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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 29, 2016

or

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

For the transition period from _________ to _________

Commission File Number: 001-36556

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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	☐

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

As of July 25, 2016, there were 38,419,933 shares of the issuer's common stock outstanding.

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except share data)

	June 29, 2016	December 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 9,496	$ 6,101
Restricted cash	125	125
Accounts and other receivables, net	6,682	6,186
Inventories	1,751	1,899
Prepaid expenses and other current assets	5,357	2,656
Deferred tax assets	12,940	21,656
Total current assets	36,351	38,623
Property and equipment owned, net	110,970	102,421
Property held under capital leases, net	76	89
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Other intangible assets, net	535	638
Deferred tax assets	6,891	6,891
Other assets	1,633	1,804
Total assets	**$ 467,018**	**$ 461,028**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under capital leases	$ 172	$ 177
Accounts payable	9,050	11,046
Accrued salaries and vacation	7,048	6,693
Accrued insurance	4,973	5,021
Accrued income taxes payable	28	67
Accrued interest	230	245
Accrued advertising	—	204
Other accrued expenses and current liabilities	13,098	16,126
Total current liabilities	34,599	39,579
Revolver loan	116,500	123,000
Obligations under capital leases, net of current portion	378	461
Deferred taxes, net of current portion	8,740	8,740
Other intangible liabilities, net	1,125	1,248
Other noncurrent liabilities	47,375	43,367
Total liabilities	208,717	216,395
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value—200,000,000 shares authorized; 38,419,933 and 38,284,435 shares issued and outstanding	384	383
Additional paid-in-capital	370,592	369,635
Accumulated deficit	(112,675)	(125,385)
Total stockholders' equity	258,301	244,633
Total liabilities and stockholder’s equity	**$ 467,018**	**$ 461,028**

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in thousands, except share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2016	July 1, 2015	June 29, 2016	July 1, 2015
Revenue				
Company-operated restaurant revenue	$ 90,877	$ 83,575	$ 179,246	$ 168,308
Franchise revenue	6,597	5,879	12,582	11,572
Total revenue	97,474	89,454	191,828	179,880
Cost of operations				
Food and paper cost	27,032	27,055	53,800	54,178
Labor and related expenses	24,361	21,089	48,868	42,671
Occupancy and other operating expenses	19,496	17,388	38,330	34,524
Company restaurant expenses	70,889	65,532	140,998	131,373
General and administrative expenses	8,287	6,405	17,524	13,890
Franchise expenses	1,239	840	2,163	1,695
Depreciation and amortization	3,964	3,200	7,722	6,346
Loss on disposal of assets	267	85	466	166
Expenses related to fire loss	—	—	48	—
Gain on recovery of insurance proceeds	(600)	—	(889)	—
Asset impairment and closed-store reserves	60	(190)	134	(139)
Total expenses	84,106	75,872	168,166	153,331
Gain on disposition of restaurants	33	—	33	—
Income from operations	13,401	13,582	23,695	26,549
Interest expense-net of interest income	830	1,014	1,656	2,225
Expenses related to selling shareholders	—	50	—	50
Income tax receivable agreement (income) expense	(35)	226	229	477
Income before provision for income taxes	12,606	12,292	21,810	23,797
Provision for income taxes	5,339	5,062	9,100	9,776
Net income	$ 7,267	$ 7,230	$ 12,710	$ 14,021
Net income per share				
Basic	$ 0.19	$ 0.19	$ 0.33	$ 0.37
Diluted	$ 0.19	$ 0.18	$ 0.33	$ 0.36
Weighted-average shares used in computing net income per share				
Basic	38,294,575	37,812,767	38,289,505	37,618,756
Diluted	38,962,802	39,085,206	38,981,610	39,002,974

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Twenty-Six Weeks Ended	
	June 29, 2016	July 1, 2015
Cash flows from operating activities:		
Net income	$ 12,710	$ 14,021
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	7,722	6,346
Stock-based compensation expense	139	443
Gain on recovery of insurance proceeds	(889)	—
Income tax receivable agreement expense	229	477
Gain on sale of restaurant	(33)	—
Loss on disposal of assets	466	166
Fire insurance proceeds for expenses paid	8	—
Impairment of property and equipment	56	13
Closed-store reserve	78	(152)
Amortization of deferred financing costs	152	152
Amortization of favorable and unfavorable leases, net	(20)	(93)
Excess income tax benefit related to share-based compensation plans	(253)	—
Deferred income taxes, net	8,716	9,775
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(607)	24
Inventories	140	225
Prepaid expenses and other current assets	(2,701)	312
Income taxes payable	214	(30)
Other assets	19	84
Accounts payable	(5,889)	257
Accrued salaries and vacation	355	(1,814)
Accrued insurance	(48)	757
Other accrued expenses and liabilities	454	(1,146)
Net cash flows provided by operating activities	21,018	29,817
Cash flows from investing activities:		
Proceeds from sale of restaurant	1,465	—
Proceeds from asset disposition	992	—
Purchase of property and equipment	(14,311)	(8,869)
Net cash flows used in investing activities	(11,854)	(8,869)
Cash flows from financing activities:		
Payments on revolver loan	(6,500)	(30,000)
Proceeds from issuance of common stock, net of expenses	566	4,069
Payment of obligations under capital leases	(88)	(102)
Excess income tax benefit related to share-based compensation plans	253	—
Net cash flows used in financing activities	(5,769)	(26,033)
Increase (Decrease) in cash and cash equivalents	3,395	(5,085)
Cash and cash equivalents, beginning of period	6,101	11,499
Cash and cash equivalents, end of period	$ 9,496	$ 6,414

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

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Twenty-Six Weeks Ended	
Supplemental cash flow information	**June 29, 2016**	**July 1, 2015**
Cash paid during the period for interest	$ 1,567	$ 1,923
Cash paid during the period for income taxes, net	$ 170	$ 30
Unpaid purchases of property and equipment	$ 3,881	$ 1,371
Cashless stock option exercise	$ —	$ (34)

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

EL POLLO LOCO HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

El Pollo Loco Holdings, Inc. (“Holdings”) is a Delaware corporation headquartered in Costa Mesa, California. Holdings and its direct and indirect subsidiaries are collectively known as “we,” “us” or the “Company.” Our activities are conducted principally through our indirect wholly-owned subsidiary, El Pollo Loco, Inc. (“EPL”), which develops, franchises, licenses, and operates quick-service restaurants under the name El Pollo Loco® and operates under one operating segment. At June 29, 2016, we operated 188 and franchised 251 El Pollo Loco restaurants.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations and cash flows for the periods presented. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by GAAP for annual reports. This quarterly report should be read in conjunction with the consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 30, 2015.

The Company uses a 52- or 53-week fiscal year ending on the last Wednesday of the calendar year. In a 52-week fiscal year, each quarter includes 13 weeks of operations; in a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations and the fourth quarter includes 14 weeks of operations. Every six or seven years a 53-week fiscal year occurs. Fiscal 2015 and 2016 are both 52-week years, ending on December 30, 2015, and December 28, 2016, respectively. Revenues, expenses, and other financial and operational figures may be elevated in a 53-week year.

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), guarantee EPL’s 2014 Revolver (see Note 4) 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 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 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.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and revenue and expenses during the 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.

Liquidity

The Company's principal liquidity requirements are to service our debt and to meet capital expenditure needs. At June 29, 2016, the Company's total debt (including capital lease liabilities) was $117.1 million. The Company's ability to make payments on its indebtedness and to fund planned capital expenditures depends on available cash and on its ability to generate adequate cash flows in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond the Company's control. Based on current operations, the Company believes that its cash flow from operations, available cash of $9.5 million at June 29, 2016, and available borrowings under the 2014 Revolver (which availability was approximately $76.3 million at June 29, 2016) will be adequate to meet the Company's liquidity needs for the next 12 months.

Gain on recovery of insurance proceeds

In November 2015, one of the Company's restaurants incurred damage resulting from a fire. During the twenty-six weeks ended June 29, 2016, we incurred costs directly related to the fire of $48,000, disposed of an additional $87,000 of assets and recognized a gain of $889,000 resulting from the receipt from the insurance company of $1,000,000 in cash. In 2015, the Company disposed of $111,000 of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

Recent Accounting Pronouncements

In May 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients. This ASU is intended to clarify two aspects of Topic 606: first, assessing the collectability criterion, options for the presentation of sales and similar taxes, noncash consideration, transition contract modifications, transition contract completion and secondly, technical corrections. The amendments in this update 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 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing. This ASU is intended to clarify two aspects of Topic 606: identifying performance obligations and licensing implementation guidance. The amendments in this update 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 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

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, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods therein (our fiscal year 2017). Early application is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

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. Early adoption is permitted. 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 is currently evaluating the impact of the pending adoption of the new standard on our consolidated financial statements.

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 the Company's fiscal year beginning December 28, 2017 and interim periods within that fiscal year. The impact of this expected adoption of ASU 2016-01 is being evaluated by the Company.

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 new accounting guidance represents a change in accounting principle and the standard is required to be adopted in annual periods beginning after December 15, 2016. After the adoption of this ASU all deferred tax assets and liabilities will be classified as noncurrent on the consolidated balance sheet.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330)." The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting periods beginning after December 15, 2016. The adoption of ASU 2015-11 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). The Company is currently evaluating the impact of the Company's pending adoption of ASU 2014-09 on the Company's financial statements and has not yet determined the method by which it will adopt the standard in fiscal 2018.

In August 2014, the FASB issued ASU No. 2014-15, Going Concern ("ASU 2014-15"). ASU 2014-15 provides GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The standard will be effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. Upon adoption, the Company will use the guidance in ASU 2014-15 to assess going concern.

Subsequent Events

Subsequent to June 29, 2016, the Company opened one new restaurant and made a $3.0 million pre-payment on the 2014 Revolver.

The Company evaluated subsequent events that have occurred after June 29, 2016, and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in the condensed consolidated financial statements.

Concentration of Risk

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

The Company had no suppliers for which amounts due at June 29, 2016 totaled greater than 10% of the Company's accounts payable. As of December 30, 2015, the Company had two different suppliers for which amounts totaled 12% and 11% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 34% for the thirteen weeks ended June 29, 2016, and 37% for the thirteen weeks ended July 1, 2015, of the Company's purchases. Purchases from the Company's largest supplier totaled 34% for the twenty-six weeks ended June 29, 2016, and 37% for the twenty-six weeks ended July 1, 2015, of the Company's purchases. Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 75% and 79% of total revenue for both the thirteen and twenty-six weeks ended June 29, 2016 and July 1, 2015, respectively.

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 historical acquisitions.

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.

The Company did not identify any indicators of potential impairment during the thirteen and twenty-six weeks ended June 29, 2016, and therefore did not perform any impairment review, nor did the Company record any impairment.

Income Taxes

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

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

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

The Company’s policy is to recognize interest and penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at June 29, 2016, or at December 30, 2015, and did not recognize interest or penalties during the thirteen or twenty-six weeks ended June 29, 2016, or July 1, 2015, since there were no material unrecognized tax benefits. Management believes no material changes to the amount of unrecognized tax benefits will occur within the next twelve months.

On July 30, 2014, the Company entered into the TRA. 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.

2. PROPERTY AND EQUIPMENT

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

	June 29, 2016	December 30, 2015
Land	$ 12,323	$ 12,323
Buildings and improvements	116,172	111,349
Other property and equipment	62,152	58,525
Construction in progress	10,627	4,717
	201,274	186,914
Less: accumulated depreciation and amortization	(90,304)	(84,493)
	$ 110,970	$ 102,421

Depreciation expense was $4.0 million and $3.2 million for the thirteen weeks ended June 29, 2016, and July 1, 2015, respectively, and $7.7 million and $6.3 million for the twenty-six weeks ended June 29, 2016 and July 1, 2015, respectively. The gross value of assets under capital leases for buildings and improvements was $1.6 million at June 29, 2016 and December 30, 2015. Accumulated depreciation for assets under capital leases was $1.5 million as of June 29, 2016 and December 30, 2015. For the thirteen weeks ended June 29, 2016, capital expenditures totaled $8.4 million, including $0.1million for restaurant remodeling and $6.3 million for new restaurant expenditures. For the twenty-six weeks ended June 29, 2016, capital expenditures totaled $14.3 million, including $1.6 million for restaurant remodeling and $9.2 million for new restaurant expenditures. Capital expenditures for the quarter and year-to-date periods exclude unpaid purchases of property and equipment.

3. STOCK-BASED COMPENSATION

At June 29, 2016, options to purchase 2,196,859 shares of common stock were outstanding, including 1,626,399 vested and 570,460 unvested. Unvested options vest over time, or upon our achieving annual financial goals. However, upon a change in control, the board may accelerate vesting. At June 29, 2016, 1,611,718 premium options remained outstanding. For the thirteen and twenty-six weeks ended June 29, 2016, there were exercises of stock options for 115,340 shares. For the thirteen and twenty-six weeks ended July 1, 2015, there were exercises of stock options for 825,187 and 844,907 shares, respectively. For the thirteen and twenty-six weeks ended June 29, 2016, 319,798 options were granted at the fair market value on the date of grant. No options were granted in the thirteen and twenty-six weeks ended July 1, 2015.

At June 29, 2016, there were 20,158 unvested restricted shares outstanding. Restricted shares vest over time.

At June 29, 2016, we had total unrecognized compensation expense of $1.7 million, related to unvested stock options and restricted shares, which we expect to recognize over a weighted-average period of 3.2 years.

Total stock-based compensation expense was $128,000 and $139,000 for the thirteen and twenty-six weeks ended June 29, 2016 and $146,000 and $443,000 for the thirteen and twenty-six weeks ended July 1, 2015, respectively.

4. CREDIT AGREEMENTS

On December 11, 2014, the Company refinanced its debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a $200 million five-year senior secured revolving facility (the "2014 Revolver"). The 2014 Revolver includes a sub limit of $15 million for letters of credit and a sub limit of $15 million for swingline loans. At June 29, 2016, $7.2 million of letters of credit were outstanding and $76.3 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 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 2015. The interest rate range was 2.19% to 2.20% and 2.02% to 2.20% for the thirteen and twenty-six weeks ended June 29, 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 June 29, 2016. See Note 1 for restrictions on the payment of dividends under the 2014 Revolver.

Maturities

There are no required principal payments prior to maturity for the 2014 Revolver. During the twenty-six weeks ended June 29, 2016, the Company elected to pay down $6.5 million of outstanding borrowing on our 2014 Revolver, primarily from our cash flow from operations.

5. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

	June 29, 2016	December 30, 2015
Accrued sales and property taxes	$ 3,364	$ 3,480
Income tax receivable agreement payable	4,197	7,609
Gift card liability	1,525	1,810
Other	4,012	3,227
Total other accrued expenses and current liabilities	$ 13,098	$ 16,126

6. OTHER NONCURRENT LIABILITIES

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

	June 29, 2016	December 30, 2015
Deferred rent	$ 7,186	$ 6,611
Income tax receivable agreement payable	37,571	33,930
Other	2,618	2,826
Total other noncurrent liabilities	$ 47,375	$ 43,367

7. COMMITMENTS AND CONTINGENCIES

Legal Matters

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, against EPL 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 have executed a Stipulation of Class Settlement and Release which will be submitted for court approval. Purported class actions alleging wage and hour violations are commonly filed against California employers, and we fully expect to have to defend against similar lawsuits in the future.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016, on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, L.L.C., 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 our menu, which resulted in a decrease in value-conscious store traffic. 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, Holdings' Motion to Dismiss plaintiff's complaint for failure to state a claim. Plaintiffs were granted leave to amend their complaint on or before August 22, 2016. Defendants intend to vigorously 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. 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.

We are also involved in various other claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of these other actions will have a material adverse effect on our 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 our business, 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 into 2017 with an estimated Company obligation totaling $11.5 million as of June 29, 2016.

At June 29, 2016, the Company's total estimated commitment to purchase chicken was $21.6 million.

Contingent Lease Obligations

As a result of assigning the Company's interest in obligations under real estate leases in connection with the sale of Company-operated restaurants to some of the Company's franchisees, the Company is contingently liable on five lease agreements. These leases have various terms, the latest of which expires in 2036. As of June 29, 2016, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was $3.4 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at June 29, 2016 was $2.9 million. The Company's franchisees are primarily liable on the leases. The Company has cross-default provisions with these franchisees that would put them in default of their franchise agreements in the event of non-payment under the leases. The Company believes that these cross-default provisions reduce the risk that payments will be required to be made under these leases. Accordingly, no liability has been recorded in the Company's condensed consolidated financial statements related to these contingent liabilities.

Employment Agreements

The Company has employment agreements with four of the officers of the Company 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 executive 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 executive officers.

8. NET INCOME PER SHARE

Basic net income per share is calculated using the weighted-average number of shares of common stock outstanding during the thirteen and twenty-six weeks ended June 29, 2016, and July 1, 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.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2016	July 1, 2015	June 29, 2016	July 1, 2015
Numerator:				
Net income	$ 7,267	$ 7,230	$ 12,710	$ 14,021
Denominator:				
Weighted-average shares outstanding—basic	38,294,575	37,812,767	38,289,505	37,618,756
Weighted-average shares outstanding—diluted	38,962,802	39,085,206	38,981,610	39,002,974
Net income per share—basic	$ 0.19	$ 0.19	$ 0.33	$ 0.37
Net income per share—diluted	$ 0.19	$ 0.18	$ 0.33	$ 0.36
Anti-dilutive securities not considered in diluted EPS calculation	473,836	—	473,836	—

Below is a reconciliation of basic and diluted share counts.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2016	July 1, 2015	June 29, 2016	July 1, 2015
Weighted-average shares outstanding—basic	38,294,575	37,812,767	38,289,505	37,618,756
Dilutive effect of stock options and restricted shares	668,227	1,272,439	692,105	1,384,218
Weighted-average shares outstanding—diluted	38,962,802	39,085,206	38,981,610	39,002,974

9. RELATED PARTY TRANSACTIONS

Trimaran Pollo Partners, L.L.C. ("LLC"), owns approximately 43.6% 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.

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

Cautionary Statement Concerning Forward-Looking Statements

This discussion and analysis should be read in conjunction with Item 1 above and with the financial statements contained in our annual report on Form 10-K for the year ended December 30, 2015. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Outcomes may differ materially from our expectations. For more information, we direct you to the sections "Risk Factors" and "Forward-Looking Statements" in our annual report. We make no guarantees regarding outcomes, and assume no obligations to update the forward-looking statements herein, except pursuant to law.

Overview

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the limited service restaurant ("LSR") segment. We believe that we 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 that provides 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 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, carnitas, and beef. Our entrees include favorites such as our Chicken Avocado Burrito, Under 500 Calorie entrees, Ultimate Pollo Bowl, Baja Shrimp Tacos and Stuffed Chicken Avocado Quesadilla. Our salsas and dressings 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.

Growth Strategies and Outlook

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

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

As of June 29, 2016, we had 439 locations in five states. In fiscal 2015, we opened fourteen new company-operated and five new franchised restaurants across Arizona, California, Nevada, and Texas. For the quarter ended June 29, 2016, we opened two new company-operated restaurants, in Arizona and Nevada, and three franchised restaurants in California, Utah and Texas and closed one company-operated and one franchised restaurant in California. In 2016, we intend to open 17 to 20 new company-operated and 10 to 15 new franchised restaurants in Arizona, California, Nevada, Utah and Texas. Over the long term, we plan to grow the number of El Pollo Loco restaurants by 8% to 10% annually. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend. We believe that we are well-positioned for future growth, with a developed corporate infrastructure capable of supporting a future restaurant base that is greater than our existing one. Additionally, we believe that we have an opportunity to optimize costs and enhance our profitability as we benefit from economies of scale. These growth rates are not guaranteed.

Highlights and Trends

Comparable Restaurant Sales

System-wide, for the quarter ended June 29, 2016, comparable restaurant sales increased 2.4%. For company-operated restaurants, comparable restaurant sales, for the quarter, increased by 2.0%. For company-operated restaurants, the quarter's comparable restaurant sales consisted of a 2.7% increase in traffic, offset by a 0.7% decrease in average check size year over year. For franchised restaurants, comparable restaurant sales increased 2.7%.

Restaurant Development

Our restaurant counts at the beginning and end of each of the last three fiscal years and the twenty-six weeks ended June 29, 2016, were as follows.

	Twenty-Six Weeks Ended	Fiscal Year Ended		
	June 29, 2016	2015	2014	2013
Company-operated restaurant activity:				
Beginning of period	186	172	168	169
Openings	5	14	11	2
Restaurant sale to franchisee	(1)	—	(6)	—
Closures	(2)	—	(1)	(3)
Restaurants at end of period	188	186	172	168
Franchised restaurant activity:				
Beginning of period	247	243	233	229
Openings	4	5	5	5
Restaurant sale to franchisee	1	—	6	—
Closures	(1)	(1)	(1)	(1)
Restaurants at end of period	251	247	243	233
System-wide restaurant activity:				
Beginning of period	433	415	401	398
Openings	9	19	16	7
Closures	(3)	(1)	(2)	(4)
Restaurants at end of period	439	433	415	401

Restaurant Remodeling

We and our franchisees commenced our remodeling program in 2011 and, as of June 29, 2016, together we had remodeled 106 company-operated and 178 franchised restaurants, or 284 system-wide, over 70% of our restaurant system. Remodeling is a use of cash and has implications for our net property and depreciation line items on our condensed consolidated balance sheets and statements of operations, among others. The cost of our restaurant remodels varies depending on the scope of work required, but on average the investment is $270,000 per restaurant. We believe that our remodeling program will result in higher restaurant revenue and a strengthened brand.

Gain on recovery of insurance proceeds

In November 2015, one of the Company's restaurants incurred damage resulting from a fire. During the twenty-six weeks ended June 29, 2016, we incurred costs directly related to the fire of $48,000, disposed of an additional $87,000 of assets and recognized a gain of $889,000 resulting from the receipt from the insurance company of $1,000,000 in cash. In 2015, the Company disposed of $111,000 of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

Critical Accounting Policies and Use of Estimates

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

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. Management believes that the critical accounting policies and estimates discussed below involve the most difficult management judgments, due to the sensitivity of the methods and assumptions used. For a summary of our critical accounting policies and a discussion of our use of estimates, see “Critical Accounting Policies and Use of Estimates” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K for the year ended December 30, 2015, and Note 2, “Summary of Significant Accounting Policies,” to Item 8, “Financial Statements and Supplementary Data,” in our annual report. For a summary of our significant accounting policies and a discussion of our use of estimates, see also Note 1 to Item 1 above.

There have been no material changes to our critical accounting policies or uses of estimates since our annual report on Form 10-K.

Recent Accounting Pronouncements

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients. This ASU is intended to clarify two aspects of Topic 606: first, assessing the collectability criterion, options for the presentation of sales and similar taxes, noncash consideration, transition contract modifications, transition contract completion and secondly, technical corrections. The amendments in this update 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 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing. This ASU is intended to clarify two aspects of Topic 606: identifying performance obligations and licensing implementation guidance. The amendments in this update 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 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

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, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods therein (our fiscal year 2018). Early application is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

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. Early adoption is permitted. 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 is currently evaluating the impact of the pending adoption of the new standard on our consolidated financial statements.

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 the Company's fiscal year beginning December 28, 2017 and interim periods within that fiscal year. The impact of this expected adoption of ASU 2016-01 is being evaluated by the Company.

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 new accounting guidance represents a change in accounting principle and the standard is required to be adopted in annual periods beginning after December 15,

2016. After the adoption of this ASU all deferred tax assets and liabilities will be classified as noncurrent on the consolidated balance sheet.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330)." The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting periods beginning after December 15, 2016. The adoption of ASU 2015-11 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). The Company is currently evaluating the impact of the Company's pending adoption of ASU 2014-09 on the Company's financial statements and has not yet determined the method by which it will adopt the standard in fiscal 2018.

In August 2014, the FASB issued ASU No. 2014-15, Going Concern ("ASU 2014-15"). ASU 2014-15 provides GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The standard will be effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. Upon adoption the Company will use the guidance in ASU 2014-15 to assess going concern.

JOBS Act

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

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

Key Financial Definitions

Revenue

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

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.

Key Performance Indicators

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

Company-Operated Restaurant Revenue

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

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

Comparable Restaurant Sales

Comparable restaurant sales reflect year-over-year sales changes for comparable company-operated, franchised, and system-wide restaurants. A restaurant enters our comparable restaurant base the first full week after it has operated for fifteen months. Comparable restaurant sales exclude restaurants closed during the applicable period. At June 29, 2016 and July 1, 2015, there were 408 and 396 comparable restaurants, 170 and 159 company-operated and 238 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 average unit volumes (“AUVs”) on both a weekly and an annual basis. Weekly AUVs consist of comparable restaurant sales over a seven-day period from Thursday to Wednesday. Annual AUVs are calculated using the following methodology: First, we divide our total net sales for all company-operated restaurants for the fiscal year by the total number of restaurant operating weeks during the same period. Second, we annualize that average weekly per-restaurant sales figure by multiplying it by 52. An operating week is defined as a restaurant open for business over a seven-day period from Thursday to Wednesday. This measurement allows management to assess changes in consumer spending patterns at our restaurants and the overall performance of our restaurant base.

Restaurant Contribution and Restaurant Contribution Margin

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(Dollar amounts in thousands)	**June 29, 2016**	**July 1, 2015**	**June 29, 2016**	**July 1, 2015**
Company-operated restaurant revenue	$ 90,877	$ 83,575	$ 179,246	$ 168,308
Company restaurant expenses	70,889	65,532	140,998	131,373
Restaurant contribution	$ 19,988	$ 18,043	$ 38,248	$ 36,935
Restaurant contribution margin (%)	22.0%	21.6%	21.3%	21.9%

New Restaurant Openings

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

EBITDA and Adjusted EBITDA

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

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

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

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

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

(Amounts in thousands)	Thirteen Weeks Ended June 29, 2016	Thirteen Weeks Ended July 1, 2015	Twenty-Six Weeks Ended June 29, 2016	Twenty-Six Weeks Ended July 1, 2015
Net income	**$ 7,267**	**$ 7,230**	**$ 12,710**	**$ 14,021**
Non-GAAP adjustments:				
Provision for income taxes	5,339	5,062	9,100	9,776
Interest expense, net	830	1,014	1,656	2,225
Depreciation and amortization	3,964	3,200	7,722	6,346
EBITDA	**$ 17,400**	**$ 16,506**	**$ 31,188**	**$ 32,368**
Stock-based compensation expense(a)	128	146	139	443
Loss on disposal of assets(b)(c)	267	85	466	166
Expenses related to fire loss(c)	—	—	48	—
Gain on recovery of insurance proceeds(c)	(600)	—	(889)	—
Asset impairment and close-store reserves(d)	60	(190)	134	(139)
Gain on disposition of restaurants(e)	(33)	—	(33)	—
Expenses related to selling shareholders(f)	—	50	—	50
Income tax receivable agreement (income) expense(g)	(35)	226	229	477
Securities class action legal expense(h)	340	—	1,808	—
Pre-opening costs(i)	376	164	857	219
Adjusted EBITDA	**$ 17,903**	**$ 16,987**	**$ 33,947**	**$ 33,584**

(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. During the twenty-six weeks ended June 29, 2016, we incurred costs directly related to the fire of $48,000 and recognized a gain of $889,000 resulting from the receipt from the insurance company of $1,000,000 in cash.

(d) Includes costs related to impairment of long-lived assets and closing restaurants.

(e) 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 $33,000, which is recorded as a gain on disposition of restaurants in the accompanying consolidated statement of operations. This restaurant is now included in our franchised restaurant totals.

(f) Includes 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.

(g) On July 30, 2014, we entered into the TRA. This agreement calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the thirteen and twenty-six weeks ended June 29, 2016, income tax receivable agreement expense consisted of the amortization of interest expense and changes in estimates for actual tax returns filed, related to our total expected TRA payments.

(h) Consists of costs related to a securities class action lawsuit. See the Notes to the Condensed Consolidated Financial Statements, Note 7 Commitments and Contingencies, Legal Matters.

(i) 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.

Comparison of Results of Operations for the Thirteen Weeks Ended June 29, 2016 and July 1, 2015

Our operating results for the thirteen weeks ended June 29, 2016, and July 1, 2015, in absolute terms, and expressed as percentages of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below.

	Thirteen Weeks Ended					
	June 29, 2016		July 1, 2015		Increase / (Decrease)	
Statement of Operations Data	($,000)	(%)	($,000)	(%)	($,000)	(%)
Company-operated restaurant revenue	$ 90,877	93.2	$ 83,575	93.4	$ 7,302	8.7
Franchise revenue	6,597	6.8	5,879	6.6	718	12.2
Total revenue	**97,474**	**100.0**	**89,454**	**100.0**	**8,020**	**9.0**
Cost of operations						
Food and paper costs(1)	27,032	29.7	27,055	32.4	(23)	(0.1)
Labor and related expenses(1)	24,361	26.8	21,089	25.2	3,272	15.5
Occupancy and other operating expenses(1)	19,496	21.5	17,388	20.8	2,108	12.1
Company restaurant expenses(1)	**70,889**	**78.0**	**65,532**	**78.4**	**5,357**	**8.2**
General and administrative expenses	8,287	8.5	6,405	7.2	1,882	29.4
Franchise expenses	1,239	1.3	840	0.9	399	47.5
Depreciation and amortization	3,964	4.1	3,200	3.6	764	23.9
Loss on disposal of assets	267	0.3	85	0.1	182	214.1
Expenses related to fire loss	—	—	—	—	—	—
Gain on recovery of insurance proceeds	(600)	(0.6)	—	—	(600)	—
Asset impairment and close-store reserves	60	0.1	(190)	(0.2)	250	(131.6)
Total expenses	**84,106**	**86.3**	**75,872**	**84.8**	**8,234**	**10.9**
Gain on disposition of restaurants	**33**	—	—	—	33	—
Income from operations	**13,401**	**13.7**	**13,582**	**15.2**	**(181)**	**(1.3)**
Interest expense, net	830	0.9	1,014	1.1	(184)	(18.1)
Expenses related to selling shareholders	—	—	50	0.1	(50)	(100)
Income tax receivable agreement (income) expense	(35)	—	226	0.3	(261)	(115.5)
Income before provision for income taxes	**12,606**	**12.9**	**12,292**	**13.7**	**314**	**2.6**
Provision for income taxes	5,339	5.5	5,062	5.7	277	5.5
Net income	**$ 7,267**	**7.5**	**$ 7,230**	**8.1**	**$ 37**	**0.5**

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

Our operating results for the twenty-six weeks ended June 29, 2016, and July 1, 2015, in absolute terms, and expressed as percentages of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below.

	Twenty-Six Weeks Ended					
	June 29, 2016		July 1, 2015		Increase / (Decrease)	
Statement of Operations Data	**($,000)**	**(%)**	**($,000)**	**(%)**	**($,000)**	**(%)**
Company-operated restaurant revenue	$ 179,246	93.4	$ 168,308	93.6	$ 10,938	6.5
Franchise revenue	12,582	6.6	11,572	6.4	1,010	8.7
Total revenue	**191,828**	**100.0**	**179,880**	**100.0**	**11,948**	**6.6**
Cost of operations						
Food and paper costs(1)	53,800	30.0	54,178	32.2	(378)	(0.7)
Labor and related expenses(1)	48,868	27.3	42,671	25.4	6,197	14.5
Occupancy and other operating expenses(1)	38,330	21.4	34,524	20.5	3,806	11.0
Company restaurant expenses(1)	**140,998**	**78.7**	**131,373**	**78.1**	**9,625**	**7.3**
General and administrative expenses	17,524	9.1	13,890	7.7	3,634	26.2
Franchise expenses	2,163	1.1	1,695	0.9	468	27.6
Depreciation and amortization	7,722	4.0	6,346	3.5	1,376	21.7
Loss on disposal of assets	466	0.2	166	0.1	300	180.7
Expenses related to fire loss	48	0.0	—	—	48	100.0
Gain on recovery of insurance proceeds	(889)	(0.5)	—	—	(889)	100.0
Asset impairment and close-store reserves	134	0.1	(139)	(0.1)	273	(196.4)
Total expenses	**168,166**	**87.7**	**153,331**	**85.2**	**14,835**	**9.7**
Gain on sale of restaurants	33	—	—	—	33	100.0
Income from operations	**23,695**	**12.4**	**26,549**	**14.8**	**(2,854)**	**(10.7)**
Interest expense, net	1,656	0.9	2,225	1.2	(569)	(25.6)
Expenses related to selling shareholders	—	0.0	50	—	(50)	100.0
Income tax receivable agreement expense	229	0.1	477	0.3	(248)	(52.0)
Income before provision for income taxes	**21,810**	**11.4**	**23,797**	**13.2**	**(1,987)**	**(8.3)**
Provision for income taxes	9,100	4.7	9,776	5.4	(676)	(6.9)
Net income	**$ 12,710**	**6.6**	**$ 14,021**	**7.8**	**$ (1,311)**	**(9.4)**

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

Company-Operated Restaurant Revenue

For the quarter, company-operated restaurant revenue increased $7.3 million, or 8.7%, from the comparable period in the prior year. The growth in company-operated restaurant sales was due to $6.6 million of additional non-comparable restaurant sales primarily from thirteen new restaurants opened after the thirteen weeks ended April 1, 2015, and five new restaurants opened during the twenty-six weeks ended June 29, 2016 and a $1.6 million increase resulting from a 2.0% increase in company-operated comparable restaurant sales. These increases were partially offset by two units closed and one unit sold to a franchisee in fiscal 2016. The company-operated comparable restaurant sales increase consisted of an increase in traffic of 2.7%, offset by a decrease in average check size of 0.7%.

Year-to-date, company-operated restaurant revenue increased $10.9 million, or 6.5%, from the comparable period in the prior year. The growth in company-operated comparable restaurant sales was due to $11.1 million of additional non-comparable restaurant sales primarily from fourteen new restaurants opened in fiscal 2015 and five new restaurants opened during the twenty-six weeks ended June 29, 2016. Company-operated comparable restaurant sales grew $1.1 million, or 0.7%. These increases were partially offset by two units closed and one unit sold to a franchisee in fiscal 2016. The growth in company-operated comparable restaurant sales was due to an increase in traffic of 0.9%, partially offset by a decrease in average check size of 0.2% year-over-year.

Franchise Revenue

For the quarter, franchise revenue increased $0.7 million, or 12.2%, from the comparable period in the prior year. This increase was due to a $0.3 million increase in royalties from franchised comparable restaurant sales growth of 2.7% and five new franchised restaurants opened in fiscal 2015 and four new restaurants opened in the twenty-six weeks ended June 29, 2016, and a $0.4 million increase in franchise revenue related to our point-of-sales system.

Year-to-date, franchise revenue increased $1.0 million, or 8.7%, from the comparable period in the prior year. This increase was due to a $0.7 million increase in royalties from franchised comparable restaurant sales growth of 2.2% and the new franchise-operated restaurants opened in fiscal 2015 and 2016 and an increase in revenue related to our point-of-sales system.

Food and Paper Costs

For the quarter, food and paper costs were flat to the comparable period in the prior year, due to a $0.2 million decrease in food costs offset by a $0.2 million increase in paper costs. Year-to-date, food and paper costs decreased $0.4 million, or 0.7%, from the comparable period in the prior year, due to a $0.5 million decrease in food costs and a $0.1 million increase in paper costs. The decrease in food costs, for the quarter and year-to-date periods, resulted primarily from lower commodity costs related to chicken, partially offset by higher restaurant revenue.

For the quarter, food and paper costs as a percentage of company-operated restaurant revenue were 29.7%, from 32.4% in the comparable period of the prior year. Year-to-date, food and paper costs as a percentage of company-operated restaurant revenue were 30.0%, from 32.2% in the comparable period of the prior year. The percentage decrease for the quarter and year-to-date periods was due primarily to the lower commodity costs, noted above, and favorability in our promotional calendar.

Labor and Related Expenses

For the quarter, payroll and benefit expenses increased $3.3 million, or 15.5%, from the comparable period in the prior year. Year-to-date, payroll and benefit expenses increased $6.2 million, or 14.5%, from the comparable period in the prior year. The quarter and year-to-date increases were due primarily to increased labor costs resulting from the opening of the new restaurants in fiscal 2015 and five new restaurants during the twenty-six weeks ended June 29, 2016, and the impact of the California minimum wage increase to $10.00 per hour in January 2016. These increases were partially offset by lower worker's compensation costs due to lower claims activity.

For the quarter, payroll and benefit expenses as a percentage of company-operated restaurant revenue were 26.8%, from 25.2% in the comparable period in the prior year. Year-to-date, payroll and benefit expenses as a percentage of company-operated restaurant revenue were 27.3%, from 25.4% in the comparable period in the prior year. The percentage increases, for the quarter and year-to-date periods, were due primarily to the increase in the labor costs noted above and the impact of the incremental labor required for 11 new restaurants opened in the fourth quarter of 2015 and five new restaurants opened in the twenty-six weeks ended June 29, 2016, partially offset by the lower worker's compensation expense.

Occupancy and Other Operating Expenses

For the quarter, occupancy and other operating expenses increased $2.1 million, or 12.1%, from the comparable period of the prior year. Year-to-date, occupancy and other operating expenses increased $3.8 million, or 11.0%, from the comparable period of the prior year. The increases for the quarter and year-to-date periods were due primarily to a $0.8 million and $1.6 million, respective increase in occupancy costs, due primarily to additional rent, as a result of new restaurants opened in fiscal 2015 and the twenty-six weeks ended June 29, 2016 and a $1.3 million and $2.2 million, respective increase in other operating expenses, also resulting primarily from the new restaurants opened in 2015 and 2016.

For the quarter, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 21.5%, from 20.8% in the comparable period of the prior year. Year-to-date, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 21.4%, from 20.5% in the comparable period of the prior year. This increase resulted primarily from (i) rent expense on new restaurant leases and the renewal of leases on our existing restaurants and the accounting treatment to straight line the rental increases over the lease term, (ii) the temporary closure of one unit due to a fire and (iii) incremental costs related to opening new restaurants in the fourth quarter of 2015 and the twenty-six weeks ended June 29, 2016.

General and Administrative Expenses

For the quarter, general and administrative expenses increased $1.9 million, or 29.4%, from the comparable period in the prior year. Year-to-date, general and administrative expenses increased $3.6 million, or 26.2%, from the comparable period in the prior year. The increases for the quarter and year-to-date periods were due primarily to (i) a $0.7 million and $0.8 million, respective increase in payroll expense, due primarily to an increase in corporate employees, and a higher accrual related to the company's annual bonus program and severance costs, (ii) a $0.3 million and $1.8 million, respective increase in legal expense related to the securities class action litigation, (iii) a $0.2 million and $0.6 million, respective increase in restaurant pre-opening costs, (iv) a $0.4 million and $0.8 million, respective increase in travel and other professional fees and (v) a $0.3 million and $0.3 million, respective increase in dead site costs due to legal costs related to new restaurant locations that the Company chose not to continue to pursue. For the year-to-date period, these increases were partially offset by the capitalization of internal costs related to site selection and construction activities and lower stock option related expenses.

For the quarter, general and administrative expenses as a percentage of total revenue were 8.5%, from 7.2% in the comparable period of the prior year. Year-to-date, general and administrative expenses as a percentage of total revenue were 9.1%, from 7.7% in the comparable period of the prior year. The percentage increases for the quarter and year-to-date periods were due primarily to (i) a 0.3% and 0.9%, respective increase in legal expense related to the securities class action litigation, (ii) a 0.2% and 0.3%, respective increase in restaurant pre-opening costs and (iii) the increase in other general and administrative costs, noted above. These increases were partially offset by higher restaurant revenue for the quarter and year-to-date periods.

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 $33,000, which is recorded as a gain on disposition of restaurants in the accompanying consolidated statement of operations. This restaurant is now included in our franchised restaurant totals.

Interest Expense, Net

For the quarter, interest expense, net, decreased $0.2 million from the comparable period of the prior year. Year-to-date, interest expense, net, deceased $0.6 million from the comparable period of the prior year. These decreases were due primarily to pre-payments on the 2014 Revolver reducing our outstanding balance to $116.5 million as of June 29, 2016 compared to an outstanding balance of $135.0 million as of July 1, 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

On July 30, 2014, we entered into the TRA. The TRA calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the quarter and year-to-date periods ended June 29, 2016, we recorded income tax receivable agreement income of $35,000 and expense of $229,000, respectively, for the amortization of interest expense related to our total expected TRA payments and changes in estimates for actual tax returns filed.

Provision for Income Taxes

For the quarter and year-to-date periods ended June 29, 2016, we recorded an income tax provision of $5.3 million and $9.1 million, respectively, reflecting an estimated effective tax rate of 42.4% and 41.7%, respectively. For the quarter and year-to-date periods ended July 1, 2015, we recorded an income tax provision of $5.1 million and $9.8 million, respectively, reflecting an estimated effective tax rate of approximately 41%. The quarter and year-to-date periods ended June 29, 2016, reflect the impact of a partial valuation allowance against various tax credits the Company may not be able to realize the benefit of.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources have been cash provided from operations, cash and cash equivalents, and our secured revolving credit facility. Our primary requirements for liquidity and capital are new restaurants, existing restaurant capital investments (remodels and maintenance), interest payments on our debt, lease obligations, and working capital and general corporate needs. Our working capital requirements are not significant, since our customers pay for their purchases in cash or by payment card (credit or debit) at the time of sale. Thus, we are able to sell many of our inventory items before we have to pay our suppliers for them. Our restaurants do not require significant inventories or receivables. We believe that these sources of liquidity and capital are sufficient to finance our continued operations and expansion plans for at least the next 12 months.

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

	Twenty-Six Weeks Ended	
(Amounts in thousands)	June 29, 2016	July 1, 2015
Net cash provided (used) by		
Operating activities	$ 21,018	$ 29,817
Investing activities	(11,854)	(8,869)
Financing activities	(5,769)	(26,033)
Net increase (decrease) in cash	$ 3,395	$ (5,085)

Operating Activities

For the twenty-six weeks ended June 29, 2016, net cash provided by operating activities decreased by $8.8 million from the comparable period of the prior year. This was due primarily to the timing of payments related to advertising, legal payments related to the securities class action litigation and the cash payment of certain annual insurance premiums in 2016 versus financing these insurance costs in 2015. These increases were partially offset by lower interest payments, resulting primarily from lower debt balances.

Investing Activities

For the twenty-six weeks ended June 29, 2016, net cash used by investing activities increased by $3.0 million from the comparable period of the prior year. This was due primarily to opening five new company restaurants in the twenty-six weeks ended June 29, 2016 compared to two new restaurants opened in the twenty-six weeks ended July 1, 2015.

For the year ending December 28, 2016, we expect to incur capital expenditures of $35 million to $39 million, consisting of $25 to $29 million related to new restaurants, $4 million related to the remodeling of existing restaurants, and $6 million related to maintenance and other corporate capital expenditures.

Financing Activities

For the twenty-six weeks ended June 29, 2016, net cash used by financing activities decreased by $20.3 million from the comparable period of the prior year. This was due primarily to the pre-payment of $6.5 million on the 2014 Revolver during the twenty-six weeks ended June 29, 2016 compared to a pre-payment of $30.0 million for the twenty-six weeks ended July 1, 2015 and the receipt of $4.1 million related to the exercise of stock options in the twenty-six weeks ended July 1, 2015.

Debt and Other Obligations

New 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 million for letters of credit and a sub limit of $15 million for swingline loans. At June 29, 2016, $7.2 million of letters of credit were outstanding and $76.3 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 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 2015. The interest rate range was 2.19% to 2.20% and 2.02% to 2.20% for the thirteen and twenty-six weeks ended June 29, 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 June 29, 2016.

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 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 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 million, with a cap rate of 3.00% based on 1 month USD LIBOR, which terminated on December 1, 2015. The second interest rate cap is for a notional amount of $120 million, with a cap rate of 3.00% based on 1 month USD LIBOR, terminating on December 1, 2016. As of June 29, 2016 and December 30, 2015, the amounts included in other assets in our condensed consolidated balance sheets, related to these interest rate caps, were not material to our financial position or results of operations.

Contractual Obligations

The Company entered into new chicken purchasing contracts in the first quarter of 2016 with terms ranging from twelve to twenty-four months, resulting in an estimated commitment to purchase chicken of $21.6 million at June 29, 2016.

With the exception noted above, our contractual commitments outstanding on June 29, 2016, have not changed materially since our annual report on Form 10-K for the year ended December 30, 2015. These relate to future (i) debt payments, including expected interest expense, calculated based on current interest rates, (ii) restaurant operating lease payments, (iii) income tax receivable agreement payments, and (iv) purchasing commitments for chicken and beverage.

Off-Balance Sheet and Other Arrangements

As of June 29, 2016, we were using $7.2 million of borrowing capacity on the 2014 Revolver for letters of credit in support of our insurance programs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to market risk from changes in the interest rate on our debt, which bears interest at USD LIBOR plus a margin between 1.75% and 2.50%. As of June 29, 2016, we had outstanding borrowings of $117.1 million and another $7.2 million of letters of credit in support of our insurance programs. A 1.00% increase in the effective interest rate applied to these borrowings would result in a pre-tax interest expense increase of $1.2 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, we entered into two interest rate caps as discussed above under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Other Obligations—Hedging Arrangements."

Inflation

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

For more information about labor costs, see Part II, Item 1A, “Risk Factors—If we or our franchisees face labor shortages or increased labor costs, our results of operations and growth could be adversely affected.”

Commodity Price Risk

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

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

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

Changes in Internal Control over Financial Reporting

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, against EPL 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 have executed a Stipulation of Class Settlement and Release which will be submitted for court approval. Purported class actions alleging wage and hour violations are commonly filed against California employers, and we fully expect to have to defend against similar lawsuits in the future.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016, on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, L.L.C., 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 our menu, which resulted in a decrease in value-conscious store traffic. 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, Holdings' Motion to Dismiss plaintiff's complaint for failure to state a claim. Plaintiffs were granted leave to amend their complaint on or before August 22, 2016. Defendants intend to vigorously 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. 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.

We are also involved in various other claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of these other actions will have a material adverse effect on our 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 our business, financial condition, results of operations, and cash flows.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 30, 2015, except for the risk factor that follows, which is revised and restated in its entirety.

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, 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 federal minimum wage has been $7.25 per hour since July 24, 2009.

Since January 1, 2016, the State of California (where most of our restaurants are located) has had a minimum wage of $10.00 per hour. From January 1, 2008, to June 30, 2014, it had been $8.00 per hour, and from July 1, 2014, to December 31, 2015, it had been $9.00 per hour. It is scheduled to rise to (i) $10.50 per hour on January 1, 2017, (ii) $11.00 per hour on January 1, 2018, (iii) $12.00 per hour on January 1, 2019, (iv) $13.00 per hour on January 1, 2020, (v) $14.00 per hour on January 1, 2021, and (vi) $15.00 per hour on January 1, 2022, subject, in each case (except for the increase to $10.50 per hour), 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:

On June 10, 2015, the Council of the City of Los Angeles passed an ordinance, which on June 13, 2015, was approved by the mayor, raising the minimum wage on the following schedule: (i) from July 1, 2016, $10.50, (ii) from July 1, 2017, $12.00, (iii) from July 1, 2018, $13.25, (iv) from July 1, 2019, $14.25, (v) from July 1, 2020, $15.00, and (vi) 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 2015, approximately 80% of our revenue came from company-operated and franchised restaurants in the greater Los Angeles area, including 12% from the City of Los Angeles, 43% 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.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Index

Number	Description
10.26*+	Employment Agreement between John Dawson and El Pollo Loco
10.27*	Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan (Time Vesting Only)
31.1	Certification of Principal Executive Officer under section 302 of the Sarbanes–Oxley Act of 2002
31.2	Certification of Principal Financial Officer under section 302 of the Sarbanes–Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. section 1350, adopted by section 906 of the Sarbanes–Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

** 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.

\+ Filed as Exhibit 10.26 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2016, filed on May 6, 2016, and incorporated herein by reference thereto.

SIGNATURES

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

	El Pollo Loco Holdings, Inc. (Registrant)
August 4, 2016 Date	/s/ Stephen J. Sather Stephen J. Sather President and Chief Executive Officer
August 4, 2016 Date	/s/ Laurance Roberts Laurance Roberts Chief Financial Officer

Exhibit 10.27

Initial FMV Options—Time Vesting Only
US Employees Only

EL POLLO LOCO HOLDINGS, INC.
2014 OMNIBUS EQUITY INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

THIS AWARD AGREEMENT (this "**Award Agreement**"), is made effective as of *[______ __]*, 2016 (the "**Date of Grant**"), by and between El Pollo Loco Holdings, Inc., a Delaware corporation (the "**Company**"), and _____________(the "**Participant**"):

R E C I T A L S:

WHEREAS, the Company has adopted the El Pollo Loco Holdings, Inc. 2014 Omnibus Equity Incentive Plan (the "**Plan**"), which Plan is incorporated herein by reference and made a part of this Award Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its stockholders to grant the Option provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of the Option. The Company hereby grants to the Participant the right and option (the "**Option**") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of [___________] shares of Common Stock (each a "**Share**" and collectively, the "**Shares**"). The purchase price of the Shares subject to the Option shall be equal to **$[____]** per Share as of the Date of Grant (the "**Option Price**"). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Code.

2. Vesting. The Option granted hereunder shall vest and become exercisable with the passage of time. The Option shall vest and become exercisable in four (4) equal installments on each of the first four (4) anniversaries of the Date of Grant. Any portion of the Option which has become vested and exercisable in accordance with this section shall hereinafter be referred to as the "**Vested Portion**."

3. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Award Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

(i) the tenth (10^{th}) anniversary of the Date of Grant; or

(ii) ninety (90) days following the date of the Participant's termination of employment for any reason other than for Cause or due to the Participant's death or Disability; or

(iii) six (6) months following the date of the Participant's termination of employment due to the Participant's death or Disability.

The entire Option (whether vested or unvested) held by a Participant immediately prior to the cessation of the Participant's employment shall immediately terminate upon such cessation if such cessation of employment was for Cause.

(b) Method of Exercise.

(i) Each election to exercise the Vested Portion shall be subject to the terms and conditions of the Plan and shall be in writing, signed by the Participant or by his or her executor, administrator, or permitted transferee (subject to any restrictions provided under the Plan), made pursuant to and in accordance with the terms and conditions set forth in the Plan and received by the Company at its principal offices, accompanied by payment in full as provided in the Plan or in this Award Agreement.

(ii) The Option Price may be paid by (A) the delivery of cash or check acceptable to the Administrator, including an amount to cover the minimum statutory withholding taxes with respect to such exercise, or (B) any other method, if any, approved by the Administrator, including (X by means of consideration received under any cashless exercise procedure, if any, approved by the Administrator (including the withholding of Shares otherwise issuable upon exercise) or (Y) any other form of consideration approved by the Administrator and permitted by Applicable Laws.

(c) Notwithstanding any of the foregoing, the Company shall have the right to specify all conditions of the manner of exercise, which conditions may vary by country and which may be subject to change from time to time. Upon the Company's determination that the Vested Portion of the Option has been validly exercised as to any of the Shares, the Company may issue certificates in the Participant's name for such Shares. However, the Company shall not be liable to the Participant for damages relating to any reasonable delays in issuing the certificates to such Participant, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves which it promptly undertakes to correct.

(d) In the event of the Participant's death, the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Award Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 3(a). Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions hereof.

4. Termination of Employment.

(a) General. If the Participant's employment is terminated for any reason, the Option shall, to the extent not then vested, terminate upon such termination of employment and the Vested Portion of the Option shall remain exercisable for the period set forth in Section 3(a) and shall thereafter terminate.

(b) For Cause. The Option (including any Vested Portion thereof) shall terminate immediately upon the Participant's termination of employment for Cause.

5. Conditions to Issuance of Stock Certificates. The Shares deliverable upon the exercise of the Option, or any portion thereof, may be either previously authorized but unissued Shares, treasury Shares or issued Shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable.

6. No Right to Continued Employment. The granting of the Option evidenced hereby and this Award Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Participant.

7. Legend on Certificates. The certificates representing the Shares purchased by exercise of the Vested Portion shall be subject to such stop transfer orders and other restrictions as the Administrator reasonably deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws, and the Administrator may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

8. Transferability.

(a) The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance in contravention of the foregoing shall be void and unenforceable against the Company or any Affiliate; provided, that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Vested Option is exercisable only by the Participant.

(b) The Option shall not be liable for the debts, contracts or engagements of the Participant or the Participant's successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) unless and until the Option has been exercised, and any attempted disposition thereof prior to exercise shall be null and void and of no effect, except to the extent that such disposition is permitted by Section 8(a) hereof.

9. Withholding. Subject to Section 3(b)(ii), the Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Option or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option or the Plan and to take

such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

10. Securities Laws. The issuance of any Shares hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations.

11. Notices. Any notice necessary under this Award Agreement shall be addressed to the Company in care of its Vice President, Legal at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

12. Governing Law/Jurisdiction. This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed therein. Any suit, action or proceeding with respect to this Agreement, or any judgment entered by any court in respect of any thereof, shall be brought in any court of competent jurisdiction in the State of Delaware, and the Company and the Participant hereby submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment. The Participant and the Company hereby irrevocably waive (i) any objections which it may now or hereafter have to the laying of the venue of any suit, action or proceeding arising out of or relating to this Agreement brought in any court of competent jurisdiction in the State of Delaware, (ii) any claim that any such suit, action or proceeding brought in any such court has been brought in any inconvenient forum and (iii) any right to a jury trial.

13. Option Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan as set forth on Exhibit A hereto. The Option is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

14. Section 409A. It is intended that the terms of this Agreement be exempt from or comply with Section 409A of the Code. If it is determined that the terms of this Agreement have been structured in a manner that would result in adverse tax treatment under Section 409A of the Code, the parties agree to cooperate in taking all reasonable measures to restructure the arrangement to minimize or avoid such adverse tax treatment without materially impairing Participant's economic rights.

15. Signature in 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.

16. Amendments and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended, altered or terminated at any time or from time

to time by the Administrator or the Board, but no amendment, alteration or termination shall be made that would materially impair the rights of an Participant under the Option without such Participant's consent.

17. Entire Agreement The Plan and this Agreement (including all Exhibits thereto, if any) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof.

18. Electronic Signature; Electronic Delivery and Acceptance. The Participant's electronic signature of this Agreement shall have the same validity and effect as a signature affixed by hand. The Company may, in its sole discretion, decide to deliver any documents related to the Participant's current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

19. Waiver. The Participant acknowledges that a waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by the Participant.

20. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

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

EL POLLO LOCO HOLDINGS, INC.

____
Name:
Title:

PARTICIPANT

____

EXHIBIT A

El Pollo Loco Holdings, Inc. 2014 Omnibus Equity Incentive Plan

Exhibit 31.1

CERTIFICATIONS

I, Stephen J. Sather, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2016

/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 quarterly report on Form 10-Q of El Pollo Loco Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2016

/s/ Laurance Roberts
Laurance Roberts
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

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

Date: August 4, 2016

/s/ Stephen J. Sather
Stephen J. Sather
President and Chief Executive Officer

/s/ Laurance Roberts
Laurance Roberts
Chief Financial Officer