale and market penetration.

The following table reconciles system-wide sales to company-operated restaurant revenue and total revenue.

	Fiscal Year		
(Dollar amounts in thousands)	**2017**	**2016**	**2015**
Company-operated restaurant revenue	$ 376,615	$ 355,468	$ 332,040
Franchise revenue	25,086	24,655	23,017
Total Revenue	401,701	380,123	355,057
Franchise revenue	(25,086)	(24,655)	(23,017)
Sales from franchised restaurants	465,149	439,973	421,344
System-wide sales	$ 841,764	$ 795,441	$ 753,384

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 December 27, 2017, December 28, 2016 and December 30, 2015, there were 424, 409, and 397 comparable restaurants, 181, 169, and 160 company-operated and 243, 240 and 237 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 AUVs on both a weekly and an annual basis. Weekly AUVs consist of comparable restaurant sales over a seven-day period from Thursday to Wednesday. Annual AUVs are calculated using the following methodology: First, we divide our total net sales for all company-operated restaurants for the fiscal year by the total number of restaurant operating weeks during the same period. Second, we annualize that average weekly per-restaurant sales figure by multiplying it by 52. An operating week is defined as a restaurant open for business over a seven-day period from Thursday to Wednesday. This measurement allows management to assess changes in consumer spending patterns at our restaurants and the overall performance of our restaurant base.

Restaurant Contribution and Restaurant Contribution Margin

Restaurant contribution and restaurant contribution margin are neither required by, nor presented in accordance with, GAAP. Restaurant contribution is defined as company-operated restaurant revenue less company restaurant expenses. Restaurant contribution margin is defined as restaurant contribution as a percentage of net company-operated restaurant revenue. Restaurant contribution and restaurant contribution margin are supplemental measures of operating performance of our restaurants, and our calculations thereof may not be comparable to those reported by other companies. Restaurant contribution and restaurant contribution margin have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Management believes that restaurant contribution and restaurant contribution margin are important tools for investors, because they are widely-used metrics within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance. Management uses restaurant contribution and restaurant contribution margin as key metrics to evaluate the profitability of incremental sales at our restaurants, to evaluate our restaurant performance across periods, and to evaluate our restaurant financial performance compared with our competitors.

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

	Fiscal Year		
(Dollar amounts in thousands)	**2017**	**2016**	**2015**
Company-operated restaurant revenue	$ 376,615	$ 355,468	$ 332,040
Company restaurant expenses	302,113	282,450	260,125
Restaurant contribution	$ 74,502	$ 73,018	$ 71,915
Restaurant contribution margin (%)	19.8%	20.5%	21.7%

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 Annual 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 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 as benchmarks to compare our performance to that of our competitors.

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

	Fiscal Year		
	2017	2016	2015
Net income	$ 8,619	$ 18,339	$ 24,054
Non-GAAP adjustments:			
Provision for income taxes	497	12,783	20,857
Interest expense, net	3,278	3,155	3,707
Depreciation and amortization	18,128	16,053	13,092
EBITDA	$ 30,522	$ 50,330	$ 61,710
Stock based compensation expense (a)	1,056	1,063	539
Loss on disposal of assets (b) (c)	799	674	471
Expenses related to fire loss (c)	—	48	—
Gain on recovery of insurance proceeds, property, equipment, and expenses(c)	—	(741)	—
Recovery of securities lawsuits related legal expense(d)	(1,666)	—	—
Asset impairment and closed-store reserves (e)	33,645	8,554	92
Gain on disposition of restaurants (f)	—	(28)	—
Expense related to selling shareholders (g)	—	—	50
Income tax receivable agreement (income) expense (h)	(5,570)	352	156
Securities class action legal expense (i)	4,236	2,696	993
Pre-opening costs (j)	1,981	2,624	1,456
Executive transition costs(k)	284	—	—
Adjusted EBITDA	$ 65,287	$ 65,572	$ 65,467

(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) In November 2015, one of the Company's restaurants incurred damage resulting from a fire. In fiscal 2016, we incurred costs directly related to the fire of less than $0.1 million, disposed of assets of an additional $0.1 million and recognized gains of $0.7 million, related to the reimbursement of property and equipment and expenses incurred and $0.5 million related to the reimbursement of lost profits. The reimbursement of lost profits is included in the accompanying consolidated statements of income, for fiscal 2016, as a reduction of company restaurant expenses. The Company received from the insurance company cash of $1.4 million, net of the insurance deductible, during fiscal 2016. In fiscal 2015, the Company disposed of $0.1 million of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

(d) In fiscal 2017, we received insurance proceeds of $1.7 million related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See the Notes to the Condensed Consolidated Financial Statements, Note 13, Commitments and Contingencies, Legal Matters.

(e) Includes costs related to impairment of long-lived assets and closing restaurants. During fiscal 2017, we determined that the carrying value of the assets of 21 restaurants, in Arizona, California and Texas, may not be recoverable. Additionally, we made a strategic decision to close two additional restaurants in Texas. As a result, we recorded a $32.6 million expense, primarily related to the impairment of the assets of the restaurants and includes expense of $27.7 million, representing the entire remaining value of capitalized assets of all of our company-operated restaurants in Texas, net of previously recorded depreciation. During fiscal 2017, we closed four restaurants in Texas, one of which was fully impaired during the fourth quarter of 2016, one of which was impaired during the third quarter of 2016 and the other two were impaired in fiscal 2017. Additionally, we closed one restaurant in Arizona, which was fully impaired in the third quarter of 2016. These closures resulted in closed-store reserve expenses of $1.1 million during fiscal 2017.

During fiscal 2016, the Company determined that the carrying value of the assets of nine restaurants, in Arizona, California and Texas, may not be recoverable. As a result, the Company recorded $8.3 million of expense related to the impairment of the assets of the nine restaurants.

The Company continues to monitor the recoverability of the carrying value of the assets of several other restaurants.

(f) On June 16, 2016, we completed an agreement to sell one company-operated restaurant in Tucson, Arizona to a franchisee, resulting in cash proceeds of $1.5 million and a net gain of less than $0.1 million, which is recorded as a gain on disposition of restaurants in the accompanying consolidated statement of income. This restaurant is now included in our franchised restaurant totals.

(g) Costs related to the sale, in the second quarter of 2015, of 5.4 million shares of common stock in a block trade to various investors, by our largest shareholder, which was at that time our majority shareholder, pursuant to Rule 144 under the Securities Act. This shareholder owns stock in us not registered under the Securities Act. Under our stockholders agreement, this shareholder may require us to register stock in us that it owns, under the Securities Act. In that event, we are responsible for all registration expenses. In lieu of the shareholder's exercise of its registration rights, we agreed to bear the expenses incident to the shareholder's sale of these shares using Rule 144.

(h) 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 years ended December 27, 2017, December 28, 2016, and December 30, 2015, 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. For fiscal 2017, the income tax receivable agreement income was primarily due to the Tax Act, and the resulting changes to the Federal corporate income tax rate.

(i) Consists of costs related to the defense of securities lawsuits. See the Notes to the Condensed Consolidated Financial Statements, Note 13, Commitments and Contingencies, Legal Matters.

(j) 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.

(k) Includes costs associated with the transition of our CEO, such as executive recruiting costs.

Highlights and Trends

Comparable Restaurant Sales

In fiscal 2017, 2016, and 2015, comparable restaurant sales system-wide increased 1.5%, 0.9%, and 2.2%, respectively. Comparable restaurant sales growth reflects the change in year-over-year sales for the comparable restaurant base. A restaurant enters our comparable restaurant base the first full week after its 15-month anniversary. System-wide comparable restaurant sales include restaurant sales at all comparable company-operated restaurants and at all comparable franchised restaurants, as reported by franchisees. Comparable restaurant sales at company-operated restaurants increased 1.0% in fiscal 2017, 0.6% in fiscal 2016, and 1.0% in fiscal 2015. In fiscal 2017, the increase in company-operated comparable restaurant sales was primarily the result of an increase in average check size of 1.9% , partially offset by a decrease in transactions of 0.9%. In fiscal 2016, the increase in company-operated comparable restaurant sales was primarily the result of an increase in average check size of 0.3% and an increase in transactions of 0.3%. In fiscal 2015, the increase in company-operated comparable restaurant sales was driven by an increase in average check size of 2.9% offset by a decrease in transactions of 1.9%. In fiscal 2017, 2016, and 2015, comparable restaurant sales at franchised restaurants increased 1.8%, 1.1%, and 3.1%, respectively.

Restaurant Development

Since 2011, we have focused on repositioning our brand, improving operational efficiency and brand awareness, strengthening our management team, and refinancing our indebtedness in preparation for future growth. New restaurant development is expected to be a key driver of our long-term growth strategy. In fiscal 2017, we opened 16 company-operated restaurants, and our franchisees opened seven new restaurants. From time to time, we and our franchisees close restaurants. In fiscal 2017, the Company closed five restaurants and our franchisees closed one restaurants. Our restaurant counts at the beginning and end of each of the last three years were as follows:

	Fiscal Year		
	2017	2016	2015
Company-operated restaurant activity:			
Beginning of period	201	186	172
Openings	16	18	14
Restaurant sale to franchisee	—	(1)	—
Closures	(5)	(2)	—
Restaurants at end of period	212	201	186
Franchised restaurant activity:			
Beginning of period	259	247	243
Openings	7	13	5
Restaurant sale to franchisee	—	1	—
Closures	(1)	(2)	(1)
Restaurants at end of period	265	259	247
Total restaurant activity:			
Beginning of period	460	433	415
Openings	23	31	19
Closures	(6)	(4)	(1)
Restaurants at end of period	477	460	433

Restaurant Remodeling

We and our franchisees commenced our remodeling program in 2011 and, as of December 27, 2017, together we had remodeled 120 company-operated and 196 franchised restaurants, or 316 system-wide, over 75% of our restaurant system due to be remodeled. This includes 14 company-operated and 3 franchised restaurants that have been remodeled using our newest Vision restaurant design. The Vision design elevates the brand image with exterior and interior features that embrace the brand's authentic roots with warm textures, rustic elements and a focus on the signature open kitchen layout established in previous designs. As of December 27, 2017, including new builds and remodels, we had 44 restaurants open with the Vision design in our system. Remodeling is a use of cash and has implications for our net property and depreciation line items on our consolidated balance sheets and 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 to $0.4 million per restaurant. We believe that our remodeling program will result in higher restaurant revenue and a strengthened brand.

Critical Accounting Policies and Use of Estimates

The preparation of our 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 disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances in making judgments about the carrying value of assets and liabilities that are not readily available from other sources. We evaluate our estimates on an on-going basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. Management believes that the critical accounting policies and estimates discussed below involve the most difficult management judgments, due to the sensitivity of the methods and assumptions used. Our significant accounting policies are described in Note 2 to our consolidated financial statements included elsewhere in this report.

Revenue Recognition

We record revenue from company-operated restaurants as food and beverage products are delivered to customers and payment is tendered at the time of sale. We present sales net of sales-related taxes and promotional allowances. In the case of gift card sales, we record revenue when the gift card is redeemed by the customer. We record royalties from franchised restaurant sales based on a percentage of restaurant revenues in the period that the related franchised restaurants' revenues are earned. Franchise fees and area development fees are recognized as income when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied by us. Both franchise fees and area development fees generally are recognized as income upon the opening of a franchised restaurant or upon termination of the related agreements.

Goodwill and Indefinite-Lived Intangible Assets, Net

Intangible assets consist primarily of goodwill and trademarks.

We do not amortize our goodwill and indefinite-lived intangible assets. We perform an annual impairment test for goodwill during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. For our annual goodwill impairment assessment at December 27, 2017, we performed a qualitative assessment and concluded that the fair value of the reporting unit to which goodwill was assigned exceeded our book equity. Accordingly, we did not identify any goodwill impairment.

We perform an annual impairment test for indefinite-lived intangible assets during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. For our impairment test for indefinite-lived intangible assets at December 27, 2017, we performed a qualitative assessment and concluded that the fair value of the indefinite-lived intangible assets exceeded their carrying value and that there was no impairment.

These assumptions used in our estimates of fair value are generally consistent with past performance and are also consistent with the projections and assumptions that we use in our forward-looking operating plans. These assumptions are subject to change as a result of changing economic and competitive conditions. Changes in these estimates and assumptions could materially affect our determinations of fair value and impairment.

Long-Lived Assets

We state the value of our property and equipment, including primarily leasehold improvements and restaurant equipment, furniture, and fixtures, at cost, minus accumulated depreciation and amortization. We calculate depreciation using the straight-line method of accounting over the estimated useful lives of the related assets. We amortize our leasehold improvements using the straight-line method of accounting over the shorter of the lease term (including reasonably assured renewal periods) or the estimated useful lives of the related assets. We expense repairs and maintenance as incurred, but capitalize major improvements and betterments. We make judgments and estimates related to the expected useful lives of those assets that are affected by factors such as changes in economic conditions and changes in operating performance. If we change our assumptions in the future, we may be required to record impairment charges for these 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 write-down 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 our impairment review analysis. If actual performance does not achieve the projections, we may recognize impairment charges in future periods, and such charges could be material.

Insurance Reserves

We are responsible for workers’ compensation, general, and health insurance claims up to a specified amount. We maintain a reserve for estimated claims both reported and incurred but not reported, based on historical claims experience and other assumptions. In estimating our insurance accruals, we utilize independent actuarial estimates of expected losses, which are based on statistical analyses of historical data. Our actuarial assumptions are closely monitored and adjusted when warranted by changing circumstances. Should claims occur or medical costs increase in greater amounts than we have expected, accruals may not be sufficient, and we may record additional expenses.

Accounting for Lease Obligations

We lease a substantial number of our restaurant properties. At the inception of each lease, we evaluate the property and the lease to determine whether the lease is an operating lease or a capital lease. This lease accounting evaluation may require significant judgment in determining the fair value and useful life of the leased property and the appropriate lease term. The lease term used for the evaluation includes renewal option periods only in instances in which the exercise of the renewal option can be reasonably assured because failure to exercise such an option would result in an economic penalty. Such an economic penalty would typically result from our having to abandon a building or fixture with remaining economic value upon vacating a property.

Franchise Operations

We sublease a number of restaurant properties to our franchisees. As such, we remain principally liable for the underlying leases. If sales trends or economic conditions worsen for our franchisees, their financial health may worsen, our collection rates may decline, and we may be required to assume the responsibility for additional lease payments on what are presently franchised restaurants.

Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. As of December 27, 2017, we had federal and state net operating loss (“NOL”) carryforwards of $55.8 million and $20.1 million, respectively. These Federal and State NOLs expire beginning in 2030 and 2025, respectively.

A valuation allowance is required when there is significant uncertainty as to whether certain deferred tax assets can be realized. The ability to realize deferred tax assets is dependent upon our ability to generate sufficient taxable income within the carryforward periods provided for in the tax law for each tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

- future reversals of existing taxable temporary differences;
- future taxable income or loss, exclusive of reversing temporary differences and carryforwards;
- tax-planning strategies; and
- taxable income in prior carryback years.

We will continue to reevaluate the continued need for either a valuation allowance. Relevant factors include:

- current financial performance;
- our ability to meet short-term and long-term financial and taxable income projections;
- the overall market environment; and
- the volatility and trends in the industry in which we operate.

All of the factors that we consider in evaluating treatment of a deferred tax asset valuation allowance involve significant judgment. For example, there are many different interpretations of “cumulative losses in recent years” that can be used. Also, significant judgment is involved in making projections of future financial and taxable income, especially because our financial results are significantly dependent upon industry trends. Any change in our valuation allowance will significantly impact our financial results in the period of that change.

When there are uncertainties related to potential income tax benefits, in order to qualify for recognition, the position we take 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 responsible authorities. The term “more likely than not” means a likelihood of more than 50%. Otherwise, we may not recognize any of the potential tax benefits associated with that position. We recognize a benefit for a tax position that meets the “more likely than not” criterion as the largest amount of tax benefit that is greater than 50% likely to be realized upon its effective resolution. Unrecognized tax benefits involve our judgment regarding the likelihood of a benefit being sustained. The final resolutions of uncertain tax positions could result in adjustments to recorded amounts and affect our results of operations, financial position, and cash flows. However, we anticipate that any such adjustments would not materially impact our financial statements.

In fiscal 2017, President Trump signed into law "the Tax Act”. The Tax Act provides for significant changes in the U.S. Internal Revenue Code of 1986, as amended. The Tax Act contains provisions with separate effective dates but is generally effective for taxable years beginning after December 31, 2017.

The Tax Act had the following effects on our income tax expense for the year ended December 27, 2017:

- Under Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 740, Income Taxes ("ASC 740"), we are required to revalue any deferred tax assets or liabilities in the period of enactment of change in tax rates. The Tax Act lowers the corporate income tax rate from 35% to 21%. We have estimated the impact of the revaluation of our deferred tax assets and liabilities, which resulted in a decrease to our net deferred income tax liability by $1.4 million and is reflected as a decrease in our income tax expense in our results for fiscal 2017.
- The reduced corporate tax rate, also resulted in a Tax Receivable Agreement "TRA" benefit to the provision for income tax expense for fiscal 2017 in the amount of $2.0 million.
- The Tax Act is generally effective for tax years beginning after December 31, 2017. As such, the reduction in the corporate income tax rate from 35% to 21% will be effective for the fiscal year ended December 26, 2018.

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. We are permitted to make TRA payments under the 2014 Revolver. In fiscal 2017 a benefit of $5.6 million and in and fiscal 2016, we incurred a charge of $0.4 million, related to the amortization of the present value of the TRA obligation, the impact of the Tax Act on the corporate tax rate on future years, and an adjustment to the expected TRA liability, due to the expected realization of various pre-IPO tax credits.

In addition, in fiscal 2014, we applied for various tax credits that resulted in $6.7 million of additional deferred tax assets and tax benefits. As of fiscal 2017, the deferred asset balance for various tax credits was $5.4 million. The fiscal 2017 provision includes a $4.3 million valuation allowance against our deferred tax asset, resulting from certain tax credits that may not be realizable prior to the time the credits expire. Also, in fiscal 2017, federal work opportunity tax credits ("WOTC") of approximately $0.4 million were generated.

Stock-Based Compensation

We measure and recognize compensation expense for the estimated fair value of equity instruments for employees and non-employee directors based on the grant-date fair value of the award. For awards that are based on a service requirement, the cost is recognized on a straight-line basis over the requisite service period, usually the vesting period. In fiscal 2017, the Company granted 135,036 stock options and 181,292 restricted stock awards, with an exercise price equal to the fair market value of the common stock on the date of grant. The awards granted in fiscal 2017, 2016 and 2015 had a four-year vesting period for employees and three-year vesting period for directors. For options that were based on performance requirements, costs were recognized over the periods to which the performance criteria related. On November 15, 2016, the board of directors modified the vesting of the remaining performance based stock options to instead vest based solely on time. As of December 27, 2017, there were no remaining performance based stock options outstanding. In order to calculate our stock options' fair values and the associated compensation costs for share-based awards, we utilize the Black–Scholes option pricing model.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in Note 2 to our consolidated financial statements included elsewhere in this report.

Key Financial Definitions

Revenue

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

Food and Paper Costs

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

Labor and Related Expenses

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

Occupancy Costs and Other Operating Expenses

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

General and Administrative Expenses

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

Franchise Expenses

Franchise expenses are primarily comprised of rent expenses incurred on properties leased by us and then sublet to franchisees, and expenses incurred in support of franchisee information technology systems.

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, and record an impairment charge when appropriate. Closure costs include non-cash restaurant charges such as up-front expensing the net present value of unpaid rent remaining on the life of a lease offset by assumed sublease income.

Interest Expense, Net

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

Provision for Income Taxes

Provision for income taxes consists of federal and state taxes on our income, and changes to our deferred tax asset and deferred tax liability.

Results of Operations

Fiscal Year 2017 Compared to Fiscal Year 2016

Our operating results for the fiscal years ended December 27, 2017, and December 28, 2016, in absolute terms and expressed as a percentage 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:

	Fiscal Year					
	2017 (52-Weeks)		2016 (52-Weeks)		Increase / (Decrease)	
	($,000)	(%)	($,000)	(%)	($,000)	(%)
Statements of Income Data:						
Revenue						
Company-operated restaurant revenue	$ 376,615	93.8	$ 355,468	93.5	$ 21,147	5.9
Franchise revenue	25,086	6.2	24,655	6.5	431	1.7
Total revenue	401,701	100.0	380,123	100.0	21,578	5.7
Cost of operations						
Food and paper costs (1)	109,898	29.2	107,218	30.2	2,680	2.5
Labor and related expenses (1)	106,584	28.3	97,471	27.4	9,113	9.3
Occupancy and other operating expenses (1)	85,631	22.7	78,263	22.0	7,368	9.4
Gain on recovery of insurance proceeds, lost profits (1)	—	—	(502)	(0.1)	502	(100.0)
Company restaurant expenses (1)	302,113	80.2	282,450	79.5	19,663	7.0
General and administrative expenses	38,523	9.6	34,661	9.1	3,862	11.1
Franchise expenses	3,335	0.8	3,823	1.0	(488)	(12.8)
Depreciation and amortization	18,128	4.5	16,053	4.2	2,075	12.9
Loss on disposal of assets	799	0.2	674	0.2	125	18.5
Expenses related to fire loss	—	—	48	0.0	(48)	(100.0)
Gain on recovery of insurance proceeds, property, equipment and expenses	—	—	(741)	(0.2)	741	(100.0)
Recovery of securities lawsuits related legal expenses	(1,666)	(0.4)	—	—	(1,666)	NA
Asset impairment and closed-store reserves	33,645	8.4	8,554	2.3	25,091	293.3
Total expenses	394,877	98.3	345,522	90.9	49,355	14.3
Gain on disposition of restaurants	—	0.0	28	0.0	(28)	(100.0)
Income from operations	6,824	1.7	34,629	9.1	(27,805)	(80.3)
Interest expense, net	3,278	0.8	3,155	0.8	123	3.9
Income tax receivable agreement (income) expense	(5,570)	(1.4)	352	0.1	(5,922)	(1,682.4)
Income before provision for income taxes	9,116	2.3	31,122	8.2	(22,006)	(70.7)
Provision for income taxes	(497)	(0.1)	(12,783)	(3.4)	12,286	(96.1)
Net income	$ 8,619	2.1	$ 18,339	4.8	$ (9,720)	(53.0)

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

Company-Operated Restaurant Revenue

In fiscal 2017, company-operated restaurant revenue increased $21.1 million, or 5.9%, due to $20.9 million of additional sales from new restaurants. In addition, company-operated revenue was favorably impacted by an increase in company-operated comparable restaurant sales of $3.4 million, or 1.0%. The growth in company-operated comparable restaurant sales was due primarily to an increase in average check size of 1.9%, partially offset by a decline in transactions of 0.9%, compared to the prior year. The increase in company-operated restaurant revenue was partially offset by $2.7 million of net impact of lost sales from closed restaurants in fiscal 2017 and 2016, and $0.5 million of other revenue.

Franchise Revenue

In fiscal 2017, franchise revenue increased $0.4 million, or 1.7%. This increase was due primarily to an increase in franchised comparable restaurant sales of 1.8%, and $1.0 million in higher sales revenue, resulting from additional franchise units. This was partially offset by a decline in franchise agreement and development agreement fees and lower fees received from franchised restaurants related to their use of our point-of-sales system.

Food and Paper Costs

Food and paper costs increased $2.7 million in fiscal 2017, due to a $1.6 million increase in food costs and a $1.1 million increase in paper costs. This increase was due primarily to higher restaurant revenue, and increased food waste, partially offset by lower commodity costs related to chicken. Food and paper costs as a percentage of company-operated restaurant revenue were 29.2% in fiscal 2017, compared to 30.2% in fiscal 2016. This decrease in percentage was due primarily to the lower commodity costs, noted above, and increases in prices.

Labor and Related Expenses

Payroll and benefit expenses increased $9.1 million in fiscal 2017. This increase was due primarily to additional labor needs arising from the opening of 16 new restaurants in fiscal 2017 and 18 new restaurants in fiscal 2016, minimum wage increases in California, and higher workers' compensation expense due to increased claims activity. This was partially offset by lower group insurance costs due to lower claims activity. Payroll and benefit expenses as a percentage of company-operated restaurant revenue were 28.3% in fiscal 2017, compared to 27.4% in fiscal 2016. This increase was primarily due to the minimum wage increases and incremental labor required for the new restaurant openings, noted above, partially offset by higher restaurant revenue.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased $7.4 million in fiscal 2017. This increase for the year-to-date period was due to a $3.7 million increase in occupancy costs, due primarily to additional rent and property tax, a $1.3 million increase in utilities costs, a $0.7 million increase in advertising costs, and a $1.7 million increase in other operating expenses, resulting primarily from an increase in credit card fees, restaurant security expenses and repair and maintenance costs. The increases in fiscal 2017 resulted primarily from the new restaurants opened during or after the first quarter of 2016. Occupancy and other operating expenses as a percentage of company-operated restaurant revenue was 22.7% in fiscal 2017, compared to 22.0% in fiscal 2016. This increase resulted primarily from rent expense, relative to revenue volume generated, and other incremental costs related to opening new restaurants in 2016 and fiscal year 2017.

General and Administrative Expenses

General and administrative expenses increased $3.9 million in fiscal 2017. The increase was due primarily to (i) a $2.6 million increase in legal expense related primarily to the securities class action as discussed under Item 3, "Legal Proceedings" and franchise related litigation, (ii) a $2.0 million increase in payroll expense due primarily to an increase in our accrual for our annual bonus program and an increase in the number of corporate employees and (iii) a $0.5 million increase in other general and administrative costs, primarily related to an increase in recruiting costs. These increases were partially offset by a $0.6 million decrease in new restaurant opening costs and a $0.6 million decrease in travel related costs. General and administrative expenses as a percentage of total revenue were 9.6% in fiscal 2017, compared to 9.1% in fiscal 2016. This increase is primarily due to the higher costs noted above.

Gain on Recovery of Insurance Proceeds

In November 2015, one of the Company's restaurants incurred damage resulting from a fire. In fiscal 2016, we incurred costs directly related to the fire of less than $0.1 million, disposed of assets of an additional $0.1 million and recognized gains of $0.7 million, related to the reimbursement of property and equipment and expenses incurred and $0.5 million related to the reimbursement of lost profits. The reimbursement of lost profits is included in the accompanying consolidated statements of income as a reduction of company restaurant expenses, for fiscal 2016. The Company received from the insurance company cash of $1.4 million, net of the insurance deductible, during fiscal 2016.

Asset Impairment and Closed-Store Reserves

During fiscal 2017, we determined that the carrying value of the assets of 21 restaurants, in Arizona, California and Texas, may not be recoverable. Additionally, we made a strategic decision to close two additional restaurants in Texas. As a result, we recorded a $32.6 million impairment expense.The impairment expense for fiscal 2017 includes an impairment expense of $27.7 million, representing the entire remaining value of capitalized assets of all of our company-operated restaurants in Texas, net of previously recorded depreciation. Factors which led to the impairment of our Texas restaurants include recent results , which indicates that the restaurants have not achieved the sales volumes required to generate positive cash flows or improve profitability in the Texas market, along with the related future cash flow assumptions, including comparable sales rate growth and restaurant operating costs, over the remaining lease terms and the age of the restaurants in Texas. The restaurants in Texas began opening in late 2014, causing a higher net book value at the time of impairment testing, and increased difficulty projecting results for newer restaurants in newer markets. During fiscal 2017, we closed four restaurants in Texas, one of which was fully impaired during the fourth quarter of 2016, one of which was fully impaired during the third quarter of 2016 and the other two were fully impaired in fiscal 2017. Additionally, we closed one restaurant in Arizona, which was fully impaired in the third quarter of 2016. These closures resulted in closed-store reserve expenses of $1.1 million during fiscal 2017.

During fiscal 2016, the Company determined that the carrying value of the assets of nine restaurants, in Arizona, California and Texas, may not be recoverable. As a result, the Company recorded $8.3 million of expense related to the impairment of the assets of the nine restaurants.

The Company continues to monitor the recoverability of the carrying value of the assets of several other restaurants.

Gain on Disposition of Restaurants

On June 16, 2016, we completed an agreement to sell one company-operated restaurant in Tucson, Arizona to a franchisee, resulting in cash proceeds of $1.5 million and a net gain of less than $0.1 million, which is recorded as a gain on disposition of restaurants in the accompanying consolidated statements of income. This restaurant is now included in our franchised restaurant totals.

Interest Expense, Net

For fiscal 2017, interest expense, net was comparable with the same periods of the prior year.

Income Tax Receivable Agreement

In fiscal 2017 we recognized income tax receivable agreement income of $5.6 million and in 2016 we incurred income tax receivable agreement expense of $0.4 million, resulting from the amortization of interest expense related to our total expected TRA payments, changes in estimates for actual tax returns filed, the reduction of the expected TRA liability as a result of the impact of the Tax Act on the corporate tax rate on future years, and expected realization of various pre-IPO tax credits. We are permitted to make TRA payments under the 2014 Revolver. In fiscal 2017 and 2016, we paid $11.1 million and $3.2 million, respectively, to our pre-IPO stockholders under the TRA.

Provision for Income Taxes

In fiscal 2017, we recorded an income tax expense of $0.5 million, compared to income tax expense of $12.8 million in fiscal 2016, reflecting an estimated effective tax rate of 5.5% and 41.1%, respectively. The lower effective tax rate resulted primarily from the Tax Act enacted on December 22, 2017. The Tax Act had the following effects on our income tax expense for the year ended December 27, 2017:

- Under Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 740, Income Taxes ("ASC 740"), we are required to revalue any deferred tax assets or liabilities in the period of enactment of change in tax rates. The Tax Act lowers the corporate income tax rate from 35% to 21%. We have estimated the impact of the revaluation of our deferred tax assets and liabilities, which resulted in a decrease to our net deferred income tax liability by $1.4 million and is reflected as a decrease in our income tax expense in our results for fiscal 2017.

- The reduced corporate tax rate, also resulted in a Tax Receivable Agreement “TRA” benefit to the provision for income tax expense for fiscal 2017 in the amount of $2.0 million.
- The Tax Act is generally effective for tax years beginning after December 31, 2017. As such, the reduction in the corporate income tax rate from 35% to 21% will be effective for the fiscal year ended December 26, 2018.

In addition, there was a $3.3 million valuation allowance against our deferred tax assets recorded in fiscal 2016, compared to an additional valuation allowance of $1.0 million recorded in fiscal 2017. The valuation allowance against our deferred tax assets resulted from certain tax credits that may not be realizable prior to the time the credits expire.

Fiscal Year 2016 Compared to Fiscal Year 2015

Our operating results for the fiscal years ended December 28, 2016, and December 30, 2015, in absolute terms and expressed as a percentage 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:

	Fiscal Year					
	2016 (52-Weeks)		2015 (52-Weeks)		Increase / (Decrease)	
	($,000)	(%)	($,000)	(%)	($,000)	(%)
Statements of Income Data:						
Revenue						
Company-operated restaurant revenue	$ 355,468	93.5	$ 332,040	93.5	$ 23,428	7.1
Franchise revenue	24,655	6.5	23,017	6.5	1,638	7.1
Total revenue	380,123	100.0	355,057	100.0	25,066	7.1
Cost of operations						
Food and paper costs (1)	107,218	30.2	105,917	31.9	1,301	1.2
Labor and related expenses (1)	97,471	27.4	84,231	25.4	13,240	15.7
Occupancy and other operating expenses (1)	78,263	22.0	69,977	21.1	8,286	11.8
Gain on recovery of insurance proceeds, lost profits (1)	(502)	(0.1)	—	—	(502)	N/A
Company restaurant expenses (1)	282,450	79.5	260,125	78.3	22,325	8.6
General and administrative expenses	34,661	9.1	28,997	8.2	5,664	19.5
Franchise expenses	3,823	1.0	3,456	1.0	367	10.6
Depreciation and amortization	16,053	4.2	13,092	3.7	2,961	22.6
Loss on disposal of assets	674	0.2	471	0.1	203	43.1
Expenses related to fire loss	48	0.0	—	—	48	N/A
Gain on recovery of insurance proceeds, property, equipment and expenses	(741)	(0.2)	—	—	(741)	N/A
Asset impairment and closed-store reserves	8,554	2.3	92	0.0	8,462	9,197.8
Total expenses	345,522	90.9	306,233	86.2	39,289	12.8
Gain on disposition of restaurants	28	0.0	—	—	28	100.0
Income from operations	34,629	9.1	48,824	13.8	(14,195)	(29.1)
Interest expense, net	3,155	0.8	3,707	1.0	(552)	(14.9)
Expenses related to selling shareholders	—	—	50	0.0	(50)	(100.0)
Income tax receivable agreement expense	352	0.1	156	0.0	196	125.6
Income before provision for income taxes	31,122	8.2	44,911	12.6	(13,789)	(30.7)
Provision for income taxes	(12,783)	(3.4)	(20,857)	(5.9)	8,074	(38.7)
Net income	$ 18,339	4.8	$ 24,054	6.8	$ (5,715)	(23.8)

(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.

Company-Operated Restaurant Revenue

In fiscal 2016, company-operated restaurant revenue increased $23.4 million, or 7.1%, due to $25.0 million of additional sales from new restaurants. In addition, company-operated revenue was favorably impacted by an increase in company-operated comparable restaurant sales of $1.8 million, or 0.6%. The growth in company-operated comparable restaurant sales was due primarily to an increase in average check size of 0.3% and an increase in transactions of 0.3% compared to the prior year. The increase in company-operated restaurant revenue was partially offset by $3.4 million of lost sales from closed restaurants.

Franchise Revenue

In fiscal 2016, franchise revenue increased $1.6 million, or 7.1%. This increase was due primarily to an increase in franchised comparable restaurant sales of 1.1%, and $0.6 million in higher point of sales revenue, resulting primarily from additional franchise units.

Food and Paper Costs

Food and paper costs increased $1.3 million in fiscal 2016, due to a $0.9 million increase in food costs and a $0.4 million increase in paper costs. This increase was due primarily to higher restaurant revenue, partially offset by lower commodity costs, resulting primarily from lower chicken expense. Food and paper costs as a percentage of company-operated restaurant revenue were 30.2% in fiscal 2016, compared to 31.9% in fiscal 2015. This decrease in percentage was due primarily to the lower commodity costs, noted above, and increases in average check size, due to menu price increases at the end of 2015 and during 2016.

Labor and Related Expenses

Payroll and benefit expenses increased $13.2 million in fiscal 2016. This increase was due primarily to additional labor needs arising from the opening of 18 new restaurants in fiscal 2016 and 14 new restaurants in fiscal 2015, and minimum wage increases in California in January 2016 and Los Angeles in July 2016. This was partially offset by lower workers compensation expense due to lower claims activity. Payroll and benefit expenses as a percentage of company-operated restaurant revenue were 27.4% in fiscal 2016, compared to 25.4% in fiscal 2015. This increase was primarily due to the minimum wage increases and incremental labor required for the new restaurant openings, noted above, partially offset by lower worker’s compensation expense and higher restaurant revenue.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased $8.3 million in fiscal 2016. This increase was primarily due to (i) a $3.3 million increase in other operating expenses, resulting primarily from the new restaurants opened in fiscal 2016 and 2015, and an increase in travel and restaurant security costs, (ii) a $3.2 million increase in occupancy costs, largely related to additional rent due to the additional stores, (iii) a $0.9 million increase in advertising and (iv) a $0.9 million increase in repair and maintenance costs. Occupancy and other operating expenses as a percentage of company-operated restaurant revenue was 22.0% in fiscal 2016, compared to 21.1% in fiscal 2015. This increase was primarily related to the higher costs noted above, partially offset by higher restaurant revenue.

Gain on Recovery of Insurance Proceeds

In November 2015, one of the Company’s restaurants incurred damage resulting from a fire. In fiscal 2016, we incurred costs directly related to the fire of less than $0.1 million, disposed of assets of an additional $0.1 million and recognized gains of $0.7 million, related to the reimbursement of property and equipment and expenses incurred and $0.5 million related to the reimbursement of lost profits. The reimbursement of lost profits is included in the accompanying consolidated statements of income, for fiscal 2016, as a reduction of company restaurant expenses. The Company received from the insurance company cash of $1.4 million, net of the insurance deductible, during fiscal 2016. In 2015, the Company disposed of $0.1 million of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

General and Administrative Expenses

General and administrative expenses increased $5.7 million in fiscal 2016. The increase was due primarily to (i) a $2.0 million increase in legal expense related primarily to the securities class action litigation, (ii) a $1.2 million increase in restaurant pre-opening costs, (iii) a $0.9 million increase in payroll expense, due primarily to an increase in corporate employees, partially offset by a reduction in the accrual for the expected payments related to the Company’s annual bonus program and (iv) a $1.6 million increase in other general and administrative costs primarily related to increases in professional fees, stock option expense, dead-site costs and travel. General and administrative expenses as a percentage of total revenue were 9.1% in fiscal 2016, compared to 8.2% in fiscal 2015. This increase was due primarily to the higher costs, noted above, partially offset by higher restaurant revenue.

Asset Impairment and Closed-Store Reserves

During fiscal 2016, the Company determined that the carrying value of the assets of nine restaurants, in Arizona, California and Texas, may not be recoverable. As a result, the Company recorded $8.3 million of expense related to the impairment of the assets of the nine restaurants. The Company continues to monitor the recoverability of the carrying value of the assets of several other restaurants.

Gain on Disposition of Restaurants

On June 16, 2016, we completed an agreement to sell one company-operated restaurant in Tucson, Arizona to a franchisee, resulting in cash proceeds of $1.5 million and a net gain of less than $0.1 million, which is recorded as a gain on disposition of restaurants in the accompanying consolidated statements of income. This restaurant is now included in our franchised restaurant totals.

Interest Expense, Net

Interest expense, net, decreased $0.6 million in fiscal 2016. This decrease was due primarily to pre-payments on the 2014 Revolver, reducing our outstanding balance to $104.0 million as of December 28, 2016 compared to an outstanding balance of $123.0 million as of December 30, 2015.

Expenses Related to Selling Shareholders

In the second quarter of 2015, LLC, our largest shareholder, which was at that time our majority shareholder, sold 5.4 million shares of common stock in a block trade to various investors, pursuant to Rule 144 under the Securities Act. LLC owns stock in us not registered under the Securities Act. Under our stockholders agreement, LLC may require us to register stock in us that it owns, under the Securities Act. In that event, we are responsible for all registration expenses. In lieu of LLC's exercise of its registration rights, we agreed to bear the expenses incident to LLC's sale of these shares using Rule 144. As a result of this transaction, we incurred $0.1 million in professional fees.

Income Tax Receivable Agreement

In fiscal 2016 and 2015, we incurred income tax receivable agreement expense of $0.4 million and $0.2 million respectively, resulting from the amortization of interest expense related to our total expected TRA payments, changes in estimates for actual tax returns filed and an adjustment to the expected TRA liability, due to the expected realization of various pre-IPO tax credits. We are permitted to make TRA payments under the 2014 Revolver. In fiscal 2016, we paid $3.2 million to our pre-IPO stockholders under the TRA.

Provision for Income Taxes

In fiscal 2016, we recorded an income tax provision of $12.8 million, compared to $20.9 million in fiscal 2015, reflecting an estimated effective tax rate of 41.1% and 46.4%, respectively. The lower effective tax rate resulted primarily from a $2.9 million valuation allowance against our deferred tax assets recorded in fiscal 2015, compared to an additional valuation allowance of $0.4 million recorded in fiscal 2016. The valuation allowance against our deferred tax assets resulted from certain tax credits that may not be realizable prior to the time the credits expire.

Inflation

For a discussion on the impact of inflation and changing prices on our net sales and revenues and on income from continuing operations, please refer to Item 7A, "Quantitative and Qualitative Disclosures About Market Risk-Inflation".

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), legal defense costs, lease obligations, interest payments on our debt, 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. 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 12 months from the issuance of the consolidated financial statements.

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

	Fiscal Year		
(Amounts in thousands)	**2017**	**2016**	**2015**
Net cash provided by (used in)			
Operating activities	$ 53,671	$ 49,299	$ 57,971
Investing activities	(36,238)	(35,202)	(30,835)
Financing activities	(11,051)	(18,030)	(32,534)
Net increase (decrease) in cash and cash equivalents	$ 6,382	$ (3,933)	$ (5,398)

Operating Activities

In fiscal 2017, net cash provided by operating activities increased by $4.4 million compared to fiscal 2016. This was due primarily to favorable working capital fluctuations, partially offset by lower profitability and an increased payment of the TRA.

In fiscal 2016, net cash provided by operating activities decreased by $8.7 million compared to fiscal 2015. This was due primarily to lower profitability, payment of the TRA, and other unfavorable working capital fluctuations.

Investing Activities

In fiscal 2017, net cash used in investing activities increased by $1.0 million compared to fiscal 2016. This was primarily due to $1.5 million in proceeds from the sale of a restaurant and $0.7 million in insurance proceeds relating to the property and equipment fire damage incurred at one of our restaurants in November 2015, received in 2016. This was partially offset by a decrease of $1.2 million in capital expenditure spending, due to opening 16 new company restaurants in fiscal 2017, compared to 18 new restaurants in fiscal 2016. In fiscal 2017, we incurred capital expenditures of approximately $36.2 million, consisting of $24.1 million related to new restaurants, $5.7 million related to the remodeling of existing restaurants, and $6.4 million related to major maintenance and other corporate capital expenditures. Capital expenditures for these periods exclude unpaid purchases of property and equipment.

In fiscal 2016, net cash used in investing activities increased by $4.4 million compared to fiscal 2015. This was due primarily to capital expenditures of approximately $37.4 million, consisting of $29.9 million related to new restaurants, $1.6 million related to the remodeling of existing restaurants, and $5.9 million related to major maintenance and other corporate capital expenditures. Capital expenditures for these periods exclude unpaid purchases of property and equipment. This was partially offset by $1.5 million in proceeds from the sale of a restaurant and $0.7 million in insurance proceeds relating to the property and equipment fire damage incurred at one of our restaurants in November 2015.

Financing Activities

In fiscal 2017, net cash used by financing activities decreased by $7.0 million compared to fiscal 2016. This was due primarily to a decrease in net pre-payments on the 2014 Revolver of $8.0 million in fiscal 2017 compared to fiscal 2016.

In fiscal 2016, net cash used by financing activities decreased by $14.5 million compared to fiscal 2015. This was due primarily to the pre-payment of $19.0 million on the 2014 Revolver in 2016 compared to a pre-payment of $42.0 million in 2015, partially offset by the receipt of $3.3 million less related to the exercise of stock options in 2016 compared to 2015 and a decrease of $5.3 million in excess income tax benefit related to share-based compensation plans.

Debt and Other Obligations

Current Credit Agreement

On December 11, 2014, we refinanced our debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for the 2014 Revolver. The 2014 Revolver includes a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. At December 27, 2017, $7.7 million of letters of credit were outstanding and $99.3 million was available to borrow under the revolving line of credit. The 2014 Revolver will mature on or about December 11, 2019.

Borrowings under the 2014 Revolver (other than any swingline loans) bear interest, at the borrower’s option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.75% to 2.50%, and for base rate loans the margin is in the range of 0.75% to 1.50%. The interest rate range was 2.4% to 3.3% during fiscal 2017 and 2.0% to 2.4% during fiscal 2016 and was 3.3% and 2.4% at December 27, 2017 and December 28, 2016, respectively.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also includes certain customary affirmative covenants and events of default. We were in compliance with all such covenants at December 27, 2017.

Under the 2014 Revolver, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under the TRA, and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5.0 million in other restricted payments per year, and (d) make other restricted payments, provided that such payments would not cause, in each case, on a pro forma basis, (x) its lease-adjusted consolidated leverage ratio to equal or exceed 4.25 times and (y) its consolidated fixed charge coverage ratio to be less than 1.75 times.

Hedging Arrangements

In connection with our credit agreements, we entered into two interest rate caps with Wells Fargo Bank, N.A. The first interest rate cap was for a notional amount of $30.0 million, with a cap rate of 3.0% based on 1 month USD LIBOR, which terminated on December 1, 2015. The second interest rate cap was for a notional amount of $120.0 million, with a cap rate of 3.0% based on 1 month USD LIBOR, which terminated on December 1, 2016. As of December 28, 2016, the amounts included in other assets in our consolidated balance sheets, related to these interest rate caps, were not material to our financial position or results of operations. There were no amounts included in other assets as of December 27, 2017.

Contractual Obligations

The following table represents our contractual commitments (which include expected interest expense, calculated based on current interest rates) to make future payments pursuant to our debt and other obligations disclosed above and pursuant to our restaurant operating leases outstanding as of December 27, 2017:

	Payments Due by Period				
(Amounts in thousands)	Total	2018	2019-2020	2021-2022	2023 and thereafter
Operating leases	$ 298,149	$ 25,270	$ 48,921	$ 44,376	$ 179,582
Capital leases	420	172	149	99	—
Long-term debt	102,196	3,054	99,142	—	—
Income tax receivable agreement	21,975	8,281	8,528	3,950	1,216
Purchasing commitments—chicken	30,835	30,835	—	—	—
Total	$ 453,575	$ 67,612	$ 156,740	$ 48,425	$ 180,798

Off-Balance Sheet Arrangements

At December 27, 2017, December 28, 2016, and December 30, 2015, we had $7.7 million, $8.1 million, and $7.2 million, respectively, of borrowing capacity on the 2014 Revolver pledged as collateral to secure outstanding letters of credit.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risk from changes in interest rates on our debt, which bears interest at USD LIBOR plus a margin between 1.75% and 2.50%. As of December 27, 2017, we had outstanding borrowings of $93.0 million and another $7.7 million of letters of credit in support of our insurance programs. A 1.0% increase in the effective interest rate applied to these borrowings would result in a pre-tax interest expense increase of $0.9 million on an annualized basis.

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

To mitigate exposure to fluctuations in interest rates, in the past, when we have determined it appropriate, we have entered into interest rate caps, as discussed above under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Other Obligations—Hedging Arrangements.” At this time, due to reduced debt burden and the lowered rates of interest on our debt in recent years, we are not continuing to hedge our interest rate exposure.

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. Since January 1, 2017, the State of California (where most of our restaurants are located) has had a minimum wage of $10.50 per hour. We also do substantial business in locales such as the City of Los Angeles and the County of Los Angeles that may have higher minimum wages. For details, see Item 1A, “Risk Factors-Risks Related to Our Business and Industry—If we or our franchisees face labor shortages or increased labor costs, our results of operations and growth could be adversely affected.” 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 where 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. See Item 1A, “Risk Factors—Risks Related to Our Business and Industry—Changes in food and supply costs, especially for chicken, could adversely affect our business, financial condition and results of operations,” and Note 13 to our consolidated financial statements included elsewhere in this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

EL POLLO LOCO HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
El Pollo Loco Holdings, Inc.
Costa Mesa, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of El Pollo Loco Holdings, Inc. (the "Company") and subsidiaries as of December 27, 2017 and December 28, 2016, the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 27, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 27, 2017 and December 28, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 2017, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Method Related to Deferred Income Taxes and Stock Compensation

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for balance sheet classification of income taxes in 2017 due to the retrospective adoption of Accounting Standards Update ("ASU") 2015-17 and the Company has also changed its method of accounting for excess tax benefits related to stock compensation in 2017 due to the prospective adoption of ASU 2016-09.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2011.

Costa Mesa, California

March 9, 2018

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

	December 27, 2017	December 28, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 8,550	$ 2,168
Restricted cash	—	125
Accounts and other receivables, net	7,212	6,919
Inventories	2,289	2,112
Prepaid expenses and other current assets	2,679	3,104
Total current assets	20,730	14,428
Property and equipment owned, net	102,794	118,470
Property held under capital lease, net	40	64
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Other intangible assets, net	377	484
Deferred tax assets	7,167	25,905
Other assets	1,041	1,392
Total assets	$ 442,711	$ 471,305
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under capital leases	$ 132	$ 144
Accounts payable	12,307	11,637
Accrued salaries and vacation	7,339	5,754
Accrued insurance	5,851	5,444
Accrued income taxes payable	35	120
Accrued interest	110	198
Current portion of income tax receivable agreement payable	8,281	12,349
Other accrued expenses and current liabilities	13,270	9,672
Total current liabilities	47,325	45,318
Revolver loan	93,000	104,000
Obligations under capital leases, net of current portion	184	317
Deferred taxes	—	18,488
Other intangible liabilities, net	786	1,012
Income tax receivable agreement payable, net of current portion	13,694	26,306
Other noncurrent liabilities	12,772	10,682
Total liabilities	167,761	206,123
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value—100,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value—200,000,000 shares authorized; 38,661,850 and 38,473,772 shares issued and outstanding	387	385
Additional paid-in capital	372,990	371,843
Accumulated deficit	(98,427)	(107,046)
Total stockholders' equity	274,950	265,182
Total liabilities and stockholders' equity	$ 442,711	$ 471,305

See notes to consolidated financial statements.

EL POLLO LOCO HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except share data)

For the Years Ended	December 27, 2017	December 28, 2016	December 30, 2015
Revenue			
Company-operated restaurant revenue	$ 376,615	$ 355,468	$ 332,040
Franchise revenue	25,086	24,655	23,017
Total revenue	401,701	380,123	355,057
Cost of operations			
Food and paper costs	109,898	107,218	105,917
Labor and related expenses	106,584	97,471	84,231
Occupancy and other operating expenses	85,631	78,263	69,977
Gain on recovery of insurance proceeds, lost profits	—	(502)	—
Company restaurant expenses	302,113	282,450	260,125
General and administrative expenses	38,523	34,661	28,997
Franchise expenses	3,335	3,823	3,456
Depreciation and amortization	18,128	16,053	13,092
Loss on disposal of assets	799	674	471
Expenses related to fire loss	—	48	—
Gain on recovery of insurance proceeds, property, equipment and expenses	—	(741)	—
Recovery of securities lawsuits related legal expenses	(1,666)	—	—
Asset impairment and closed-store reserves	33,645	8,554	92
Total expenses	394,877	345,522	306,233
Gain on disposition of restaurants	—	28	—
Income from operations	6,824	34,629	48,824
Interest expense—net of interest income of $25, $28, and $49 for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively	3,278	3,155	3,707
Expenses related to selling shareholders	—	—	50
Income tax receivable agreement (income) expense	(5,570)	352	156
Income before provision for income taxes	9,116	31,122	44,911
Provision for income taxes	(497)	(12,783)	(20,857)
Net income	$ 8,619	$ 18,339	$ 24,054
Net income per share:			
Basic	$ 0.22	$ 0.48	$ 0.63
Diluted	$ 0.22	$ 0.47	$ 0.62
Weighted average shares used in computing net income per share:			
Basic	38,453,347	38,357,805	37,949,316
Diluted	39,086,676	39,026,950	39,039,558

See notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, December 31, 2014	37,420,450	$ 374	$ 359,465	$ (149,439)	$ 210,400
Stock based compensation	—	—	539	—	539
Issuance of common stock upon exercise of stock options	863,985	9	4,211	—	4,220
Excess income tax benefit related to share-based compensation plans	—	—	5,420	—	5,420
Net income	—	—	—	24,054	24,054
Balance, December 30, 2015	38,284,435	383	369,635	(125,385)	244,633
Stock based compensation	—	—	1,063	—	1,063
Issuance of common stock related to restricted shares	41,611	—	—	—	—
Issuance of common stock upon exercise of stock options	147,726	2	976	—	978
Excess income tax benefit related to share-based compensation plans	—	—	169	—	169
Net income	—	—	—	18,339	18,339
Balance, December 28, 2016	38,473,772	385	371,843	(107,046)	265,182
Stock based compensation	—	—	1,056	—	1,056
Issuance of common stock related to restricted shares	170,417	2	(2)	—	—
Issuance of common stock upon exercise of stock options	17,661		93	—	93
Net income	—	—	—	8,619	8,619
Balance, December 27, 2017	38,661,850	$ 387	$ 372,990	$ (98,427)	$ 274,950

See notes to consolidated financial statements.

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

For the Years Ended	December 27, 2017	December 28, 2016	December 30, 2015
Cash flows from operating activities			
Net income	$ 8,619	$ 18,339	$ 24,054
Adjustments to reconcile changes in net income to net cash provided by operating activities:			
Depreciation and amortization	18,128	16,053	13,092
Stock-based compensation expense	1,056	1,063	539
Fire insurance proceeds for expenses paid and lost profit	—	611	—
Income tax receivable agreement (income) expense	(5,570)	352	156
Gain on disposition of restaurants	—	(28)	—
Loss on disposal of assets	799	674	471
Gain on recovery of insurance proceeds, property, equipment and expenses	—	(741)	—
Gain on recovery of insurance proceeds, lost profits	—	(502)	—
Impairment of property and equipment	32,594	8,400	181
Closed-store reserves	1,051	154	(89)
Amortization of deferred financing costs	304	304	304
Amortization of favorable and unfavorable leases, net	(119)	(82)	(156)
Excess income tax benefit related to share-based compensation plans	—	(169)	(5,420)
Deferred income taxes, net	250	12,390	15,249
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(294)	(844)	(427)
Inventories	(177)	(221)	1
Prepaid expenses and other current assets	425	(448)	2,452
Income taxes receivable/payable	(85)	222	5,589
Other assets	47	107	91
Accounts payable	1,088	(4,579)	2,317
Accrued salaries and vacation	1,585	(939)	(1,311)
Accrued insurance	407	423	1,203
Payment related to tax receivable agreement	(11,109)	(3,236)	—
Other accrued expenses and liabilities	4,547	1,996	(325)
Restricted cash	125	—	—
Net cash provided by operating activities	**53,671**	**49,299**	**57,971**
Cash flows from investing activities			
Proceeds from disposition of restaurant	—	1,465	—
Proceeds from fire insurance for property and equipment	—	743	—
Purchase of property and equipment	(36,238)	(37,410)	(30,835)
Net cash flows used in investing activities	**(36,238)**	**(35,202)**	**(30,835)**
Cash flows from financing activities			
Proceeds from borrowings on revolver and term loans	8,000	—	—
Payments on revolver loan	(19,000)	(19,000)	(42,000)
Proceeds from issuance of common stock upon exercise of stock options, net of expenses	93	978	4,254
Payment of obligations under capital leases	(144)	(177)	(208)
Excess income tax benefit related to share-based compensation plans	—	169	5,420
Net cash flows used in financing activities	**(11,051)**	**(18,030)**	**(32,534)**
Increase (decrease) in cash and cash equivalents	**6,382**	**(3,933)**	**(5,398)**
Cash and cash equivalents, beginning of year	**2,168**	**6,101**	**11,499**
Cash and cash equivalents, end of year	**$ 8,550**	**$ 2,168**	**$ 6,101**
Supplemental cash flow information			
Cash paid for interest, net of capitalized interest	$ 3,314	$ 3,086	$ 3,487
Cash paid during the year for income taxes, net	$ 336	$ 171	$ 18
Noncash investing and financing activity			
Unpaid purchases of property and equipment	$ 4,741	$ 5,158	$ 3,201
Cashless stock option exercise	$ —	$ —	$ 34

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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 ®. The restaurants, which are located principally in California but also in Arizona, Nevada, Texas, and Utah, specialize in flame-grilled chicken in a wide variety of contemporary Mexican-influenced entrees, including specialty chicken burritos, chicken quesadillas, chicken tortilla soup, variations on our Pollo Bowl® and Pollo Salads. At December 27, 2017, the Company operated 212 (141 in the greater Los Angeles area) and franchised 265 (138 in the greater Los Angeles area) El Pollo Loco restaurants. In addition, the Company currently licenses two restaurants in the Philippines. The Company’s largest stockholder is Trimaran Pollo Partners, L.L.C. (“LLC”), which is controlled by affiliates of Trimaran Capital, L.L.C. LLC acquired Chicken Acquisition Corp. (“CAC”), a predecessor of Holdings, on November 17, 2005 (the “Acquisition”) and has a 43.3% ownership interest as of December 27, 2017. LLC’s only material asset is its investment in Holdings.

On April 22, 2014, CAC, its wholly owned subsidiary, Chicken Subsidiary Corp (“CSC”) and CSC’s wholly owned subsidiary, the former El Pollo Loco Holdings, Inc. (“Old Holdings”) entered into the following reorganization transactions: (i) Old Holdings merged with and into CSC with CSC continuing as the surviving corporation; (ii) CSC merged with and into CAC with CAC continuing as the surviving corporation and (iii) CAC renamed itself El Pollo Loco Holdings, Inc.

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), guarantee EPL’s 2014 Revolver (see Note 6) on a full and unconditional basis and Intermediate has no subsidiaries other than EPL. EPL is a separate and distinct legal entity, and has no obligation to make funds available to Intermediate. EPL and Intermediate may pay dividends to Intermediate and to Holdings, respectively.

Under the 2014 Revolver, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under its income tax receivable agreement (the “TRA”), and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5.0 million in other restricted payments per year, and (d) make other restricted payments, provided that such payments would not cause, in each case, on a pro forma basis, (x) its lease-adjusted consolidated leverage ratio to equal or exceed 4.25 times and (y) its consolidated fixed charge coverage ratio to be less than 1.75 times.

The Company operates in one operating segment. All significant revenues relate to retail sales of food and beverages to the general public through either company or franchised restaurants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquidity

The Company’s principal liquidity requirements are to service its debt and meet capital expenditure needs. At December 27, 2017, the Company’s total debt (including capital lease liabilities) was $93.3 million. The Company’s ability to make payments on its indebtedness and to fund planned capital expenditures depends on available cash and its ability to generate adequate cash flows in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Company’s control. Based on current operations, the Company believes that its cash flows from operations, available cash of $8.6 million at December 27, 2017, and available borrowings under the 2014 Revolver (which availability was $99.3 million at December 27, 2017) will be adequate to meet the Company’s liquidity needs for the next twelve months from the issuance of the consolidated financial statements.

Basis of Presentation

The Company uses a 52- or 53-week fiscal year ending on the last Wednesday of each calendar year. Fiscal 2017, 2016, and 2015 ended on December 27, 2017, December 28, 2016 and December 30, 2015, respectively. 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. Approximately every six or seven years a 53-week fiscal year occurs. Fiscal 2017, 2016 and 2017 were 52-week fiscal years. 53-week years may cause revenues, expenses, and other results of operations to be higher due to the additional week of operations.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Holdings and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“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 consolidated financial statements and revenue and expenses during the period reported. Actual results could materially differ from those estimates. The Company’s significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, insurance reserves, lease termination liabilities, closed-store reserves, stock-based compensation, income tax receivable agreement liability, and income tax valuation allowances.

Cash and Cash Equivalents

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

Restricted Cash

The Company’s restricted cash represents cash collateral to one commercial bank for Company credit cards. During the fiscal year ended 2017, the cash collateral was returned by the bank, and the Company reclassified such amounts to cash and cash equivalents.

Subsequent Events

Subsequent to December 27, 2017, the Company completed one new store opening and two franchisees each completed a new store opening. Additionally, the Company received an additional $1.6 million of insurance proceeds related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits and made an $8.0 million pre-payment on the 2014 Revolver,.

Subsequent to December 27, 2017, the Company decided to close two restaurants in Texas, 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. The two restaurants closed in January, 2018 and the three locations are expected to result in a closed-store reserve of $3.0 million in the first quarter of 2018.

Subsequent to December 27, 2017, the Company's board of directors appointed Bernard Acoca as the Company's President and CEO and as a Director of the Board, effective March 12, 2018. Mr. Acoca will serve as a Class I director, which class will stand for re-election at the 2018 annual meeting of stockholders. Mr. Acoca will succeed Steve Sather, who previously announced his intent to retire during fiscal 2017. Mr. Sather has agreed to remain as an employee of the Company in the capacity as Special Advisor through March 31, 2018 in order to assist the Company with the transition to the new CEO. Additionally, the Company entered into an employment agreement with Mr. Acoca, which sets forth the terms and conditions under which he will serve as the Company’s President and CEO. Furthermore, the Company entered into a retirement agreement with Mr. Sather. As part of the retirement agreement, the Company modified the terms of Mr. Sather's stock options to accelerate the vesting of 33,545 shares, which would have otherwise vested in May 2018, and extend the exercise ability of all his vested and outstanding options until the expiration of the original term of such options.

The Company evaluated subsequent events that have occurred after December 27, 2017, and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in the consolidated financial statements.

Concentration of Risk

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

The Company had one supplier for which amounts due at December 27, 2017 totaled 14% of the Company's accounts payable. As of December 28, 2016, the Company had one supplier for which amounts due totaled 16% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 29% of the Company's purchases for fiscal 2017, 33% for fiscal 2016 and 36% for fiscal 2015. Purchases from the Company's second largest supplier did not exceed 10% for fiscal 2017, 2016 and 2015. In fiscal 2017, 2016 and 2015, Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 73%, 75%, and 79%, respectively, of total revenue.

Accounts and Other Receivables, Net

Accounts and other receivables consist primarily of royalties, advertising and sublease rent and related amounts receivable from franchisees. Such receivables are due on a monthly basis, which may differ from the Company's fiscal month-end dates. Accounts and other receivables also include credit/debit card receivables. The need for an allowance for doubtful accounts is reviewed on a specific identification basis and takes into consideration past due balances and the financial strength of the obligor. Bad debt expense was immaterial for the years ended December 27, 2017, December 28, 2016, and December 30, 2015.

Inventories

Inventories consist principally of food, beverages and paper supplies and are valued at the lower of average cost or net realizable value.

Property and Equipment Owned, Net

Property and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements and property held under capital leases are amortized over the shorter of their estimated useful lives or the remaining lease terms. For leases with renewal periods at the Company's option, the Company generally uses the original lease term, excluding the option periods, to determine estimated useful lives; if failure to exercise a renewal option imposes an economic penalty on the Company, such that management determines at the inception of the lease that renewal is reasonably assured, the Company may include the renewal option period in the determination of appropriate estimated useful lives.

The estimated useful service lives are as follows:

Buildings	20 years
Land improvements	3—30 years
Building improvements	3—10 years
Restaurant equipment	3—10 years
Other equipment	2—10 years
Leasehold improvements	Shorter of useful life or lease term

The Company capitalizes certain directly attributable costs in conjunction with site selection that relate to specific sites for planned future restaurants. The Company also capitalizes certain directly attributable costs, including interest, in conjunction with constructing new restaurants. These costs are included in property and amortized over the shorter of the life of the related buildings and leasehold improvements or the lease term. Costs related to abandoned sites and other site selection costs that cannot be identified with specific restaurants are charged to general and administrative expenses in the accompanying consolidated statements of income, and were $0.5 million, $0.5 million and $0.1 million for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively. The Company capitalized internal costs related to site selection and construction activities of $1.9 million, $1.6 million and $1.1 million for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively. Capitalized internal interest costs related to site selection and construction activities were $0.2 million and $0.2 million for the years ended December 27, 2017 and December 28, 2016, respectively, and immaterial for the year ended December 30, 2015.

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 write-down 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 this analysis, as well as the strategic decision to close two restaurants in Texas, the Company recorded non-cash impairment charges of $32.6 million for the year ended December 27, 2017, primarily related to the carrying value of the assets of 23 restaurants in Arizona, California and Texas. In fiscal 2016 the company recorded a non-cash impairment charge of $8.4 million, primarily related to the carrying value of nine restaurant in Arizona, California and Texas. In in fiscal 2015 the Company recorded a non-cash impairment charge of $0.2 million, primarily related to the carrying value of the assets of one restaurant in California. The impairment expense for fiscal 2017 includes an impairment expense of $27.7 million, representing the entire value of capitalized assets of all of the company-operated restaurants in Texas, net of previously recorded depreciation. Factors which led to the impairment of the Texas restaurants include recent results, which indicates that the restaurants have not achieved the sales volumes required to generate positive cash flows or improve profitability in the Texas market, along with the related future cash flow assumptions, including comparable sales rate growth and restaurant operating costs, over the remaining lease terms and the age of the restaurants in Texas. The restaurants in Texas began opening in late 2014, causing a higher net book value at the time of impairment testing, and increased difficulty projecting results for newer restaurants in newer markets. Given the difficulty in projecting results for newer restaurants in newer markets, we are also monitoring the recoverability of the carrying value of the assets of several other restaurants on an ongoing basis, including those in the Arizona and Northern California market. 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.

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 and from the acquisition of certain franchise locations.

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

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

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

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

Although the Company recognized expense related to the impairment of the assets of 23 restaurants during the year ended December 27, 2017, upon completion of the qualitative assessment, the Company did not identify any indicators of potential impairment for its goodwill or indefinite-lived intangible assets. Furthermore, the Company did not identify any indicators of potential impairment during the years ended December 28, 2016, or December 30, 2015, and thus no impairment was recorded.

Other Intangibles, Net—Definite Lived

Definite lived intangible assets and liabilities consist of the value allocated to the Company's favorable and unfavorable leasehold interests that resulted from the Acquisition.

Favorable leasehold interest represents the asset in excess of the approximate fair market value of the leases assumed as of November 17, 2005, the date of the Acquisition. The amount is being reduced over the remaining life of the leases. This amount is shown as other intangible assets, net, on the accompanying consolidated balance sheets.

Unfavorable leasehold interest liability represents the liability in excess of the approximate fair market value of the leases assumed as of November 17, 2005, the date of the Acquisition. The amount is being reduced over the remaining life of the leases. This amount is shown as other intangible liabilities, net, on the accompanying consolidated balance sheets.

Intangible assets and liabilities with a definite life are amortized using the straight-line method over the remaining useful lives at the date of acquisition as follows:

Favorable leasehold interests	1 to 18 years (remaining lease term)
Unfavorable leasehold interest liability	1 to 20 years (remaining lease term)

Deferred Financing Fees

Deferred financing fees are capitalized and amortized over the period of the loan on a straight-line basis, which approximates the effective interest method. Included in other assets are fees (net of accumulated amortization), related to the revolver, of $0.6 million and $0.9 million as of December 27, 2017 and December 28, 2016, respectively. Amortization expense for deferred financing costs was $0.3 million, $0.3 million and $0.3 million for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively, and is reflected as a component of interest expense in the accompanying consolidated statements of income.

Insurance Reserves

The Company is responsible for workers' compensation, general and health insurance claims up to a specified aggregate stop loss amount. The Company maintains a reserve for estimated claims both reported and incurred but not reported, based on historical claims experience and other assumptions. At December 27, 2017 and December 28, 2016, the Company had accrued $5.9 million and $5.4 million, respectively, and such amounts are reflected as accrued insurance in the accompanying consolidated balance sheets. The expense for such reserves for the years ended December 27, 2017, December 28, 2016 and December 30, 2015, totaled $6.8 million, $7.2 million, and $7.9 million, respectively. These amounts are included in labor and related expenses and general and administrative expenses on the accompanying consolidated statements of income.

Restaurant and Franchise 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. Promotional allowances amounted to approximately $8.9 million, $7.4 million and $7.4 million during the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively. Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees, IT support services and rental income for leases and subleases to franchisees. Franchise royalties are based upon a percentage of net sales of the franchisee and are recorded as income as such sales are earned by the franchisees. Initial franchise and license fees are recognized when all material obligations have been performed and conditions have been satisfied, typically when operations of the franchised restaurant have commenced. Initial franchise fees recognized during the years ended December 27, 2017, December 28, 2016, and December 30, 2015, totaled $0.3 million, $0.4 million, and $0.8 million, respectively. The Company recognizes renewal fees when a renewal agreement with a franchisee becomes effective.

Franchise Area Development Fees

The Company receives area development fees from franchisees when they execute multi-unit area development agreements. The Company does not recognize revenue from the agreements until the related restaurants open or at the time the development agreements expire, if the required units are not opened. Unrecognized area development fees totaled $1.0 million and $0.9 million at both December 27, 2017 and December 28, 2016, and are included in other accrued expenses and current liabilities and other noncurrent liabilities in the accompanying consolidated balance sheets. As of December 27, 2017, the Company had executed development agreements that represent commitments to open 55 franchised restaurants at various dates through 2022.

Advertising Costs

Advertising expense is recorded as the obligation to contribute to the advertising fund is created, generally when the associated revenue is recognized. Advertising expense, which is a component of occupancy and other operating expenses, was $15.5 million, $14.7 million and $13.9 million for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively, and is in addition to $20.5 million, $19.3 million and $18.5 million, respectively, funded by the franchisees' advertising fees.

Franchisees pay a monthly fee to the Company that ranges from 4% to 5% of their restaurants' net sales as reimbursement for advertising, public relations and promotional services the Company provides. Fees received in advance of provided services are included in other accrued expenses and current liabilities and were $1.0 million and nil at December 27, 2017 and December 28, 2016, respectively. Fees received subsequent to provided service are included in accounts receivable and current assets and were nil and $0.1 million at December 27, 2017 and December 28, 2016, respectively. Pursuant to the Company's Franchise Disclosure Document, company-operated restaurants contribute to the advertising fund on the same basis as franchised restaurants. At December 27, 2017, the Company was obligated to spend $1.0 million more in future periods to comply with this requirement.

Production costs of commercials, programming and other marketing activities are charged to the advertising funds when the advertising is first used for its intended purpose. Total contributions and other marketing expenses are included in general and administrative expenses in the accompanying consolidated statements of income.

Preopening Costs

Preopening costs incurred in connection with the opening of new restaurants are expensed as incurred. Preopening costs, which are included in general and administrative expenses on the accompanying consolidated statements of income, were $2.0 million, $2.6 million and $1.5 million for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively.

Gift Cards

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. The Company recognizes income from gift cards when redeemed by the customer.

Operating Leases

Rent expense for the Company's operating leases, which generally have escalating rents over the term of the lease, is recorded on a straight-line basis over the expected lease term. The lease term begins when the Company has the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. Rent expense is included in occupancy and other operating expenses on the consolidated statements of income. The difference between rent expense and rent paid is recorded as deferred rent, which is included in other noncurrent liabilities in the accompanying consolidated balance sheets. Percentage rent expenses are recorded based on estimated sales or gross margin for respective restaurants over the contingency period.

Any leasehold improvements that are funded by lessor incentives under operating leases are recorded as leasehold improvements and amortized over the expected lease term. Such incentives are also recorded as deferred rent and amortized as reductions to rent expense over the expected lease term.

Gain on Recovery of Insurance Proceeds

In November 2015, one of the Company's restaurants incurred damage resulting from a fire. In fiscal 2016, we incurred costs directly related to the fire of less than $0.1 million, disposed of assets of an additional $0.1 million and recognized gains of $0.7 million, related to the reimbursement of property and equipment and expenses incurred and $0.5 million related to the reimbursement of lost profits. The reimbursement of lost profits is included in the accompanying consolidated statements of income, for fiscal 2016, as a reduction of company restaurant expenses. The Company received from the insurance company cash of $1.4 million, net of the insurance deductible, during fiscal 2016. In fiscal 2015, the Company disposed of $0.1 million of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

Recovery of Securities Class Action Legal Expense

During fiscal 2017, the Company received insurance proceeds of $1.7 million related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See Note 13, Commitments and Contingencies, Legal Matters.

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 basis 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 a charge to tax expense to reserve the portion of the 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 it 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%. 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 as the largest amount of tax benefit that is greater than 50% 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 our results of operations, financial position and cash flows.

The Company's policy is to recognize interest or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at December 27, 2017 or December 28, 2016, and did not recognize interest or penalties during the years ended December 27, 2017, December 28, 2016, and December 30, 2015, since there were no material unrecognized tax benefits. Management believes no material change to the amount of unrecognized tax benefits will occur within the next twelve months.

On July 30, 2014, the Company entered into an Income Tax Receivable Agreement (the "TRA"). The TRA calls for the Company to pay to its pre-IPO stockholders 85% of the savings in cash that the Company realizes in its taxes as a result of utilizing its net operating losses and other tax attributes attributable to preceding periods. In fiscal 2015, the Company incurred a charge of approximately $41.4 million relating to the present value of its total expected TRA payments. As of December 27, 2017, the Company had accrued $22.0 million relating to expected TRA payments. In fiscal 2017 and 2016, we paid $11.1 million, and $3.2 million, respectively, to our pre-IPO stockholders under the TRA. In fiscal 2015 we paid nil to our pre-IPO stockholders under the TRA.

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 December 27, 2017 and December 28, 2016, the Company had no assets and 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 year ended December 27, 2017 (in thousands):

		Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Impairment Losses
Property and equipment owned, net	$ —	$ —	$ —	$ —	$ 32,594

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the year ended December 28, 2016 (in thousands):

		Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Impairment Losses
Property and equipment owned, net	$ 1,614	$ —	$ —	$ 1,614	$ 8,400

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the year ended December 30, 2015 (in thousands):

		Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Impairment Losses
Property and equipment owned, net	$ —	$ —	$ —	$ —	$ 181

During fiscal 2017, 2016 and 2015, the Company recorded $32.6 million, $8.4 million and $0.2 million, respectively, of expenses related to the impairment of assets. This was primarily related to the carrying value of the assets of 21 restaurants in Arizona, California and Texas, as well as the strategic decision to close two restaurants in Texas, in fiscal 2017, nine restaurants in Arizona, California and Texas in fiscal 2016 and one restaurant in California, in fiscal 2015, which may not be recoverable. These impairment charges resulted primarily from our annual impairment testing of long-lived assets, except for the two noted above. The fair value measurements used in these impairment evaluations were based on discounted cash flow estimates using unobservable Level 3 inputs, based on market assumptions.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and certain accrued expenses approximate fair value due to their short-term maturities. The recorded value of the TRA approximates fair value, based on borrowing rates currently available to the Company for debts with similar terms and remaining maturities (Level 3 measurement).

Stock Based Compensation

Accounting literature requires the recognition of compensation expense using a fair-value based method for costs related to all share-based payments including stock options and restricted stock issued under the Company’s employee stock plans. The guidance also requires companies to estimate the fair value of stock option awards on the date of grant using an option pricing model, which require the input of subjective assumptions. The Company is required to use judgment in estimating the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ significantly from the original estimate, stock-based compensation expense and the results of operations could be affected. The cost is recognized on a straight-line basis over the period during which an employee is required to provide service, usually the vesting period. For options or restricted shares that are based on a performance requirement, the cost is recognized on an accelerated basis over the period to which the performance criteria relate.

Earnings per Share

Earnings per share ("EPS") is calculated using the weighted average number of common shares outstanding during each period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce a loss or increase the income per share. For purposes of this calculation, options are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive. The shares used to compute basic and diluted net income per share represent the weighted-average common shares outstanding.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, accounting for forfeitures, and classification on the statements of cash flows. The Company adopted ASU 2016-09 in the first quarter of fiscal 2017. The Company elected to apply the amendments related to presentation of excess tax benefits on the statement of cash flows using the prospective transition method. The Company made an accounting policy election to continue its current practice of estimating forfeitures.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes" which requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. Prior to the issuance of the standard, deferred tax liabilities and assets were required to be separately classified into a current amount and a noncurrent amount in the balance sheet. The Company adopted ASU 2015-17 retrospectively in the first quarter of fiscal 2017, resulting in the classification of all deferred tax assets as non-current. As the Company implemented this ASU retrospectively $21.5 million of deferred tax assets previously classified as current assets in fiscal year 2016 are now classified as noncurrent assets within the Company's condensed consolidated balance sheets.

Recent Accounting Pronouncements Not Yet Adopted

In May 2017, the FASB issued ASU 2017-09, which provides clarity, reduces diversity in practice, and reduces cost and complexity when applying the guidance in Topic 718 Compensation—Stock Compensation, regarding a change to the terms or conditions of a share-based payment award. Specifically, an entity is to account for the effects of a modification, unless all of the following are satisfied: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or as a liability instrument is the same as the classification of the original award immediately before the original award is modified. ASU 2017-09 is effective for financial statements issued for annual periods beginning after December 15, 2017. The adoption of ASU 2017-09 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In January 2017, the FASB issued ASU 2017-04, simplifying the manner in which an entity is required to test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for financial statements issued for annual periods beginning after December 15, 2019. The adoption of ASU 2017-04 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In January 2017, the FASB issued ASU 2017-01, clarifying the definition of a business. ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods. After adoption, the Company will apply guidance in ASU 2017-01 to test for goodwill impairment.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash." ASU 2016-18 addresses the diversity in practice that exists regarding the classification and the presentation of changes in restricted cash on the statements of cash flows under Topic 230, Statements of Cash Flow, and other Topics. The amendments in ASU No. 2016-18 require that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period total amounts set forth on the statements of cash flows. ASU 2016-18 is effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The adoption of ASU 2016-18 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statements of cash flows under Topic 230, Statements of Cash Flow, and other Topics. ASU 2016-15 is effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The adoption of ASU 2016-15 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, “Leases.” The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Although early adoption is permitted, the Company will adopt these provisions in the first quarter of 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company has $298.1 million of operating lease obligations as of December 27, 2017, and upon adoption of this standard will record a ROU asset and lease liability equal to the present value of these leases, which will have a material impact on the consolidated balance sheet. However, the recognition of lease expense in the consolidated statement of income is not expected to change from the current methodology.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of ASU 2016-01 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

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

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

In addition, the FASB has issued the following Technical Corrections, Practical Expedients and Improvements to Topic 606, Revenue from Contracts with Customers: ASU 2017-14 in November 2017, ASU 2017-13 in September 2017, ASU No. 2016-20, in December 2016, ASU No. 2016-12, in May 2016, and ASU No. 2016-10, in April 2016. All amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted, but no earlier than fiscal years beginning after December 15, 2016.

The Company generates a substantial amount of its revenues from company-operated restaurants. This revenue stream is not expected to be impacted by the adoption of ASU No. 2014-09, or any of the subsequent related ASU’s. The Company has completed its analysis of the impact of the standard on franchise revenue. Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees and IT support services. Rental income for leases and subleases to franchisees are scoped out of the revenue standard and are within the scope of lease guidance. The revenue recognition for franchise royalties are not impacted, and will continue to be recognized when franchisee sales occur. However, revenue recognition for franchise and development fees that are not related to subsequent sales will be impacted. The Company's current accounting policy is to recognize initial franchise fees, development fees, and franchise agreement renewals when all material obligations have been performed and conditions have been satisfied, typically when operations of the franchised restaurant have commenced. In accordance with the new guidance, the initial franchise services, or exclusivity of the development agreements, are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will therefore be treated as a single performance obligation. As such, initial franchise and development fees received, and subsequent renewal fees, will be recognized over the franchise, or renewal, term. Additionally, the Company's current accounting policy is to recognize advertising funded by franchisees on a net basis in the consolidated statement of income, and as a liability within our consolidated balance sheet. In 2017, the Company recognized advertising funds from franchisees of $20.5 million, which was recorded as a reduction of the advertising expense. Under the new guidance, we expect to present advertising contributions received from franchisees as revenue and to record all expenses of the advertising fund, resulting in an increase in revenues and expenses on our consolidated statements of income, with no change to the consolidated balance sheet. Additionally, we do not anticipate this guidance to have a material change on revenue from gift cards, or the Company's loyalty program.

The Company has determined to take a modified retrospective approach of transition and will recognize an adjustment to retained earnings, related to the cumulative effect of adopting ASU 2014-09 at the date of adoption. The Company does not believe the adoption of ASU 2014-09 will have a material impact to its consolidated statement of income, and the cumulative catch-up adjustment to be recorded to retained earnings is expected to be approximately $3.5 million, or 1% of total assets. The Company is in the process of finalizing the disclosure requirements and will have this completed by the first quarter of 2018.

Franchise Development Option Agreement with Related Party

On July 11, 2014, EPL and LLC entered into a Franchise Development Option Agreement relating to development of our restaurants in the New York–Newark, NY–NJ–CT–PA Combined Statistical Area (the “Territory”). EPL granted LLC the exclusive option to develop and open 15 restaurants in the Territory over five years (the “Initial Option”), and, provided that the Initial Option is exercised, the exclusive option to develop and open up to an additional 100 restaurants in the Territory over ten years. The Franchise Development Option Agreement terminates (i) ten years after execution, or (ii) if the Initial Option is exercised, five years after that exercise. LLC may only exercise the Initial Option if EPL first determines to begin development of company-operated restaurants in the Territory or support the development of the Territory. We have no current intention to begin development in the Territory.

3. PROPERTY AND EQUIPMENT

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

	December 27, 2017	December 28, 2016
Land	$ 12,323	$ 12,323
Buildings and improvements	124,056	125,159
Other property and equipment	64,712	65,831
Construction in progress	8,225	11,539
	209,316	214,852
Less: accumulated depreciation and amortization	(106,522)	(96,382)
	$ 102,794	$ 118,470

Depreciation expense was $18.1 million, $16.1 million and $13.1 million for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively. The gross value of assets under capital leases for buildings and improvements was $1.6 million at December 27, 2017 and December 28, 2016. Accumulated depreciation for assets under capital leases was $1.5 million for the years ended December 27, 2017 and December 28, 2016.

Based on the Company’s review of its long-lived assets for impairment, the Company recorded non-cash impairment charges of $32.6 million, $8.4 million, and $0.2 million for the years ended December 27, 2017, December 28, 2016, and December 30, 2015, respectively.

4. OTHER INTANGIBLE ASSETS AND LIABILITIES

Domestic trademarks consist of the following (in thousands):

	December 27, 2017	December 28, 2016
Beginning balance	$ 120,700	$ 120,700
Accumulated impairment charges	(58,812)	(58,812)
Ending balance	$ 61,888	$ 61,888

Other intangible assets subject to amortization consist of the following (in thousands):

	December 27, 2017	December 28, 2016
Favorable leasehold interest	$ 6,038	$ 6,038
Less: accumulated amortization	(5,661)	(5,554)
Total favorable leasehold interest, net	$ 377	$ 484
Unfavorable leasehold interest liability	$ (9,156)	$ (9,156)
Less: accumulated amortization	8,370	8,144
Unfavorable leasehold interest liability, net	$ (786)	$ (1,012)

The estimated net amortization credits (net liability) for the Company's favorable and unfavorable leasehold interests for each of the five succeeding fiscal years and thereafter is as follows (in thousands):

For the Years Ending	Favorable Leasehold Interest	Unfavorable Leasehold Interest
December 26, 2018	$ 97	$ (144)
December 25, 2019	94	(136)
December 30, 2020	85	(123)
December 29, 2021	64	(120)
December 28, 2022	37	(107)
Thereafter	—	(156)
Total	$ 377	$ (786)

The aggregate amortization expense for the years ended December 27, 2017, December 28, 2016, and December 30, 2015 was $0.1 million, $0.1 million, and $0.2 million, respectively. The remaining weighted average amortization periods of the favorable leasehold interest and the unfavorable leasehold liability are three years and four years respectively.

5. LEASES

The Company's operations utilize property, facilities, equipment and vehicles owned by the Company or leased from others. Buildings and facilities leased from others are primarily for restaurants and support facilities. 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. Initial terms of land and restaurant building leases generally have terms of 20 years, exclusive of options to renew. Leases of equipment primarily consist of restaurant equipment, computer systems and vehicles. The Company subleases facilities to certain franchisees and other non-related parties which are recorded on a straight-line basis.

Information regarding the Company's future lease obligations at December 27, 2017 is as follows (in thousands):

	Capital Leases		Operating Leases	
For the Years Ending	Minimum Lease Payments	Minimum Sublease Income	Minimum Lease Payments	Minimum Sublease Income
December 26, 2018	$ 172	$ —	$ 25,270	$ 932
December 25, 2019	95	—	25,102	728
December 30, 2020	54	—	23,818	455
December 29, 2021	54	—	22,669	466
December 28, 2022	45	—	21,706	466
Thereafter	—	—	179,582	1,158
Total	$ 420	$ —	$ 298,147	$ 4,205
Less: imputed interest (11.0% to 14.8%)	(104)			
Present value of capital lease obligations	316			
Less: current maturities	(132)			
Noncurrent portion	$ 184			

Net rent expense is as follows (in thousands):

For the Years Ended	December 27, 2017	December 28, 2016	December 30, 2015
Base rent	$ 24,384	$ 22,089	$ 19,944
Contingent rent	259	209	96
Less: sublease income	(2,334)	(2,540)	(2,620)
Net rent expense	$ 22,309	$ 19,758	$ 17,420

Base rent and contingent rent are included in occupancy and other operating expenses, while sublease income is included in franchise revenue in the accompanying consolidated statements of income. Sublease income includes contingent rental income of $0.8 million, $1.0 million, and $1.1 million for fiscal 2017, 2016, and 2015, respectively.

The Company is a lessor for certain property, facilities and equipment owned by the Company and leased to others, principally franchisees, under noncancelable leases with initial terms ranging from three to nine years. The 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. Total rental income included in franchise revenue in the accompanying consolidated statements of income for leased property was $0.5 million, $0.5 million and $0.4 million for fiscal 2017, 2016, and 2015, respectively.

Minimum future rental income for company-operated properties under noncancelable operating leases, which is recorded on a straight-line basis, in effect as of December 27, 2017, is as follows (in thousands):

For the Years Ending	
December 26, 2018	$ 274
December 25, 2019	184
December 30, 2020	188
December 29, 2021	146
December 28, 2022	132
Thereafter	352
Total future minimum rental income	$ 1,276

6. CURRENT CREDIT AGREEMENTS

On December 11, 2014, the Company refinanced its debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a $200.0 million five-year senior secured revolving facility (the "2014 Revolver"). The 2014 Revolver includes a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. At December 27, 2017, $7.7 million of letters of credit and $93.0 million of the revolving line of credit were outstanding. The amount available under the revolving line of credit was $99.3 million at December 27, 2017. The 2014 Revolver will mature on or about December 11, 2019.

Borrowings under the 2014 Revolver (other than any swingline loans) bear interest, at the borrower's option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.75% to 2.50%, and for base rate loans the margin is in the range of 0.75% to 1.50%. The margin was initially set at 2.00% for LIBOR loans and at 1.00% for base rate loans until the delivery of financial statements and a compliance certificate for the first quarter of 2016. The interest rate range was 2.4% to 3.3% during fiscal 2017 and 2.0% to 2.4% during fiscal 2016 and was 3.3% and 2.4% at December 27, 2017 and December 28, 2016, respectively.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also includes certain customary affirmative covenants and events of default. The Company was in compliance with all such covenants at December 27, 2017. See Note 1 for restrictions on the payment of dividends under the 2014 Revolver.

Transaction Costs

Transaction costs of $1.5 million were incurred in connection with the December 11, 2014 refinancing and were capitalized and are included in other assets in the accompanying consolidated balance sheets and the related amortization is reflected as a component of interest expense, net, in the accompanying consolidated financial statements. As of December 27, 2017 and December 28, 2016 the Company had $0.6 million and $0.9 million, respectively, of transaction costs remaining in other assets.

Maturities

There are no required principal payments prior to maturity for the 2014 Revolver.

7. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

	December 27, 2017	December 28, 2016
Accrued sales and property taxes	$ 4,792	$ 4,223
Gift card liability	2,319	1,870
Other	6,159	3,579
Total other accrued expenses and current liabilities	$ 13,270	$ 9,672

8. OTHER NONCURRENT LIABILITIES

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

	December 27, 2017	December 28, 2016
Deferred rent	$ 9,403	$ 8,328
Other	3,369	2,354
Total noncurrent liabilities	$ 12,772	$ 10,682

9. INCOME TAXES

The provision for income taxes is based on the following components (in thousands):

For the Years Ended	December 27, 2017	December 28, 2016	December 30, 2015
Current income taxes:			
Federal	$ —	$ —	$ —
State	250	224	188
Total current	250	224	188
Deferred income taxes:			
Federal	1,495	9,660	8,871
State	192	2,730	6,378
Total deferred	1,687	12,390	15,249
Charge in lieu of tax (attributable to stock options)	—	169	5,420
Adjustment to deferred taxes for tax rate change	(1,440)	—	—
Tax provision for income taxes	$ 497	$ 12,783	$ 20,857

The provision for income taxes differs from the amount computed by applying the federal income tax rate as follows:

For the Years Ended	December 27, 2017	December 28, 2016	December 30, 2015
Statutory federal income tax rate of 35% applied to earnings before income taxes and extraordinary items	35.0 %	35.0 %	35.0 %
TRA expense	(21.4)	0.4	0.1
Revaluation of deferred taxes	(15.8)	—	—
Change in valuation allowance	10.9	1.3	6.5
WOTC Credit	(2.5)	(0.8)	—
State tax benefit (net of federal benefit)	0.6	5.0	5.1
State tax credits	—	—	(0.6)
Other	(1.3)	0.2	0.3
Total	5.5 %	41.1 %	46.4 %

Deferred income tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company has evaluated the available evidence supporting the realization of its gross deferred tax assets. After evaluating all of the positive and negative evidence, including the Company’s continued income from operations, the Company concluded that it is more likely than not that its deferred tax assets will be realized. In fiscal 2015 and 2016, the Company recorded a valuation allowance of approximately $2.9 million and $0.4 million, respectively, against its deferred tax asset resulting from certain tax credits that may not be realizable prior to the time the credits expire. In fiscal 2017, the Company recorded an additional $1.0 million to the valuation allowance. As of December 27, 2017 the total valuation allowance was $4.3 million.

On July 30, 2014, the Company entered into the TRA. The TRA calls for the Company to pay its pre-IPO stockholders 85% of the cash savings that the Company realizes in its taxes as a result of utilizing its NOLs and other tax attributes attributable to preceding periods. The TRA charge (benefit) expense is a permanent add-back to the Company’s taxable income. TRA resulted in approximately $5.6 million of benefit in fiscal 2017 as a result of a reduction in the Federal corporate income tax rate related to the newly enacted tax reforms discussed further below, $0.4 million of tax expense in fiscal 2016, and $0.2 million of tax expense in fiscal 2015. In fiscal 2017, we paid $11.1 million to our pre-IPO stockholders under the TRA

As of December 27, 2017, the deferred tax assets related to California Enterprise Zone credits are $5.4 million.

The Company’s deferred tax assets and liabilities as of December 27, 2017 and December 28, 2016 are summarized below. The 2017 balances reflect the revaluation for the reduction in the Federal corporate rate to 21%. The 2016 balances are presented at the pre-new tax law rate of 35%.

	December 27, 2017	December 28, 2016
Deferred assets:		
Capital leases	$ 90	$ 197
Accrued vacation	428	658
Accrued legal	—	308
Deferred rent	3,516	4,351
Accrued workers’ compensation	1,450	1,932
Enterprise zone and other credits	12,722	11,982
Net operating losses	13,488	30,452
Fixed assets	4,176	—
Other	2,261	2,737
Total deferred tax assets	38,131	52,617
Valuation allowance	(4,306)	(3,311)
Net deferred tax assets	33,825	49,306
Deferred liabilities:		
Goodwill	(6,037)	(8,809)
Trademark	(17,613)	(26,463)
Prepaid expense	(380)	(523)
Fixed asset	—	(1,771)
Other	(2,628)	(4,323)
Deferred tax liabilities	(26,658)	(41,889)
Net deferred tax asset	$ 7,167	$ 7,417

On December 22, 2017 the U.S government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduces the corporate tax rate to from 35% to 21%, effective for tax years beginning January 1, 2018. The Company is subject to the provisions of the FASB Accounting Standards Codification 740-10, Income Taxes, which requires that the effect on deferred tax assets and liabilities of a change in tax rates be recognized in the period the tax rate change was enacted. The enacted reduction in the corporate federal income tax rate resulted in a re-measurement of the Company’s net deferred tax assets and liabilities with a one-time, non-cash increase to income tax benefit. Consequently, we have recorded a decrease related to deferred tax assets and deferred tax liabilities of $12.1 million and $13.5 million, respectively, with a net benefit to deferred income tax expense of $1.4 million for the year ended December 27, 2017. In addition, under the new tax law, the corporate alternative minimum tax (“AMT”) is repealed effective for tax years beginning January 1, 2018. For tax years beginning in 2018, 2019 and 2020, to the extent AMT credit carryovers exceed regular tax liability, 50% of the excess of AMT credit carryovers would be refundable. Any remaining AMT credits would be fully refundable in 2021.

As of December 27, 2017, the Company has federal and state NOL carryforwards of approximately $55.8 million and $20.1 million, respectively, which expire beginning in 2030 and 2025, respectively. The Company also has state enterprise zone credits of approximately $10.9 million, which expire in 2023, federal Work Opportunity Credits of approximately $0.8 million, which will expire in 2038 and federal and state alternative minimum tax ("AMT") credits of approximately $0.9 million, which carry forward to 2021. The utilization of NOL carryforwards may be subject to limitation under section 382 of the Internal Revenue Code of 1986 (the “Code”) and similar state law provisions. In fiscal 2014, the Company completed a section 382 analysis and determined that all of the Company's NOL carryforwards and other tax attributes are subject to limitation under section 382. However, that limitation did not impact the Company's 2017 or 2016 year tax liability.

As of December 27, 2017, December 28, 2016, and December 30, 2015, the Company had no accrual for unrecognized tax benefits. Consequently, no interest or penalties have been accrued by the Company. The Company believes that no significant changes to the amount of unrecognized tax benefits will occur within the next twelve months.

The Company is subject to taxation in the United States and in various state jurisdictions. The Company is no longer subject to U.S. examination for years before 2013 by the federal taxing authority, and for years before 2012 by state taxing authorities.

10. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution employee benefit plan that permits its employees, subject to certain eligibility requirements, to contribute up to 25% of their qualified compensation to the plan. The Company matches 100% of the employees' contributions of the first 3% of the employees' annual qualified compensation, and 50% of the employees' contributions of the next 2% of the employees' annual qualified compensation. The Company's matching contribution immediately fully vests. The Company's contributions to the plan for the years ended December 27, 2017, December 28, 2016, and December 30, 2015 were $0.7 million, $0.6 million and $0.5 million, respectively.

11. STOCK-BASED COMPENSATION

Stock Options

At December 27, 2017, options to purchase 2,309,103 shares of common stock of the Company were outstanding, including 1,909,440 vested and 399,663 unvested. Unvested options vest over time, or upon our achieving annual financial goals. However, the compensation committee of the board of directors, as administrator of the Company's 2014 Omnibus Equity Incentive Plan, has the power to accelerate the vesting schedule of stock-based compensation, and, generally, in the event of an employee termination in connection with a change in control of the Company, any unvested portion of an award under the plan shall become fully vested. At December 27, 2017, 1,563,549 premium options, options granted above the stock price at date of grant, remained outstanding. In fiscal 2017 and 2016, the Company granted 135,036 and 329,673 options, respectively, with an exercise price equal to the fair market value of the common stock on the date of grant. The options granted in fiscal 2017 and 2016, had a four-year vesting period. No options were granted in fiscal 2015. On November 15, 2016, the board of directors approved the modification of the remaining performance based stock options granted in 2014 and 2013 to vest based solely on time. As a result, a) 17,380 performance based stock options that did not vest in fiscal 2015 based on performance targets not being met, vested as of November 15, 2016; b) 80,799 performance based stock options that would not have vested based on 2016 performance targets vested as of December 28, 2016; and c) 17,378 performance based stock options that would not have vested based on the 2017 performance target vested at the end of fiscal 2017, subject to continued employment of the option holder and the other terms and conditions of the 2014 Stock Option Plan. The Company recorded $0.6 million as compensation expense in fiscal 2016 as a result of this stock option modification. As of December 27, 2017, there were no remaining performance based stock options and 2,309,103 time based stock options outstanding. The options generally expire 10 years from the date of grant. Changes in stock options for the years ended December 27, 2017 and December 28, 2016, are as follows:

	Shares	Weighted-Average Exercise Price
Outstanding - December 30, 2015	2,151,214	$ 6.25
Grants	347,053	12.14
Exercised	(147,726)	6.62
Forfeited, cancelled or expired	(158,813)	8.20
Outstanding - December 28, 2016	2,191,728	7.26
Grants	135,036	13.73
Exercised	(17,661)	5.26
Forfeited, cancelled or expired	—	—
Outstanding - December 27, 2017	2,309,103	$ 7.65
Vested and expected to vest at December 27, 2017	2,289,313	$ 7.60
Exercisable at December 27, 2017	1,909,440	$ 6.59

Stock options at December 27, 2017 are summarized as follows:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$4.09	105,418	5.48	$ 4.09	105,418	$ 4.09
$5.84	1,599,944	4.49	5.84	1,599,944	$ 5.84
$9.65 - $13.95	464,709	8.68	12.49	82,424	$ 11.99
$15.00	139,032	6.58	15.00	121,654	$ 15.00
$4.09 - $15.00	2,309,103	5.51	$ 7.65	1,909,440	$ 6.59

The intrinsic value of both options outstanding and options exercisable, calculated as the difference between the market value as of December 27, 2017 and the exercise price, is $7.3 million. The intrinsic value of options exercised, calculated as the difference between the market value on the date of exercise and the exercise price, was $0.2 million, $0.9 million and $14.9 million for fiscal years 2017, 2016 and 2015, respectively.

The Company measures and recognizes compensation expense for the estimated fair value of stock options for employees and non-employee directors and similar awards based on the grant-date fair value of the award. For options that are based on a service requirement, the cost is recognized on a straight-line basis over the requisite service period, usually the vesting period. For options that were based on performance requirements, costs were recognized over periods to which the performance criteria related. The Company has authorized 4,402,240 shares of common stock for issuance in connection with stock options. As of December 27, 2017, 359,642 shares were available for grant. In order to calculate our stock options' fair values and the associated compensation costs for share-based awards, the Company utilizes the Black–Scholes option pricing model, and has developed estimates of various inputs including forfeiture rate, expected term, expected volatility, and risk-free interest rate. The forfeiture rate is based on historical rates and reduces the compensation expense recognized. The expected term for options granted is derived using the “simplified” method, in accordance with SEC guidance. The Company calculates the risk-free interest rate using the implied yield for a U.S. Treasury security with constant maturity and a remaining term equal to the expected term of the Company's employee stock options. The Company does not anticipate paying any cash dividends for the foreseeable future and therefore uses an expected dividend yield of zero for option valuation purposes. Expected volatility is estimated using four publicly-traded companies in our market category. These are selected based on similarities of market capitalization, size, and other financial and operational characteristics. Volatility is calculated by taking the historical daily closing equity prices of our peer companies, prior to the grant date, over a period equal to the expected term.

The weighted-average estimated fair value of employee stock options granted in fiscal 2017 was $4.29 per share using the Black–Scholes model with the following weighted-average assumptions used to value the option grants: expected volatility of 28.6%, expected term of 5.75 years, risk-free interest rate of 1.9% to 2.0%, and expected dividend yield of 0%.

The weighted-average estimated fair value of employee stock options granted in fiscal 2016 was $4.13 per share using the Black–Scholes model with the following weighted-average assumptions used to value the option grants: expected volatility of 32.4%, expected term of 5.75 years, risk-free interest rates of 1.1% to 1.8%, and expected dividend yield of 0%.

During the years ended December 27, 2017, December 28, 2016 and December 30, 2015, the Company recognized stock option compensation expense of $0.6 million, $0.9 million and $0.5 million, respectively. These expenses were included in general and administrative expenses consistent with the salary expense for the related optionees in the accompanying consolidated statements of income. In connection with the separation of its former Audit Committee Chair, during fiscal 2017, the Company modified previously granted equity awards to allow for additional time to exercise previously vested awards following his separation date. As a result, the Company incurred incremental stock-based compensation expense of less than $0.1 million for the year ended December 27, 2017.

As of December 27, 2017, we had total unrecognized compensation expense of $1.2 million related to unvested stock options, which the Company expects to recognize over a weighted average period of 2.7 years.

The above assumptions generally require significant judgment. If in the future we determine that another method is more reasonable, or if another method for calculating these input assumptions is prescribed by authoritative guidance, and, therefore, should be used to estimate volatility or expected term, the fair value calculated for our stock options could change significantly. Higher volatility and longer expected lives result in an increase to stock-based compensation expense determined at the date of grant. Stock-based compensation expense affects our general and administrative expense.

We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior, and other factors. Changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously-estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously-estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the financial statements. The effect of forfeiture adjustments was insignificant in fiscal 2017, 2016 and 2015. We will continue to use significant judgment in evaluating the expected term, volatility, and forfeiture rate related to our stock-based compensation.

Restricted Shares

In fiscal 2017 and 2016, 181,292 and 29,259 restricted shares were granted, respectively, at the fair market value on the date of grant. These grants vest based on continued service over three years for directors and four years for employees. We base the amount of unearned compensation recorded on the market value of the shares on the date of issuance. In fiscal 2017, 2016, and 2015 the Company recognized share-based compensation expense of $0.5 million, $0.2 million, and $0.1 million, respectively. This expense was included in general and administrative expenses in the accompanying consolidated statements of income. As of December 27, 2017, there was total unrecognized compensation expense of $2.3 million related to unvested restricted shares, which the Company expects to recognize over a weighted-average period of 3.2 years.

Changes in restricted shares for the years ended December 27, 2017 and December 28, 2016, are as follows:

	Shares	Weighted-Average Fair Value
Unvested shares at December 30, 2015	12,352	$ 24.58
Granted	29,259	$ 13.33
Released	(4,859)	$ 26.10
Forfeited, cancelled, or expired	—	$ —
Unvested shares at December 28, 2016	36,752	$ 15.42
Granted	181,292	$ 13.69
Released	(10,527)	$ 16.48
Forfeited, cancelled, or expired	(10,875)	$ 16.72
Unvested shares at December 27, 2017	196,642	$ 13.70

12. NET INCOME PER SHARE

Basic net income per share is calculated using the weighted-average number of shares of common stock outstanding during the years ended December 27, 2017, December 28, 2016, and December 30, 2015. Diluted net income per share is calculated using the weighted-average number of shares of common stock outstanding and potentially dilutive during the period, using the treasury stock method.

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

For the Years Ended	December 27, 2017	December 28, 2016	December 30, 2015
Numerator:			
Net income	$ 8,619	$ 18,339	$ 24,054
Denominator:			
Weighted-average shares outstanding—Basic	38,453,347	38,357,805	37,949,316
Weighted-average shares outstanding—Diluted	39,086,676	39,026,950	39,039,558
Net income per share—Basic	$ 0.22	$ 0.48	$ 0.63
Net income per share—Diluted	$ 0.22	$ 0.47	$ 0.62
Anti-dilutive securities not considered in diluted EPS calculation	747,985	468,705	214,411

Below is a reconciliation of basic and diluted share counts.

For the Years Ended	December 27, 2017	December 28, 2016	December 30, 2015
Weighted-average shares outstanding—Basic	38,453,347	38,357,805	37,949,316
Dilutive effect of stock options and restricted shares	633,329	669,145	1,090,242
Weighted-average shares outstanding—Diluted	39,086,676	39,026,950	39,039,558

13. COMMITMENTS AND CONTINGENCIES

Legal Matters

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, under the caption Elliott Olvera, et al v. El Pollo Loco, Inc., et al (Case No. 30-2014-00707367-CU-OE-CXC) on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. The parties executed a Stipulation of Class Settlement and Release which the court refused to approve on the grounds that it did not provide sufficient compensation for the putative class members. Further settlement discussions were not successful, and the litigation is moving forward with the filing deadline for plaintiff's class certification motion postponed until May 4, 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 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 Defendants' opposition was filed on March 8, 2018. Defendants intend to continue to defend against the claims asserted.

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

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

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

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 Ethe Handlers Bryman Trust (collectively, "Plaintiffs"), filed suit against us alleging, among other things, that we "imposed unreasonable time limitations" on their development of additional restaurant locations in Lancaster, California, and that we thereafter developed company-owned El Pollo Loco restaurants in the "market area" of Plaintiffs' existing El Pollo Loco restaurant in Lancaster. Plaintiffs' asserted claims against us for, among other things, (i) breach of the covenant of good faith and fair dealing, (ii) intentional interference with prospective business, and (iii) unfair business practices. In addition to an unspecified amount of damages and costs of the lawsuit, Plaintiffs sought reformation of the contract, declaratory relief, disgorgement of alleged revenues and profits, injunctive relief, and a judicial mandate requiring us to either transfer the company-owned locations to Plaintiffs or to continuously disgorge to Plaintiffs the unjust enrichment allegedly obtained by us through the operation of the company-owned restaurants in Lancaster. We denied Plaintiffs' allegations as the franchise agreement did not grant Plaintiffs any exclusive territorial rights and, instead, expressly reserved for us the right to open and operate and the right to grant others the right to open and operate - El Pollo Loco restaurants "in the immediate vicinity of or adjacent to" Plaintiffs' restaurant in Lancaster. On June 7, 2016, we filed a cross-complaint against Plaintiffs for breach of the franchise agreement due to Plaintiffs' failure to pay to us liquidated damages 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 but continued in a related action before the San Bernardino Superior Court titled El Pollo Loco, Inc. v. EPL 3766, Inc. On April 24, 2017, four days before the commencement of trial, Plaintiffs filed a voluntary dismissal, without prejudice, of the Lancaster Lawsuit without any payment or other concession by us. The corresponding dismissal was entered by the court on April 25, 2017. On May 22, 2017, Plaintiffs filed a motion for relief from the dismissal which was granted by the court on June 29, 2017. The trial in the case was bifurcated between the liability and damages phases. The liability phase went forward on November 16, 2017. The only cause of action that the court allowed to go to the jury was the cause of action for breach of the covenant of good faith and fair dealing. The court elected not to present the cause of action for intentional interference with prospective business to the jury. (The causes of action for reformation due to mistake and unconscionability, unfair business practices under California Business & Professions Code §§ 17200 et seq. , and declaratory relief were not presented to the jury as these types of equitable claims are to be decided by the court as a matter of law.). On December 11, 2017, the jury returned a verdict in favor of Plaintiffs on the cause of action for breach of the covenant of good faith and fair dealing.

The December 11, 2017 verdict did not include a determination of damages. The damages phase of the trial is currently scheduled to begin on April 20, 2018.

The Court has recently allowed Plaintiffs to reopen discovery on damages related to new claims involving the opening of a second company-owned location in Lancaster, California and that El Pollo Loco did not offer the new restaurant locations to Plaintiffs. Experts will be allowed to update their damages calculations to account for the updated information and these new claims. These unknown variables preclude us from providing a reasonable estimation of the range of damages that may be awarded. Although we cannot predict the ultimate outcome of this lawsuit, the Company believes the jury's verdict is in error due to express language of the franchise agreement and prejudicial and reversible errors in either earlier phases of the litigation or during the liability phase of the trial. El Pollo Loco intends to file a motion challenging the verdict, a motion for new trial and, if unsuccessful, will appeal the verdict and various other rulings in the case.

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 December 27, 2017, the Company's total estimated commitment to purchase chicken was $30.8 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 December 27, 2017, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was $2.6 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at December 27, 2017 was $2.3 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 consolidated financial statements related to these contingent liabilities.

Employment Agreements

As of December 27, 2017, the Company had employment agreements with four of the officers of the Company on an at will basis. These agreements provide for minimum salary levels, possible annual adjustments for cost-of-living changes, and incentive bonuses that are payable under certain business conditions.

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.

14. RELATED PARTY TRANSACTIONS

LLC owns approximately 43.3% 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.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth a summary of our unaudited quarterly operating results for each of the last eight quarters in the period ended December 27, 2017. We have derived this data from our unaudited consolidated interim financial statements that, in our opinion, have been prepared on substantially the same basis as the audited financial statements contained elsewhere in this report and include all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. These unaudited quarterly results should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2017				2016			
(Dollar amounts in thousands, except share data)	Dec.	Sept.	June	Mar	Dec.	Sept.	July	Apr
Selected Financial Data								
Total revenue ($)	95,202	101,155	105,573	99,771	92,479	95,816	97,474	94,354
(Loss) income from Operations ($)	(9,665)	(5,612)	12,740	9,361	1,926	9,008	13,401	10,294
(Benefit) provision for income taxes	(4,757) (3)	(2,457)	4,244	3,467	853	2,830	5,339	3,761
Net (loss) income ($)	(38)	(4,039)	7,819	4,877	418	5,211	7,267	5,443
Per Share Data (2) :								
Net (loss) income per share								
Basic	—	(0.11)	0.20	0.13	0.01	0.14	0.19	0.14
Diluted	—	(0.11)	0.20	0.12	0.01	0.13	0.19	0.14
Weighted average shares used in computing net income per share								
Basic	38,465,208	38,462,100	38,449,240	38,437,020	38,437,020	38,415,189	38,294,575	38,284,435
Diluted	38,465,208 (4)	38,462,100 (4)	39,123,961	39,079,007	39,108,967	39,083,577	38,962,802	39,001,078
Selected Operating Data								
Number of restaurants (at period end)								
Company-operated	212	208	208	204	201	193	188	188
Franchised	265	265	264	263	259	253	251	248
System-wide	477	473	472	467	460	446	439	436
Average unit volume (AUV) (company-operated) (1)	1,787	1,922	1,995	1,913	1,790	1,929	1,970	1,936
Comparable restaurant sales growth (%)								
Company-operated	0.9	0.9	2.4	(0.4)	(0.6)	1.4	2.0	(0.6)
Franchised	1.9	2.4	3.2	(0.2)	(1.9)	1.8	2.7	1.8
System-wide	1.4	1.7	2.9	(0.3)	(1.3)	1.6	2.4	0.7
Restaurant contribution margin (%)	18.4	18.3	21.8	20.3	18.5	20.9	22.0	20.7

(1) AUVs consist of average annualized sales of all company-owned restaurants over the fiscal quarter.

(2) Due to the use of weighted average shares outstanding for each quarter of computing earnings per share, the sum of the quarterly per share amounts may not equal the per share amount for the year.

(3) The Company recorded a benefit for income taxes of $4.8 million in the fourth quarter of 2018 related to the newly enacted tax reform. The Tax Act had the following effects on our income tax expense for the year ended December 27, 2017, all of which impacted the fourth quarter:

- Under Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 740, Income Taxes (“ASC 740”), we are required to revalue any deferred tax assets or liabilities in the period of enactment of change in tax rates. The Tax Act lowers the corporate income tax rate from 35% to 21%. We have estimated the impact of the revaluation of our deferred tax assets and liabilities, which resulted in a decrease to our net deferred income tax liability by $1.4 million and is reflected as a decrease in our income tax expense in our results for fiscal 2017.

- The reduced corporate tax rate, also resulted in a Tax Receivable Agreement “TRA” benefit to the provision for income tax expense for fiscal 2017 in the amount of $2.0 million.
- The Tax Act is generally effective for tax years beginning after December 31, 2017. As such, the reduction in the corporate income tax rate from 35% to 21% will be effective for the fiscal year ended December 26, 2018.

(4) Due to a loss for the period, zero incremental shares are included because the effect would be antidilutive.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 27, 2017.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that
(i) pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements. The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving their control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 27, 2017 based on the criteria in “Internal Control — Integrated Framework” (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 27, 2017.

Previously Reported Material Weaknesses

We previously reported material weaknesses that were identified as of December 28, 2016 relating to the design and operating effectiveness of our internal control over financial reporting. The material weaknesses resulted from:

1. Certain accounting staff shared accounting system password information and access with an external consultant, who was not engaged through standard Company channels and subject to standard terms and conditions of engagement, who conducted standard accounting functions and had system administrator access.

2. Certain accounting staff, on several occasions, used passwords from other Company employees to enter data for approval on those employees' behalf and then approved the resulting transactions in the accounting system, thereby circumventing controls over segregation of duties.

The control deficiencies did not result in a material misstatement in the consolidated financial statements; however, we previously concluded that material weaknesses existed in the controls in fiscal 2016 because such a misstatement could have occurred.

With the oversight of our audit committee, we took corrective steps during 2017 to remediate the underlying causes of the material internal control weaknesses described above. The corrective steps we have taken include:

1. Increased awareness among accounting and information system employees of our existing password, data security and access, and accounting entry policies.

2. Designed and implemented controls over system access and password assignments so that users cannot circumvent these controls.

3. Changed our vendor approval and payment procedures so that accounting staff in relevant positions cannot engage or pay vendors without additional review and adherence to standard Company policies and provisions for engagement.

As of our third quarter ended September 27, 2017, we have completed documentation and implementation of the new and revised internal controls described above. After completing our testing of the design and operating effectiveness of this new procedure, we concluded that the above identified material weaknesses in our internal controls over financial reporting was fully remediated as of September 27, 2017.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2017 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2017 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2017 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2017 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2017 fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this report:

(1) Financial Statements: Consolidated financial statements filed as part of this report are listed under Item 8. Financial Statements and Supplementary Data.

(2) Financial Statement Schedules: None.

(3) Exhibits: The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By:	/s/ Stephen J. Sather
	Stephen J. Sather
	President and Chief Executive Officer
Date:	March 9, 2018

SIGNATURES AND POWER OF ATTORNEY

We, the undersigned, hereby severally constitute Stephen J. Sather and Laurance Roberts, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to this report, and file the same, with all exhibits thereto, and other documents in connection therewith, hereby ratifying and confirming all that said attorney may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Stephen J. Sather Stephen J. Sather	Director, President and Chief Executive Officer (principal executive officer)	March 9, 2018
/s/ Laurance Roberts Laurance Roberts	Chief Financial Officer (principal financial and accounting officer)	March 9, 2018
/s/ Michael G. Maselli Michael G. Maselli	Chairman and Director	March 9, 2018
/s/ Dean C. Kehler Dean C. Kehler	Director	March 9, 2018
/s/ John M. Roth John M. Roth	Director	March 9, 2018
/s/ Douglas J. Babb Douglas J. Babb	Director	March 9, 2018
/s/ Samuel N. Borgese Samuel N. Borgese	Director	March 9, 2018
/s/ Mark Buller Mark Buller	Director	March 9, 2018
/s/ William R. Floyd William R. Floyd	Director	March 9, 2018
/s/ Carol Lynton Carol Lynton	Director	March 9, 2018

EXHIBIT INDEX

			Incorporated by Reference				
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	Income Tax Receivable Agreement, dated July 30, 2014, between El Pollo Loco Holdings, Inc., and Trimaran Pollo Partners, L.L.C.		10-Q	9/24/2014	10.1	11/7/2014	001-36556
10.2	Franchise Development Agreement (Exclusive), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and Anil Yadav and Atour Eyvazian, collectively, as developer		8-K	N/A	10.1	8/22/2014	001-36556
10.3	Consent to and Assignment of Development Rights (Initial Change of Entity), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and (i) Anil Yadav and Atour Eyvazian, collectively, as assignor, and (ii) AA Pollo, Inc., as assignee		8-K	N/A	10.2	8/22/2014	001-36556
10.4	Franchise Development Option Agreement, dated July 11, 2014, between El Pollo Loco, Inc., and Trimaran Pollo Partners, L.L.C.		S-1/A	N/A	10.14	7/14/2014	333-197001
10.5	Stockholders Agreement, dated as of November 18, 2005, by and among El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and the stockholders listed therein		S-1	N/A	10.3	6/24/2014	333-197001
10.6	Amendment No. 1 to Stockholders Agreement, dated as of April 20, 2006, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C.		S-1	N/A	10.4	6/24/2014	333-197001
10.7	Amendment No. 2 to Stockholders Agreement, dated as of December 26, 2007, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C.		S-1	N/A	10.5	6/24/2014	333-197001
10.8	Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of March 8, 2006		S-1	N/A	10.6	6/24/2014	333-197001
10.9	Amendment No. 1 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of December 26, 2007		S-1	N/A	10.7	6/24/2014	333-197001

Number	Description	Filed Herewith	Incorporated by Reference Form	Period Ended	Exhibit	Filing Date	SEC File Number
10.10	Amendment No. 2 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of January 30, 2008		S-1	N/A	10.8	6/24/2014	333-197001
10.11	Amendment No. 3 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of July 14, 2011		S-1	N/A	10.9	6/24/2014	333-197001
10.12	Form of Franchise Agreement		S-1	N/A	10.12	6/24/2014	333-197001
10.13	Form of Franchise Development Agreement		S-1	N/A	10.13	6/24/2014	333-197001
10.14*	Amended and Restated Employment Agreement between Stephen J. Sather and El Pollo Loco, Inc.		S-1	N/A	10.14	6/24/2014	333-197001
10.15*	Employment Agreement between Laurance Roberts and El Pollo Loco, Inc.		S-1	N/A	10.15	6/24/2014	333-197001
10.17*	Employment Agreement between Edward Valle and El Pollo Loco, Inc.		S-1	N/A	10.17	6/24/2014	333-197001
10.18*	2012 Stock Option Plan		S-1	N/A	10.18	6/24/2014	333-197001
10.19*	2014 Omnibus Equity Incentive Plan		S-1/A	N/A	10.22	7/22/2014	333-197001
10.20*	Form of Option Award Agreement (Fair Market Value Options) under 2012 Stock Option Plan		S-1	N/A	10.19	6/24/2014	333-197001
10.21*	Form of Option Award Agreement (Premium Options) under 2012 Stock Option Plan		S-1	N/A	10.20	6/24/2014	333-197001
10.22*	Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan		S-1/A	N/A	10.25	7/22/2014	333-197001
10.23*	Form of Non-Officer Director Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan		S-1/A	N/A	10.26	7/22/2014	333-197001
10.24*	Form of Indemnification Agreement between El Pollo Loco Holdings, Inc. and each of its directors and executive officers		S-1/A	N/A	10.27	7/22/2014	333-197001
10.25	Credit Agreement, dated as of December 11, 2014, among El Pollo Loco, Inc., as borrower, El Pollo Loco Holdings, Inc., and EPL Intermediate, Inc., 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		8-K	N/A	10.1	12/16/2014	001-36556
10.26*	Employment Agreement between John Dawson and El Pollo Loco, Inc.		10-Q	3/30/2016	10.26	5/6/2016	001-36556
10.27*	Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan (Time Vesting Only)		10-Q	6/29/2016	10.27	8/5/2016	001-36556

Number	Description	Filed Herewith	Incorporated by Reference Form	Period Ended	Exhibit	Filing Date	SEC File Number
10.28*	Form of Employee Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan		10-Q	9/28/2016	10.28	11/4/2016	001-36556
10.29*	Employment Agreement between Bernard Acoca and El Pollo Loco, Inc.	X					
10.30*	Retirement Agreement between Stephen J. Sather and El Pollo Loco, Inc. and Executive's Waiver and Release of Claims between Stephen J. Sather and El Pollo Loco, Inc.	X					
21.1	Subsidiaries of El Pollo Loco Holdings, Inc.		S-1	N/A	21.1	6/24/2014	333-197001
23.1	Consent of BDO USA, LLP	X					
24.1	Power of Attorney (included on signature page hereto)	X					
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					

* This exhibit is a management contract or a compensatory plan or arrangement.

** Furnished herewith. 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.

EMPLOYMENT AGREEMENT
BERNARD ACOCA

EMPLOYMENT AGREEMENT (the "Agreement") dated as of February 15, 2018 by and between El Pollo Loco, Inc. (the "Company") and Bernard Acoca (the "Executive").

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

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

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

1. Term of Employment; Executive Representation.

(a) Employment Term. Subject to the terms and conditions set forth in this Agreement, the term of Executive's employment under this Agreement shall commence on March 12, 2018 (the "Effective Date") and end on the fiftieth month anniversary of the Effective Date (the "Initial Employment Term") and on such date and on each subsequent anniversary of such date, the term shall, without further action by Executive or Company, be extended by an additional one-year period (each such one year term, the "Renewal Employment Term") subject to earlier termination as provided in this Agreement; provided, however, that either Company or Executive may, by written notice to the other given not less than 60 days prior to the scheduled expiration of the Initial Employment Term or Renewal Employment Term (a "Non-Renewal Notice"), as applicable, cause the term not to extend (the period during which Executive is employed under the terms of this Agreement, including the Initial Employment Term and all Renewal Employment Terms, is referred to herein as the "Employment Term"). The Employment Term shall also terminate earlier upon termination of Executive's employment as set forth in Section 7.

(b) Executive Representation. Executive hereby represents to the Company that the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement or other agreement or policy to which Executive is a party or otherwise bound.

2. Position.

(a) During the Employment Term, Executive shall serve as the Company's President and Chief Executive Officer and shall principally perform Executive's duties to the Company and its affiliates from the Company's offices in the Orange County, California metropolitan area, subject to normal and customary travel requirements in the conduct of the Company's business. Executive shall have such authorities, duties and responsibilities as the Board of Directors of the Company (the "Board") may from time to time assign to him and reasonably consistent with those customarily performed by a chief executive officer of a company having a similar size and nature of the Company.

(b) During the Employment Term, Executive will devote Executive's full business time and best efforts to the performance of Executive's duties hereunder and will not engage in any other business, profession or occupation (including in an advisory capacity, consulting capacity, or otherwise) for compensation or otherwise, provided, following the one-year anniversary of the Effective Date, subject to the consent of the Board, not to be unreasonably withheld, Executive may serve as a member of a board of directors of one for-profit entity that is not a competitor to the Company if such service does not materially interfere with his duties hereunder.

3. Compensation.

(a) During the Employment Term, the Company shall pay Executive a base salary (the "Base Salary") at the annual rate of $550,000 (less applicable withholding taxes), payable in regular installments in accordance with the Company's usual payment practices. Executive shall be entitled to such increases in Executive's Base Salary, if any, as may be determined from time to time in the sole discretion of the Board.

(b) With respect to each full calendar year during the Employment Term, Executive shall be eligible to earn an annual bonus award (an "Annual Bonus") based on the achievement of specified performance goals, which shall be determined by the Board in its sole discretion within ninety (90) days following the commencement of each calendar year, with a targeted bonus equal to one hundred percent (100%) of Executive's then current Base Salary (the "Target Bonus"). The Annual Bonus, if any, will be paid between January 1 and March 15 of the year following the year to which it relates.

(c) At the discretion of the Board, during the Employment Term, starting in 2019, Executive will be eligible to receive an annual discretionary equity grant, with the amount and terms thereof determined by the Board. Executive will not be eligible to receive an equity grant in 2018.

4. Sign on Awards

(a) Equity. As soon as reasonably practical following the Effective Date (but no later than within 5 business days following the opening of the next open trading window of the Company), Executive will receive the following equity grants (together, the "Sign-on Grant") with aggregate grant-date value targeted at approximately $2,500,000. The Sign-on Grant will consist of the following:

(i) Approximately $750,000 worth of time-vested 10-year options that will vest 25%/year;

(ii) Approximately $1,000,000 worth of time-vested restricted stock units (or restricted shares) that will vest 25%/year, and

(iii) Approximately $750,000 worth of performance-vested restricted stock units (or restricted shares) ("Sign-on Grant PSUs"): 50% vest upon achievement of $15 stock price and 50% vest upon achievement of $20 stock price, in each case (A) during a minimum of 20 consecutive trading days, in each case either prior to the 5th anniversary of grant ("End Date"), or (B) in connection with the occurrence of a Change in Control (with respect to Sign-on Grant, as such term is defined in the Company's 2014 Omnibus Equity Incentive Plan and, with respect to equity awards other than Sign-on Grant, as defined in the Company's Equity Incentive Plan pursuant to which such awards were granted, the "Change in Control"). Any Sign-on PSUs which do not vest on or prior to the earlier of the End Date or Change in Control shall be forfeited for no consideration.

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

(b) Cash. Within 30 days of the Effective Date, the Company shall pay Executive a lump sum cash payment of $250,000. If Executive resigns without Good Reason or is terminated by the Company for Cause prior to the twelve month anniversary of the Effective Date, the Executive will repay such amount to the Company within 30 days of such termination. If Executive resigns without Good Reason or is terminated by the Company for Cause prior to the eighteen month anniversary of the Effective Date (but after the twelve month anniversary of the Effective Date), the Executive will repay 50% of such amount to the Company within 30 days of such termination.

(c) Relocation. To assist the Executive with Executive's relocation expenses, within 30 days of the Effective Date, the Company will pay Executive a cash lump sum payment of $100,000.

(d) Indemnification. The Executive shall be covered under the Company's directors and officers liability insurance during the Employment Term and thereafter to the same extent as such coverage is provided from time to time to officers of the Company.

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

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

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

(a) By the Company For Cause or By Executive's Resignation without Good Reason.

(i) The Employment Term and Executive's employment hereunder may be terminated by the Company for Cause (as defined below) or by Executive's resignation without Good Reason (as defined below).

(ii) For purposes of this Agreement, "Cause" shall mean (a) action by the Executive that constitute acts of (1) fraud; (2) embezzlement; (3) gross insubordination; (4) gross misconduct; (5) material dishonesty which causes material harm to the Company; (b) the Executive's inability, failure, or refusal to perform any duty, responsibility, or obligation of his position, which (to the extent such inability, failure, or refusal to perform is curable in the judgment of the Company) is not cured by the Executive within five (5) days after receiving written notice from the Company of such inability, failure; (c) Executive's commission of a felony; (d) Executive's substance abuse or alcohol abuse which renders the Executive unfit to perform his duties; or (e) any breach of the covenants set forth in Section 8 of this Agreement by Executive. Any voluntary termination of employment by the Executive in anticipation of an involuntary termination of the Executive's employment by the Company for Cause shall be deemed to be a termination for Cause.

(iii) If Executive's employment is terminated by the Company for Cause, or if Executive resigns without Good Reason, Executive shall be entitled to receive:

(A) the Base Salary through the date of termination;

(B) except in the case of termination for Cause, any Annual Bonus earned but unpaid as of the date of termination for any previously completed calendar year;

(C) reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy prior to the date of Executive's termination; and

(D) such Employee Benefits, if any, as to which Executive may be entitled under the employee benefit plans of the Company;

(E) any additional amounts or benefits due under any applicable plan, program, agreement or arrangement of the Company or its affiliates or pursuant to applicable law (the amounts described in clauses (A) through (E) hereof being referred to as the "Accrued Rights"). The Accrued Rights under this Section 7 shall in all events be paid in accordance with the Company's normal payroll procedures, expense reimbursement procedures or plan terms, as applicable.

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

(b) Disability or Death.

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

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

(ii) Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive:

(A) the Accrued Rights; and

(B) the Annual Bonus, if any, that the Executive would have been entitled to receive pursuant to Section 3(b) hereof in respect of the year in which such termination occurs based upon the actual achievement of the performance goals, multiplied by a fraction the numerator of which is the number of days Executive is employed by the Company in such year and the denominator of which is the total number of days in such year, payable when such Annual Bonus would have otherwise been payable in accordance with Section 3(b) had the Executive's employment not terminated (the "Pro-Rata Bonus").

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

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

(i) The Employment Term and Executive's employment hereunder may be terminated by the Company without Cause or by Executive with Good Reason.

(ii) For purposes of this Agreement, "Good Reason" shall mean:

(A) Executive's relocation, without his consent and other than for a temporary work assignment, by the Company outside Orange County, California;

(B) a material diminution of Executive's authority, duties, title or responsibilities as set forth in Section 2(a) hereof;

(C) a reduction of Executive’s Base Salary (as increased from time to time) as set forth in Section 3(a) hereof;

(D) the material failure of the Company to provide or cause to be provided to Executive any of the Employee Benefits described in Section 5 hereof; or

(E) a requirement that Executive report to anyone other than the Board; provided that none of the events described in clauses (A) through (E) of this Section 7(c)(ii) shall constitute Good Reason unless Executive shall have notified the Company in writing describing the event which constitutes Good Reason within thirty (30) days of the initial occurrence of such event and then only if the Company shall have failed to cure such event within thirty (30) days after the Company’s receipt of such written notice.

(iii) If Executive’s employment is terminated by the Company without Cause (other than by reason of death or Disability), by Executive with Good Reason or by reason of Employment Term expiring as a result of the Company delivering to the Executive the Non-Renewal Notice (such event, the “Company Non-Renewal”), Executive shall be entitled to receive:

(A) the Accrued Rights;

(B) subject to Executive’s execution of a general release of claims in a form reasonably determined by the Company (the “Release”), the expiration of the applicable revocation period with respect to such Release within sixty (60) days following the date of termination or, in the case of Company Non-Renewal, expiration of the Employment Term, as applicable, and Executive’s continued compliance with the provisions of Section 8 and 9, the Pro-Rata Bonus;

(C) subject to Executive’s execution of a Release, the expiration of the applicable revocation period with respect to such Release within sixty (60) days following the date of termination or, in the case of Company Non-Renewal, expiration of the Employment Term, as applicable, and Executive’s continued compliance with the provisions of Section 8 and 9, continued payment of the Base Salary in accordance with the Company's normal payroll practices for a period of eighteen (18) months following the date of such termination or, in the case of Company Non-Renewal, expiration of the Employment Term, as applicable, which shall commence on the sixtieth (60th) day following such termination or, in the case of Company Non-Renewal, expiration of the Employment Term, as applicable (with the first payment equal to the cumulative amount that would have been paid in such initial sixty (60) day period); and

(D) if such termination or, in the case of Company Non-Renewal, expiration of the Employment Term, as applicable, occurs on or after the effective date of a Change in Control but prior to the twenty-four (24) months anniversary of the effective date of such Change in Control, subject to Executive's execution of a Release, the expiration of the applicable revocation period with respect to such Release within sixty (60) days following the date of termination or, in the case of Company Non-Renewal, expiration of the Employment Term, as applicable, and Executive's continued compliance with the provisions of Section 8 and 9, all of Executive's then outstanding equity awards (including Sign-on Grant, but excluding Sign-on Grant PSUs or any other equity award(s) the performance vesting of which is tested at the time of the Change in Control) will vest (with performance conditions deemed achieved at target).

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

(d) Notice of Termination. Any purported termination of employment by the Company or by Executive (other than due to Executive's death) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 12(g) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated.

8. Non-Interference/Non-Solicitation. Executive acknowledges and recognizes that in the course of performing services for the Company, Executive will have access to certain confidential and proprietary information of the Company and its affiliates that is extremely valuable to the Company and its affiliates and is not known to the general public. Accordingly, Executive agrees as follows:

(a)Executive agrees that during the term of employment and until the first anniversary of the date of termination of Executive's employment with the Company or any subsidiary of the Company, as the case may be (the "Restricted Period"), the Executive will not directly or indirectly, use any Company Confidential Information (as defined in Section 9) to interfere with business relationships (whether formed before or after the date of this Agreement) between the Company or any of its affiliates and customers, suppliers, partners, members or investors of the Company or its affiliates.

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

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

9. Confidentiality and Cooperation. Executive will not at any time (whether during or after Executive's employment with the Company) disclose or use for Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Company and any of its subsidiaries or affiliates, any trade secrets, information, data, or other confidential information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans, or the business and affairs of the Company generally, or of any subsidiary or affiliate of the Company ("Company Confidential Information"); provided that the foregoing shall not apply to information which is not unique to the Company or which is generally known to the industry or the public other than as a result of Executive's breach of this covenant; provided further that the foregoing shall not apply when Executive is required to divulge, disclose or make accessible such information by a court of competent jurisdiction or an individual duly appointed thereby, by any administrative body or legislative body (including a committee thereof) having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information. Executive agrees that upon termination of Executive's employment with the Company for any reason, he will return to the Company immediately all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way

relating to the business of the Company and its affiliates and/or containing any Company Confidential Information, except that he may retain personal notes, notebooks and diaries that do not contain Company Confidential Information of the type described in the preceding sentence. Executive further agrees that he will not retain or use for Executive's account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or its affiliates. Except to the extent that it could reasonably be expected to materially and unreasonably interfere with the Executive's professional and personal responsibilities and commitments, upon reasonable notice from the Company to the Executive, Executive agrees to cooperate, both during and after the Employment Term, at the Company's sole cost and expense (including reasonable, necessary and documented legal fees) to the extent not otherwise paid by insurance), with respect to matters of which Executive has knowledge.

10. DEFEND TRADE SECRETS ACT.

(a) Notwithstanding anything set forth in this Agreement to the contrary, Executive shall not be prohibited from reporting possible violations of federal or state law or regulation to any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of federal or state law or regulation, nor is Executive required to notify the Company regarding any such reporting, disclosure or cooperation with the government.

(b) Pursuant to Section 1833(b) of the Defend Trade Secrets Act of 2016, Executive acknowledges that he shall not have criminal or civil liability under any federal or State trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Nothing in this Agreement is intended to conflict with Section 1833(b) of the Defend Trade Secrets Act of 2016 or create liability for disclosures of trade secrets that are expressly allowed by such section.

11. Specific Performance. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 8 or Section 9 would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to conflicts of laws principles thereof.

(b) Entire Agreement/Amendments. This Agreement contains the entire understanding of the parties with respect to the employment of Executive by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto.

(c) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(d) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(e) Assignment. This Agreement shall not be assignable by Executive. This Agreement may be assigned by the Company to a company which is a successor in interest to substantially all of the business operations of the Company. Such assignment shall become effective when the Company notifies the Executive of such assignment or at such later date as may be specified in such notice. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such successor company, provided that any assignee expressly assumes the obligations, rights and privileges of this Agreement.

(f) Successors Binding Agreement. This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributes, devises and legatees.

(g) Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to the Company:

El Pollo Loco, Inc.
3535 Harbor Boulevard, Suite 100
Costa Mesa, CA 92626
Attn: Chairman of the Board and
Attn: Vice President of Legal.

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

(h) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

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

(j) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[signature page follows]

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

/s/ Bernard Acoca
Bernard Acoca

EL POLLO LOCO, INC.

By: /s/ Michael G. Maselli
Name: Michael G. Maselli
Title: Chairman of the Board

Exhibit 10.30

RETIREMENT AGREEMENT

THIS RETIREMENT AGREEMENT (the "**Agreement**") is entered into as of February 28, 2018 (the "**Effective Date**"), by and between El Pollo Loco, Inc. (the "**Company**") and Stephen J. Sather ("**Executive**") (together, the "**Parties**").

R E C I T A L S

WHEREAS, Executive is employed by the Company as its Chief Executive Officer and President pursuant to his Amended and Restated Employment Agreement entered into with the Company dated as of January 13, 2011 (the "**Employment Agreement**"); and

WHEREAS, the Parties now wish to make arrangements regarding Executive's resignation and subsequent retirement and to resolve, fully and finally, all outstanding matters between them.

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth hereinafter, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

AGREEMENT

1. EXECUTIVE'S RESIGNATION AND RETIREMENT.

a. Effective as of March 12, 2018 (the "**Resignation Date**"), Executive shall resign from his positions as Chief Executive Officer and President of the Company and as a member of the board of directors of the Company and Executive hereby agrees that he will execute any and all documents necessary to effect such resignations. Each of Executive and the Company acknowledges that the Employment Agreement will not be extended or renewed. From the Resignation Date through the Retirement Date (as defined below), Executive shall remain employed by the Company as a Special Advisor and in such capacity shall provide services as are reasonably required to assist the new Chief Executive Officer with his transition (the "**Services**"). The Parties reasonably expect that the performance of the Services will not require Executive to work more than twenty percent (20%) of the average level of services performed by Executive during the thirty-six (36) months immediately preceding the Resignation Date. All Services shall be performed by Executive with a level of skill and care generally exercised by others performing the same or similar services. In performing the Services, Executive shall comply fully with all applicable laws, and all applicable policies of the Company and its affiliates. In exchange for the Services performed hereunder:

(i) the Company agrees to pay Executive the base salary to which he was entitled immediately prior to the Resignation Date, payable in regular installments in accordance with the Company's usual payment practices;

(ii) the Company agrees to provide Executive with the health insurance, retirement benefits and fringe benefits to which he was entitled immediately prior to the Resignation date, in accordance with the terms of the Company's employee benefit plans;

(iii) Executive shall continue to receive the automobile allowance and related benefits on the same terms and conditions as Executive was entitled to receive from the Company immediately prior to the Resignation Date; and

(iv) Reimbursement, in accordance with Company policies, for reasonable, documented business expenses incurred by Executive in the performance of the Services.

b. Executive shall retire from the Company effective as of March 31, 2018 (the "**Retirement Date**"). Executive hereby agrees that his employment with the Company and his retention of any other position he may hold with the Company shall terminate as of the Retirement Date, and he will execute any and all documents necessary to effect such termination. No later than the Retirement Date, Executive shall return to the Company all files, records, credit cards, keys, computers, mobile phones, tables, PDAs, equipment and all other Company property or documents maintained by Executive for the Company's use or benefit. No later than the Retirement Date, the Company shall pay Executive the aggregate of the accrued but unpaid compensation and benefits owed to him through the Retirement Date (the "**Accrued Compensation**"), which shall include payment for 240 accrued but unused vacation days. Executive's entitlement to the Accrued Compensation is in no way conditioned on Executive executing a release of claims.

2. EQUITY.

a. The Parties acknowledge and agree that Executive is party to award agreements (the "**Award Agreements**"), dated April 16, 2012 and May 11, 2016, entered into pursuant to the terms of the El Pollo Loco Holdings, Inc. 2014 Omnibus Equity Incentive Plan (the "**Plan**") under which Executive has been granted stock options to purchase shares of common stock of the Company (the "**Options**"). The Parties acknowledge and agree that other than the Options set forth on Exhibit A, Executive holds no stock options or equity interests in the Company, vested or unvested, as of the Retirement Date.

b. Notwithstanding anything to the contrary in the Plan or the Award Agreements and provided that Executive is in compliance with the terms set forth herein and provided further that Executive has timely executed the Release following the Retirement Date and has not revoked the Release and the Release has become effective within thirty (30) days following the Retirement Date, in consideration of the terms, representations and releases in this Agreement and the Release, within five (5) days of the expiration of the revocation period set forth in the Release, the portion of the Options that are scheduled to vest in May 2018 shall fully vest and be exercisable as of the Retirement Date. All Options that are unvested as of the Retirement Date shall be forfeited. All Options that are vested as of the Retirement Date shall remain exercisable until the tenth (10th) anniversary of each applicable Date of Grant (as defined in each applicable Award Agreement) (the "**Consideration**"). The "**Release**" means the release attached hereto as Exhibit B.

c. Executive acknowledges and agrees that:

(i) the effectiveness of the Release shall have no effect on the effectiveness of this Agreement, which shall be in full force and effect and binding upon the Parties upon and from its date of execution, provided that if Executive does not sign the Release or the Release does not become effective, then Executive shall have no right to the Consideration described in Section 2(b);

(ii) Executive would not otherwise be entitled to receive the Consideration in the absence of Executive's execution (and non-revocation) of the Release; and

(iii) this Agreement and Executive's resignation as the Chief Executive Officer and President of the Company and as a member of the board of directors of the Company and his retirement from the Company do not constitute grounds for Executive to terminate his employment with Good Reason (as defined in the Employment Agreement) or in any other applicable agreement between Executive and the Company. Upon Executive's resignation from such positions and his retirement from the Company, he shall not be entitled to any cash severance or termination benefits that would otherwise be payable under the Employment Agreement.

3. <u>RESTRICTIVE COVENANTS AND REMEDIES</u>.

a. Executive hereby acknowledges and agrees that following the Retirement Date any applicable restrictive covenants, including Section 8, Section 9 and Section 10 of the Employment Agreement (the "**Restrictive Covenants**"), shall remain in full force and effect.

b. Upon any breach by Executive of the Restrictive Covenants, this Agreement or the Release, Executive shall forfeit all of his unexercised Options and any and all rights with respect to such Options, which forfeiture shall not limit, restrict or otherwise affect his continuing obligations under the Restrictive Covenants. In addition, if Executive materially fails to comply with or otherwise materially breaches any of the promises, representations or releases in or made a part of this Agreement, the Company may seek additional relief or remedy as provided under applicable law.

4. CODE SECTION 409A COMPLIANCE. This Agreement as well as payments and benefits under this Agreement are intended to be exempt from, or to the extent subject thereto, to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("**Section 409A**"), and, accordingly, to the maximum extent permitted, the Agreement shall be interpreted in accordance therewith. Notwithstanding anything contained herein to the contrary, Executive shall not be considered to have terminated employment with the Company for purposes of any payments under this Agreement which are subject to Section 409A until Executive has incurred a "separation from service" from the Company within the meaning of Section 409A. Each amount to be paid or benefit to be provided under this Agreement shall be construed as a separate identified payment for purposes of Section 409A. Without limiting the foregoing and notwithstanding anything contained herein to the contrary, to the extent required in order to avoid an accelerated or additional tax under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to this Agreement during the six (6)-month period immediately following Executive's separation from service shall instead be paid on the first business day after the date that is six (6) months following Executive's separation from service (or, if earlier, Executive's date of death). To the extent required to avoid an accelerated or additional tax under Section 409A, amounts reimbursable to Executive shall be paid to Executive on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in kind benefits provided to Executive) during one year may not affect amounts reimbursable or provided in any subsequent year. The Company makes no representation that any or all of the payments described in this Agreement will be exempt from or comply with Section 409A and makes no undertaking to preclude Section 409A from applying to any such payment. Executive shall be solely responsible for the payment of any taxes and penalties incurred under Section 409A.

5. DEFEND TRADE SECRETS ACT.

a. Notwithstanding anything set forth in this Agreement or the Release to the contrary, Executive shall not be prohibited from reporting possible violations of federal or state law or regulation to any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of federal or state law or regulation, nor is Executive required to notify the Company regarding any such reporting, disclosure or cooperation with the government.

b. Pursuant to Section 1833(b) of the Defend Trade Secrets Act of 2016, Executive acknowledges that he shall not have criminal or civil liability under any federal or State trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Nothing in this Agreement is intended to conflict with Section 1833(b) of the Defend Trade Secrets Act of 2016 or create liability for disclosures of trade secrets that are expressly allowed by such section.

6. REPRESENTATIONS. Executive and the Company make the following representations, each of which is an important consideration to the other party's willingness to enter into this Agreement:

a. Executive acknowledges that the Company is not entering into this Agreement because it believes that Executive has any cognizable legal claim against the Company Released Parties and that by entering into this Agreement neither of the Parties admits any liability or wrongdoing of any kind. If Executive elects not to sign this Agreement, the fact that this Agreement was offered will not be understood as an indication that the Company Released Parties believed Executive was treated unlawfully in any respect.

b. Executive acknowledges that neither this Agreement nor his resignation or retirement hereunder constitutes grounds for Executive to terminate his employment for Good Reason as defined in the Employment Agreement or any other applicable agreement between the Company and Executive.

c. Executive understands and agrees that he has been advised to consult with an attorney of his choice concerning the legal consequences of this Agreement. Executive acknowledges that prior to signing this Agreement, he had the opportunity to consult with an attorney of his choosing regarding the effect of each and every provision of this Agreement.

d. Executive and the Company, on behalf of himself and itself respectively, acknowledge and agree that he and it knowingly and voluntarily entered into this Agreement with complete understanding of all relevant facts, and that neither party was fraudulently induced or coerced to enter into this Agreement.

e. Executive and the Company each represent and warrant to the other that he and it have the capacity and authority to enter into this Agreement and to be bound by its terms.

7. MUTUAL NON-DISPARAGEMENT. Executive agrees that he will not, at any time, make, directly or indirectly, any oral or written public statements that are disparaging of the Company, its products or services, and any of its present or former officers, directors or employees. The Company (limited to its officers and directors) agrees that it will not, at any time, make, directly or indirectly, any oral or written public statements that are disparaging of Executive. Nothing in this Section 7 shall prohibit either of the Parties from providing truthful information in response to a valid subpoena or other legal process or otherwise required by law.

8. COOPERATION. Executive agrees that he will cooperate with the Company, including executing documents and providing requested information, as may reasonably be required to give effect to the provisions of this Agreement or for the Company to comply with applicable securities laws. Executive further agrees that he will cooperate with the Company concerning reasonable requests for information about the business of the Company or any of its affiliates or Executive's involvement and participation therein; the transition of duties to others within the Company; the defense, prosecution or investigation of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company or its affiliates which relate to events or occurrences that transpired while Executive was employed by the Company or matters of which Executive has knowledge or information, and in connection with any audit, investigation or review by any federal, state, or local regulatory, quasi-regulatory or self-governing authority, or any internal investigation, relating to such events or occurrences. Executive's cooperation shall include, but not be limited to, being reasonably available to meet and speak with officers and employees of the Company, its affiliates and/or its counsel at reasonable times and locations, executing accurate and truthful documents including declarations, testifying in connection with any and all legal proceedings at the request of the Company and without the need for a subpoena, and taking such other actions as may reasonably be requested by the Company and/or its counsel to effectuate the foregoing. The Company and Executive shall cooperate in good faith to schedule any meetings or discussions pursuant to this Section 8 so as not to conflict with Executive's other obligations. The Company shall reimburse Executive for any reasonable and documented out-of-pocket expenses, including travel, hotel, and meal or similar expenses, incurred in connection with providing his cooperation for which he has obtained prior, written approval from the Company.

9. GOVERNING LAW. This Agreement and all rights, duties, and remedies hereunder shall be governed by and construed and enforced in accordance with the laws of the State of California, without reference to its choice of law rules, except as preempted by federal law.

10. SUCCESSORS AND ASSIGNS. Executive agrees that this Agreement will be binding upon, and pass to the benefit of, the successors and assigns of the Company. Any payments and benefits due to the Executive hereunder shall be payable to his estate or representative in the event of his death or disability.

11. AMENDMENTS. This Agreement may not be amended or modified other than by a written instrument signed by an authorized representative of the Company and Executive.

12. DESCRIPTIVE HEADINGS. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

13. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. Facsimile and .pdf signatures will suffice as original signatures.

14. NOTICES. All notices hereunder shall be in writing and delivered personally or sent by United States registered or certified mail, postage prepaid and return receipt requested:

If to the Company:

El Pollo Loco, Inc.
3535 Harbor Boulevard, Suite 100
Costa Mesa, California 92626
Attention: Vice President, Legal

If to Executive:

Stephen J. Sather
at the most recent address in the payroll records of the Company

15. ENTIRE AGREEMENT. This Agreement sets forth the entire agreement and understanding of the Parties relating to the subject matter hereof and, except as otherwise provided herein, supersedes all prior discussions, agreements and understandings of every kind and nature between the Parties hereto and neither of the Parties shall be bound by any term or condition other than as expressly set forth or provided for in this Agreement. Effective as of the date hereof, the Employment Agreement is hereby terminated and this Agreement satisfies all entitlements set forth in the Employment Agreement; provided, however, that the Restrictive Covenants shall remain in full force and effect. The Release does not supersede the July 24, 2014 Director and Officer

Indemnification Agreement between Executive and the Company ("Indemnification Agreement"). Notwithstanding anything contained herein to the contrary, the Company will continue to indemnify Executive pursuant to the Indemnification Agreement for any Indemnifiable Event (as defined in the Indemnification Agreement), whether occurring before, on or after the date of the Release.

(SIGNATURE PAGE FOLLOWS)

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the first date set forth below.

EL POLLO LOCO, INC.

/s/ Edith R. Austin
By: Edith R. Austin
Its: Corporate Secretary

Date: 02/28/2018

STEPHEN J. SATHER

/s/ Stephen J. Sather

Date: 02/28/2018

EXHIBIT A

Report Run: 02/02/2018

El Pollo Loco, Inc.

Participant Holdings

Report Date Range: 1/1/1900-2/2/2018; Name=Sather, Steve (321271);

Report Nbr: ACT_PART_HOLDINGS

FMV on 02/02/2018=$10.05

Participant ID	Holding Group	Grant Number/ Certificate	Plan/Security	Grant Type/ Grant No. Ref.	Date	Shares Granted	Share Holdings	Grant/ Share Price	Exer. w/ Early-Exer. Shares/ Releases/Value	Vested & Earned	Cancelled or WHTC Shares	Opt/SARS Outstanding RS & DEs Outstanding	Opt/SARS Exercisable/ RS Awards Deferred
321271	Options/SARs	138A	EPL 2012	PNQ	4/16/2012	141,303.000000		$5.84	44,923.000000	141,303.000000	0.000000	96,380.000000	96,380.000000
		138B	EPL 2012	PNQ	4/16/2012	141,303.000000		$5.84	0.000000	141,303.000000	0.000000	141,303.000000	141,303.000000
		138C	EPL 2012	PNQ	4/16/2012	141,303.000000		$5.84	0.000000	141,303.000000	0.000000	141,303.000000	141,303.000000
		138D	EPL 2012	PNQ	4/16/2012	141,302.000000		$5.84	0.000000	141,302.000000	0.000000	141,302.000000	141,302.000000
		138T	EPL 2012	NQSO	4/16/2012	565,211.000000		$5.84	0.000000	565,211.000000	0.000000	565,211.000000	565,211.000000
		141	EPL 2014	NQSO	5/11/2016	134,181.000000		$11.94	0.000000	33,546.000000	0.000000	134,181.000000	33,546.000000
Options/SARs Total						**1,264,603.000000**							
321271 Total						**1,264,603.000000**							
Grand Totals						**1,264,603.000000**							

2/27/2018 Option Future Vesting Report

Report Run: 02/27/2018

El Pollo Loco, Inc.

Option Future Vesting

Report Date Range: 1/1/1900-5/31/2018; Name=Sather, Steve (321271);

Report Nbr: OPT_FUTURE_VEST

Vest Date	Name	Equity Hldr Code	Award Date	Award #	Options Granted	Purch. Price	Previously Vested	Options Vested
5/11/2018	Sather, Steve	321271	5/11/2016	141	134,181	$11.94	33,546	33,545
5/11/2018 12:00:00 AM Total								**33,545**

EXHIBIT B

EXECUTIVE’S WAIVER AND RELEASE OF CLAIMS
(“RELEASE”)

a. In exchange for the Consideration (as defined in Section 2(b) of the Retirement Agreement dated as of February 28, 2018 between the undersigned Executive and El Pollo Loco, Inc. (the “**Company**”), Executive hereby forever waives, releases and discharges the Company and its parents, affiliates, successors, and assigns, as well as each of its past and present officers, directors, employees, agents, attorneys, and shareholders (collectively, the “**Company Released Parties**”), from any and all claims, charges, complaints, liens, demands, causes of action, obligations, damages, and liabilities, known or unknown, suspected or unsuspected, that Executive had, now has, or may hereafter claim to have against the Company Released Parties, or any of them, arising out of or relating in any way to Executive’s employment with, or retirement from, the Company, or otherwise relating to any of the Company Released Parties from the beginning of time to the date of execution of this Release (the “**Executive’s Release**”). The Executive’s Release specifically extends to, without limitation, any and all claims or causes of action for wrongful termination, breach of an express or implied contract, breach of the covenant of good faith and fair dealing, breach of fiduciary duty, fraud, misrepresentation, defamation, slander, infliction of emotional distress, disability, discrimination, retaliation, failure to accommodate, loss of future earnings, and any claims under any applicable state, federal, or local statutes and regulations, including, but not limited to, the Civil Rights Act of 1964, as amended, the Equal Pay Act of 1963, as amended, the Fair Labor Standards Act, as amended, the Americans with Disabilities Act of 1990, as amended (the “**ADA**”), the Rehabilitation Act of 1973, as amended, the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), the Worker Adjustment and Retraining Notification Act, as amended (the “**WARN Act**”), Section 806 of the Sarbanes-Oxley Act, the Dodd-Frank Act, the Family and Medical Leave Act, as amended, and the California Family Rights Act, as amended, the California Fair Employment and Housing Act, as amended and California Labor Code Section 1400 *et seq*.; the Age Discrimination in Employment Act, as amended (“**ADEA**”); the Older Workers Benefit Protection Act, as amended (the “**OWBPA**”); and the age discrimination provisions of the California Fair Employment and Housing Act; provided, however, that Executive is not waiving, releasing or otherwise discharging any claims under the ADEA that may arise after the date he signs this Release; provided, further, that this Release does not waive, release or otherwise discharge any claim or cause of action arising (i) from a breach by the Company of the Agreement or (ii) with respect to any payments or benefits to which Executive is entitled under the Agreement, (iii) with respect to any right to indemnification under any director's and officer's liability insurance policy now or previously in force or under the July 24, 2014 Director and Officer Indemnification Agreement between Executive and the Company (the "Indemnification Agreement") (whether such claim or cause of action relates to an Indemnifiable Event (as defined in the Indemnification Agreement), occurring before, on or after the date of this Release) or (iv) that cannot legally be waived, including, but not limited to, any claim for unpaid wages, workers' compensation benefits, unemployment benefits and any claims for indemnification under applicable law.

b. For the purpose of implementing a full and complete release, Executive understands and agrees that this Release is intended to include all claims, if any, which Executive may have and which Executive <u>does not now know or suspect</u> to exist in his favor against the Company Released Parties and this Release extinguishes those claims. Accordingly, Executive expressly waives all rights afforded by Section 1542 of the Civil Code of the State of California ("**Section 1542**") and any similar statute or regulation in any other applicable jurisdiction. Section 1542 states as follows:

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

c. This Release shall not prevent Executive from filing a charge with the Equal Employment Opportunity Commission (or similar state or local agency) or participating in any investigation conducted by the Equal Employment Opportunity Commission (or similar state or local agency); <u>provided</u>, <u>however</u>, that Executive acknowledges and agrees that any claims by Executive for personal relief in connection with such a charge or investigation (such as reinstatement or monetary damages) are hereby barred.

d. Executive has been informed and understands and agrees that he has twenty-one (21) calendar days after receipt of this Release to consider whether to sign it. Executive has been informed and understands and agrees that he may revoke this Release at any time during the seven (7) calendar days after this Release is signed and returned to the Company, in which case none of the provisions of this Release will have any effect. Executive acknowledges and agrees that if he wishes to revoke this Release, he must do so in writing, and that such revocation must be signed by Executive and delivered by hand, overnight mail or fax to 714-599-5593 to the attention of the Vice President, Legal of the Company so that it is received by the Vice President, Legal of the Company no later than the seventh (7th) day after Executive has signed the Release. Executive acknowledges and agrees that, in the event Executive either fails to sign or revokes this Release, he shall have no right to receive the Consideration.

e. Executive acknowledges and agrees that prior to signing this Release, he has read and understood each and every provision of this Release. Executive further acknowledges and agrees that he has been advised in this writing to consult with an attorney of his choice concerning the legal consequences of this Release, has done so or, after careful review and consideration, has chosen of his own volition not to do so.

f. Executive acknowledges and agrees that he knowingly and voluntarily entered into this Release with complete understanding of all relevant facts, and that he was neither fraudulently induced nor coerced to enter into this Release.

g. This Release shall be effective upon the eighth (8th) calendar day following the date that Executive executes this Release, provided, however, that Executive does not revoke or attempt to revoke his acceptance of this Release prior to such date in accordance with the provisions of Section (d) above.

h. Capitalized terms not defined herein shall have the meanings ascribed to such terms in the Retirement Agreement entered into by and between the Company and Executive in connection with the execution of the Release.

STEPHEN J. SATHER ("Executive")

/s/ Stephen J. Sather

Date: 02/28/2018

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

El Pollo Loco Holdings, Inc.
Costa Mesa, California

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-197698) of El Pollo Loco Holdings, Inc. of our report dated March 9, 2018, relating to the consolidated financial statements, which appear in this Form 10-K.

/s/ BDO USA, LLP
Costa Mesa, California
March 9, 2018

Exhibit 31.1

CERTIFICATIONS

I, Stephen J. Sather, certify that:

1. I have reviewed this annual report on Form 10-K 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 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: March 9, 2018

/s/ Stephen J. Sather

Stephen J. Sather
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Laurance Roberts, certify that:

1. I have reviewed this annual report on Form 10-K 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 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: March 9, 2018

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

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

Date: March 9, 2018

/s/ Stephen J. Sather

Stephen J. Sather
President and Chief Executive Officer

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer