# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

## FORM 10-K

**(Mark one)**

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

**For the fiscal year ended December 28, 2022**

**or**

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

**For the transition period from to**

**Commission file number 001-36556**

# EL POLLO LOCO HOLDINGS, INC.

**(Exact name of registrant as specified in its charter)**

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

**(714) 599-5000**

**Registrant's telephone number, including area code**

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

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

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

**None**
**(Title of class)**

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of June 29, 2022, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common equity held by non-affiliates was approximately $193 million, deeming purely for purposes of this calculation all directors and executive officers and Trimaran Pollo Partners, L.L.C. to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of March 3, 2023, there were 36,705,173 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III hereof incorporates by reference certain portions of the registrant's definitive proxy statement for its 2023 annual meeting of stockholders to be filed not later than 120 days after the end of the registrant's 2022 fiscal year.

## TABLE OF CONTENTS

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements because they do not relate strictly to historical or current facts. These statements may include words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “outlook,” “potential,” “project,” “projection,” “plan,” “intend,” “seek,” “may,” “could,” “would,” “will,” “should,” “can,” “can have,” “likely,” the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those that we expected.

While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this report in the context of the factors that could cause outcomes to differ materially from our expectations. These factors include, but are not limited to, those listed under “Item 1A. Risk Factors” of this report, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission.

We caution you that the important factors included in this report may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences we anticipate or affect us or our operations in the ways that we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

# PART I

Unless otherwise specified in this Annual Report on Form 10-K (“Annual Report”), or the context otherwise requires, terms “El Pollo Loco,” “the Company,” “our company,” “we,” “us,” and “our” mean El Pollo Loco Holdings, Inc. (“Holdings”), together with its subsidiaries.

## ITEM 1. BUSINESS

### Our Company

El Pollo Loco is Spanish for “The Crazy Chicken.” We opened our first location on Alvarado Street in Los Angeles, California, in 1980, and have grown our restaurant system to 490 restaurants, comprised of 188 company-operated and 302 franchised restaurants as of December 28, 2022. Our restaurants are located in California, Arizona, Nevada, Texas, Utah, Colorado and Louisiana. Our typical restaurant is a free-standing building with drive-thru service that ranges in size from 2,200 to 3,000 square feet with seating for approximately 50-70 people.

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the limited service restaurant (“LSR”) segment. We strive to offer food that integrates the culinary traditions of Mexico with the healthier lifestyle of Los Angeles. Our distinctive menu features our signature product, citrus-marinated fire-grilled chicken, as well as a variety of Mexican and LA-inspired entrees that we create from our chicken. We serve individual and family-sized chicken meals, a variety of Mexican and LA-inspired entrees and sides, and, throughout the year, on a limited-time basis, additional proteins like beef. Our entrees include favorites such as our Chicken Avocado Burrito, Pollo Fit entrees, chicken tostada salads, and Pollo Bowls. Our famous Creamy Cilantro dressings and salsas are prepared fresh daily, allowing our customers to create their favorite flavor profiles to enhance their culinary experience. Our distinctive menu with “better for you” and more affordable 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.

The Company operates in one operating segment. All significant revenues relate to retail sales of food and beverages through either company or franchised restaurants. Financial information about our operations, including our revenues and expenses for fiscal 2022, 2021 and 2020, and our total assets as of the end of fiscal 2022 and 2021, is included in our “Audited Consolidated Financial Statements” and accompanying “Notes to Consolidated Financial Statements” in this Annual Report. See “Item 8. Financial Statements and Supplementary Data.”

### Market Trends and Uncertainties

We may face future business disruption and related risks resulting from the ongoing COVID-19 pandemic or from another pandemic, epidemic or infectious disease outbreak, or from broader macroeconomic trends, any of which could have a significant impact on our business. During the year ended December 28, 2022, we incurred $3.3 million in COVID-19 related expenses, comprised of $2.3 million due to overtime primarily related to the first quarter and $1.0 million due to leaves of absence related to the remaining three quarters. During the year ended December 29, 2021 and December 30, 2020, we incurred $3.9 million and $4.9 million, respectively, in COVID-19 related expenses, primarily due to leaves of absence and overtime pay. In addition, while all of our restaurants had dining rooms open as of December 28, 2022, we continue to experience staffing challenges, including higher wage inflation, overtime costs and other labor related costs. Labor costs could also be adversely impacted as a result of California Assembly Bill No. 257, the Fast Food Accountability and Standards Recovery Act (“FAST Act”), which was signed into law in September 2022 and authorizes the creation of a council to set minimum standards for industry workers in California, including minimum wages. The FAST Act, which will take effect if approved by voters in November 2024, could result in increased labor cost at our California restaurants thereby potentially impacting the profitability of our California restaurants. Further, this bill could prompt similar legislation in other states. We also continue to experience inflationary pressures, which resulted in increased commodity prices and impacted our business and results of operations during the year ended December 28, 2022. We expect these pressures to continue during fiscal year 2023.

Due to the fluidity of the COVID-19 pandemic and current macroeconomic environment, we cannot determine the ultimate impact that the COVID-19 pandemic (and its related economic impacts) and the current macroeconomic environment will have on our consolidated financial condition, liquidity, and future results of operations, and therefore any prediction as to the ultimate materiality of the adverse impact on our consolidated financial condition, liquidity, and future results of operations is uncertain.

**Our Industry**

The restaurant industry is divided into two segments: full service and limited service. We operate within the broader LSR segment, and we strive to offer the food and dining experience of a fast-casual restaurant and the speed, value, and convenience of a quick-service restaurant (“QSR”). We strive to offer menu options that are made with fresh ingredients and provide a “better for you” alternative to typical fast food, which are also inspired by the culinary and cultural traditions of Mexico and our hometown of Los Angeles.

**Our Competitive Strengths**

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

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

*Mexican-Inspired, Fresh-Made Fire-Grilled Chicken and Entrees.* Our signature product is our chicken, marinated with a proprietary recipe of citrus juice, garlic, and spices, which serves as the foundation of our distinctive menu of flavorful bone-in chicken meals and entrees inspired by Mexico and LA. With menu items such as our signature individual chicken meals, family dinners, Chicken Tostada Salad, Pollo Bowl®, Chicken Avocado Burrito, and Double Chicken Avocado Salad, we believe that we offer our customers a “better for you” alternative to traditional food on-the-go. Our entrees are prepared using fresh ingredients with recipes inspired by Mexican cuisine. The majority of our menu items are prepared in-restaurant using fresh ingredients, including our bone-in chicken and chicken breast filets, rice, salsas, and cilantro dressing. These items start with our chicken, which is marinated in our restaurants daily. From there, our Grill Masters fire-grill and hand-chop our chicken to order. Our team members create our salsas, and cilantro dressings with fresh tomatoes, avocados, serrano peppers, and cilantro. In addition, our rice is seasoned and simmered in our restaurants throughout each day.

Our bone-in chicken meals and Mexican-inspired entrees accounted for 44% and 50% of our company-operated restaurant sales in 2022, respectively, 46% and 48%, respectively, in 2021, and 46% and 47%, respectively, in 2020. Our individual and family-sized chicken meals appeal to customers looking to dine at the restaurant or take out during dinnertime, while our Mexican-inspired entrees draw traffic from customers at lunchtime or for an afternoon snack, thereby enabling us to generate sales split almost equally between lunch and dinner. We believe that our family-sized chicken meals provide a “better for you” and more convenient alternative for families looking to solve the “dinnertime dilemma” of providing their families with high-quality meals without investing significant time or money. In 2022 approximately 28% of our company-operated sales were generated from family-sized meals, compared to 31% in both 2021 and 2020.

*Operations Infrastructure that Allows for Real-Time Control, Fast Feedback, and Innovation.* We believe that satisfying our customers’ dining needs is the foundation for our business, and we have an operations platform that allows us to measure our performance in meeting and exceeding those needs. We utilize an operations dashboard that aggregates real-time, restaurant-level information for many aspects of our business. The dashboard provides corporate and field management, as well as restaurant-level operators, with insight into how we are performing from the customer's perspective. In addition, all company operated restaurants utilize digital "communication boards," which communicate sales, cost and consumer data in real time to our restaurant managers.

*Developing High Average Unit Volumes ("AUVs") and Strong Unit Economics One Chicken at a Time.* We seek to position ourselves as a differentiated LSR business, which we believe drives restaurant operating results that are competitive with other leading restaurant concepts in both the fast-casual and QSR industry segments. We believe that our restaurant model is designed to generate strong cash flow, consistent restaurant-level financial results, and high returns on invested capital. In 2022, our company-operated restaurants generated average annual sales per restaurant of approximately $2.1 million and restaurant-level contribution margins of 13.2%.

*Experienced Leadership.* Most of our senior management team has extensive operating experience in the restaurant industry. Members of the senior leadership team include Larry Roberts as our Chief Executive Officer and President, Ira Fils as our Chief Financial Officer, Maria Hollandsworth as our Chief Operating Officer, Anne Jollay as our Chief Legal Officer, Rosanne Setoguchi as our Chief People Officer, Brian Carmichall as our Chief Development Officer and Andy Rebhun as our Chief Marketing Officer.

**Our Growth Strategy**

We believe that we are well-positioned for sales growth because of our strong appeal to our core Hispanic family market, appeal to the broader general market, disciplined business model, and strong unit economics. Through 2019, our system experienced annual comparable restaurant sales growth for eight consecutive years. Our system comparable restaurant sales in fiscal 2020 declined 2.4%, which we believe was largely attributable to the COVID-19 pandemic. In 2022 and 2021, our comparable restaurant sales grew 5.9% and 12.1%, respectively. We plan to continue to expand our business, drive restaurant sales growth and increase company profits by executing our Transformation Agenda, which consists of the following four key strategies:

*Embed our Unique El Pollo Loco Culture.* We believe that success in the restaurant industry is highly correlated with employee engagement, which is dependent upon hiring, retaining, developing and motivating employees. We invest in competitive pay and leadership training to ensure that our managers have the tools they need to be effective leaders and motivating coaches. We continue to build a culture centered around our mission, which is to "Feed the Love that Makes Us All Feel Like Family" and "Heart-Centered Leadership," which is predicated on servant-led leadership, employee recognition and community involvement. We believe that executing on our mission will result in a better and more meaningful work experience for our employees.

An important part of our culture is to provide greater support to the communities in which we operate. In 2004, we created El Pollo Loco Charities, a non-profit charity, to support the communities surrounding our restaurants. El Pollo Loco Charities, together with the Company, have provided over 15,000 meals per year to underprivileged families, through organizations like Food on Foot, Habitat for Humanity, Children's Institute, and Court Appointed Special Advocates. For example, in 2019 we enhanced our community outreach through several initiatives, including (i) implementing a food donation program with Food Donation Connection and donating 75,000 tacos as part of our "Buy One, Feed Many" initiative, (ii) celebrating Caesar Chavez Day by recruiting 500 company employees, franchisees and customers to refresh a high school located in south Los Angeles and (iii) entering into a relationship with an Orange County-based organization to provide job opportunities for the homeless. In 2020, we provided funds to 13 Latina owned businesses that were heavily impacted by the COVID-19 pandemic. In 2021, we launched a campaign called ValenKIND's Day, which provided 10,000 meals to community members in our hometown of Los Angeles who are struggling with hunger and homelessness. For Mother's Day, we issued $80,000 in grants to help moms in our communities and moms who are restaurant team members pursue their dreams in our "Strong Like A Madre" campaign. During 2022, we launched our first Round Up for Charity campaign benefiting Feeding America. El Pollo Loco Charities committed to match the first 100,000 customer round ups in our effort to reach our goal of raising $400,000 for the charity. In addition, in 2022, we donated 15,000 meals to Food on Foot's Sunday Program, which serves people experiencing homelessness and food insecurity. Further, during the holidays in 2022, we participated in toy drives for various local charitable organizations including California Highway Patrol's CHiPs for Kids. Lastly, we also continued a 2019 commitment to street artists in our communities by commissioning three new murals on the exterior walls of our restaurants in the Los Angeles area in celebration of Cesar Chavez Day, Mother's Day, and Day of the Dead.

*Build Awareness and Own our Lane*. We believe that we are uniquely positioned within the LSR restaurant space. We will continue to adapt our menu to create family-sized dinner options and lunch entrees that complement our signature fire-grilled chicken, and are inspired by the culinary and cultural traditions of Mexico and our hometown of Los Angeles. We believe that we have opportunities for menu innovation as we look to increase customer frequency and target the dinner segment. In addition, we will continue to tap into the need for healthier offerings by building on the success of our fire-grilled chicken and "better for you" products. Our marketing and operations teams collaborate to ensure that the items developed in our test kitchen can be executed to our high standards in our restaurants with the convenience and value that our customers have come to expect.

We engage customers through our seasonal product calendar, which features new, unique limited time offers and variations of menu items like our Shredded Beef Birria, Overstuffed Fire-Grilled Chicken and Shredded Beef, and Avocado Quesadillas. Our key points of differentiation are communicated through our advertising campaign, which highlights the brand's authenticity, "better for you" menu options and dedication to high-quality ingredients. We tailor our message from television and direct mail, which garners broad exposure, to our Loco Rewards loyalty program and social media platform where we engage in more personalized marketing.

We believe that investing in consumer-facing technology is critical to further differentiating our brand and reaching customers for whom convenience and value are key decision factors. Our Loco Rewards loyalty program offers rewards that incentivize customers to visit our restaurants more each month. As of December 28, 2022, there were 3.2 million members in the Loco Rewards loyalty program, whom we target with segmented, dynamic campaigns with special offers tailored to each customer segment with the goals of increasing visit frequency and growing overall spend.

In June 2018, we implemented delivery through DoorDash, a third-party delivery provider. In September 2019, we added Postmates and Uber Eats, and in February 2020 we added GrubHub, as additional marketplace delivery providers. For meals ordered through these market place platforms, restaurants incur a fee based on a percentage of the ticket. As of December 28, 2022, DoorDash maintained exclusivity for delivery orders placed directly with our restaurants. For orders placed directly from the restaurant, no fee is charged to the restaurant as the full delivery cost is borne by the customer.

In total, during fiscal 2022, delivery orders constituted 7.8% of our total sales mix. As of December 28, 2022, all company-operated and franchise restaurants offered integrated delivery through a third-party service.

We plan to continue investing in our loyalty and delivery programs as well as other technology platforms to continue making it easier for customers to access our food.

*Deliver Exceptional Service – Profitably.* We believe that the key to building sustainable, consistent restaurant operations is through the development of restaurant leader bench, including area managers, general managers, assistant managers and shift leaders. To that end, we have put a renewed focus on leadership development, not only to benefit our current restaurant base, but also to ensure we have the leaders necessary for the continued growth of the El Pollo Loco brand. In addition to leadership development, at the team member level, we have completed the roll-out of an enhanced E-Learning platform across the system.

We also believe that simplifying our restaurant operations will further enhance our ability to attract and retain the best employees and further improve customer service. In 2022, we continued to implement initiatives to make it easier for our employees to operate our restaurants. These included eliminating a number of menu items as well as purchasing pre-chopped serrano peppers and fresh cilantro. Initiatives currently in test include soak tanks for cleaning grill hoods and broilers, and blenders to simplify salsa production. These and other initiatives are intended to enable our restaurant employees to increase their focus on customers and speed of service. We believe that this continued focus, combined with renewed emphasis on providing an exceptional customer experience, will lead to higher sales over the longer term.

*Accelerate Development.* We believe that execution of our first three strategies will enable us to grow our restaurant base. Our restaurant model is designed to generate strong cash flow, attractive restaurant-level financial results and high returns on invested capital. In 2020, we finalized a new restaurant design that we believe will clearly differentiate and communicate our brand, both on the exterior and interior. In addition, we redesigned the back-of-house to make it easier for employees to operate the restaurant. We believe that our remodels using this new design will result in higher restaurant revenue and a strengthened brand. During fiscal 2022, we completed six company-operated restaurants remodels using the new design. In 2022, our franchisees completed 16 remodels using the new design. In 2023, we plan to continue our standard practices for remodels, including 10-15 company-operated and 20-30 franchised restaurants.

We expect future new unit development to be led by franchisees, with company development being focused on existing markets. In order to expand into new markets, we believe that we need to source new franchisees and, therefore, we expect to invest more resources in sourcing and onboarding them in the future.

**Site Selection and Expansion**

***Restaurant Development***

We believe that our restaurant model is designed to generate strong cash flow, attractive restaurant-level financial results, and high returns on invested capital, which we believe provide us with a strong foundation for unit growth over the long-term. In 2022, four new company-operated restaurants were opened, two in Nevada and two in California, and nine new franchised restaurants were opened, seven in California, one in Colorado, and one in Utah.

In fiscal 2023, we intend to open four to six new company-operated and eight to twelve new franchised restaurants. There is no guarantee that we will be able to open new company-operated or franchised restaurants, or to increase the overall number of our restaurants. We may be unsuccessful in expanding within existing or into new markets for a variety of reasons as described below in “Item 1A. Risk Factors,” including competition for customers, sites, franchisees, employees, licenses, and financing.

***Site Selection Process***

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

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

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

***Restaurant Construction***

After identifying a lease site, we commence our restaurant build-out. Our new restaurants are either ground-up prototypes or retail space conversions. On average, it takes approximately 12 to 24 months from specific site identification to restaurant opening. Our restaurants are constructed in approximately 10 to 15 weeks. In order to maintain consistency of food and customer service, as well as our colorful, bright, and contemporary restaurant environment, we have set processes and timelines to follow for all restaurant openings.

**Restaurant Management and Operations**

***Service***

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

***Operations***

We utilize systems that are aimed at measuring our ability to deliver a “best in class” experience for our customers. These systems include customer surveys, social media ratings and speed-of-service performance trends. The operational results from all of these sources are then presented on an operations dashboard that displays the measures in an easy-to-read online format that corporate and restaurant-level management and franchisees can utilize in order to develop specific plans for continuous performance improvement. In addition, all company operated restaurants utilize digital “communication boards”, which communicate sales, costs and consumer data in real time to our restaurant managers.

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

***Managers and Team Members***

Each of our restaurants typically has a general manager and two to three shift leaders and some restaurants have an assistant manager. There are between 15 and 35 team members per restaurant who prepare our food fresh daily and provide customer service. To lead our restaurant management teams, we have area leaders, each of whom is responsible for 7 to 9 restaurants. Overseeing the area leaders are three Regional Directors of Operations who report up to our Chief Operating Officer. Franchise operations are supported by three directors of franchise and a Senior Vice President, Franchise, who reported to the Chief Development Officer during 2022 and starting in 2023 will report to the Chief Operating Officer. The restaurant development team is supported by four directors who also currently report to the Chief Development Officer.

***Training***

Our team members are the heart of El Pollo Loco, and it is our responsibility to equip them with the skills and knowledge necessary to deliver our high standards and commitments to the customer and team member experience. We strive to find ways to simplify our methodology and invest in elevating our team members and leaders. In a rapidly evolving landscape, effective training depends not only on the quality of content but also on delivery methods. We believe in a blended approach to training to capture all audiences by integrating digital technology and traditional hands-on training activities. To engage our growing base of multi-generational employees, we employ a Learning Management System called Pollo Zone, a tablet-based interactive learning tool. This platform is a central hub for all training efforts and features individual learner profiles to support engagement and accountability on our path toward investing in our people and their growth.

**Franchise Program**

We use a franchising strategy to increase new restaurant growth in certain markets, leveraging the ownership of entrepreneurs with specific local market expertise and requiring a relatively minimal capital commitment by us. As of December 28, 2022, we had a total of 302 franchised restaurants. Franchisees range in size from single-restaurant operators to our largest franchisee, which owned 68 restaurants as of December 28, 2022. Our existing franchise base consists of many successful, longstanding, multi-unit restaurant operators. As of December 28, 2022, approximately 89% of franchised restaurants were owned and operated by franchisees that had been with us for over 20 years.

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

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

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

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

**Marketing and Advertising**

We strive to distinguish the El Pollo Loco brand by building a brand equity that we believe not only accentuates our strengths but also deepens the strong emotional connections we have with our customers. We promote our restaurants and products by emphasizing our points of differentiation, which include our Mexican and LA heritages, our fresh ingredients and made-from-scratch preparation, and the cooking of our citrus-marinated chicken on open fire grills in our kitchens, as well as the convenience and quality we offer for families.

We use multiple marketing channels, including television, radio and digital. We advertise on local broadcast and cable television. Over the past year, we have significantly increased our percentage of media dedicated towards digital advertising.

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

Our Loco Rewards loyalty program uses points, rewards, and offers to build engagement with our customers. Customers access the program on elpolloloco.com and the El Pollo Loco iOS Apple and Android app. We build segmented dynamic campaigns with special offers tailored to each customer segment with the goals of increasing visit frequency and growing overall spend. To keep customers engaged with the program, unannounced offers, called “Surprise and Delights” are awarded based on that customer’s transaction history. We communicate offers, loyalty updates and other Loco Rewards campaigns to customers via in-app messaging, mobile phone push notifications and email.

Our online ordering program makes it easy for customers to skip the line and order ahead. Available at every location and accessible from elpolloloco.com or the El Pollo Loco mobile app, any order can be placed and paid for before arriving at the restaurant. El Pollo Loco has partnered with DoorDash, UberEats and Grubhub as additional methods for ordering. El Pollo Loco also operates direct delivery via elpolloloco.com or the Loco Rewards App, which is exclusively fulfilled by DoorDash.

**Purchasing and Distribution**

Maintaining a high degree of quality in our restaurants depends in part on our ability to acquire fresh ingredients, and other necessary supplies that meet our specifications, from reliable suppliers. We regularly inspect our vendors to ensure that products purchased conform to our standards and that prices offered are competitive. We have a quality assurance team and third-party accredited auditors that perform comprehensive supplier audits on a frequency schedule based on the potential food safety risk for each product. We contract with McLane Company (our “primary distributor”), a major foodservice distributor, for substantially all of our food and supplies, including the poultry that our restaurants receive from suppliers. Our primary distributor delivers supplies to most of our restaurants three times per week. Our restaurants in Texas, Louisiana and Colorado utilize regional distributors for produce. Our franchisees are required to use our primary distributor or an approved regional distributor, and franchisees must purchase food and supplies from approved suppliers. Poultry is our largest product cost item and represented approximately 38% of our total food and paper costs for 2022. Fluctuations in supply and in price can significantly impact our restaurant service and profit performance. We actively manage cost volatility for poultry by negotiating with multiple suppliers and entering into what we believe are the most favorable contract terms given existing market conditions. In the past, we have entered into contracts ranging from one to two years depending on current and expected market conditions. We currently source poultry from six suppliers, with two accounting for approximately 79% of our purchases for fiscal 2022. More than half of our poultry purchases have a fixed price through the end of 2023.

**Intellectual Property**

We have registered El Pollo Loco ® , Pollo Bowl ® , The Crazy Chicken ® , and certain other names used by our restaurants as trademarks or service marks with the U.S. Patent and Trademark Office, and El Pollo Loco ® in approximately 43 foreign countries and the European Union. In addition, the El Pollo Loco logo, website name and address, Facebook, Twitter, Instagram and YouTube accounts are our intellectual property. Our policy is to pursue and maintain registration of service marks and trademarks in those countries where business strategy requires us to do so, and to oppose vigorously any infringement or dilution of the service marks or trademarks in those countries. We maintain the recipe for our chicken marinade, as well as certain proprietary standards, specifications, and operating procedures, as trade secrets or as confidential proprietary information.

**Competition**

We operate in the restaurant industry, which is highly competitive and fragmented. The number, size, and strength of competitors varies by region. Our competition includes a variety of locally-owned restaurants and national and regional chains that offer dine-in, carry-out, and delivery services.

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

**Environmental Matters**

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

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

Since 2000, we have obtained “Phase One” Environmental Site Assessments (assessing whether current or historical property uses have impacted soil or groundwater beneath the property, posing a threat to the environment and/or human health) for new restaurants. Where warranted, we obtain updated reports, and, if necessary, in rare cases, we obtain “Phase Two” Environmental Site Assessments (evaluating the presence or absence of petroleum products or hazardous substances via soil and/or groundwater sampling). We have not conducted a comprehensive subsurface environmental review of all of our properties or operations. No assurance can be given that we have identified all of the potential environmental liabilities at our properties or that such liabilities will not have a material adverse effect on our financial condition.

**Regulation and Compliance**

We and our franchisees are subject to various federal, state and local laws and regulations that govern our business operations, including those governing:

- employment and wage and hour practices, including, but not limited to, minimum wage rates, overtime, meal and rest periods, prevention of discrimination, harassment, and retaliation, employment of minors, paid and family leave, unemployment tax rates, workers' compensation rates, suitable seating, and citizen requirements, and other working conditions;
- privacy and data security, including the collection, maintenance and use of information regarding employees and guests;
- compliance with the Americans with Disabilities Act and similar laws affording various protections and accommodations to employees and guests with disabilities;
- environmental practices, including the discharge, storage, handling, release and disposal of hazardous or toxic substances; regulation of discharges into the air, water and soils, storage and disposal of liquid and solid waste, and clean-up of contaminated soil and groundwater, and regulations restricting the use of straws, utensils and the certain packaging materials;
- compliance with Federal Trade Commission and laws that govern the franchisor-franchisee relationship, including the offer and sale of franchises and certain disclosures to franchisees;
- the preparation, sale and labeling of food, including regulations of the Food and Drug Administration, which oversees the safety of the entire food system, including inspections and mandatory food recalls, menu labeling and nutritional content;
- working conditions, health, sanitation, safety and fire standards, building and zoning requirements, public accommodations and safety conditions, environmental matters, and data privacy;
- building and zoning requirements, including state and local licensing and regulation governing the design and operation of facilities and land use;
- health and sanitation and public safety; and
- restaurant operations related to COVID-19.

We require each of our franchise partners to comply with all federal, state and local laws and regulations. We have processes in place to monitor our own compliance with the numerous, complex, applicable laws and regulations governing our operations.

We are subject to new, varied and ever-changing rules and regulations regarding the current COVID-19 pandemic, which have materially impacted our earnings and resulted in significant capital expenditures. New federal, state and local government regulations regarding COVID-19 are issued and existing regulations are frequently revised, which materially affected, and continues to affect, our operations. Such regulations govern, for example, employee leave, opening and closing of restaurants and dining rooms, business hours, sanitation practices, guest spacing within dining rooms and other social distancing practices and personal protective equipment.

Other than as described above, the Company's compliance with federal, state or local laws and regulations, including environmental laws, is not expected to materially affect our earnings or competitive position or result in material capital expenditures. However, we cannot predict what laws will be enacted in the future, or how existing or future laws will be administered, interpreted or enforced. We also cannot predict the amount of future expenditures that we may need to make to comply with, or to satisfy claims and lawsuits relating to, these various laws and regulations. Further, more stringent and varied requirements of local government bodies with respect to zoning, land use and environmental factors could delay construction and increase development costs for new restaurants. Moreover, although we have not experienced, and do not anticipate, any significant problems in obtaining required licenses, permits, or approvals, any difficulties, delays, or failures in obtaining such licenses, permits, registrations, exemptions, or approvals could delay or prevent the opening of, or adversely impact the viability of, a restaurant in a particular area. Additionally, a significant portion of our hourly staff is paid at minimum wage rates consistent with the applicable federal, state, or local laws and, accordingly, increases in the applicable minimum wage will increase our labor costs. We are also subject to the Americans with Disabilities Act, which prohibits discrimination on the basis of disability in public accommodations and employment, and which may require us to design or modify our restaurants to make reasonable accommodations for disabled individuals.

See Item 1A “Risk Factors” and “Environmental Matters” above in this Form 10-K for a discussion of risks relating to federal, state, local and regulation of our business.

**Management Information Systems**

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

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

**Human Capital**

As of December 28, 2022, we had approximately 4,931 employees, of whom approximately 4,766 were hourly restaurant employees comprised of 3,883 crewmembers, 191 general managers/acting general managers, 108 assistant managers, 542 shift leaders, and 42 employees in limited-time roles as acting managers or as managers in training. The remaining 165 employees were corporate and office personnel. None of our employees are part of a collective bargaining agreement, and we believe that our relationships with our employees are satisfactory.

We believe our efforts to maintain solid relationships with our employees are effective and are grounded in our company values. Our primary human capital objective is employee engagement, which is dependent upon hiring, retaining, developing and motivating employees. We strive to build a culture centered around our mission, which is to “Feed the Love that Makes Us All Feel Like Family” and “Heart-Centered Leadership.” We believe this mission is predicated on servant-led leadership, employee recognition and community involvement. We offer our employees both online and on-the-job training. Restaurant management trainees participate in comprehensive, multi-week training programs touching on all aspects of the operations, including restaurant leadership. We provide key restaurant leadership roles with a quarterly cash-based performance bonus awards. Our corporate employees are provided an annual performance bonus award. We also have an equity incentive compensation plan to provide certain management-level or other key employees with stock-based awards. We monitor our progress with metrics such as employee performance measures, turnover rates and restaurant customer surveys.

The health and well-being of our employees and guests have always been and continues to be our top priority. We have maintained enhanced safety measures and continue to monitor cases of COVID-19 to help protect the health and well-being of all of our employees. In 2022, we also continued to provide extended sick leave benefits to employees impacted by COVID-19.

**Seasonality**

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

**Available Information**

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

The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC, at http://www.sec.gov.

## ITEM 1A. RISK FACTORS

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

### Risks Related to Our Operations

***The COVID-19 pandemic and measures intended to prevent its spread has had, and may continue to have, a significant negative impact on our business, sales, results of operations and financial condition, and any future pandemic, epidemic or public health emergency may result in similar adverse effects.***

COVID-19 has disrupted, and may continue to disrupt, our restaurant operations, including by causing temporary closures of some restaurants, closures of dining rooms, limited capacity restrictions and/or decreased operating hours for some restaurants due to government mandates and/or staffing shortages. Any future pandemic, epidemic or public health emergency may result in similar closures or restrictions that negatively impact our business.

If additional surges of COVID-19 at a significant number of our locations require us to temporarily close those locations for disinfection or result in a large number of our employees becoming ill with COVID-19 or quarantined and being unable to work, our business and results of operations could be further adversely affected, which may also impact our financial condition. Further, any shutdowns, closures or disruptions in the operations of our suppliers caused by COVID-19 outbreaks or federal, state or local mandates to limit the spread of outbreaks of COVID-19 or other diseases could limit the ability of suppliers to supply us and our franchisees with the products needed to operate our business, which would negatively impact our business. COVID-19 or other public health crises may also adversely affect our ability to implement our growth plans, including delays in the opening or construction of new restaurants or the remodel of existing restaurants.

As the duration and severity of the COVID-19 pandemic, including the severity and transmission rates of COVID-19 variants, resurgences of COVID-19 that may continue to occur, and the efficacy of COVID-19 vaccines, continues to be uncertain at this time, it is difficult to forecast any long-term impacts on our future operating results. However, if the COVID-19 pandemic continues for a sustained period of time or if conditions worsen, our sales and operating costs may be materially adversely affected, which could impact our asset values, including goodwill, derivative instruments and long-lived assets, as well as our ability to meet certain covenant provisions in our debt arrangements in future periods, and have a material adverse effect on our financial results, future operations and liquidity.

Even after the COVID-19 pandemic has subsided, we may continue to experience negative impacts to our financial results due to COVID-19's impact on the economy in general, globally, nationally and in the locate markets in which we operate, including the availability of credit generally, adverse impacts on our liquidity, and/or decreases in consumer discretionary spending that depress demand for our products. The global effects of the pandemic may also contribute to a prolonged economic slowdown or recession. In addition, even after the COVID-19 pandemic has subsided, the perceived risk of infection or a resurgence or concern of a resurgence of COVID-19 or other diseases may continue to adversely affect traffic to our restaurants and, in turn, may have a material adverse effect on our business, liquidity, financial condition and results of operations. We are also subject to all of the foregoing risks in connection with the outbreak of other diseases, epidemics or pandemics, or similar public threats or fear of such events.

***We may be unsuccessful in opening new company-operated or franchised restaurants or in establishing new markets, which could adversely affect our growth.***

One of the key means to achieving our growth strategy is and will be through opening new restaurants and operating those restaurants on a profitable basis. We opened four new company-operated restaurants in fiscal 2022 and plan to open four to six in fiscal 2023. Our franchisees opened nine new restaurants in fiscal 2022 and plan to open eight to twelve in fiscal 2023.

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

If we are unable to successfully manage these risks and open new restaurants or sign new franchisees as anticipated, or if restaurant openings are significantly delayed, we could face increased costs and lower than anticipated sales and earnings in future periods.

As part of our longer-term growth strategy, we may enter into geographic markets in which we have little or no prior operating or franchising experience, including through company-operated restaurant growth and franchise development agreements. The challenges of entering new markets include (i) difficulties in hiring and training experienced personnel, (ii) unfamiliarity with local real estate markets and demographics, (iii) consumer unfamiliarity with our brand, and (iv) competitive and economic conditions, consumer tastes, and discretionary spending patterns that are different from and more difficult to predict or satisfy than in our existing markets. Any failure on our part to recognize or respond to these challenges may adversely affect the success of any new restaurants. Expanding our franchise system could require the implementation, expense, and successful management of enhanced business support systems, management information systems, and financial controls, as well as additional staffing, franchise support, and capital expenditures and working capital.

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

***We may not be able to compete successfully, including with other quick-service and fast casual restaurants.***

The food service industry, and particularly its QSR and fast casual segments, is intensely competitive. Competition in our industry is primarily based on price, convenience, quality of service, brand recognition, restaurant location, and type and quality of food, and our market position is based on balancing price and quality. These competitive factors are particularly applicable in markets in which we have expanded relatively rapidly and relatively recently, such as Texas. In addition, the greater Los Angeles area, the primary market in which we compete, consists of what we believe to be the most competitive Mexican-inspired QSR and fast casual market in the United States. We expect competition in this market and in each of our other markets to continue to be intense, because consumer trends are favoring LSRs that offer healthier menu items made with better-quality products, and many LSRs are responding to these trends. Moreover, we may also compete with companies outside the QSR and fast casual segment of the restaurant industry. For example, competitive pressures can come from deli sections and in-store cafés of several major grocery store chains, including those targeted at consumers who want higher-quality food, as well as from convenience stores, cafeterias and other dining outlets. Meal kit delivery companies and other eat-at-home options also present some degree of competition for our restaurants. If our company-operated and franchised restaurants cannot compete successfully, especially with other QSR and fast casual restaurants, in new and existing markets, we could lose customers and our revenue could decline, which may materially and adversely affect our business, financial condition, and results of operations.

***We are vulnerable to changes in political and economic conditions and consumer preferences.***

The restaurant industry is dependent upon consumer discretionary spending, which may be affected by general global economic conditions or other business conditions that may affect the desire or ability of our customers to purchase our products, including recessions or inflationary pressures, which have caused, and may continue to cause, increased labor, commodity and utilities costs. In addition, we may be affected by higher consumer debt and interest rates, adverse conditions in the mortgage housing markets, high unemployment levels, increases in gas prices, declines in median income growth, lower consumer confidence, lower consumer discretionary spending and uncertainties due to geopolitical turmoil and potential national or international security concerns, including the conflict between Russia and Ukraine. If the economy experiences a significant decline, our business, results of operations, our ability to access the capital markets and our ability to comply with the terms of our secured revolving credit facility could be materially and adversely affected, and we and our franchisees might decelerate the number and timing of new restaurant openings and/or the number of planned restaurant remodels. In addition, political developments regarding U.S. relations with Mexico may harm our business. Increases in tariffs, restrictions on trade, or deterioration in American political or economic relations with Mexico could harm our brand and profitability. Changes in trade, labor, or immigration policy could raise our input prices, or reduce the supply of immigrants, who are in many cases our customers or employees, diminishing our sales and increasing our labor costs. An actual or feared outbreak of disease, epidemic or pandemic, changes to regional or local economic conditions affecting consumer spending, or increased food or energy costs could also reduce consumer transactions or impose practical limits on pricing that could harm our business, financial condition, results of operations, and cash flow.

Additionally, changes in consumer health perceptions or trends in eating habits may also adversely affect our business if we are unable to effectively adapt our menu offerings. Our success is dependent upon continued customer acceptance of our Mexican-inspired food and customer health perceptions regarding our products. A decrease in American consumers' interest in Mexican-inspired food or chicken-based food, or changes in customer health perceptions of our food could harm our brand and profitability. We cannot make any assurances regarding our ability to effectively respond to changes in consumer preferences or our ability to develop new products that appeal to consumer preferences.

***If we are unable to attract, develop, assimilate, and retain employees, we may not be able to grow or successfully operate our business.***

Our success depends in part upon our ability to attract, train, assimilate, and retain a sufficient number of employees, including crewmembers, managers and shift leaders, who understand and appreciate our culture, are able to represent our brand effectively and establish credibility with our customers. If we are unable to hire and retain restaurant employees capable of consistently providing a high level of customer service, understanding of our customers, and knowledge of our offerings, our ability to open new restaurants may be impaired, the performance of our existing and new restaurants could be adversely affected, and our brand image may be negatively impacted. Our growth strategy will require us to attract, train, and assimilate even more restaurant employees. Our ability to do so may be adversely affected by labor shortages due to, among other things, the COVID-19 pandemic and the cost of related overtime pay requirements.

***Our business could be negatively affected by regional geographic concentrations.***

Our company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 71.2% of our revenue in fiscal 2022 and approximately 70.9% in fiscal 2021. Adverse changes in demographic, unemployment, economic, or regulatory conditions in the greater Los Angeles area or in the State of California, including, enforcement policies for and changes in immigration law, have had and may continue to have material adverse effects on our business.

We also may be negatively affected by weather conditions specific to the Los Angeles region, including fires, earthquakes, or other natural disasters. Additionally, outside of Los Angeles, many of our restaurants are clustered around major cities in Northern California, Texas, and elsewhere, and prolonged or severe inclement weather could affect our sales at restaurants in locations that experience such conditions. Localized disasters, especially exacerbated by climate change, including wildfires, hurricanes, and flooding, could impair our assets and operations in those areas. Any other events disrupting businesses, consumer discretionary spending or our employee population in the greater Los Angeles area could also have an outsized negative impact on our business or results of operations. For example, near the end of fiscal 2021 and the beginning of 2022, the Los Angeles market was impacted by a spike in COVID-19 cases, which disproportionately impacted our business due to our high concentration in this market. If the Los Angeles or other markets experience another severe outbreak of COVID-19 or its variants, we may experience further disruptions to our business that could be material.

***Our long-term success depends in part on our ability to effectively identify and secure appropriate sites for new restaurants.***

In order to build new restaurants, we must first identify markets where we can enter or expand our footprint, taking into account numerous factors, including the location of our current restaurants, local economic trends, population density, area demographics, cost of construction and real estate and geography. Then we must secure appropriate restaurant sites, which is one of our biggest challenges. There are numerous factors involved in identifying and securing an appropriate restaurant site, including: evaluating size of the site, traffic patterns, local retail, residential and business attractions and infrastructure that will drive high levels of customer traffic and sales; competition in new markets, including competition for restaurant sites; financial conditions affecting developers and potential landlords, such as the effects of macro-economic conditions and the credit market (including the potential for rising interest rates), which could lead to these parties delaying or canceling development projects (or renovations of existing projects), in turn reducing the number of appropriate restaurant sites available; developers and potential landlords obtaining licenses or permits for development projects on a timely basis; proximity of potential restaurant sites to existing restaurants; anticipated commercial, residential and infrastructure development near the potential restaurant site; and availability of acceptable lease terms and arrangements, including construction costs.

In addition, competition for restaurant sites in our target markets can be intense, and development and leasing costs are increasing. Given the numerous factors involved, we may not be able to successfully identify and secure attractive restaurant sites in existing, adjacent or new markets, which could have a material adverse effect on our business, financial condition and results of operations.

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

The recognition of impairment charges may adversely affect our future operations and results. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. There is uncertainty in the projected undiscounted future cash flows used in our impairment review analysis, which requires the use of estimates and assumptions. If actual performance does not achieve the projections, or if the assumptions used change in the future, we may be required to recognize impairment charges in future periods, and such charges could be material. Given the difficulty in projecting results for newer restaurants in newer markets, as well as the impact of the COVID-19 pandemic, we monitor the recoverability of the carrying value of the assets of several restaurants on an ongoing basis. Asset impairments to new units or future capital expenditures could present additional exposure. Closures could also require additional expenditures. Furthermore, franchised unit closings could result in the loss of franchise revenue and have other adverse effects on us.

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

Our profitability depends in part on our ability to anticipate and react to changes in the cost of food, supplies, labor, construction and utilities. In 2022, the costs of commodities, labor, energy and other inputs necessary to operate our restaurants have significantly increased. In addition, we are susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal economic fluctuations, weather conditions, global demand, food shortages, food safety concerns, infectious diseases, fluctuations in the U.S. dollar, cyber-attacks, transportation issues, product recalls, and government regulations, including tariffs and other import restrictions on foreign produce and other goods. In 2021 and continuing into 2022, for example, we experienced inflationary pressures due to supply chain disruptions that adversely impacted and may continue to adversely impact our business and results of operations. Environmental and weather-related issues, such as freezes, drought and climate change, may also lead to increases, temporary or permanent, or spikes in the prices of some ingredients, such as produce and meat. Any increase in the prices of the ingredients most critical to our menu, in particular chicken, as well as corn, cheese, avocados, beans, rice, and tomatoes, could adversely compress our margins, or cause us to raise our prices, reducing customer demand. Alternatively, in the event of cost increases with respect to one or more of our raw ingredients, we might choose to temporarily suspend serving menu items, such as guacamole or one or more of our salsas, rather than pay the increased cost. Additionally, as a substantial volume of produce and other items are procured from Mexico, and occasionally other countries including Chile and Peru, any new or increased import duties, tariffs or taxes, or other changes in U.S. trade or tax policy could result in higher food and supply costs that would adversely impact our financial results. Any such changes to our menu prices or available menu could negatively impact our restaurant transactions, business, and comparable restaurant sales during the shortage and thereafter.

Our principal food product is chicken. In fiscal 2022, 2021, and 2020, the cost of chicken included in our product cost was approximately 11.0%, 9.9%, and 10.5%, respectively, of our revenue from company-operated restaurants. Material increases in the cost of chicken could materially and adversely affect our business, operating results, and financial condition. Changes in the cost of chicken can result from a number of factors, including seasonality, increases in the cost of grain, disease, and other factors that affect domestic and international supply of and demand for chicken products. Additionally, environmental and animal rights regulations or voluntary programs could increase the cost or supply of chicken and other foods. We often ask our suppliers to use fixed price contracts or other financial risk management strategies to reduce potential price fluctuations in the cost of chicken and other commodities. We have implemented menu price increases in the past to significantly offset increased chicken prices, due to competitive pressures and compressed profit margins. We may not be able to offset all or any portion of increased food and supply costs, or labor, construction and utility costs through higher menu prices in the future. If we implement further menu price increases in the future to protect our margins, average check size and restaurant transactions could be materially and adversely affected, at both company-operated and franchised restaurants.

***Social media and negative publicity could have a material adverse impact on our business.***

Negative publicity, including information posted on social media platforms, at one or more of our restaurants relating to food safety, sanitation, employee relationships or other matters can adversely affect us, regardless of whether an allegation is valid or whether we are held to be responsible. Adverse information posted on social media platforms can quickly reach a wide audience and resulting harm to our reputation may be immediate, without affording us an opportunity to correct or otherwise respond to the information. It is challenging to monitor and anticipate developments on social media in order to respond in an effective and timely manner. As a result, social media may exacerbate the risks we face related to negative publicity. In addition, the negative impact of any adverse publicity relating to one restaurant may extend far beyond the restaurant involved to affect some or all of our other restaurants, including our franchised restaurants. The risk of negative publicity is particularly great with respect to our franchised restaurants, because we are limited in the manner in which we can regulate them, especially on a real-time basis. A similar risk exists with respect to food service businesses unrelated to us, if customers mistakenly associate those unrelated businesses with our operations.

A variety of additional risks associated with our use of social media include the possibility of improper disclosure of proprietary information, exposure of personally identifiable information of our employees or guests, fraud, or the publication of out-of-date information, any of which may result in material liabilities or reputational damage. Furthermore, any inappropriate use of social media platforms by our employees could also result in negative publicity that could damage our reputation, or lead to litigation that increases our costs.

***Our ability to continue to expand our digital business, delivery orders and catering is uncertain, and these new business lines are subject to risks.***

We rely on third-party providers to fulfill delivery orders, and the ordering and payment platforms used by these third parties, or our mobile app or online ordering system, could be damaged or interrupted by technological failures, user errors, cyber-attacks or other factors, which may adversely impact our sales through these channels and could negatively impact our brand. Additionally, our delivery partners may make errors or fail to make timely deliveries, leading to customer disappointment that may negatively impact our brand. We also incur additional costs associated with using third-party service providers to fulfil these digital orders. Moreover, the third-party restaurant delivery business is intensely competitive, with a number of players competing for market share, online traffic, capital, and delivery drivers and other people resources. The third-party delivery services with which we work may struggle to compete effectively, and if they were to cease or curtail operations or fail to provide timely delivery services in a cost-effective manner, or if they give greater priority on their platforms to our competitors, our delivery business may be negatively impacted. We have also introduced catering offerings on both a pick-up and delivery basis, and customers may choose our competitors' catering offerings over ours, be disappointed with their experience with our catering, or experience food safety problems if they do not serve our food in a safe manner, which may negatively impact us. Such delivery and catering offerings also increase the risk of illnesses associated with our food because the food is transported and/or served by third parties in conditions we cannot control.

We do not have a long history with our catering offering and it is difficult for us to anticipate the level of sales they may generate. In addition, using third party providers to fulfill delivery orders may result in operational challenges, both in fulfilling orders made through these channels and in operating our restaurants as we balance fulfillment of these orders with service of our traditional in-restaurant guests. Any such operational challenges may negatively impact the customer experience associated with our digital, delivery or catering orders, the guest experience for our traditional in-restaurant business, or both. These factors may adversely impact our sales and our brand reputation.

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

Incidents or reports of food- or water-borne illness or other food safety issues, food contamination or tampering, employee hygiene or cleanliness failures, or improper employee conduct at our restaurants could lead to product liability or other claims. Such incidents or reports could negatively affect our brand and reputation as well as our business, revenues, and profits.

Furthermore, our reliance on third-party food processors makes it difficult to monitor food safety compliance, and may increase the risk that a food-borne illness would affect multiple locations rather than a single restaurant. Some food-borne illness incidents could be caused by third-party food suppliers and transporters outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise that could cause claims or allegations on a retroactive basis. One or more instances of food-borne illness in one of our company-operated or franchised restaurants could negatively affect sales at all of our restaurants if highly publicized. This risk would exist even if it were later determined that an illness had been wrongly attributed to one of our restaurants.

Additionally, even if food or water-borne illnesses or other food safety issues or incidents were not identified at El Pollo Loco restaurants, our restaurant sales could be adversely affected, both financially and otherwise, if instances of similar incidents or reports at other QSRs or restaurant chains were highly publicized. In addition, our restaurant sales could be adversely affected by publicity regarding other high-profile illnesses such as avian flu that customers may associate with our food products.

***Failure to receive timely deliveries of food or other supplies could result in a loss of revenue and materially and adversely impact our operations.***

Our and our franchisees' ability to maintain consistent quality menu items and prices significantly depends upon our ability to acquire fresh food products, including the highest-quality chicken and related items, from reliable sources, in accordance with our specifications and on a timely basis. Shortages or interruptions in the supply of fresh food products, caused by unanticipated demand, problems in production, distribution or otherwise in the supply chain, including as a result of the COVID-19 pandemic and restrictions implemented to counter its spread, contamination of food products, an outbreak of poultry disease, inclement weather, or other conditions, could materially and adversely affect the availability, quality, and cost of ingredients, which would adversely affect our business, financial condition, results of operations, and cash flows. We have contracts with a limited number of suppliers for the chicken and other food and supplies for our restaurants. Further, increases in fuel prices could result in increased distribution costs. In addition, one company distributes substantially all of the products that we receive from suppliers to company-operated and franchised restaurants. If that distributor or any supplier fails to perform as anticipated or seeks to terminate agreements with us, or if there is any disruption in any of our supply or distribution relationships for any reason, including our ability to replace any lost distributor or supplier, our business, financial condition, results of operations, and cash flows could be materially and adversely affected. If we or our franchisees temporarily close a restaurant or remove popular items from a restaurant's menu as a result of such a disruption, that restaurant may experience a significant reduction in revenue if our customers change their dining habits as a result.

***Our level of indebtedness, and restrictions under our credit facility, could materially and adversely affect our business, financial condition, and results of operations.***

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

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

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

Further, we are a holding company with no material direct operations. Our principal assets are the equity interests that we indirectly hold in our operating subsidiary, El Pollo Loco, Inc. (“EPL”), which owns our operating assets. As a result, we are dependent on loans, dividends, and other payments from EPL, our operating company and indirect wholly owned subsidiary, and from EPL Intermediate, Inc. (“Intermediate”), our direct wholly owned subsidiary, to generate the funds necessary to meet our financial obligations and to pay dividends on our common stock. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

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

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

***Adverse changes in the economic environment may affect our franchisees, with adverse consequences to us.***

Adverse changes in the economic environment, including inflation and increased labor and supply costs, could result in our franchisees filing for bankruptcy or becoming delinquent in their payments to us, which could have significant adverse impacts on our business, due to loss or delay in payments of (i) royalties, (ii) information technology (“IT”) support service fees, (iii) contributions to our advertising funds, and (iv) other fees. Bankruptcies by our franchisees could (i) prevent us from terminating their franchise agreements, so that we could offer their territories to other franchisees, (ii) negatively impact our market share and operating results, as we might have fewer well-performing restaurants, and (iii) adversely impact our ability to attract new franchisees.

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

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

As of December 28, 2022, approximately 62% of our restaurants were franchised restaurants, therefore, our success relies on the financial success and cooperation of our franchisees, yet we have limited influence over their operations. Franchisees are independent business operators. They are not our employees, and we do not exercise control over the day-to-day operations of their restaurants. We provide training and support to franchisees, and set and monitor operational standards, but the quality of franchised restaurants may be diminished by any number of factors beyond our control. Consequently, franchisees may fail to operate their restaurants in fashions consistent with our standards and requirements, or to hire and train qualified managers and other restaurant personnel. If franchisees do not operate to our expectations, our image and reputation, and the images and reputations of other franchisees, may suffer materially, and system-wide sales could decline significantly.

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

Our growth depends on maintaining amicable relations with our franchisees, including their participation in and adherence to our restaurant operating guidelines. Because our ability to control our franchisees is limited, disagreement may lead to inaction by our franchisees with respect to our initiatives, or even disputes with our franchisees, in court, arbitration or otherwise, including disputes related to an actual or alleged violation of contractual, statutory or common law obligations. Such disputes occur from time to time as we continue to offer franchises due to our size and the general nature of the franchisor-franchisee relationship. Unfavorable judgments, awards or settlements relating to franchisee disputes could result in monetary or injunctive relief against us, including the voiding of non-compete, territorial exclusivity, or other development-related provisions upon which we rely to protect our brand, that could have a material adverse effect on our business and results of operations. Disputes with franchisees also divert the attention, time, and financial resources of our management and our franchisees from our restaurants, which could have a material adverse effect on our (and our franchisees') business, financial condition, results of operations, and cash flows, as well as our ability to attract new franchisees. Even our success in franchisee disputes could damage our (or our franchisees') finances or operations, as well as our relationships with our franchisees and our ability to attract new franchisees given the negative connotations of any franchisor-franchisee disputes.

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

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

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

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

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

**Risks Related to Information Technology and Data Security**

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

From time to time, we experience security events within our networks and systems. These security events have included, and, may in the future include, those caused by physical or electronic break-ins, computer viruses, malware, worms, attacks by hackers or foreign governments, unauthorized access through the use of compromised credentials and tampering, including through social engineering such as phishing attacks, coordinated denial-of-service attacks, exploitation of design flaws, bugs or security vulnerabilities and similar breaches, or intentional or unintentional acts by employees or other insiders with access privileges. In the past, these events have resulted in, and in the future could result in, among other things, temporary system disruptions or shutdowns or unauthorized access to confidential information. These events could in the future also result in misappropriation of our or our customers' proprietary or confidential information, breach of our legal, regulatory or contractual obligations, delays in our operations, or inability to access or rely upon critical business records or systems. In some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. We may be required to expend significant financial resources to protect against or to remediate such security breaches. In addition, our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure, and other catastrophic events and disruptive problems. Any unauthorized access of our systems or the information stored on such systems, damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could damage our reputation, subject us to litigation or to actions by regulatory authorities, harm our business relations or increase our security and insurance costs, which could have a material adverse effect on our business, financial condition and results of operations. Moreover, these systems, infrastructures, and operations rely upon third-party software and vendors, and we may therefore have a limited ability to guard against, learn about, or remedy problems that could harm us, including bugs and glitches, system outages, and hacks that exploit security vulnerabilities to obtain information.

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

We collect and retain internal and customer data, including personally identifiable information of our employees and customers. It is possible that measures we have taken to prevent the occurrence of security breaches may not be adequate and we may in the future become subject to claims or proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of credit/debit card information. Any such claims or proceedings could distract our management team members from running our business, adversely affect our reputation, and cause us to incur significant unplanned losses and expenses.

We are also subject to federal and state laws regulating the collection and use of personal information of our employees and customers, including the California Consumer Privacy Act ("CCPA"), which took effect January 1, 2020, and the California Privacy Rights Act ("CPRA"), which was approved in November 2020, and beginning in January 2023 will impose additional data protection obligations on companies doing business in California. In addition, our ability to accept credit/debit cards as payment in our restaurants and online depends on us maintaining our compliance status with standards set by the PCI Security Standards Council, which require certain levels of system security and procedures to protect our customers' credit/debit card information as well as other personal information. Compliance with these standards and regulations may impose significant costs on us. Further, while we have implemented policies and procedures to ensure compliance with the CCPA, the manner in which the California Attorney General may interpret and enforce the CCPA is uncertain. The potential effects of the CCPA and CRPA are far-reaching and may require us to modify our data processing practices and policies and incur substantial costs and expenses in an effort to comply with these regulations. There is also the potential for increased regulatory enforcement by the state agencies empowered to enforce these laws. Noncompliance with the CCPA, CRPA and other privacy laws could result in injunctions, fines and/or proceedings against us by governmental agencies or others. There could also be uncertainty surrounding compliance with privacy laws in other jurisdictions such as state-specific laws which may conflict with existing legislation or future laws and regulations.

**Risks Related to Intellectual Property**

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

The success of our business strategy depends on our ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products. If our efforts to protect our intellectual property are inadequate, or if any third-party misappropriates or infringes upon our intellectual property, whether in print, on the Internet, or through other media, our brands and branded products could fail to maintain or achieve market acceptance and the value of our brands could be harmed, materially and adversely affecting our business. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States. Any litigation to enforce our intellectual property rights will likely be costly and may not be successful.

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

In addition, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and could divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks or service marks in the future and may be liable for damages, which in turn could have a material adverse effect on our business, financial condition and results of operations.

**Risks Related to Government Regulation and Litigation**

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

Various federal, state and local labor laws govern our relationships with our employees and affect operating costs. These laws include employee classifications as exempt or non-exempt, minimum wage requirements, unemployment tax rates, workers' compensation rates, citizenship requirements, and other wage and benefit requirements for employees classified as non-exempt. Significant additional government regulations and new laws mandating increases in minimum wages or benefits such as health insurance could materially affect our business, financial condition, operating results, and cash flow. In particular, our labor and regulatory compliance costs could be adversely impacted as a result of the FAST Act, which was signed into law in September 2022. The FAST Act, which will take effect if approved by voters in November 2024, authorizes the creation of a council to set minimum standards for workers in the industry, including for wages, working hours, and other health and safety conditions. The implementation of the FAST Act could result in increased labor cost at our California restaurants thereby potentially impacting the profitability of our California restaurants. Further, this bill could prompt similar legislation in other states. In addition, the unionization of our employees and of the employees of our franchisees could materially affect our business, financial condition, operating results, and cash flow.

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

***We are from time to time the target of class action lawsuits and other claims proceedings, which could adversely affect our business and results of operations.***

Our business is subject to the risk of litigation by employees, customers, suppliers, stockholders, and others through private actions, class actions, administrative proceedings, regulatory actions, and other litigation, including actions regarding workplace and employment conditions, discrimination, and similar matters, and we are currently a party to wage and hour class action lawsuits. See additional information presented in Note 13 "Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report. Occasionally, our customers file complaints or lawsuits against us alleging that we are responsible for some illnesses or injuries that they suffered at or after a visit to one of our restaurants, including actions seeking damages resulting from food-borne illnesses or accidents in our restaurants. We are also subject to a variety of other claims from third parties arising in the ordinary course of our business, including contract claims. The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their customers. We may also be subject to lawsuits from our employees, the U.S. Equal Employment Opportunity Commission, or others alleging violations of federal or state laws regarding workplace and employment conditions, discrimination, and similar matters.

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

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

Labor is a primary component in the cost of operating our company-operated and franchised restaurants. Labor shortages and increased labor costs are subject to numerous internal and external factors, including higher employee-turnover rates, changes in immigration policy including barriers to immigrants entering, working in, or remaining in the United States, regulatory changes, prevailing wage rates, including increases in federal, state, or local minimum wages or in other employee benefit costs (including costs associated with health insurance coverage or workers' compensation insurance), and increased competition we face from other companies for qualified employees. During 2022, we continued to experience a competitive and tight labor market. This was attributed to, among other things, increased federal unemployment subsidies, including unemployment benefits offered in response to the ongoing COVID-19 pandemic, costs associated with COVID-19 related overtime pay and other government regulations. A sustained labor shortage could lead to increased costs, such as increased overtime incurred to meet the demands of our customers and increased wage rates to attract and retain employees. Any failure to meet our staffing needs or any material increases in employee turnover rates could adversely affect our business and results of operations, including our ability to grow our restaurant base. See also our risk factor titled "**The COVID-19 pandemic and measures intended to prevent its spread has had, and may continue to have, a significant negative impact on our business, sales, results of operations and financial condition, and any future pandemic, epidemic or public health emergency may result in similar adverse effects**" above for labor shortage risks we may face in connection with the COVID-19 pandemic.

Federally-mandated, state-mandated, or locally-mandated minimum wages have recently increased in several jurisdictions, including the State of California and Los Angeles County, and may be further raised in the future, including as a result of the FAST Act in California. We may be unable to sufficiently 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. In addition, increases in menu prices by us and our franchisees to cover increased labor costs could have the effect of lowering sales, which would thereby reduce our margins and the royalties that we receive from franchisees.

***We are subject to extensive laws, government regulation, and other legal requirements and our failure to comply with existing or new laws and regulations could adversely affect our operational efficiencies, ability to attract and retain talent and results of operations.***

Our business is subject to extensive federal, state and local laws and regulations, including those relating to the preparation, sale and labeling of food and beverages, labor and employment practices and working conditions, health, sanitation, safety and fire standards, building and zoning requirements, registration, offer, sale, termination and renewal of franchises, public accommodations and safety conditions, environmental matters, and consumer protection and privacy obligations. See Item 1 “Business—Regulation and Compliance” for further information. We are also subject to laws and regulations concerning our compliance as a public company, including disclosure and governance matters, including accounting and tax regulations, SEC and The Nasdaq Stock Market LLC (“Nasdaq”) disclosure requirements.

Compliance with these laws and regulations, and future new laws or changes in these laws or regulations that impose additional requirements, can be costly. Any failure or perceived failure to comply with these laws or regulations could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability.

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

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

Further, certain government authorities have adopted or may adopt laws and regulations regarding trans-fats, sodium, sodas or other ingredients or products used or sold by our restaurants. While only a small number of our ingredients contain trans-fats in trace amounts, these regulations may require us to limit or remove ingredients from our products, which could affect product tastes, customer satisfaction levels, and sales volumes. Transitioning to higher-cost ingredients may also hinder our ability to operate in certain markets and proposed tax increases on certain products, such as sodas, may affect sales volumes of those products. Changes in government regulation and consumer eating habits may require us to disclose the nutritional content of our menu offerings. For example, a number of states, counties, and cities have enacted menu labeling laws requiring multi-unit restaurant operators to disclose certain nutritional information to customers. Furthermore, the Affordable Care Act requires chain restaurants to publish calorie information on their menus and menu boards. These and other requirements may increase our expenses, slow customers’ ordering process, or negatively influence the demand for our offerings; all of which can have an adverse effect on our results of operations and financial position, as well as on the restaurant industry in general.

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

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

- govern activities or operations that may have adverse environmental effects, such as discharges into the air, water and soils, as well as waste handling and disposal practices for solid and hazardous wastes and waste water; and

- impose liability for the costs of remediating, and the damage resulting from, past spills, disposals, or other releases of petroleum products and hazardous materials.

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

**Risks Related to Certain of our Stockholders**

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

As of December 28, 2022, Trimaran Pollo Partners, L.L.C. ("LLC") owns approximately 30.3% of our outstanding common stock. This large position means that LLC and its majority owners—which are predecessors and affiliates of, and certain funds managed by, Trimaran Capital Partners (collectively, "Trimaran")—possess significant influence when stockholders vote on matters such as election of directors, mergers, consolidations and acquisitions, the sale of all or substantially all of our assets, decisions affecting our capital structure, amendments to our certificate of incorporation or our by-laws, and our winding up and dissolution. In addition, as of December 28, 2022, certain affiliates of Freeman Spogli & Co., FS Equity Partners V, L.P. and FS Affiliates V, L.P. ("Freeman Spogli"), own collectively approximately 15.0% of our outstanding common stock, which they received in August 2022 following a distribution by the LLC of a portion of its shares to Freeman Spogli.

Further, two of our eleven directors, including our chairman, are affiliated with Trimaran and one of our directors is affiliated with Freeman Spogli. The interests of Trimaran and Freeman Spogli, either individually or collectively, may not always coincide with our interests or the interests of our other stockholders. While Trimaran and Freeman Spogli act separately with respect to their respective ownership of our shares, their significant ownership may have the effect of delaying, deterring, or preventing acts that would be favored by our other stockholders, including a change in control of us. Also, Trimaran and/or Freeman Spogli may seek to cause us to take courses of action that, in their judgments, could enhance their investments in us, but that might involve risks to our other stockholders or adversely affect us or our other stockholders. As a result, the market price of our common stock could decline, or stockholders might not receive a premium over the then-current market price of our common stock upon a change in control. In addition, this concentration of ownership may adversely affect the trading price of our common stock, because investors may perceive disadvantages in owning shares of a company with significant stockholders.

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

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

## Risks Related to Ownership of Our Common Stock

***Our quarterly operating results may fluctuate significantly due to seasonality and other factors, some of which are beyond our control, which could adversely affect the market price of our common stock.***

Our quarterly operating results may fluctuate significantly because of several factors, including but not limited to: increases and decreases in sales; profitability of our restaurants; labor availability and costs for personnel; changes in interest rates; macroeconomic conditions, both nationally and locally; negative publicity relating to the consumption of products we serve; changes in consumer preferences and competitive conditions; impairment of long-lived assets and any loss on and exit costs associated with restaurant closures; expansion to new markets; the timing of new restaurant openings and related expense; restaurant operating costs for our newly-opened restaurants; increases in infrastructure costs; and fluctuations in commodity prices.

Seasonal factors, including weather disruptions, and the timing of holidays also cause our revenue to fluctuate from quarter to quarter. Our revenue per restaurant is typically lower in the first and fourth quarters due to reduced January and December transactions and higher in the second and third quarters. As a result of seasonality, our quarterly and annual results of operations and key performance indicators such as company restaurant revenue and comparable restaurant sales may fluctuate. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the price of our common stock would likely decrease.

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

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

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

***The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets, including shares of our common stock currently held by LLC.***

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that such sales could occur. As of December 28, 2022, LLC, FS Equity Partners V, L.P. and FS Affiliates V, L.P. own approximately 30.3%, 14.8% and 0.2%, respectively, of our outstanding common stock. FS Equity V and FS Affiliates V, which previously indirectly held shares of our common stock through LLC, received shares directly on August 31, 2022, upon LLC's pro rata distribution in kind of shares of our common stock to FS Equity V and FS Affiliates V. LLC, FS Equity Partners V, L.P. and FS Affiliates V, L.P. could sell stock publicly either if the stock were registered or if the exemption requirements of Rule 144 were satisfied. No lock-up agreements presently are in effect.

Pursuant to our stockholders' agreement, LLC and, in certain instances, Freeman Spogli, may require us to file registration statements under the Securities Act at our expense, covering resales of our common stock held by them or

LLC or piggyback on a registration statement in certain circumstances. Pursuant to the stockholders' agreement, on December 29, 2022, LLC exercised these demand registration rights with respect to the shares of our common stock held by it. On February 15, 2023, we filed a registration statement on Form S-3 with the SEC allowing for the resale of the shares of our common stock held by LLC, which registration statement was declared effective on March 1, 2023. Any such sales by the LLC or Freeman Spogli, or the prospect of any such sales, could materially impact the market price of our common stock.

Further, pursuant to the terms of the LLC's limited liability company operating agreement (the "LLC Agreement"), the LLC Agreement can terminate, in which case the LLC will begin the process of dissolving and winding up its affairs, at the earlier of (i) the election of the managing member, or (ii) six years following the completion of our IPO, or July 27, 2020. If the process of winding up the LLC and distribution of shares of our common stock begins and all or a substantial portion of these shares are sold into the public markets, or if it is perceived that they will be resold, the trading price of our common stock could decline.

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

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third-party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. In addition, provisions of our amended and restated certificate of incorporation and by-laws may make it difficult for, or prevent, a third-party from acquiring control of us without the approval of our board of directors. Among other things, these provisions: provide for a classified board of directors with staggered three-year terms; do not permit cumulative voting in the election of directors, which would allow a minority of stockholders to elect director candidates; delegate the sole power to a majority of the board of directors to fix the number of directors; provide the power to our board of directors to fill any vacancy on our board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise; authorize the issuance of "blank check" preferred stock without any need for action by stockholders; eliminate the ability of stockholders to call special meetings of stockholders; establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and provide that, on or after the date that LLC ceases to beneficially own at least 40% of the total votes eligible to be cast in the election of directors, a 75% supermajority vote will be required to amend or repeal provisions relating to, among other things, the classification of the board of directors, the filling of vacancies on the board of directors, and the advance notice requirements for stockholder proposals and director nominations.

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

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

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

As of December 28, 2022, our restaurant system consisted of 490 restaurants, comprised of 188 company-operated restaurants and 302 franchised restaurants, located in California, Nevada, Arizona, Texas, Utah, Louisiana and Colorado. In addition, we currently license our brand to five restaurants in the Philippines. We have not included this licensed restaurant as part of our unit count as presented in this annual report. The table below sets forth the locations (by state) for all restaurants in operation as of December 28, 2022.

| State | Company-Operated | Franchised | Total |
|---|---|---|---|
| California | 152 | 237 | 389 |
| Nevada | 26 | 5 | 31 |
| Arizona | — | 27 | 27 |
| Texas | 9 | 22 | 31 |
| Utah | 1 | 8 | 9 |
| Louisiana | — | 2 | 2 |
| Colorado | — | 1 | 1 |
| Total | 188 | 302 | 490 |

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

Restaurant leases provide for a specified annual rent, and some leases call for additional or contingent rent based on revenue above specified levels. Generally, our leases are "net" leases that require us to pay a pro rata share of taxes, insurance, and maintenance costs. We own 15 properties, of which we currently operate 12 and license three to franchisees. In addition, we operate 176 company-operated restaurants on leased real estate, we own one operating unit with additional parking on leased real estate, and we have another 39 leased sites that are subleased or assigned to franchisees who operate El Pollo Loco restaurants. We also have three closed units, two of which are subleased for uses other than El Pollo Loco. We also sublease a surplus property of an operating location to a third party.

We lease our headquarters, consisting of approximately 29,880 square feet in Costa Mesa, California, for a term expiring in 2024, plus one three-year extension option. We believe that our current office space is suitable and adequate for its intended purposes and our near-term expansion plans.

## ITEM 3. LEGAL PROCEEDINGS

For information regarding our material legal proceedings, see Note 13 "Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report, which information is incorporated herein by reference.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

# PART II

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

### Market Information

Our common stock has been listed on The Nasdaq Stock Market LLC under the symbol "LOCO" since July 25, 2014.

As of March 3, 2023, there were approximately 59 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered at such date and does not include holders of shares in "street name" or persons, partnerships, associates, corporations, or other entities in security position listings maintained by depositories.

**Dividends**

In fiscal 2022, the Board of Directors declared a special cash dividends of $1.50 per share on our common stock. The special dividend was paid on November 9, 2022, to stockholders of record, including holders of restricted stock, at the close of business on October 24, 2022. Our dividend is subject to the discretion and approval of our Board of Directors and our compliance with applicable law, and depends upon, among other things, our results of operations, financial condition, level of indebtedness, capital requirements, contractual restrictions, and other factors that our Board of Directors may deem relevant. We do not anticipate paying any such dividends for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, restrictions imposed by applicable law and our financing agreements and other factors that our Board of Directors deems relevant.

**Issuer Purchases of Equity Securities**

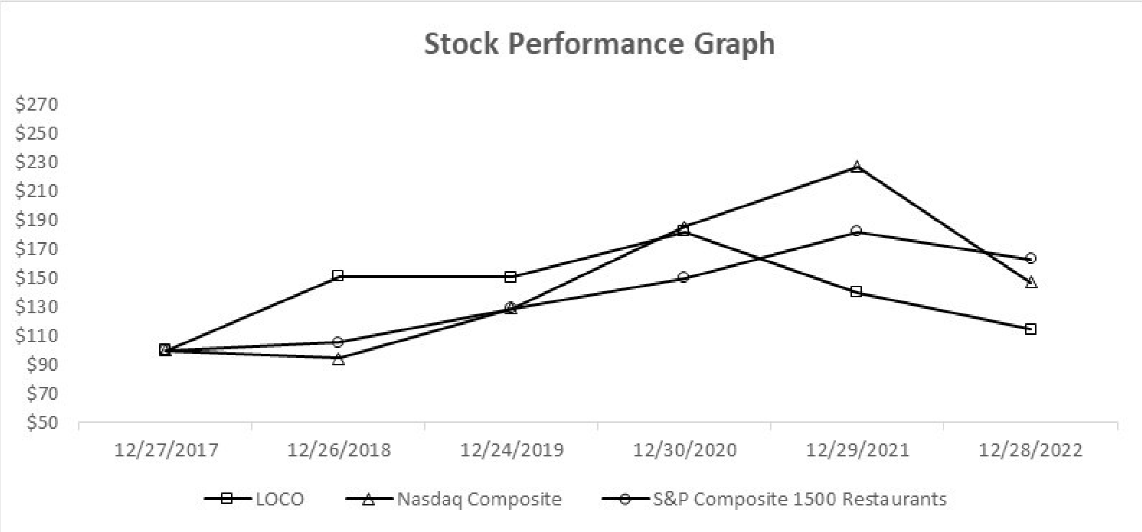
During the quarterly period ended December 28, 2022, we acquired shares of our common stock held by our employees to satisfy tax withholding obligations in connection with the vesting of previously issued restricted stock. The number of shares of common stock acquired and the average price paid per share for each month in the fourth quarter ended December 28, 2022 are as shown in the table below.

| | Total Number of Shares Purchased | Average Price Paid Per Share |
|---|---|---|
| September 29, 2022 to October 26, 2022 | 4,590 | $ 10.94 |
| October 27, 2022 to November 23, 2022 | 2,637 | $ 10.95 |
| November 24, 2022 to December 28, 2022 | — | $ — |
| Total | 7,227 | |

**Stock Performance Graph**

The following graph and table illustrate the total cumulative shareholder return for (i) our common stock, (ii) the Nasdaq Composite Total Return Index and (iii) the Standard and Poor's Composite 1500 Restaurants Index (formerly called the S&P Supercomposite Restaurants Index), for the five years ended December 28, 2022. The graph assumes the investment of $100 at the beginning of the period (at the closing price of our common stock on December 27, 2017) and the reinvestment of all dividends. Specifically, the graph assumes that the $1.50 per share special cash dividend paid to shareholders was reinvested in 2022. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

*The stock performance graph shall not be deemed soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act, nor shall it be incorporated by reference into any past or future filing under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act, except to the extent we specifically request that it be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.*




| Date | | LOCO | | Nasdaq Composite | | S&P Composite 1500 Restaurants |
|---|---|---|---|---|---|---|
| December 27, 2017 | $ | 100.00 | $ | 100.00 | $ | 100.00 |
| December 26, 2018 | $ | 151.00 | $ | 94.45 | $ | 105.35 |
| December 24, 2019 | $ | 150.50 | $ | 129.02 | $ | 129.03 |
| December 30, 2020 | $ | 182.10 | $ | 185.46 | $ | 150.33 |
| December 29, 2021 | $ | 140.10 | $ | 227.20 | $ | 181.96 |
| December 28, 2022 | $ | 114.60 | $ | 147.18 | $ | 163.07 |

**ITEM 6. [RESERVED]**

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

*The following discussion should be read in conjunction with our "Audited Consolidated Financial Statements" and accompanying "Notes to Consolidated Financial Statements" included elsewhere in this Annual Report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause actual results to differ materially from management's expectations. See "Forward-*

*Looking Statements" and "Item 1A. Risk Factors" included elsewhere in this Annual Report. We assume no obligation to update any of these forward-looking statements.*

**Basis of Presentation**

We use a 52- or 53-week fiscal year ending on the last Wednesday of each calendar year. Fiscal 2022, 2021, and 2020 ended on December 28, 2022, December 29, 2021 and December 30, 2020, respectively. In a 52-week fiscal year, each quarter includes 13 weeks of operations. In a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations, and the fourth quarter includes 14 weeks of operations. Approximately every six or seven years a 53-week fiscal year occurs. Fiscal 2020 was a 53-week fiscal year. Fiscal 2022 and 2021 were 52-week fiscal years. 53-week years may cause revenues, expenses, and other results of operations to be higher due to the additional week of operations. Fiscal years are identified in this report according to the calendar years in which they ended. For example, references to fiscal 2022 refer to the fiscal year ended December 28, 2022.

**Overview**

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the LSR segment. We strive to offer food that integrates the culinary traditions of Mexico with the healthier lifestyle of Los Angeles. Our distinctive menu features our signature product--citrus-marinated fire-grilled chicken--and a variety of Mexican and LA-inspired entrees that we create from our chicken. We serve individual and family-sized chicken meals, a variety of Mexican and LA-inspired entrees, and sides, and, throughout the year, on a limited-time basis, additional proteins like beef. Our entrees include favorites such as our Chicken Avocado Burrito, Pollo Fit entrees, chicken tostada salads, and Pollo Bowls. Our famous Creamy Cilantro dressings and salsas are prepared fresh daily, allowing our customers to create their favorite flavor profiles to enhance their culinary experience. Our distinctive menu with "better for you" and more affordable 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.

**Market Trends and Uncertainties**

We may face future business disruption and related risks resulting from the ongoing COVID-19 pandemic or from another pandemic, epidemic or infectious disease outbreak, or from broader macroeconomic trends, any of which could have a significant impact on our business. During the year ended December 28, 2022, we incurred a total of $3.3 million in COVID-19 related expenses, comprised of $2.3 million due to overtime primarily related to the first quarter and $1.0 million due to leaves of absence related to the remaining three quarters. During the year ended December 29, 2021 and December 30, 2020, we incurred $3.9 million and $4.9 million, respectively, in COVID-19 related expenses, primarily due to leaves of absence and overtime pay. In addition, while all of our restaurants had dining rooms open as of December 28, 2022, we continue to experience staffing challenges, including higher wage inflation, overtime costs and other labor related costs. Labor costs could also be adversely impacted as a result of the FAST Act, which was signed into law in September 2022 and authorizes the creation of a council to set minimum standards for industry workers in California, including minimum wages. The FAST Act, which will take effect if approved by voters in November 2024, could result in increased labor cost at our California restaurants thereby potentially impacting the profitability of our California restaurants. Further, this bill could prompt similar legislation in other states. We also continue to experience inflationary pressures, which resulted in increased commodity prices and impacted our business and results of operations during the year ended December 28, 2022. We expect these pressures to continue during fiscal year 2023.

Due to the fluidity of the COVID-19 pandemic and current macroeconomic environment, we cannot determine the ultimate impact on our consolidated financial condition, liquidity, and future results of operations, and therefore any prediction as to the ultimate materiality of the adverse impact on our consolidated financial condition, liquidity, and future results of operations is uncertain.

**Growth Strategies and Outlook**

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

- embed our unique El Pollo Loco culture;

- build awareness and own our lane;
- deliver exceptional service – profitably; and
- accelerate development.

As of December 28, 2022, we had 490 locations in seven states. In fiscal 2022, we opened four new company-operated restaurants, two in Nevada and two in California, and our franchisees opened nine new restaurants, seven in California, one in Colorado and one in Utah. In fiscal 2021, we opened two new company-operated restaurants, one in Nevada and one in California, and our franchisees opened two new restaurants, one in Texas and one in Louisiana.

In 2023, we intend to open four to six new company-operated and eight to twelve new franchised restaurants. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend.

**Highlights and Trends**

***Comparable Restaurant Sales***

In fiscal 2022, comparable restaurant sales system-wide increased 5.9%. In fiscal 2021, comparable restaurant sales system-wide increased 12.1%. In fiscal 2020, comparable restaurant sales system-wide decreased 2.4%. Comparable restaurant sales growth/decline reflects the change in year-over-year sales for the comparable restaurant base. A restaurant enters our comparable restaurant base the first full week after its 15-month anniversary. System-wide comparable restaurant sales include restaurant sales at all comparable company-operated restaurants and at all comparable franchised restaurants, as reported by franchisees. Comparable restaurant sales at company-operated restaurants increased 3.7% in fiscal 2022, increased 7.6% in fiscal 2021, and decreased 3.0% in fiscal 2020. For company-operated restaurants in 2022, the change in comparable restaurant sales consisted of a 7.3% increase in average check size due to increases in menu prices partially offset by a 3.3% decrease in transactions. In fiscal 2021, the increase in company-operated comparable restaurant sales consisted of a 6.3% increase in average check size and a 1.2% increase in transactions. In fiscal 2020, the decrease in company-operated comparable restaurant sales was primarily the result of a decrease in transactions of 15.8%, partially offset by a 15.3% increase in average check size. In fiscal 2022, comparable restaurant sales at franchised restaurants increased 7.4%. In fiscal 2021, comparable restaurant sales at franchised restaurants increased 15.3%, and in fiscal 2020, comparable restaurant sales at franchised restaurants decreased 2.0%.

***Restaurant Development***

In fiscal 2022, we opened four company-operated restaurants, and our franchisees opened nine new restaurants. From time to time, we and our franchisees close restaurants. In fiscal 2022, we closed two company-operated restaurants. Our franchisees closed one restaurant. Our restaurant counts at the beginning and end of each of the last three years were as follows:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| **Company-operated restaurant activity:** | | | |
| Beginning of period | 189 | 196 | 195 |
| Openings | 4 | 2 | 1 |
| Restaurant sale to franchisee | (3) | (8) | — |
| Closures | (2) | (1) | — |
| Restaurants at end of period | 188 | 189 | 196 |
| **Franchised restaurant activity:** | | | |
| Beginning of period | 291 | 283 | 287 |
| Openings | 9 | 2 | 3 |
| Restaurant sale to franchisee | 3 | 8 | — |
| Closures | (1) | (2) | (7) |
| Restaurants at end of period | 302 | 291 | 283 |
| **System-wide restaurant activity:** | | | |
| Beginning of period | 480 | 479 | 482 |
| Openings | 13 | 4 | 4 |
| Closures | (3) | (3) | (7) |
| Restaurants at end of period | 490 | 480 | 479 |

In 2020, we finalized a new restaurant design that we believe will clearly differentiate and communicate our brand, both on the exterior and interior. We believe that our remodels using this new design will result in higher restaurant revenue and a strengthened brand. During the year ended December 28, 2022, we completed six company-operated restaurant remodels and 16 franchise remodels using the new asset design. In fiscal 2023, we plan to continue our standard practices for remodels, which includes completing a total of 10-15 company and 20-30 franchise remodels using the new design. Remodeling is a use of cash and has implications for our net property and depreciation line items on our consolidated balance sheets and statements of income, among others. The cost of our restaurant remodels varies depending on the scope of work required, but on average the investment is $0.3 to $0.4 million per restaurant.

***Loco Rewards***

Our Loco Rewards loyalty program offers rewards that incentivize customers to visit our restaurants more often each month. Customers earn points for each dollar spent and 50 points can be redeemed for a $5 reward to be used for a future purchase. If a customer does not earn or use points within a one-year period, their account is deactivated and all points expire. Additionally, if a reward is not used within six months, it expires. When a customer is part of the rewards program, the obligation to provide future discounts related to points earned is considered a separate performance obligation, to which a portion of the transaction price is allocated. The performance obligation related to loyalty points is deemed to have been satisfied, and the amount deferred in the balance sheet is recognized as revenue, when the points are transferred to a reward and redeemed, the reward or points have expired, or the likelihood of redemption is remote. A portion of the transaction price is allocated to loyalty points on a pro-rata basis, based on stand-alone selling price, as determined by menu pricing and loyalty point’s terms.

In addition, customers can earn additional points and free entrées for a variety of engagement activities. As points are available for redemption past the quarter earned, a portion of the revenue associated with the earned points will be deferred until redemption or expiration. As of December 28, 2022, the amount of revenue deferred related to the earned points, net of redemptions, is $0.5 million. We had more than 3.2 million members in the Loco Rewards loyalty program as of December 28, 2022.

## Key Financial Definitions

***Revenue***

Our revenue is derived from three primary sources: (i) company-operated restaurant revenue, (ii) franchise revenue, which is comprised primarily of franchise royalties and, to a lesser extent, franchise fees and sublease rental income, and (iii) franchise advertising fee revenue. See Note 15 "Revenue from Contracts with Customers" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for further details regarding our revenue recognition policy.

***Food and Paper Costs***

Food and paper costs include the direct costs associated with food, beverage and packaging of our menu items. The components of food and paper costs are variable in nature, change with sales volume, are impacted by menu mix, and are subject to increases or decreases in commodity costs. We expect food and paper costs, particularly those items not subject to purchasing commitments, to increase in the short-term due to current inflationary pressures.

***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, state labor laws (which, in California, may include the FAST Act), overtime, wage inflation, 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 ("CAM"), and real estate taxes. Other restaurant operating expenses include the costs of utilities, advertising, credit card processing fees, restaurant supplies, repairs and maintenance, and other restaurant operating costs.

***General and Administrative Expenses***

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

***Legal Settlements***

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

***Franchise Expenses***

Franchise expenses are primarily comprised of rent expenses incurred on properties leased by us and then sublet to franchisees, and expenses incurred in support of franchisee information technology systems. Additionally, franchise expenses also include all expenses of the advertising fund representing the franchised restaurants portion of advertising expenses.

***Depreciation and Amortization***

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

***Loss on Disposal of Assets***

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

***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 the carrying value of the assets may not be recoverable. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values and record an impairment charge when appropriate. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the assets' carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material.

When we close a restaurant, we will evaluate the right-of-use ("ROU") asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense, in addition to property tax and CAM charges for closed restaurants.

***(Gain) Loss on Disposition of Restaurants***

(Gain) loss on disposal of restaurants includes the (gain) loss on the sale of restaurants to franchisees, or other third parties, and includes the difference between carrying value and sales price of leasehold improvements, equipment and other assets included in the sale.

***Interest Expense, Net***

Interest expense, net, consists primarily of interest on our outstanding revolving debt. Debt issuance costs are amortized on a straight-line basis over the life of the related debt.

***Provision for Income Taxes***

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

**Results of Operations**

***Fiscal Year 2022 Compared to Fiscal Year 2021***

Our operating results for the fiscal years ended December 28, 2022 and December 29, 2021, in absolute terms and expressed as a percentage of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below:

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | 2022 (52-Weeks) | | 2021 (52-Weeks) | | Increase / (Decrease) | |
| | ($,000) | (%) | ($,000) | (%) | ($,000) | (%) |
| **Statements of Income Data:** | | | | | | |
| Revenue | | | | | | |
| Company-operated restaurant revenue | $ 403,218 | 85.8 | $ 394,733 | 86.9 | $ 8,485 | 2.1 |
| Franchise revenue | 38,225 | 8.1 | 33,729 | 7.4 | 4,496 | 13.3 |
| Franchise advertising fee revenue | 28,516 | 6.1 | 25,901 | 5.7 | 2,615 | 10.1 |
| **Total revenue** | **469,959** | **100.0** | **454,363** | **100.0** | **15,596** | **3.4** |
| Cost of operations | | | | | | |
| Food and paper costs (1) | 117,774 | 29.2 | 104,394 | 26.4 | 13,380 | 12.8 |
| Labor and related expenses (1) | 130,773 | 32.4 | 120,308 | 30.5 | 10,465 | 8.7 |
| Occupancy and other operating expenses (1) | 101,543 | 25.2 | 97,557 | 24.7 | 3,986 | 4.1 |
| **Company restaurant expenses (1)** | **350,090** | **86.8** | **322,259** | **81.6** | **27,831** | 8.6 |
| General and administrative expenses | 39,093 | 8.3 | 39,852 | 8.8 | (759) | (1.9) |
| Franchise expenses | 36,169 | 7.7 | 32,831 | 7.2 | 3,338 | 10.2 |
| Depreciation and amortization | 14,418 | 3.1 | 15,176 | 3.3 | (758) | (5.0) |
| Loss on disposal of assets | 165 | 0.0 | 289 | 0.1 | (124) | (42.9) |
| Impairment and closed-store reserves | 752 | 0.2 | 1,087 | 0.2 | (335) | (30.8) |
| (Gain) loss on disposition of restaurants | (848) | (0.2) | 1,534 | 0.3 | (2,382) | (155.3) |
| Total expenses | 439,839 | 93.6 | 413,028 | 90.9 | 26,811 | 6.5 |
| Income from operations | 30,120 | 6.4 | 41,335 | 9.1 | (11,215) | (27.1) |
| Interest expense, net | 1,677 | 0.4 | 1,824 | 0.4 | (147) | (8.1) |
| Income tax receivable agreement (income) expense | (436) | (0.1) | 58 | 0.0 | (494) | (851.7) |
| Income before provision for income taxes | 28,879 | 6.1 | 39,453 | 8.7 | (10,574) | (26.8) |
| Provision for income taxes | 8,078 | 1.7 | 10,332 | 2.3 | (2,254) | (21.8) |
| Net income | $ 20,801 | 4.4 | $ 29,121 | 6.4 | $ (8,320) | (28.6) |

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

*Company-Operated Restaurant Revenue*

In fiscal 2022, company-operated restaurant revenue increased $8.5 million, or 2.1%. The increase in company-operated restaurant sales was primarily due to an increase in company-operated comparable restaurant revenue of $14.3 million, or 3.7%. The company-operated comparable restaurant sales increase consisted of an approximately 7.3% increase in average check size due to increases in menu prices, partially offset by a 3.3% decrease in transactions. In addition, company-operated restaurant revenue was favorably impacted by $3.5 million of additional sales from the opening of six restaurants during or subsequent to the first quarter of 2021. This company-operated restaurant sales increase was partially offset by a $9.0 million decrease in revenue from the closure of three restaurants during or subsequent to the first quarter of 2021, the eleven company-operated restaurants sold by the Company to existing franchisees during or subsequent to the first quarter of 2021.

*Franchise Revenue*

In fiscal 2022, franchise revenue increased $4.5 million, or 13.3%. This increase was primarily due to a franchise comparable restaurant sales increase of 7.4%, the opening of eleven restaurants during or subsequent to the first quarter of 2021 and revenue generated from eleven company-operated restaurants sold by the Company to existing franchisees during or subsequent to the first quarter of 2021. This franchise revenue increase was partially offset by the closure of three franchise locations during the same period.

*Franchise Advertising Fee Revenue*

Franchise advertising fee revenue increased $2.6 million, or 10.1% from the comparable period in the prior year. As advertising fee revenue is a percentage of franchisees' revenue, the year-to-date fluctuation was due to the increases noted in franchise revenue above.

*Food and Paper Costs*

Food and paper costs increased $13.4 million, or 12.8%, in fiscal 2022. The increase in food and paper costs resulted primarily from commodity inflation, partially offset by lower transactions. In addition, the increase in food and paper costs resulted from a $1.1 million increase from restaurants opened during the current or prior year. These increases were partially offset by a reduction of $1.5 million for restaurant locations sold to franchisees during the current or prior year. Food and paper costs as a percentage of company-operated restaurant revenue were 29.2% in fiscal 2022, up from 26.4% in fiscal 2021 primarily due to commodity inflation, partially offset by an increase in pricing.

*Labor and Related Expenses*

Labor and related expenses increased $10.5 million, or 8.7%, in fiscal 2022. The increase was primarily due to a $8.2 million increase primarily related to minimum wage increases in California during fiscal 2022 and other labor wage increases as a result of competitive pressure. Further, the increase for the year-to-date period was due to recognizing a $3.4 million Employee Retention Credit which was recorded as an offset to the corresponding payroll tax expense and was classified as part of the labor and other operating expenses on the consolidated statements of income during the year ended December 29, 2021. In addition, the labor and related expenses were impacted by a $1.3 million increase from restaurants opened during or after the first quarter of the prior year and $1.0 million in higher payroll taxes primarily associated with the labor increases above. The increase in labor and related expenses for the year-to-date period was partially offset by a $2.1 million reduction in labor related to the eleven locations sold to existing franchisees during the current or prior year and a $1.2 million reduction in restaurants closed during the current or prior year. Labor and related expenses as a percentage of company-operated restaurant revenue were 32.4% in fiscal 2022, up from 30.5% in fiscal 2021 primarily due to the cost increases highlighted above, partially offset by the higher menu prices.

*Occupancy and Other Operating Expenses*

Occupancy and other operating expenses increased $4.0 million, or 4.1%, in fiscal 2022. The increase was primarily due to a $2.4 million increase in utilities costs primarily due to increases in natural gas and electricity costs, a $0.6 million increase in market place delivery fees, a $0.4 million increase in freight fuel costs, a $0.3 million increase in repairs and maintenance and a $0.3 million increase in advertising expense. Occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 25.2% in fiscal 2022, up from 24.7% in fiscal 2021 primarily due to the cost increases highlighted above.

*General and Administrative Expenses*

General and administrative expenses decreased $0.8 million, or 1.9%, in fiscal 2022. The decrease was due primarily to a $1.1 million decrease in labor related costs, primarily related to a decrease in management bonus expense and a $0.4 million decrease in legal-related expenses. The decrease in general and administrative expenses was partially offset by a $0.6 million increase in other general and administrative expenses.

General and administrative expenses as a percentage of total revenue were 8.3% in fiscal 2022, down from 8.8% in fiscal 2021. This decrease is primarily due to the cost decreases described above and leverage on higher sales.

*Franchise Expenses*

Franchise expenses increased $3.3 million, or 10.2%, in fiscal 2022. The increase was primarily due to an increase in advertising expenses, primarily resulting from higher franchise revenue, higher franchise services expense and higher rent expense for locations sub-leased to franchisees that have a portion of the rent based on a percentage of revenue generated.

*Impairment and Closed-Store Reserves*

During fiscal 2022, we recorded a $0.5 million non-cash impairment charge primarily related to the carrying value of the ROU assets of one restaurant in California that closed in 2021 and the long-lived assets of two restaurants in California. During fiscal 2021, we recorded a $0.7 million non-cash impairment charge primarily related to the carrying value of the ROU assets of one restaurant in Texas that closed in 2019, the carrying value of one restaurant in California that closed in 2021 and the long-lived assets of three restaurants in California.

During fiscal 2022, we recognized $0.3 million of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for our closed locations compared to $0.4 million during fiscal 2021.

*Gain and Loss on Disposition of Restaurants*

During fiscal 2022, we completed the sale of three company-operated restaurants within the Orange County area to an existing franchisee. We determined that these restaurant dispositions represent multiple element arrangements, and as a result, the cash consideration received was allocated to the separate elements based on their relative standalone selling price. Cash proceeds included upfront consideration for the sale of the restaurants and franchise fees. The cash consideration per restaurant related to franchise fees is consistent with the amounts stated in the related franchise agreements, which are charged for separate standalone arrangements. The Company initially defers and subsequently recognizes the franchise fees over the term of the franchise agreement. This sale resulted in cash proceeds of $1.0 million and a net gain on sale of restaurants of $0.8 million for the fiscal year ended December 28, 2022. These restaurants are included in the total number of franchised El Pollo Loco restaurants.

During fiscal 2021, we completed the sale of eight company-operated restaurants within the Sacramento area to an existing franchisee. We determined that these restaurant dispositions represent multiple element arrangements, and as a result, the cash consideration received was allocated to the separate elements based on their relative standalone selling price. Cash proceeds included upfront consideration for the sale of the restaurants and franchise fees, as well as future cash consideration for royalties. The cash consideration per restaurant related to franchise fees is consistent with the amounts stated in the related franchise agreements, which are charged for separate standalone arrangements. The Company initially defers and subsequently recognizes the franchise fees over the term of the franchise agreement. Future royalty income is also recognized in revenue as earned. This sale resulted in cash proceeds of $4.6 million and a net loss on sale of restaurants of $1.5 million for the fiscal year ended December 29, 2021. These restaurants are included in the total number of franchised El Pollo Loco restaurants.

*Interest Expense, Net*

For fiscal 2022, net interest expense, decreased by $0.1 million, primarily related to lower outstanding balances on our 2022 Revolver (as defined below) during part of the year.

*Income Tax Receivable Agreement*

On July 30, 2014, we entered into the tax receivable agreement (the “TRA”) liability. 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. In fiscal 2022 and fiscal 2021 we recognized income tax receivable agreement income of $0.4 million and expense of less than $0.1 million, respectively. In fiscal 2022 and 2021, we paid $0.4 million and $1.7 million, respectively, to our pre-IPO stockholders under the TRA.

*Provision for Income Taxes*

In fiscal 2022, we recorded an income tax expense of $8.1 million, compared to income tax expense of $10.3 million in fiscal 2021, reflecting an estimated effective tax rate of 28.0% and 26.2%, respectively. The difference between the 21.0% statutory rate and the Company’s effective tax rate of 28.0% for the year ended December 28, 2022 is primarily a result of state taxes, the change in valuation allowance against certain state credits, a tax shortfall related to equity compensation and non-deductible executive compensation, partially offset by a Work Opportunity Tax Credit benefit.

The difference between the 21.0% statutory rate and the Company's effective tax rate of 26.2% for the year ended December 29, 2021 is primarily a result of windfall tax benefit related to stock options exercised and state taxes, a Work Opportunity Tax Credit benefit and the change in valuation allowance against certain state credits as a result of future forecasted income apportioned to the state jurisdiction.

***Fiscal Year 2021 Compared to Fiscal Year 2020***

Year-to-year comparisons of fiscal 2021 and fiscal 2020 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 on our Annual Report on Form 10-K for the year ended December 29, 2021, which was filed with the SEC on March 11, 2022.

***Key Performance Indicators***

To evaluate the performance of our business, we utilize a variety of financial and performance measures. These key measures include company-operated restaurant revenue, system-wide sales, comparable restaurant sales, company-operated average unit volumes ("AUV"), restaurant contribution, restaurant contribution margin, new restaurant openings, EBITDA, and Adjusted EBITDA. In fiscal 2022, our restaurants generated company-operated restaurant revenue of $403.2 million and system-wide sales of $1,039.0 million, and system comparable sales growth of 5.9%, consisting of company-operated restaurant comparable sales growth of 3.7% and franchised comparable sales growth of 7.4%. The company-operated comparable sales increase consisted of a 7.3% increase in average check size due to increases in menu prices and partially offset by a 3.3% decrease in transactions. In fiscal 2022, for company-operated restaurants, our annual AUV was $2.1 million, restaurant contribution margin was 13.2%, and Adjusted EBITDA was $48.7 million.

***Company-Operated Restaurant Revenue***

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

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

***System-Wide Sales***

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

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

| (Dollar amounts in thousands) | Fiscal Year 2022 (52-Weeks) | 2021 (52-Weeks) | 2020 (53-Weeks) |
|---|---|---|---|
| **Company-operated restaurant revenue** | $ 403,218 | $ 394,733 | $ 374,064 |
| Franchise revenue | 38,225 | 33,729 | 29,418 |
| Franchise advertising fee revenue | 28,516 | 25,901 | 22,605 |
| **Total Revenue** | 469,959 | 454,363 | 426,087 |
| Franchise revenue | (38,225) | (33,729) | (29,418) |
| Franchise advertising fee revenue | (28,516) | (25,901) | (22,605) |
| Sales from franchised restaurants | 635,819 | 578,497 | 505,559 |
| **System-wide sales** | $ 1,039,037 | $ 973,230 | $ 879,623 |

***Comparable Restaurant Sales***

Comparable restaurant sales reflect year-over-year sales changes for comparable company-operated, franchised, and system-wide restaurants. A restaurant enters our comparable restaurant base the first full week after it has operated for fifteen months. Comparable restaurant sales exclude restaurants closed during the applicable period. At December 28, 2022, December 29, 2021 and December 30, 2020, there were 464, 464 and 465 comparable restaurants, 184, 187 and 190 company-operated and 280, 276 and 275 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 size, resulting from a shift in menu mix and/or higher prices resulting from new products or price increases. Because other companies may calculate this measure differently than we do, comparable restaurant sales as presented herein may not be comparable to similarly titled measures reported by other companies. Management believes that comparable restaurant sales is a valuable metric for investors to evaluate the performance of our store base, excluding the impact of new stores and closed stores.

***Company-Operated Average Unit Volumes***

We measure company-operated AUVs on both a weekly and an annual basis. Weekly AUVs consist of comparable restaurant sales over a seven-day period from Thursday to Wednesday. Annual AUVs are calculated using a step process. First, we divide our total net sales for all company-operated restaurants for the fiscal year by the total number of restaurant operating weeks during the same period. Second, we annualize that average weekly per-restaurant sales figure by multiplying it by 52. An operating week is defined as a restaurant open for business over a seven-day period from Thursday to Wednesday. This measurement allows management to assess changes in consumer spending patterns at our restaurants and the overall performance of our restaurant base.

***Restaurant Contribution and Restaurant Contribution Margin***

Restaurant contribution and restaurant contribution margin are neither required by, nor presented in accordance with, GAAP. Restaurant contribution is defined as company-operated restaurant revenue less company restaurant expenses which includes food and paper cost, labor and related expenses and occupancy and other operating expenses, where applicable. Restaurant contribution therefore excludes franchise revenue, franchise advertising fee revenue and franchise expenses as well as certain other costs, such as general and administrative expenses, franchise expenses, depreciation and amortization, impairment and closed-store reserve, loss on disposal of assets and other costs that are considered corporate-level expenses and are not considered normal operating costs of our restaurants. Accordingly, restaurant contribution is not indicative of overall Company results and does not accrue directly to the benefit of shareholders because of the exclusion of certain corporate-level expenses. Restaurant contribution margin is defined as restaurant contribution as a percentage of net company-operated restaurant revenue.

Restaurant contribution and restaurant contribution margin are supplemental measures of operating performance of our restaurants, and our calculations thereof may not be comparable to those reported by other companies. Restaurant contribution and restaurant contribution margin have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Management uses restaurant contribution and restaurant contribution margin as key metrics to evaluate the profitability of incremental sales at our restaurants, to evaluate our restaurant performance across periods, and to evaluate our restaurant financial performance compared with our competitors. Management believes that restaurant contribution and restaurant contribution margin are important tools for investors, because they are widely-used metrics within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance. Restaurant contribution and restaurant contribution margin may also assist investors in evaluating our business and performance relative to industry peers and provide greater transparency with respect to the Company's financial condition and results of operation.

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

| | Fiscal Year | | |
|---|---|---|---|
| **(Dollar amounts in thousands)** | **2022 (52-Weeks)** | **2021 (52-Weeks)** | **2020 (53-Weeks)** |
| **Restaurant contribution:** | | | |
| **Income from operations** | $ 30,120 | $ 41,335 | $ 33,556 |
| Add (less): | | | |
| General and administrative expenses | 39,093 | 39,852 | 35,918 |
| Legal settlements | — | — | 2,566 |
| Franchise expenses | 36,169 | 32,831 | 28,761 |
| Depreciation and amortization | 14,418 | 15,176 | 16,878 |
| Loss on disposal of assets | 165 | 289 | 189 |
| Franchise revenue | (38,225) | (33,729) | (29,418) |
| Franchise advertising fee revenue | (28,516) | (25,901) | (22,605) |
| Recovery of securities lawsuits related legal expenses and other insurance claims | — | — | (123) |
| Impairment and closed-store reserves | 752 | 1,087 | 4,691 |
| (Gain) loss on disposition of restaurants | (848) | 1,534 | — |
| **Restaurant contribution** | $ 53,128 | $ 72,474 | $ 70,413 |
| | | | |
| **Company-operated restaurant revenue:** | | | |
| **Total revenue** | $ 469,959 | $ 454,363 | $ 426,087 |
| Less: | | | |
| Franchise revenue | (38,225) | (33,729) | (29,418) |
| Franchise advertising fee revenue | (28,516) | (25,901) | (22,605) |
| **Company-operated restaurant revenue** | $ 403,218 | $ 394,733 | $ 374,064 |
| | | | |
| Restaurant contribution margin (%) | 13.2 % | 18.4 % | 18.8 % |

***New Restaurant Openings***

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

***EBITDA and Adjusted EBITDA***

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

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

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

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

Management believes 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) management believes that these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry, (ii) management believes 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 our net income to EBITDA and Adjusted EBITDA:

| | Fiscal Year | | |
|---|---|---|---|
| **(Amounts in thousands)** | **2022 (52-Weeks)** | **2021 (52-Weeks)** | **2020 (53-Weeks)** |
| **Net income** | **$ 20,801** | **$ 29,121** | **$ 24,474** |
| Non-GAAP adjustments: | | | |
| Provision for income taxes | 8,078 | 10,332 | 5,651 |
| Interest expense, net of interest income | 1,677 | 1,824 | 3,292 |
| Depreciation and amortization | 14,418 | 15,176 | 16,878 |
| **EBITDA** | $ 44,974 | $ 56,453 | $ 50,295 |
| Stock-based compensation expense (a) | 3,491 | 3,220 | 3,093 |
| Loss on disposal of assets (b) | 165 | 289 | 189 |
| Recovery of securities lawsuits related legal expense and other insurance claims (c) | — | — | (123) |
| Impairment and closed-store reserves (d) | 752 | 1,087 | 4,691 |
| (Gain) loss on disposition of restaurants (e) | (848) | 1,534 | — |
| Income tax receivable agreement (income) expense (f) | (436) | 58 | 139 |
| Securities class action legal expense (g) | 443 | 495 | 604 |
| Legal settlements (h) | (541) | — | 2,566 |
| Special legal expenses (i) | 350 | — | — |
| Pre-opening costs (j) | 326 | 259 | 141 |
| **Adjusted EBITDA** | $ 48,676 | $ 63,395 | $ 61,595 |

(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 fiscal 2020, we received insurance proceeds of $0.1 million related to a property claim.

(d) Includes costs related to impairment of long-lived and ROU assets and closing restaurants. During fiscal 2022, we recorded non-cash impairment charges of $0.5 million, primarily related to the carrying value of the ROU assets of one restaurant in California that closed in 2021 and the long-lived assets of two restaurants in California. During fiscal 2022, we recognized $0.3 million of closed-store reserve expense, primarily related to the amortization of ROU assets, property taxes and CAM payments for our closed locations.

In fiscal 2021, we recorded non-cash impairment charges of $0.7 million for the year ended December 29, 2021, primarily related to the carrying value of one restaurant in Texas closed in 2019, the ROU assets of one restaurant in California closed in 2021, and the long-lived assets of three restaurants in California. During fiscal 2021, we recognized $0.4 million of closed-store reserve expense, primarily related to the amortization of ROU assets, property taxes and CAM payments for our closed locations.

In fiscal 2020, we recorded impairment charges of $3.5 million for the year ended December 30, 2020, primarily related to the carrying value of the ROU assets of one restaurant in Texas and the long-lived assets of four restaurants in California. During fiscal 2020, we recognized $1.2 million of closed-store reserve expense, primarily related to the amortization of ROU assets, property taxes and CAM payments for our closed locations.

(e) During fiscal 2022, we completed the sale of three company-operated restaurants within the Orange County area to an existing franchisee. This sale during 2022 resulted in cash proceeds of $1.0 million and a net gain on sale of restaurants of $0.8 million for the year ended December 28, 2022. During fiscal 2021, we completed the sale of our eight restaurants within Sacramento area to an existing franchisee. This sale resulted in cash proceeds of $4.6 million during the year ended December 29, 2021 and a net loss on sale of restaurants of $1.5 million for the year ended December 29, 2021.

(f) On July 30, 2014, we entered into the TRA. This agreement calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the years ended December 28, 2022, December 29, 2021 and December 30, 2020, income tax receivable agreement (income) expense consisted of the amortization of interest expense and changes in estimates for actual tax returns filed, related to our total expected TRA payments.

(g) Consists of costs related to the defense of securities lawsuits. During the year ended December 29, 2021, we received $0.5 million in insurance proceeds, net of legal expenses, related to the derivative complaint. See Note 13 “Commitments and Contingencies—Legal Matters” in the accompanying “Notes to Consolidated Financial Statements” in this Annual Report.

(h) Fiscal 2020 consists of an expense of $2.6 million related to resolution of the longstanding lawsuit involving a contract dispute with one of the Company’s franchisees concerning asserted territory rights, as well as amounts incurred related to the payment of the final settlement amounts for consolidated wage and hour class action lawsuits resolved during fiscal 2020. For additional information on legal settlements, see Note 13 “Commitments and Contingencies—Legal Matters” in the accompanying “Notes to Consolidated Financial Statements” in this Annual Report.

(i) Consists of costs related to a special dividend declaration. On October 11, 2022, the Board of Directors declared a special dividend of $1.50 per share on the common stock of the Company. The special dividend was paid on November 9, 2022, to stockholders of record, including holders of restricted stock, at the close of business on October 24, 2022.

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

## Liquidity and Capital Resources

Our primary sources of liquidity and capital resources have been cash provided from operations, cash and cash equivalents, and the 2022 Revolver (as defined below). Our primary requirements for liquidity and capital are new restaurants, existing restaurant capital investments (remodels and maintenance), legal defense costs, lease obligations, interest payments on our debt, working capital and general corporate needs. Our working capital requirements are not significant, since our customers pay for their purchases in cash or by payment card (credit or debit) at the time of sale. Thus, we are able to sell many of our inventory items before we have to pay our suppliers. Our restaurants do not require significant inventories or receivables. We believe that these sources of liquidity and capital are sufficient to finance our continued operations, including planned capital expenditures, for at least the next 12 months and beyond from the issuance of the consolidated financial statements.

However, depending on the effects of the COVID-19 pandemic (and its related economic impacts) and macroeconomic conditions, our financial performance and liquidity could be further impacted and could impact our ability to meet certain financial covenants required in our 2022 Credit Agreement (as defined in Note 6 “Long-Term Debt”), specifically the lease-adjusted coverage ratio and fixed-charge coverage ratio.

### *Cash Flows*

The following table presents summary cash flow information for the years indicated:

| | Fiscal Year | | |
|---|---|---|---|
| **(Amounts in thousands)** | **2022 (52-Weeks)** | **2021 (52-Weeks)** | **2020 (53-Weeks)** |
| Net cash provided by (used in) | | | |
| Operating activities | $ 38,549 | $ 52,099 | $ 40,547 |
| Investing activities | (18,915) | (12,485) | (6,690) |
| Financing activities | (29,187) | (22,787) | (28,708) |
| Net (decrease) increase in cash | $ (9,553) | $ 16,827 | $ 5,149 |

*Operating Activities*

In fiscal 2022, net cash provided by operating activities decreased by $13.6 million compared to fiscal 2021. This decrease was due primarily to lower profitability and unfavorable working capital fluctuations during fiscal 2022.

In fiscal 2021, net cash provided by operating activities increased by $11.6 million compared to fiscal 2020. This increase was due primarily to an increase in profitability after non-cash items and favorable working capital fluctuations for the year ended December 29, 2021.

*Investing Activities*

In fiscal 2022, net cash used in investing activities increased by $6.4 million compared to fiscal 2021. This increase was due primarily to opening four new company-operated restaurants during fiscal 2022 compared to opening two new company-operated restaurants during fiscal 2021. This was partially offset by cash proceeds of $1.0 million received during fiscal 2022 related to the sale of three restaurants within the Orange County area to an existing franchisee compared to cash proceeds of $4.6 million received during fiscal 2021 related to the sale of eight restaurants within the Sacramento area to an existing franchisee.

In fiscal 2021, net cash used in investing activities increased by $5.8 million compared to fiscal 2020. This increase was due primarily to opening two new company-operated restaurants and remodeling ten restaurants during the year ended December 29, 2021 compared to opening one new company-operated restaurant and completing two new remodels during the year ended December 30, 2020. This was partially offset by cash proceeds of $4.6 million received during the year ended December 29, 2021 related to the sale of eight restaurants within the Sacramento area to an existing franchisee.

*Financing Activities*

In fiscal 2022, net cash used in financing activities increased by $6.4 million compared to fiscal 2021. This change was due primarily to a special dividend payout of $56.0 million during fiscal 2022 partially offset by net borrowings on the 2022 Revolver of $26.0 million, compared to net pay downs of $22.8 million in fiscal 2021. Additionally, this change was due to a $1.7 million cash inflow related to option exercises during the year ended December 28, 2022, compared to a $0.9 million cash inflow during the year ended December 29, 2021.

In fiscal 2021, net cash used in financing activities decreased by $5.9 million compared to fiscal 2020. This decrease was due primarily to $22.8 million of net pay downs on the 2018 Revolver during fiscal 2021, compared to net pay downs of $34.2 million in fiscal 2020. The change was partially offset by a decrease of $5.0 million in proceeds received from the issuance of common stock upon exercise of stock options in fiscal 2021 compared to fiscal 2020.

***Debt and other Obligations***

The Company, as a guarantor, is a party to a credit agreement (the “2022 Credit Agreement”) among EPL, as borrower, Intermediate, as a guarantor, Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a $150.0 million five-year senior secured revolving credit facility (the “2022 Revolver”). The 2022 Revolver, which is available pursuant to the 2022 Credit Agreement, includes a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. The 2022 Revolver and 2022 Credit Agreement will mature on July 27, 2027. The obligations under the 2022 Credit Agreement and related loan documents are guaranteed by Holdings and Intermediate. The obligations of Holdings, EPL and Intermediate under the 2022 Credit Agreement and related loan documents are secured by a first priority lien on substantially all of their respective assets.

The special dividend announced by the Company’s Board of Directors on October 11, 2022 was permitted under the terms of 2022 Revolver pursuant to both subclause (iii)(d) and (iii)(e) of the following sentence. Under the 2022 Revolver, Holdings is restricted from making certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by our past or present officers, directors, or employees (or their estates) upon death, disability, or termination of employment, (ii) pay under its 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, officers and management, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $0.5 million in any 12 month consecutive period to redeem, repurchase or otherwise acquire equity interests of any subsidiary that is not a wholly-owned subsidiary from any holder of equity interest in such subsidiary, (c) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (d) make up to $5.0 million in other restricted payments per year, and (e) make other restricted payments, subject to its compliance, on a pro forma basis, with (x) a lease-adjusted consolidated leverage ratio not to exceed 4.25 times and (y) the financial covenants applicable to the 2022 Revolver.

Borrowings under the 2022 Credit Agreement (other than any swingline loans) bear interest, at the borrower's option, at rates based upon either the secured overnight financing rate ("SOFR") or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the published Bank of America prime rate, or (c) Term SOFR with a term of one-month SOFR plus 1.00%. For Term SOFR loans, the margin is in the range of 1.25% to 2.25%, and for base rate loans the margin is in a range of 0.25% to 1.25%. Borrowings under the 2022 Revolver may be repaid and reborrowed. For borrowings under the 2022 Revolver and 2018 Revolver during fiscal 2022, the interest rate range was 1.4% to 6.0%. For borrowings under the 2018 Revolver during fiscal 2021, the interest rate range was 1.3% to 1.6%. The interest rate under the 2022 Revolver was 5.7% at December 28, 2022 and 1.4% under the 2018 Revolver at December 29, 2021.

The 2022 Credit Agreement contains certain financial covenants. We were in compliance with the financial covenants as of December 28, 2022.

At December 28, 2022, $9.8 million of letters of credit and $66.0 million of the revolving line of credit were outstanding. The amount available under the revolving line of credit was $74.2 million at December 28, 2022.

During the year ended December 28, 2022, we refinanced and terminated our credit agreement (the "2018 Credit Agreement") among EPL, as borrower, the Company and Intermediate, as guarantors, Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provided for a $150.0 million five-year senior secured revolving credit facility (the "2018 Revolver") and entered into the 2022 Credit Agreement. On July 29, 2022, we made a $20.0 million payment to the 2022 Revolver and the outstanding balance as of December 28, 2022 was $66.0 million. See Note 6 "Long Term Debt" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for additional information.

In connection with our entry into the 2022 Credit Agreement, we terminated the interest rate swap on July 28, 2022 which was previously used to hedge interest rate risk. Prior to the interest rate swap termination, the swap was a highly effective cash flow hedge. In settlement of this swap, we received approximately $0.6 million and derecognized the corresponding interest rate swap asset. The remaining amount in accumulated other comprehensive (loss) income ("AOCI") related to the hedging relationship will be reclassified into earnings when the hedged forecasted transaction is reported in earnings.

**Material Cash Requirements**

Our total capital expenditures for 2022 were $19.9 million. In 2022, we spent approximately $8.1 million on the development and construction of our new restaurants. The remaining $11.8 million of capital expenditures during 2022 were related to investments in existing restaurants, including new equipment and hardware, technology to optimize efficiencies, remodeling and similar improvements. In 2023, we expect to incur between $27.0 million and $31.0 million in total capital expenditures, of which we expect $11.0 million to $13.0 million will be related to our construction of new restaurants, and $14.0 million to $16.0 million will be related to investments in existing restaurants, including new equipment and hardware, technology to optimize efficiencies, remodeling and similar improvements. Finally, we expect a portion of our incurred capital expenditures in 2023 to be for additional corporate initiatives, including investments in technology for support centers to boost innovation, enhancing the customer experience, and improving operations. We expect to fund these capital expenditures primarily with operating cash flows.

The following table summarizes our other current and long-term material cash requirements as of December 28, 2022, which we expect to fund primarily with operating cash flows:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **(Amounts in thousands)** | **Total** | **2023** | **2024 - 2025** | **2026 - 2027** | **2028 and thereafter** |
| Operating leases [1] | $ 236,459 | $ 27,876 | $ 49,616 | $ 41,401 | $ 117,566 |
| Finance leases [1] | 2,146 | 151 | 298 | 218 | 1,479 |
| Long-term debt [2] | 76,959 | 3,529 | 6,938 | 66,492 | — |
| Income tax receivable agreement [3] | 672 | 263 | 409 | — | — |
| Purchasing commitments—chicken[4] | 40,866 | 40,866 | — | — | — |
| Total | $ 357,102 | $ 72,685 | $ 57,261 | $ 108,111 | $ 119,045 |

(1) ***Operating and Finance Leases*** — Represents future minimum lease payments for our restaurants and the principal payments during the lease terms, respectively. Refer to Note 5 "Leases" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for further details regarding our obligations and the timing of expected payments.

(2) ***Long-Term Debt*** — Represents our contractual debt obligations. Includes expected interest expenses, calculated based on applicable interest rates at December 28, 2022. Refer to Note 6 "Long-Term Debt" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for further details regarding our obligations and the timing of expected payments.

(3) ***Income Tax Receivable Agreement*** — Represents payments to our pre-IPO stockholders under the TRA. Refer to Note 9 "Income Taxes" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for further details regarding our obligations and the timing of expected payments.

(4) ***Purchasing Commitments (Chicken)*** — Reflects contractual purchase commitments for goods related to restaurant operations. Refer to Note 13 "Commitments and Contingencies" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for further details regarding our obligations.

**Critical Accounting Policies and Estimates**

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

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. Management believes that the critical accounting policies and estimates discussed below involve the most difficult management judgments, due to the sensitivity of the methods and assumptions used. Our significant accounting policies are described in Note 2 "Summary of Significant Accounting Policies" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report.

***Revenue Recognition***

We record revenue from company-operated restaurants as food and beverage products are delivered to customers and payment is tendered at the time of sale. We present sales net of sales-related taxes and promotional allowances. In the case of gift card sales, we record revenue when the gift card is redeemed by the customer. We record royalties from franchised restaurant sales based on a percentage of restaurant revenues in the period that the related franchised restaurants' revenues are earned. The initial franchise services, or exclusivity of the development agreements, are not distinct from the continuing rights or services offered during the term of the franchise agreement and are, therefore, treated as a single performance obligation. As such, initial franchise and development fees received, and subsequent renewal fees, are recognized over the franchise, or renewal, term, which is typically 20 years.

***Goodwill and Indefinite-Lived Intangible Assets, Net***

Intangible assets consist primarily of goodwill and trademarks.

We do not amortize our goodwill and indefinite-lived intangible assets. We perform an annual impairment test for goodwill during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise.

We perform an annual impairment test for indefinite-lived intangible assets during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. 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.

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

We determined that there were no indicators of potential impairment of our goodwill and indefinite-lived intangible assets during fiscal 2022 and 2021. Accordingly, we did not record any impairment to goodwill or indefinite-lived intangible assets during the year ended December 28, 2022. The ultimate severity and longevity of the COVID-19 pandemic and the extent and duration of any economic downturn is unknown, and therefore, it is possible that impairments could be identified in future periods, and such amounts could be material.

Upon the sale or refranchising of a restaurant, we evaluate 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 fair value of the portion of the reporting unit disposed of in a refranchising is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which includes a deduction for the anticipated, future royalties the franchisee will pay us associated with the franchise agreement entered into simultaneously with the refranchising transition. The fair value of the reporting unit retained is based on the price a willing buyer would pay for the reporting unit and includes the value of franchise agreements. As such, the fair value of the reporting unit retained can include expected cash flows from future royalties from those restaurants currently being refranchised, future royalties from existing franchise businesses and company restaurant operations. We did not record any decrement to goodwill related to the disposition of restaurants in fiscal 2022, 2021 and 2020.

***Long-Lived and ROU Assets***

We state the value of our property and equipment, including primarily leasehold improvements and restaurant equipment, furniture, and fixtures, at cost, minus accumulated depreciation and amortization. We calculate depreciation using the straight-line method of accounting over the estimated useful lives of the related assets. We amortize our leasehold improvements using the straight-line method of accounting over the shorter of the lease term (including reasonably assured renewal periods) or the estimated useful lives of the related assets. We expense repairs and maintenance as incurred, but capitalize major improvements and betterments. We make judgments and estimates related to the expected useful lives of those assets that are affected by factors such as changes in economic conditions and changes in operating performance. If we change our assumptions in the future, we may be required to record impairment charges for these assets.

The Company reviews its long-lived and ROU assets for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying value of certain assets may not be recoverable. The Company considers a triggering event to have occurred related to a specific restaurant if the restaurant's AUV for the last twelve months are less than a minimum threshold or if consistent levels of undiscounted cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. If the Company concludes that the carrying value of certain assets will not be recovered based on expected undiscounted future cash flows, an impairment write-down is recorded to reduce the assets to their estimated fair value. The fair value is measured on a nonrecurring basis using unobservable (Level 3) inputs. There is uncertainty in the projected undiscounted future cash flows used in our impairment review analysis. If actual performance does not achieve the projections, we may recognize impairment charges in future periods, and such charges could be material.

***Insurance Reserves***

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

***Accounting for Lease Obligations***

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

We make significant assumptions and judgments related to determination of whether a contract contains a lease and the discount rate used for the lease. In determining if any of our contracts contain a lease, we make assumptions and judgments related to our ability to direct the use of any assets stated in the contract and the likelihood of renewing any short-term contracts for a period extending past twelve months. We also make significant assumptions and judgments in determining an appropriate discount rate for property leases. These include using a consistent discount rate for a portfolio of leases entered into at varying dates, using the full 20-year term of the lease, excluding any options, and using the total minimum lease payments. We utilize a third-party valuation firm to assist in determining the discount rate, based on the above assumptions. For all other leases, we use the discount rate implicit in the lease, or the Company's incremental borrowing rate.

***Income Taxes***

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. As of December 28, 2022, we had no federal and less than $0.1 million state net operating loss ("NOL") carryforwards. These State NOLs expire beginning 2029.

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

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

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

- current financial performance;

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

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

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

On July 30, 2014, we entered into the TRA. The TRA calls for us to pay our pre-IPO stockholders 85% of the cash savings that we realize in our taxes as a result of utilizing our NOLs and other tax attributes attributable to preceding periods. The TRA charge expense (benefit) is a permanent add-back to our taxable income. TRA resulted in $0.4 million of income in fiscal 2022 and less than $0.1 million of expense in fiscal 2021 as a result of the amortization of interest expense related to the total expected TRA payments and changes in estimates for actual tax returns filed and future forecasted taxable income and $0.1 million of expense in fiscal 2020 as a result of changes to future forecasted results and deduction on 2018 legal settlement accrual. In fiscal 2022, 2021 and 2020, we paid $0.4 million, $1.7 million and $5.2 million, respectively, to our pre-IPO stockholders under the TRA.

In addition, in fiscal 2014, we applied for various tax credits that resulted in $6.7 million of additional deferred tax assets and tax benefits. As of fiscal 2022, the deferred asset balance related to these various tax credits, net of valuation allowance was $0.5 million. The fiscal 2022 provision includes a $6.7 million valuation allowance against our deferred tax asset, resulting from certain tax credits that may not be realizable prior to the time the credits expire.

During fiscal 2020, we received a Notice of Proposed Adjustment for the years ended December 27, 2017 and December 28, 2016, related to our methodology regarding our ordering of NOL. Resolution of this NOPA resulted in a payment of $0.4 million, and the audit is closed. As a result of the CARES Act, this amount was immediately refundable upon filing of a Form 1139. We filed the Form 1139 during the year ended December 30, 2020 and received a refund totaling $0.5 million.

***Stock-Based Compensation***

We measure and recognize compensation expense for the estimated fair value of equity instruments for employees and non-employee directors based on the grant-date fair value of the award. For awards that are based on a service requirement, the cost is recognized on a straight-line basis over the requisite service period, usually the vesting period. We granted 372,958 options during fiscal 2022. In fiscal 2022, we granted 356,610 restricted stock awards, with an exercise price equal to the fair market value of the common stock on the date of grant. The awards granted in fiscal 2022, 2021 and 2020 had a four-year vesting period for employees and three-year vesting period for directors. In order to calculate the grant date fair value for our stock options, we utilize the Black–Scholes option pricing model. The model involves several assumptions including the expected term of the option, expected volatility and risk-free interest rate. The volatility and the expected life assumptions were based on our historical data. If we changed our assumptions of stock price volatility or expected lives of our stock options, our stock-based compensation expense and results of operations may be materially different.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

On July 27, 2022, we refinanced the 2018 Revolver and entered into the 2022 Credit Agreement, which provides for a $150 million five-year senior secured revolving facility. In connection with the refinancing, the 2018 Credit Agreement was terminated. We are exposed to market risk from changes in interest rates on our debt, which bears interest at SOFR plus a margin between 1.25% and 2.25%. As of December 28, 2022, we had outstanding borrowings of $66.0 million under our 2022 Revolver, $9.8 million of letters of credit in support of our insurance programs, and the applicable margin on outstanding borrowings under 2022 Revolver was 1.5%. A 1.0% increase in the effective interest rate applied to our 2022 Revolver borrowings would result in a pre-tax interest expense increase of $0.7 million on an annualized basis.

During the year ended December 28, 2022, we borrowed $26.0 million net of pay downs of $20.0 million on our 2022 Revolver and the outstanding balance as of December 28, 2022 was $66.0 million. Borrowings under the 2022 Credit Agreement (other than any swingline loans) bear interest, at the borrowers' option, at rates based upon either SOFR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. If future rates based upon SOFR are higher than SOFR rates as currently determined, we may experience potential increases in interest rates on our variable rate debt, which could adversely impact our interest expense, results of operations and cash flows.

In connection with our entry into the 2022 Credit Agreement, we terminated the interest rate swap previously used to hedge interest rate risk. In settlement of this swap, we received approximately $0.6 million. The remaining amount in AOCI related to the hedging relationship will be reclassified into earnings when the hedged forecasted transaction is reported in earnings.

### 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. 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. In addition, 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.

### 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### EL POLLO LOCO HOLDINGS, INC. AND SUBSIDIARIES

### INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of El Pollo Loco Holdings, Inc. (the "Company") as of December 28, 2022 and December 29, 2021, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 28, 2022 and December 29, 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 28, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 10, 2023 expressed an unqualified opinion thereon.

**Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

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

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

***Impairment of Restaurant Property and Equipment***

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company reviews its long-lived assets related to restaurants held and used in the business, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The net balance of property and equipment was $78.6 million as of December 28, 2022. For certain restaurants, indicators of impairment of the related property and equipment were present. As such, for these restaurants, management compared the projected undiscounted cash flow to the carrying value to determine whether an impairment loss should be measured.

We identified the Company’s evaluation of projected future cash flows to determine the impairment of restaurant property and equipment as a critical audit matter. The future cash flows used in certain of the Company's property and equipment impairment analysis requires management to develop estimates and assumptions about future revenue transaction growth rates, pricing changes, and restaurant operating margins, which are made more uncertain by the impact of the current inflationary pressures on the Company’s business. Auditing these significant assumptions involved especially challenging auditor judgment due to the nature and extent of audit effort required to addresses these matters.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the completeness and accuracy of data used in the projected cash flow models, including recalculating the projected cash flows for selected restaurants with impairment indicators.
- Evaluating the reasonableness of management’s assumptions over the future revenue transaction growth rates, pricing changes, and restaurant operating margin assumptions for select restaurants by (i) comparing them to historical information for both company-owned and franchised restaurants in the same market, (ii) comparing them to recent trends by restaurant, considering the changes in the Company’s business model and uncertainties related to the impact of the current inflationary pressures, and (iii) comparing them to restaurant industry revenue growth rates based on market data to determine if contradictory evidence existed.

/s/ BDO USA, LLP

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

Costa Mesa, California
March 10, 2023

**EL POLLO LOCO HOLDINGS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(Amounts in thousands, except share data)**

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 20,493 | $ 30,046 |
| Accounts and other receivables, net | 10,084 | 13,407 |
| Inventories | 2,442 | 2,318 |
| Prepaid expenses and other current assets | 3,662 | 3,732 |
| Income tax receivable | 768 | — |
| **Total current assets** | 37,449 | 49,503 |
| Property and equipment, net | 78,644 | 75,668 |
| Property and equipment held under finance lease, net | 1,532 | 1,635 |
| Property and equipment held under operating leases, net ("ROU asset") | 165,584 | 171,981 |
| Goodwill | 248,674 | 248,674 |
| Trademarks | 61,888 | 61,888 |
| Deferred tax assets | 512 | 2,245 |
| Other assets | 2,935 | 2,192 |
| **Total assets** | **$ 597,218** | **$ 613,786** |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities:** | | |
| Current portion of obligations under finance leases | $ 110 | $ 143 |
| Current portion of obligations under operating leases | 19,995 | 19,959 |
| Accounts payable | 12,741 | 10,626 |
| Accrued salaries and vacation | 8,873 | 11,539 |
| Accrued insurance | 11,120 | 11,193 |
| Accrued income taxes payable | — | 889 |
| Accrued interest | 291 | 86 |
| Current portion of income tax receivable agreement payable | 263 | 437 |
| Other accrued expenses and current liabilities | 15,120 | 19,710 |
| **Total current liabilities** | 68,513 | 74,582 |
| Revolver loan | 66,000 | 40,000 |
| Obligations under finance leases, net of current portion | 1,626 | 1,712 |
| Obligations under operating leases, net of current portion | 165,149 | 171,651 |
| Deferred taxes | 8,517 | 5,464 |
| Income tax receivable agreement payable, net of current portion | 409 | 1,101 |
| Other noncurrent liabilities | 5,856 | 8,653 |
| **Total liabilities** | 316,070 | 303,163 |
| **Commitments and contingencies (Note 13)** | | |
| **Stockholders' equity** | | |
| Preferred stock, $0.01 par value, 100,000,000 shares authorized; none issued or outstanding | — | — |
| Common stock, $0.01 par value, 200,000,000 shares authorized; 37,008,061 and 36,601,648 shares issued and outstanding as December 28, 2022 and December 29, 2021, respectively | 370 | 365 |
| Additional paid-in-capital | 292,244 | 342,941 |
| Accumulated deficit | (11,592) | (32,393) |
| Accumulated other comprehensive income (loss) | 126 | (290) |
| **Total stockholders' equity** | 281,148 | 310,623 |
| **Total liabilities and stockholders' equity** | **$ 597,218** | **$ 613,786** |

See notes to consolidated financial statements.

**EL POLLO LOCO HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

**(Amounts in thousands, except share data)**

| | For the Fiscal Years Ended | | |
|---|---|---|---|
| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
| **Revenue** | | | |
| Company-operated restaurant revenue | $ 403,218 | $ 394,733 | $ 374,064 |
| Franchise revenue | 38,225 | 33,729 | 29,418 |
| Franchise advertising fee revenue | 28,516 | 25,901 | 22,605 |
| **Total revenue** | 469,959 | 454,363 | 426,087 |
| **Cost of operations** | | | |
| Food and paper cost | 117,774 | 104,394 | 98,774 |
| Labor and related expenses | 130,773 | 120,308 | 114,455 |
| Occupancy and other operating expenses | 101,543 | 97,557 | 92,422 |
| Gain on recovery of insurance proceeds, lost profits | — | — | (2,000) |
| **Company restaurant expenses** | 350,090 | 322,259 | 303,651 |
| General and administrative expenses | 39,093 | 39,852 | 35,918 |
| Legal settlements | — | — | 2,566 |
| Franchise expenses | 36,169 | 32,831 | 28,761 |
| Depreciation and amortization | 14,418 | 15,176 | 16,878 |
| Loss on disposal of assets | 165 | 289 | 189 |
| Recovery of securities lawsuits related legal expenses and other insurance claims | — | — | (123) |
| (Gain) loss on disposition of restaurants | (848) | 1,534 | — |
| Impairment and closed-store reserves | 752 | 1,087 | 4,691 |
| **Total expenses** | 439,839 | 413,028 | 392,531 |
| **Income from operations** | 30,120 | 41,335 | 33,556 |
| Interest expense, net | 1,677 | 1,824 | 3,292 |
| Income tax receivable agreement (income) expense | (436) | 58 | 139 |
| **Income before provision for income taxes** | 28,879 | 39,453 | 30,125 |
| Provision for income taxes | 8,078 | 10,332 | 5,651 |
| **Net income** | $ 20,801 | $ 29,121 | $ 24,474 |
| **Net income per share** | | | |
| Basic | $ 0.57 | $ 0.81 | $ 0.70 |
| Diluted | $ 0.57 | $ 0.80 | $ 0.68 |
| **Weighted-average shares used in computing net income per share** | | | |
| Basic | 36,350,579 | 35,973,892 | 35,193,325 |
| Diluted | 36,575,904 | 36,446,756 | 35,796,406 |

See notes to consolidated financial statements.

**EL POLLO LOCO HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Amounts in thousands)**

| | For the Fiscal Years Ended | | |
|---|---|---|---|
| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
| Net income | $ 20,801 | $ 29,121 | $ 24,474 |
| Other comprehensive income (loss) | | | |
| Changes in derivative instruments | | | |
| Unrealized net gains (losses) arising during the period from interest rate swap | 862 | 257 | (1,762) |
| Reclassifications of (gains) losses into net income | (296) | 486 | 278 |
| Income tax (expense) benefit | (150) | (200) | 398 |
| Other comprehensive income (loss), net of taxes | 416 | 543 | (1,086) |
| Comprehensive income | $ 21,217 | $ 29,664 | $ 23,388 |

See notes to consolidated financial statements.

**EL POLLO LOCO HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**(Amounts in thousands, except share data)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 26, 2019** | 35,126,582 | $ 351 | $ 330,950 | $ (85,988) | $ 253 | $ 245,566 |
| Stock-based compensation | — | — | 3,093 | — | — | 3,093 |
| Issuance of common stock related to restricted shares, net | 439,061 | 4 | (4) | — | — | — |
| Issuance of common stock upon exercise of stock options | 970,736 | 10 | 5,856 | — | — | 5,866 |
| Shares repurchased for employee tax withholdings | (23,407) | — | (335) | — | — | (335) |
| Forfeiture of common stock related to restricted shares | (89,467) | (1) | 1 | — | — | — |
| Other comprehensive income, net of income tax | — | — | — | — | (1,086) | (1,086) |
| Net income | — | — | — | 24,474 | — | 24,474 |
| **Balance, December 30, 2020** | 36,423,505 | 364 | 339,561 | (61,514) | (833) | 277,578 |
| Stock-based compensation | — | — | 3,220 | — | — | 3,220 |
| Issuance of common stock related to restricted shares, net | 246,780 | 2 | (2) | — | — | — |
| Issuance of common stock upon exercise of stock options | 132,760 | 1 | 865 | — | — | 866 |
| Shares repurchased for employee tax withholdings | (40,384) | — | (705) | — | — | (705) |
| Forfeiture of common stock related to restricted shares | (161,013) | (2) | 2 | — | — | — |
| Other comprehensive loss, net of income tax | — | — | — | — | 543 | 543 |
| Net income | — | — | — | 29,121 | — | 29,121 |
| **Balance, December 29, 2021** | 36,601,648 | 365 | 342,941 | (32,393) | (290) | 310,623 |
| Stock-based compensation | — | — | 3,491 | — | — | 3,491 |
| Issuance of common stock related to restricted shares, net | 356,610 | 4 | (4) | — | — | — |
| Issuance of common stock upon exercise of stock options | 185,798 | 2 | 1,711 | — | — | 1,713 |
| Shares repurchased for employee tax withholdings | (30,128) | — | (322) | — | — | (322) |
| Forfeiture of common stock related to restricted shares | (105,867) | (1) | 1 | — | — | — |
| Other comprehensive income, net of income tax | — | — | — | — | 416 | 416 |
| Common stock cash dividends ($1.50 per share) | — | — | (55,574) | — | — | (55,574) |
| Net income | — | — | — | 20,801 | — | 20,801 |
| **Balance, December 28, 2022** | 37,008,061 | $ 370 | $ 292,244 | $ (11,592) | $ 126 | $ 281,148 |

See notes to consolidated financial statements.

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

| | For the Fiscal Years Ended | | |
|---|---|---|---|
| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
| **Cash flows from operating activities:** | | | |
| Net income | $ 20,801 | $ 29,121 | $ 24,474 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | | |
| Depreciation and amortization | 14,418 | 15,176 | 16,878 |
| Bad debt expense | — | — | 190 |
| Stock-based compensation expense | 3,491 | 3,220 | 3,093 |
| Income tax receivable agreement (income) expense | (436) | 58 | 139 |
| (Gain) loss on disposition of restaurants | (848) | 1,534 | — |
| Loss on disposal of assets | 165 | 289 | 189 |
| Impairment of property and equipment | 481 | 711 | 3,498 |
| Amortization of deferred financing costs | 340 | 251 | 252 |
| Deferred income taxes, net | 4,600 | 957 | 4,008 |
| Changes in operating assets and liabilities: | | | |
| Accounts and other receivables | 3,323 | (3,444) | (1,155) |
| Inventories | (125) | (218) | (92) |
| Prepaid expenses and other current assets | 71 | 133 | 1,853 |
| Income taxes (receivable) payable | (1,657) | 3,410 | (2,145) |
| Other assets | (240) | (1,052) | (13) |
| Accounts payable | 3,977 | 2,533 | 666 |
| Accrued salaries and vacation | (2,667) | 1,373 | 1,548 |
| Accrued insurance | (73) | 777 | 976 |
| Payment related to tax receivable agreement | (430) | (1,658) | (5,237) |
| Other accrued expenses and liabilities | (6,642) | (1,072) | (8,575) |
| Net cash flows provided by operating activities | **38,549** | **52,099** | **40,547** |
| **Cash flows from investing activities:** | | | |
| Proceeds from disposition of restaurants | 1,002 | 4,556 | — |
| Purchase of property and equipment | (19,917) | (17,041) | (6,690) |
| Net cash flows used in investing activities | **(18,915)** | **(12,485)** | **(6,690)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from borrowings on revolver and swingline loans | 46,000 | — | 59,500 |
| Payments on revolver and swingline loan | (20,000) | (22,800) | (93,700) |
| Minimum tax withholdings related to net share settlements | (322) | (705) | (335) |
| Proceeds from issuance of common stock upon exercise of stock options, net of expenses | 1,713 | 866 | 5,866 |
| Common stock dividends paid | (55,574) | — | — |
| Payment of obligations under finance leases | (162) | (148) | (39) |
| Deferred financing costs for revolver loan | (842) | — | — |
| Net cash flows used in financing activities | **(29,187)** | **(22,787)** | **(28,708)** |
| **(Decrease) increase in cash and cash equivalents** | **(9,553)** | **16,827** | **5,149** |
| **Cash and cash equivalents,** beginning of period | **30,046** | **13,219** | **8,070** |
| **Cash and cash equivalents,** end of period | **$ 20,493** | **$ 30,046** | **$ 13,219** |

| | For the Fiscal Years Ended | | |
|---|---|---|---|
| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
| **Supplemental cash flow information** | | | |
| Cash paid during the period for interest | $ 1,450 | $ 1,066 | $ 2,956 |
| Cash paid during the period for income taxes | $ 5,100 | $ 5,968 | $ 4,225 |
| Unpaid purchases of property and equipment | $ 1,333 | $ 2,454 | $ 1,925 |

See notes to consolidated financial statements.

**EL POLLO LOCO HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. DESCRIPTION OF BUSINESS

El Pollo Loco Holdings, Inc. (“Holdings”) is a Delaware corporation headquartered in Costa Mesa, California. Holdings and its direct and indirect subsidiaries are collectively known as “we,” “us” or the “Company.” The Company’s activities are conducted principally through its indirect wholly-owned subsidiary, El Pollo Loco, Inc. (“EPL”), which develops, franchises, licenses and operates quick-service restaurants under the name El Pollo Loco ®. The restaurants, which are located principally in California but also in Arizona, Nevada, Texas, Colorado, Utah and Louisiana, specialize in fire-grilling citrus-marinated chicken in a wide variety of contemporary Mexican and LA-inspired entrees, including specialty chicken burritos, chicken quesadillas, chicken tostada salads, chicken tortilla soup, variations on our Pollo Bowl®, Pollo Salads and our Pollo Fit entrees. At December 28, 2022, the Company operated 188 (138 in the greater Los Angeles area) and franchised 302 (141 in the greater Los Angeles area) El Pollo Loco restaurants. In addition, the Company currently licenses five restaurants in the Philippines. The Company’s largest stockholder is Trimaran Pollo Partners, L.L.C. (“LLC”), which is controlled by affiliates of Trimaran Capital, L.L.C. LLC acquired Chicken Acquisition Corp. (“CAC”), a predecessor of Holdings, on November 17, 2005 (the “Acquisition”). As of December 28, 2022, LLC, FS Equity Partners V, L.P. and FS Affiliates V, L.P. own approximately 30.3%, 14.8% and 0.2%, respectively, of the Company’s outstanding common stock. FS Equity V and FS Affiliates V, which previously indirectly held shares of the Company’s common stock through LLC, received shares directly on August 31, 2022, upon LLC’s pro rata distribution in kind of shares of the Company’s common stock to FS Equity V and FS Affiliates V. LLC’s only material asset is its investment in Holdings.

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

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), guarantee EPL’s 2022 Revolver (see Note 6 “Long-Term Debt”) 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.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Liquidity

The Company’s principal liquidity and capital requirements are new restaurants, existing restaurant capital investments (remodel and maintenance), interest payments on its debt, lease obligations and working capital and general corporate needs. At December 28, 2022, the Company’s total debt was $66.0 million. The Company’s ability to make payments on its indebtedness and to fund planned capital expenditures depends on available cash and its ability to generate adequate cash flows in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Company’s control. Based on current operations, the Company believes that its cash flows from operations, available cash of $20.5 million at December 28, 2022, and available borrowings under the 2022 Revolver (as defined in Note 6 “Long-Term Debt”) will be adequate to meet the Company’s liquidity needs for the next twelve months from the issuance of the consolidated financial statements.

### Basis of Presentation

The Company uses a 52- or 53-week fiscal year ending on the last Wednesday of each calendar year. Fiscal 2022, 2021, and 2020 ended on December 28, 2022, December 29, 2021 and December 30, 2020, respectively. In a 52-week fiscal year, each quarter includes 13 weeks of operations. In a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations and the fourth quarter includes 14 weeks of operations. Approximately every six or seven years a 53-week fiscal year occurs. Fiscal 2022 and 2021 were 52-week fiscal years. Fiscal 2020 was a 53-week fiscal year. 53-week years may cause revenues, expenses, and other results of operations to be higher due to the additional week of operations. Certain amounts in prior years have been reclassified to conform with the fiscal 2022 presentation.

**Principles of Consolidation**

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

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the period reported. Actual results could materially differ from those estimates. The Company’s significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, insurance reserves, lease accounting matters, stock-based compensation, tax receivable agreement (the “TRA”) liability, contingent liabilities and income tax valuation allowances.

**COVID-19 and Macroeconomic Conditions**

The Company may face future business disruption and related risks resulting from the ongoing COVID-19 pandemic or from another pandemic, epidemic or infectious disease outbreak, or from broader macroeconomic trends, any of which could have a significant impact on our business. During fiscal 2022, the Company incurred $3.3 million in COVID-19 related expenses, comprised of $2.3 million due to overtime primarily related to the first quarter and $1.0 million due to leaves of absence related to the remaining three quarters. During fiscal 2021, the Company incurred $3.9 million in COVID-19 related expenses, primarily due to leaves of absence and overtime pay. During fiscal 2020, the Company incurred $4.9 million in COVID-19 related expenses, primarily due to leaves of absence and overtime pay. While all of the Company’s restaurants had dining rooms open as of December 28, 2022, the Company continues to experience staffing challenges, including higher wage inflation, overtime costs and other labor related costs. Further, the Company continues to experience inflationary pressures, which resulted in increased commodity prices and impacted the Company’s business and results of operations during the year ended December 28, 2022. The Company expects these pressures to continue during fiscal 2023.

Due to the fluidity of the COVID-19 pandemic and the current macroeconomic environment, the Company cannot determine the ultimate impact that the COVID-19 pandemic (and related economic effects) and the current macroeconomic environment will have on the Company’s consolidated financial condition, liquidity, and future results of operations, and therefore any prediction as to the ultimate materiality of the adverse impact on the Company’s consolidated financial condition, liquidity, and future results of operations is uncertain.

**Cash and Cash Equivalents**

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

**Subsequent Events**

Subsequent to year-end, the Company paid down $8.0 million on its 2022 Revolver and outstanding borrowings as of March 9, 2023 were $58.0 million.

**Concentration of Risk**

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

The Company had one supplier for which amounts due at December 28, 2022 totaled 41.7% of the Company's accounts payable. As of December 29, 2021, the Company had one supplier for which the amount due totaled 26.1% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 28.5% of the Company's purchases for fiscal 2022, 27.1% for fiscal 2021 and 26.9% for fiscal 2020 with no amounts payable at December 28, 2022 or December 29, 2021.

In fiscal 2022, 2021 and 2020, Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 71.2%, 70.9%, and 71.3%, respectively, of total revenue. One franchisee accounted for 12.9% of total accounts receivable as of December 28, 2022, and one franchisee accounted for 10.6% of total accounts receivable as of December 29, 2021.

Management believes the loss of the significant supplier or franchisee could have a material adverse effect on the Company's consolidated results of operations and financial condition.

**Accounts and Other Receivables, Net**

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

**Inventories**

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

**Property and Equipment, Net**

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for reimbursements and improvements that significantly add to the productivity capacity or extend the useful life are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Leasehold improvements and property held under finance leases are amortized over the shorter of their estimated useful lives or the remaining lease terms. For leases with renewal periods at the Company's option, the Company generally uses the original lease term, excluding the option periods, to determine estimated useful lives; if failure to exercise a renewal option imposes an economic penalty on the Company, such that management determines at the inception of the lease that renewal is reasonably assured, the Company may include the renewal option period in the determination of appropriate estimated useful lives.

The estimated useful service lives are as follows:

| | |
|---|---|
| Buildings | 20 years |
| Land improvements | 3—30 years |
| Building improvements | 3—10 years |
| Restaurant equipment | 3—10 years |
| Other equipment | 2—10 years |
| Property/equipment held under finance leases | Shorter of useful life or lease term |
| Leasehold improvements | Shorter of useful life or lease term |

The Company capitalizes certain directly attributable internal costs in conjunction with the acquisition, development and construction of future restaurants. The Company also capitalizes certain directly attributable costs, including interest, in conjunction with constructing new restaurants. These costs are included in property and amortized over the shorter of the life of the related buildings and leasehold improvements or the lease term. Costs related to abandoned sites and other site selection costs that cannot be identified with specific restaurants are charged to general and administrative expenses in the accompanying consolidated statements of income, and were less than $0.1 million for each of the years ended December 28, 2022, December 29, 2021 and December 30, 2020. The Company capitalized internal costs related to site selection and construction activities of $1.5 million, $1.4 million and $1.0 million for the years ended December 28, 2022, December 29, 2021 and December 30, 2020, respectively.

**Impairment of Long-Lived and ROU Assets**

The Company reviews its long-lived and right-of-use assets ("ROU assets") for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying value of certain long-lived and ROU assets may not be recoverable. The Company considers a triggering event, related to long-lived assets or ROU assets in a net asset position, to have occurred related to a specific restaurant if the restaurant's Average Unit Volume ("AUV") for the last twelve months are less than a minimum threshold or if consistent levels of undiscounted cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. Additionally, the Company considers a triggering event, related to ROU assets, to have occurred related to a specific lease if the location has been closed or subleased and future estimated sublease income is less than current lease payments. As of December 28, 2022 and December 29, 2021, ROU assets related to closed or subleased restaurant locations totaled $30.7 million and $21.9 million, respectively. If the Company concludes that the carrying value of certain long-lived and ROU assets will not be recovered based on expected undiscounted future cash flows, an impairment loss is recorded to reduce the long-lived or ROU assets to their estimated fair value. The fair value is measured on a nonrecurring basis using unobservable (Level 3) inputs. There is uncertainty in the projected undiscounted future cash flows used in the Company's impairment review analysis, which requires the use of estimates and assumptions. If actual performance does not achieve the projections, or if the assumptions used change in the future, the Company may be required to recognize impairment charges in future periods, and such charges could be material. The Company determined that triggering events occurred for certain stores during the year ended December 28, 2022 that required an impairment review of the Company's long-lived and ROU assets. Based on the results of this analysis, the Company recorded non-cash impairment charges of $0.5 million for the year ended December 28, 2022, primarily related to the carrying value of the ROU assets of one restaurant in California that closed in 2021 and the long-lived assets of two restaurants in California.

In fiscal 2021, the Company recorded non-cash impairment charges of $0.7 million primarily related to the carrying value of the ROU assets of one restaurant in Texas that closed in 2019, the carrying value of one restaurant in California that closed in 2021 and the long-lived assets of three restaurants in California. In fiscal 2020, the Company recorded a non-cash impairment charge of $3.5 million primarily related to the carrying value of the ROU assets of one restaurant in Texas and the long-lived assets of four restaurants in California. Given the inherent uncertainty in projecting results for newer restaurants in newer markets, as well as the impact of the COVID-19 pandemic (and related economic effects), the Company is monitoring the recoverability of the carrying value of the assets of several restaurants on an ongoing basis. For these restaurants, if expected performance is not realized, an impairment charge may be recognized in future periods, and such charge could be material.

**Closed-Store Reserves**

When a restaurant is closed, the Company will evaluate the ROU asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense. Additionally, any property tax and common area maintenance ("CAM") payments relating to closed restaurants are included within closed-store expense.

During fiscal 2022, the Company recognized $0.3 million of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for its closed locations.

During fiscal 2021, the Company recognized $0.4 million of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for its closed locations. During fiscal 2020, the Company recognized

$1.2 million of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for its closed locations.

**Goodwill and Indefinite-Lived Intangible Assets**

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

Upon the sale or refranchising 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 fair value of the portion of the reporting unit disposed of in a refranchising is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which includes a deduction for the anticipated, future royalties the franchisee will pay the Company associated with the franchise agreement entered into simultaneously with the refranchising transition. The fair value of the reporting unit retained is based on the price a willing buyer would pay for the reporting unit and includes the value of franchise agreements. As such, the fair value of the reporting unit retained can include expected cash flows from future royalties from those restaurants currently being refranchised, future royalties from existing franchise businesses and company restaurant operations. The Company did not record any decrement to goodwill related to the disposition of restaurants in fiscal 2022, 2021 and 2020.

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

The Company reviews goodwill for impairment utilizing either a qualitative assessment or a fair value test by comparing the fair value of a reporting unit with its carrying amount. If the Company decides that it is appropriate to perform a qualitative assessment and concludes that the fair value of a reporting unit more likely than not exceeds its carrying value, no further evaluation is necessary. If the Company performs the fair value test, the Company will compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, the Company will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit.

The Company performs annual impairment tests for indefinite-lived intangible assets during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. An impairment test consists of either a qualitative assessment or a comparison of the fair value of an intangible asset with its carrying amount. The excess of the carrying amount of an intangible asset over its fair value is 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 determined that there were no indicators of potential impairment of its goodwill and indefinite-lived intangible assets during fiscal 2022. Accordingly, the Company did not record any impairment to its goodwill or indefinite-lived intangible assets during the year ended December 28, 2022.

**Deferred Financing Costs**

Deferred financing costs are capitalized and amortized over the period of the loan on a straight-line basis, which approximates the effective interest method. Included in other assets are deferred financing costs (net of accumulated amortization), related to the revolver, of $0.9 million and $0.4 million as of December 28, 2022 and December 29, 2021, respectively. Amortization expense for deferred financing costs was approximately $0.3 million for each of the three years ended December 28, 2022, December 29, 2021, and December 30, 2020, and is reflected as a component of interest expense in the accompanying consolidated statements of income.

**Insurance Reserves**

The Company is responsible for workers’ compensation, general and health insurance claims up to a specified aggregate stop loss amount. The Company maintains a reserve for estimated claims both reported and incurred but not reported, based on historical claims experience and other assumptions. At December 28, 2022 and December 29, 2021, the Company had accrued $11.1 million and $11.2 million, respectively, and such amounts are reflected as accrued insurance in the accompanying consolidated balance sheets. The expense for such reserves for the years ended December 28, 2022, December 29, 2021 and December 30, 2020, totaled $8.7 million, $9.0 million, and $8.4 million, respectively. These amounts are included in labor and related expenses and general and administrative expenses on the accompanying consolidated statements of income.

**Restaurant Revenue**

Revenues from the operation of company-operated restaurants are recognized as food and beverage products are delivered to customers and payment is tendered at the time of sale. The Company presents sales net of sales-related taxes and promotional allowances. Promotional allowances amounted to approximately $7.5 million, $7.7 million and $7.5 million during the years ended December 28, 2022, December 29, 2021, and December 30, 2020, respectively.

The Company offers a loyalty rewards program, which awards a customer points for dollars spent. Customers earn points for each dollar spent and, as of August 4, 2020, 50 points can be redeemed for a $5 reward to be used for a future purchase. Prior to August 4, 2020, 100 points could be redeemed for a $10 reward. If a customer does not earn or use points within a one-year period, their account is deactivated and all points expire. Additionally, if a reward is not used within six months, it expires. When a customer is part of the rewards program, the obligation to provide future discounts related to points earned is considered a separate performance obligation, to which a portion of the transaction price is allocated. The performance obligation related to loyalty points is deemed to have been satisfied, and the amount deferred in the balance sheet is recognized as revenue, when the points are transferred to a reward and redeemed, the reward or points have expired, or the likelihood of redemption is remote. A portion of the transaction price is allocated to loyalty points, if necessary, on a pro-rata basis, based on stand-alone selling price, as determined by menu pricing and loyalty points terms. As of December 28, 2022 and December 29, 2021, the revenue allocated to loyalty points that have not been redeemed was $0.5 million and $0.7 million, respectively, which is reflected in the Company’s accompanying consolidated balance sheets within other accrued expenses and current liabilities. The Company expects the loyalty points to be redeemed and recognized over a one-year period.

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

**Franchise Revenue**

Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees and IT support services. Rental income for subleases to franchisees are outside of the scope of the revenue standard and are within the scope of lease guidance. Under Topic 842, sublease income is recorded on a net basis within the consolidated statements of income. Franchise royalties are based upon a percentage of net sales of the franchisee and are recorded as income as such sales are earned by the franchisees.

For franchise and development agreement fees, the initial franchise services, or exclusivity of the development agreements, are not distinct from the continuing rights or services offered during the term of the franchise agreement and are, therefore, treated as a single performance obligation. As such, initial franchise and development fees received, and subsequent renewal fees, are recognized over the franchise or renewal term, which is typically twenty years. As of December 28, 2022, the Company had executed development agreements that represent commitments to open 72 franchised restaurants at various dates through 2032.

This revenue stream is made up of the following performance obligations:

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

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

The sales-based royalty fee and sales-based advertising fee are considered variable consideration and are recognized as revenue as such sales are earned by the franchisees. Both sales-based fees qualify under the royalty constraint exception, and do not require an estimate of future transaction price. Additionally, the Company is utilizing the practical expedient available under ASC Topic 606, “Revenue from Contracts with Customers” (“Topic 606”) regarding disclosure of the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for sales-based royalties.

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

The Company purchases hardware, such as scanners, printers, cash registers and tablets, from third-party vendors, which it then sells to franchisees. As the Company is considered the principal in this relationship, payment received for the hardware is considered revenue, and is received upon transfer of the goods from the Company to the franchisee. As of December 28, 2022, there were no performance obligations, related to hardware services that were unsatisfied or partially satisfied.

**Franchise Advertising Fee Revenue**

The Company presents advertising contributions received from franchisees as franchise advertising fee revenue and records all expenses of the advertising fund within franchise expenses.

**Advertising Costs**

Advertising expense is recorded as the obligation to contribute to the advertising fund and is accrued, generally when the associated revenue is recognized. Advertising expense, which is a component of occupancy and other operating expenses, was $16.4 million, $16.1 million and $15.3 million for the years ended December 28, 2022, December 29, 2021 and December 30, 2020, respectively. In addition, there was $28.5 million, $25.9 million and $22.6 million for the years ended December 28, 2022, December 29, 2021 and December 30, 2020, respectively, funded by the franchisees’ advertising fees.

Franchisees pay a monthly fee to the Company that ranges from 4% to 5% of their restaurants’ net sales as reimbursement for advertising, public relations and promotional services the Company provides, which is included within franchise advertising fee revenue. Fees received in advance of provided services are included in other accrued expenses and current liabilities and were $0.8 million and $3.6 million at December 28, 2022 and December 29, 2021, respectively. Company-operated restaurants contribute to the advertising fund on the same basis as franchised restaurants. At December 28, 2022, the Company was obligated to spend $0.8 million more in future periods to comply with this requirement.

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

**Preopening Costs**

Preopening costs incurred in connection with the opening of new restaurants are expensed as incurred. Preopening costs, which are included in general and administrative expenses on the accompanying consolidated statements of income, were $0.3 million, $0.3 million and $0.1 million for the years ended December 28, 2022, December 29, 2021, and December 30, 2020, respectively.

**Leases**

The Company's operations utilize property, facilities, equipment and vehicles. Buildings and facilities leased from others are primarily for restaurants and support facilities. Restaurants are operated under lease arrangements that generally provide for a fixed base rent and, in some instances, contingent rent based on a percentage of gross operating profit or net revenues more than a defined amount. Initial terms of land and restaurant building leases generally have terms of 20 years, exclusive of options to renew. ROU assets and operating and finance lease liabilities are recognized at the lease commencement date, which is the date the Company takes possession of the property. Operating and finance lease liabilities represent the present value of lease payments not yet paid. ROU assets represent the Company's right to use an underlying asset and are based upon the operating and finance lease liabilities adjusted for prepayments or accrued lease payments, lease incentives, and impairment of ROU assets. To determine the present value of lease payments not yet paid, the Company estimates incremental borrowing rates corresponding to the lease term including reasonably certain renewal periods.

The Company's leases generally have escalating rents over the term of the lease, and are recorded on a straight-line basis over the expected lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce the right-of-use asset related to the lease. These are amortized through the operating lease asset as reductions of expense over the lease term.

Operating and finance lease liabilities that are based on an index or rate are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Leases of equipment primarily consist of restaurant equipment, computer systems and vehicles. The Company subleases facilities to certain franchisees and other non-related parties which are recorded on a straight-line basis.

**Gain on Recovery of Insurance Proceeds, Lost Profits**

During the year ended December 30, 2020, the Company received business interruption insurance proceeds of $2.0 million, primarily related to restaurant sales losses and expenses related to the COVID-19 pandemic and resulting dining room closures.

**Recovery of Securities Class Action Legal Expense and Other Insurance Claims**

During fiscal 2020 the Company received insurance proceeds of $0.1 million related to a property claim. See Note 13 "Commitments and Contingencies—Legal Matters."

**Gain (Loss) on Disposition of Restaurants**

During fiscal 2022, the Company completed the sale of three company-operated restaurants within the Orange County area to an existing franchisee. During fiscal 2021, the Company completed the sale of eight restaurants within the Sacramento area to an existing franchisee. The Company has determined that these restaurant dispositions represent multiple element arrangements, and as a result, the cash consideration received was allocated to the separate elements based on their relative standalone selling price. Cash proceeds included upfront consideration for the sale of the restaurants and franchise fees, as well as future cash consideration for royalties. The cash consideration per restaurant related to franchise fees is consistent with the amounts stated in the related franchise agreements, which are charged for separate standalone arrangements. The Company initially defers and subsequently recognizes the franchise fees over the term of the franchise agreement. Future royalty income is also recognized in revenue as earned. The Orange County sale during 2022 resulted in cash proceeds of $1.0 million and a net gain on sale of restaurants of $0.8 million for the year ended December 28, 2022. The Sacramento sale resulted in cash proceeds of $4.6 million and a net loss on sale of restaurants of $1.5 million for the year ended December 29, 2021. Since the date of their sale, these restaurants are now included in the total number of franchised El Pollo Loco restaurants.

**Derivative Financial Instruments**

The Company used an interest rate swap, a derivative instrument, to hedge interest rate risk and not for trading purposes. The derivative contract was entered into with a financial institution. In connection with the Company's entry into the 2022 Credit Agreement (as defined in Note 6 "Long-Term Debt"), it terminated the interest rate swap on July 28, 2022. The Company recorded the derivative instrument on its consolidated balance sheets at fair value. The derivative instrument qualified as a hedging instrument in a qualifying cash flow hedge relationship, and the gain or loss on the derivative instrument was reported as a component of accumulated other comprehensive (loss) income ("AOCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For any derivative instruments not designated as hedging instruments, the gain or loss will be recognized in earnings immediately. If a derivative previously designated as a hedge is terminated, or no longer meets the qualifications for hedge accounting, any balances in AOCI will be reclassified to earnings immediately.

**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 a reserve for the portion of deferred tax assets which are not expected to be realized.

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

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

The Company's policy is to recognize interest or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at December 28, 2022 or December 29, 2021. During fiscal 2020, the

Company recognized interest of $0.1 million related to the Notice of Proposed Adjustment ("NOPA"), discussed below. During fiscal 2022, fiscal 2021 and fiscal 2020, there were no material unrecognized tax benefits. Management believes no significant change to the amount of unrecognized tax benefits will occur within the next twelve months.

On July 30, 2014, the Company entered into a TRA, which calls for the Company to pay to its pre-IPO stockholders 85% of the savings in cash that the Company realizes in its income taxes as a result of utilizing its net operating losses ("NOLs") and other tax attributes attributable to preceding periods. As of December 28, 2022 and December 29, 2021, the Company had accrued $0.7 million and $1.5 million, respectively relating to expected TRA payments. In fiscal 2022, 2021 and 2020, the Company paid $0.4 million, $1.7 million and $5.2 million, respectively, to its pre-IPO stockholders under the TRA.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law as a stimulus package, and contained several tax provisions, including a correction of a previous drafting error related to quality improvement property ("QIP") and immediate refundability of all remaining alternative minimum tax ("AMT") credits. The new provisions did not have a material impact on the Company's consolidated financial statements.

During fiscal 2020, the Company received a NOPA for the years ended December 27, 2017 and December 28, 2016, related to the Company's methodology regarding its ordering of utilization of AMT NOLs. Resolution of this NOPA resulted in a payment of $0.4 million, and the audit is closed. As a result of the CARES Act, this amount was immediately refundable upon filing of a Form 1139. The Company filed the Form 1139 during the year ended December 30, 2020 and received a refund totaling $0.5 million.

The CARES Act also provides for the deferral of employer Social Security taxes that are otherwise owed for wage payment and the creation of refundable employee retention credits. The total amount deferred as of December 30, 2020 was $4.9 million, of which 50% was due by December 31, 2021 and another 50% was due by December 31, 2022. As of December 28, 2022, the Company made all deferred payroll tax payments and did not have any corresponding balances included in other non-current liabilities on the Company's consolidated balance sheet.

Additionally, the Company assessed its eligibility for the business relief provision under the CARES Act known as the Employee Retention Credit ("ERC"), a refundable payroll tax credit for 50% of qualified wages paid during 2020. The American Rescue Plan passed into law on March 11, 2021 extended the ERC through September 30, 2021, and the credit was increased to 70% of qualified wages paid from January 1, 2021 through September 30, 2021. During fiscal 2021, the Company recognized the ERC credit in the amount of $3.4 million as income as it is probable that it will comply with the ERC eligibility requirements. The Company has elected an accounting policy to present government assistance as a reduction of the related expense. The ERC credit was initially recorded as a receivable as part of the accounts and other receivable on the consolidated balance sheet for the year ended December 29, 2021 and as an offset to the corresponding payroll expense which is classified as part of the labor and other operating expenses on the consolidated statements of income for the year ended December 29, 2021. During fiscal 2022, we received $3.1 million in ERC and the remaining $0.3 million continues to be recorded as a receivable as part of the accounts and other receivable on the consolidated balance sheet for the year ended December 28, 2022.

**Fair Value Measurements**

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

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

EL POLLO LOCO HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2019, the Company entered into an interest rate swap (used to hedge interest rate risk), which is required to be measured at fair value on a recurring basis. The fair value was determined based on Level 2 inputs, which include valuation models, as reported by the Company's counterparty. These valuation models use a discounted cash flow analysis on the cash flows of the derivative based on the terms of the contract and the forward yield curves adjusted for the Company's credit risk. The key inputs for the valuation models are observable market prices, discount rates, and forward yield curves. In connection with the Company's entry into the 2022 Credit Agreement (as defined in Note 6 "Long-Term Debt"), it terminated the interest rate swap in July 2022. In settlement of this swap, the Company received approximately $0.6 million. See Note 6 "Long-Term Debt" for further discussion regarding the Company's interest rate swaps.

The following table presents fair value for the interest rate swap at December 29, 2021 (in thousands):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Other non-current liabilities - Interest rate swap | $ 396 | $ — | $ 396 | $ — |

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

The following non-financial assets were measured at fair value, on a nonrecurring basis, as of and for the year ended December 28, 2022 reflecting certain property and equipment and ROU assets, for which an impairment loss was recognized during the corresponding periods, as discussed above under Impairment of Long-Lived and ROU Assets (in thousands):

| | Total | Level 1 | Level 2 | Level 3 | Impairment Losses |
|---|---|---|---|---|---|
| Certain property and equipment, net | $ — | $ — | $ — | $ — | $ 442 |
| Certain ROU assets, net | $ 327 | $ — | $ — | $ 327 | $ 39 |

The following non-financial assets were measured at fair value, on a nonrecurring basis, as of and for the year ended December 29, 2021 reflecting certain property and equipment and ROU assets for which an impairment loss was recognized during the corresponding periods, as discussed above under "Impairment of Long-Lived and ROU Assets" (in thousands):

| | Total | Level 1 | Level 2 | Level 3 | Impairment Losses |
|---|---|---|---|---|---|
| Certain property and equipment, net | $ — | $ — | $ — | $ — | $ 304 |
| Certain ROU assets, net | $ 411 | $ — | $ — | $ 411 | $ 407 |

The following non-financial assets were measured at fair value, on a nonrecurring basis, as of and for the year ended December 30, 2020 for which an impairment loss was recognized during the corresponding periods, as discussed above under "Impairment of Long-Lived and ROU Assets" (in thousands):

| | Total | Level 1 | Level 2 | Level 3 | Impairment Losses |
|---|---|---|---|---|---|
| Certain property and equipment, net | $ — | $ — | $ — | $ — | $ 2,955 |
| Certain ROU assets, net | $ 902 | $ — | $ — | $ 902 | $ 543 |

**Fair Value of Financial Instruments**

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

**Stock-Based Compensation**

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

**Earnings per Share**

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

**Franchise Development Option Agreement with Related Party**

On July 11, 2014, EPL and LLC entered into a Franchise Development Option Agreement relating to development of restaurants in the New York–Newark, NY–NJ–CT–PA Combined Statistical Area (the "Territory"). EPL granted LLC the exclusive option to develop and open 15 restaurants in the Territory over five years (the "Initial Option"), and, provided that the Initial Option is exercised, the exclusive option to develop and open up to an additional 100 restaurants in the Territory over ten years. The Franchise Development Option Agreement terminates (i) ten years after execution, or (ii) if the Initial Option is exercised, five years after that exercise. LLC may only exercise the Initial Option if EPL first determines to begin development of company-operated restaurants in the Territory or support the development of the Territory. The Company has no current intention to begin development in the Territory and as of December 28, 2022, no stores have been opened in the Territory.

**3. PROPERTY AND EQUIPMENT**

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

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Land | $ 12,323 | $ 12,323 |
| Buildings and improvements | 153,377 | 144,631 |
| Other property and equipment | 83,035 | 78,383 |
| Construction in progress | 3,196 | 5,333 |
| | 251,931 | 240,670 |
| Less: accumulated depreciation and amortization | (173,287) | (165,002) |
| | $ 78,644 | $ 75,668 |

Depreciation and amortization expense was $14.4 million, $15.2 million and $16.9 million for the years ended December 28, 2022, December 29, 2021, and December 30, 2020, respectively.

Based on the Company's review of its long-lived assets for impairment, the Company recorded non-cash impairment charges of $0.4 million, $0.3 million and $3.0 million for the years ended December 28, 2022, December 29, 2021, and December 30, 2020, respectively. See "Impairment of Long-Lived and ROU Assets" in Note 2 "Summary of Significant Accounting Policies" for additional information.

## 4. TRADEMARKS, OTHER INTANGIBLE ASSETS AND LIABILITIES

Domestic trademarks consist of the following (in thousands):

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Cost | $ 120,700 | $ 120,700 |
| Accumulated impairment charges | (58,812) | (58,812) |
| Trademarks, net | $ 61,888 | $ 61,888 |

## 5. LEASES

**Nature of leases**

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

As of December 28, 2022, the Company had no leases that it had entered into, but had not yet commenced. The Company does not have control of the property until lease commencement.

**Building and facility leases**

The majority of the Company's building and facilities leases are classified as operating leases; however, the Company currently has one facility and ten equipment leases that are classified as finance leases.

Restaurants are operated under lease arrangements that generally provide for a fixed base rent and, in some instances, contingent rent based on a percentage of gross operating profit or net revenues in excess of a defined amount. Additionally, a number of the Company's leases have payments, which increase at pre-determined dates based on the change in the consumer price index. For all leases, the Company also reimburses the landlord for non-lease components, or items that are not considered components of a contract, such as common area maintenance, property tax and insurance costs. While the Company determined not to separate lease and non-lease components, these payments are based on actual costs, making them variable consideration and excluding them from the calculations of the ROU asset and lease liability.

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

During the year ended December 28, 2022, the Company reassessed the lease terms on 22 restaurants due to certain triggering events, such as the addition of significant leasehold improvements, the decision to terminate a lease, or the decision to renew. As a result of the reassessment, an additional $13.0 million of ROU assets and lease liabilities for the year ended December 28, 2022 were recognized, and will be amortized over the new lease term.

During the year ended December 29, 2021, the Company reassessed the lease terms on 22 restaurants due to certain triggering events, such as the addition of significant leasehold improvements, the decision to terminate a lease, or the decision to renew. As a result of the reassessment, an additional $17.8 million of ROU assets and lease liabilities for the year ended December 29, 2021 were recognized, and will be amortized over the new lease term.

The reassessments had an impact on the original lease classification of one property during the year ended December 28, 2022 which represented $0.7 million of the $13.0 million total additional ROU asset and lease liabilities for fiscal 2022. There were no reassessments that impacted the original lease classification during the year ended December 29, 2021. Additionally, as the Company adopted all practical expedients available under Topic 842, no reallocation between lease and non-lease components was necessary.

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

During fiscal 2022, the Company determined that the carrying value of an ROU assets at one restaurant was not recoverable. As a result, the Company recorded a less than $0.1 million non-cash impairment charge for the year ended December 28, 2022 related to one restaurant closed in California. During fiscal 2021, the Company determined that the carrying value of ROU assets at two restaurants were not recoverable. As a result, the Company recorded a $0.4 million non-cash impairment charge for the year ended December 29, 2021 related to one restaurant closed in Texas in 2019 and one restaurant closed in California. During fiscal 2020, the Company determined that the carrying value of ROU assets at one restaurant was not recoverable. As a result, the Company recorded a $0.5 million non-cash impairment charge for the year ended December 30, 2020 related to one restaurant in Texas, which was sold to a franchisee in the prior year.

**Equipment**

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

**Significant Assumptions and Judgments**

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

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

The Company also made significant assumptions and judgments in determining an appropriate discount rate for property leases. These included using a consistent discount rate for a portfolio of leases entered into at varying dates, using the full 20-year term of the lease, excluding any options, and using the total minimum lease payments. For all other leases, the Company uses the discount rate implicit in the lease, or the Company’s incremental borrowing rate.

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

**EL POLLO LOCO HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

| | December 28, 2022 | | | December 29, 2021 | | | December 30, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Property Leases | Equipment Leases | Total | Property Leases | Equipment Leases | Total | Property Leases | Equipment Leases | Total |
| Finance lease cost: | | | | | | | | | |
| Amortization of right-of-use assets | $ 73 | $ 2 | $ 75 | $ 78 | $ 2 | $ 80 | $ 11 | $ — | $ 11 |
| Interest on lease liabilities | 42 | 3 | 45 | 58 | 1 | 59 | 27 | — | 27 |
| Operating lease cost | 26,537 | 1,005 | 27,542 | 26,501 | 1,122 | 27,623 | 26,578 | 1,227 | 27,805 |
| Short-term lease cost | — | 18 | 18 | — | 21 | 21 | — | 23 | 23 |
| Variable lease cost | 597 | 677 | 1,274 | 539 | 354 | 893 | 444 | 191 | 635 |
| Sublease income | (4,555) | — | (4,555) | (3,823) | — | (3,823) | (3,251) | — | (3,251) |
| Total lease cost | $ 22,694 | $ 1,705 | $ 24,399 | $ 23,353 | $ 1,500 | $ 24,853 | $ 23,809 | $ 1,441 | $ 25,250 |

The following table presents the Company's total lease cost on the consolidated statement of income (in thousands):

| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
|---|---|---|---|
| Lease cost – Occupancy and other operating expenses | $ 23,730 | $ 24,020 | $ 23,972 |
| Lease cost – General & administrative | 465 | 413 | 464 |
| Lease cost – Depreciation and amortization | 73 | 78 | 11 |
| Lease cost – Interest expense | 45 | 59 | 27 |
| Lease cost – Closed-store reserve | 86 | 283 | 776 |
| Total lease cost | $ 24,399 | $ 24,853 | $ 25,250 |

The Company had the following cash and non-cash activities associated with its leases (in thousands):

| | December 28, 2022 | | | December 29, 2021 | | | December 30, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Property Leases | Equipment Leases | Total | Property Leases | Equipment Leases | Total | Property Leases | Equipment Leases | Total |
| **Cash paid for amounts included in the measurement of lease liabilities** | | | | | | | | | |
| Operating cash flows used for operating leases | $ 27,221 | $ 953 | $ 28,174 | $ 26,414 | $ 1,084 | $ 27,498 | $ 23,683 | $ 1,230 | $ 24,913 |
| Financing cash flows used for finance leases | $ 106 | $ 56 | $ 162 | $ 102 | $ 46 | $ 148 | $ 34 | $ 5 | $ 39 |
| **Non-cash investing and financing activities:** | | | | | | | | | |
| Operating lease ROU assets obtained in exchange for lease liabilities: | | | | | | | | | |
| Operating lease ROU assets | $ 12,978 | $ 92 | $ 13,070 | $ 17,763 | $ — | $ 17,763 | $ 5,850 | $ 13 | $ 5,863 |
| Finance lease ROU assets obtained in exchange for lease liabilities: | | | | | | | | | |
| Finance lease ROU assets | $ — | $ 28 | $ 28 | $ — | $ 196 | $ 196 | $ 1,623 | $ 54 | $ 1,677 |
| Derecognition of ROU assets due to terminations, impairment or modifications | $ (39) | $ (35) | $ (74) | $ (4,513) | $ (99) | $ (4,612) | $ (543) | $ (26) | $ (569) |
| **Other Information** | | | | | | | | | |
| Weighted-average remaining years in lease term—finance leases | 17.87 | 3.19 | | 18.42 | 4.02 | | 18.98 | 4.52 | |
| Weighted-average remaining years in lease term—operating leases | 10.73 | 1.73 | | 11.27 | 1.44 | | 11.45 | 2.31 | |
| Weighted-average discount rate —finance leases | 2.57 % | 1.53 % | | 2.78 % | 1.54 % | | 2.50 % | 1.68 % | |
| Weighted-average discount rate —operating leases | 4.54 % | 3.80 % | | 4.45 % | 3.89 % | | 4.29 % | 3.93 % | |

Information regarding the Company’s minimum future lease obligations at December 28, 2022 is as follows (in thousands):

| | Finance | Operating Leases | |
|---|---|---|---|
| For the Years Ending | Minimum Lease Payments | Minimum Lease Payments | Minimum Sublease Income |
| December 27, 2023 | $ 151 | $ 27,876 | $ 4,040 |
| December 25, 2024 | 151 | 25,887 | 3,685 |
| December 31, 2025 | 147 | 23,729 | 3,207 |
| December 30, 2026 | 114 | 21,595 | 2,881 |
| December 29, 2027 | 104 | 19,806 | 2,829 |
| Thereafter | 1,479 | 117,566 | 20,403 |
| Total | $ 2,146 | $ 236,459 | $ 37,045 |
| Less: imputed interest (1.53% - 4.54%) | (410) | (51,315) | |
| Present value of lease obligations | 1,736 | 185,144 | |
| Less: current maturities | (110) | (19,995) | |
| Noncurrent portion | $ 1,626 | $ 165,149 | |

*Short-Term Leases*

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

**Lessor**

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

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

For the years ended December 28, 2022, December 29, 2021, and December 30, 2020, the Company received $0.4 million, $0.4 million and $0.6 million, respectively, of lease income from company-owned locations.

**6. LONG-TERM DEBT**

On July 27, 2022, the Company refinanced and terminated its credit agreement (the “2018 Credit Agreement”) among EPL, as borrower, the Company and Intermediate, as guarantors, Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provided for a $150.0 million five-year senior secured revolving credit facility (the “2018 Revolver”). The 2018 Revolver was refinanced pursuant to a credit agreement (the “2022 Credit Agreement”) among EPL, as borrower, the Company and Intermediate, as guarantors, Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a $150.0 million five-year senior secured revolving credit facility (the “2022 Revolver”). In connection with the refinancing, the 2018 Credit Agreement was terminated.

The 2022 Revolver includes a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. The 2022 Revolver and 2022 Credit Agreement will mature on July 27, 2027. The obligations under the 2022 Credit Agreement and related loan documents are guaranteed by Holdings and Intermediate. The obligations of Holdings, EPL and Intermediate under the 2022 Credit Agreement and related loan documents are secured by a first priority lien on substantially all of their respective assets.

The 2018 Revolver included a sub limit of $15.0 million for letters of credit and a sub limit of $15.0 million for swingline loans. The obligations under the 2018 Credit Agreement and related loan documents were guaranteed by the Company and Intermediate. The obligations of the Company, EPL and Intermediate under the 2018 Credit Agreement and related loan documents were secured by a first priority lien on substantially all of their respective assets.

The special dividend announced by the Company’s Board of Directors on October 11, 2022 is permitted under the terms of 2022 Revolver pursuant to both subclause (iii)(d) and (iii)(e) of the following sentence. Under the 2022 Revolver, Holdings is restricted from making certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under its 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, officers and management, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $0.5 million in any 12 month consecutive period to redeem, repurchase or otherwise acquire equity interests of any subsidiary that is not a wholly-owned subsidiary from any holder of equity interest in such subsidiary, (c) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (d) make up to $5.0 million in other restricted payments per year, and (e) make other restricted payments, subject to its compliance, on a pro forma basis, with (x) a lease-adjusted consolidated leverage ratio not to exceed 4.25 times and (y) the financial covenants applicable to the 2022 Revolver.

Borrowings under the 2022 Credit Agreement (other than any swingline loans) bear interest, at the borrower's option, at rates based upon either the secured overnight financing rate ("SOFR") or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the published Bank of America prime rate, or (c) Term SOFR with a term of one-month SOFR plus 1.00%. For Term SOFR loans, the margin is in the range of 1.25% to 2.25%, and for base rate loans the margin is in a range of 0.25% to 1.25%. Borrowings under the 2022 Revolver may be repaid and reborrowed. For borrowings under the 2022 Revolver and 2018 Revolver during fiscal 2022, the interest rate range was 1.4% to 6.0%. For borrowings under the 2018 Revolver during fiscal 2021, the interest rate range was 1.3% to 1.6%. The interest rate under the 2022 Revolver was 5.7% at December 28, 2022 and 1.4% under the 2018 Revolver at December 29, 2021. For the year ended December 28, 2022, the Company had interest expense of $0.9 million under the 2022 Revolver and 2018 Revolver. For the years ended December 29, 2021 and December 30, 2020, the Company had interest expense of $1.2 million and $2.7 million, respectively, under the 2018 Revolver.

The 2022 Credit Agreement contains certain financial covenants. The Company was in compliance with all such covenants at December 28, 2022.

At December 28, 2022, $9.8 million of letters of credit and $66.0 million of borrowings were outstanding under the 2022 Revolver. The amount available under the 2022 Revolver was $74.2 million at December 28, 2022. At December 29, 2021, $10.0 million of letters of credit and $40.0 million of borrowings were outstanding under the 2018 Revolver. The amount available under the 2018 Revolver was $100.0 million at December 29, 2021.

**Maturities**

On July 27, 2022, the Company refinanced and terminated the 2018 Revolver pursuant to the 2022 Credit Agreement. The 2022 Revolver and 2022 Credit Agreement will mature on July 27, 2027. During the year ended December 28, 2022, the Company borrowed $26.0 million net of pay downs of $20.0 million on its 2022 Revolver. During the year ended December 29, 2021, the Company paid down $22.8 million on the 2018 Revolver. There are no required principal payments prior to maturity for the 2022 Revolver.

**Interest Rate Swap**

During the year ended December 25, 2019, the Company entered into a variable-to-fixed interest rate swap agreement with a notional amount of $40.0 million that matures in June 2023. The objective of the interest rate swap was to reduce the Company's exposure to interest rate risk for a portion of its variable-rate interest payments on its borrowings under the 2018 Revolver. The interest rate swap was designated as a cash flow hedge, as the changes in the future cash flows of the swap were expected to offset changes in expected future interest payments on the related variable-rate debt, in accordance with Accounting Standards Codification ("ASC") 815 "Derivatives and Hedging."

In connection with the Company's entry into the 2022 Credit Agreement, on July 28, 2022, the Company terminated the interest rate swap, which was previously used to hedge interest rate risk. Prior to the interest rate swap termination, the swap was a highly effective cash flow hedge. In settlement of this swap, the Company received approximately $0.6 million and derecognized the corresponding interest rate swap asset. The remaining amount in AOCI related to the hedging relationship will be reclassified into earnings when the hedged forecasted transaction is reported in earnings. As of December 28, 2022, the estimated net gains included in AOCI related to the Company's cash flow hedge that will be reclassified into earnings in the next 12 months is $0.2 million, based on current Term SOFR interest rates.

The following table shows the financial statement line item and amount of the Company's cash flow hedge accounting on the consolidated balance sheet (in thousands):

| | December 28, 2022 | | December 29, 2021 | |
|---|---|---|---|---|
| | Notional | Fair value | Notional | Fair value |
| Other liabilities - Interest rate swap | $ — | $ — | $ 40,000 | $ 396 |

EL POLLO LOCO HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the effect of the Company's cash flow hedge accounting on the consolidated statements of income (in thousands):

| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
|---|---|---|---|
| Interest expense on hedged portion of debt | $ 439 | $ 568 | $ 979 |
| Interest (income) expense on interest rate swap | (296) | 486 | 278 |
| Interest (income) expense on debt and derivatives, net | $ 143 | $ 1,054 | $ 1,257 |

The following table summarizes the effect of the Company's cash flow hedge accounting on AOCI for the years ended December 28, 2022, December 29, 2021 and December 30, 2020 (in thousands):

| | Net Gain (Loss) Recognized in OCI | | | (Gain) Loss Reclassified from AOCI into Interest (Income) Expense | | |
|---|---|---|---|---|---|---|
| | December 28, 2022 | December 29, 2021 | December 30, 2020 | December 28, 2022 | December 29, 2021 | December 30, 2020 |
| Interest rate swap | $ 862 | $ 257 | $ (1,762) | $ (296) | $ 486 | $ 278 |

See Note 2 "Summary of Significant Accounting Policies" for the fair value of the Company's derivative asset.

## 7. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Accrued sales and property taxes | $ 5,270 | $ 4,726 |
| Gift card liability | 4,667 | 4,622 |
| Loyalty rewards program liability | 526 | 687 |
| Accrued advertising | 831 | 3,635 |
| Accrued legal settlements and professional fees | 1,303 | 771 |
| Deferred franchise and development fees | 610 | 637 |
| Other | 1,913 | 4,632 |
| Total other accrued expenses and current liabilities | $ 15,120 | $ 19,710 |

## 8. OTHER NONCURRENT LIABILITIES

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

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Deferred franchise and development fees | $ 5,767 | $ 5,691 |
| Derivative liability | — | 396 |
| Employer social security tax deferral | — | 2,426 |
| Other | 89 | 140 |
| Total other noncurrent liabilities | $ 5,856 | $ 8,653 |

## 9. INCOME TAXES

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

| For the Years Ended | December 28, 2022 | December 29, 2021 | December 30, 2020 |
|---|---|---|---|
| Current income taxes: | | | |
| Federal | $ 2,366 | $ 7,163 | $ 520 |
| State | 1,112 | 2,158 | 1,123 |
| Total current | 3,478 | 9,321 | 1,643 |
| Deferred income taxes: | | | |
| Federal | 2,958 | 93 | 3,350 |
| State | 1,642 | 918 | 658 |
| Total deferred | 4,600 | 1,011 | 4,008 |
| Tax provision for income taxes | $ 8,078 | $ 10,332 | $ 5,651 |

The provision for income taxes differs from the amount computed by applying the federal income tax rate of 21.0% for fiscal 2022, 2021 and 2020 as follows:

| For the Years Ended | December 28, 2022 | December 29, 2021 | December 30, 2020 |
|---|---|---|---|
| Statutory federal income tax rate applied to earnings before income taxes and extraordinary items | 21.0 % | 21.0 % | 21.0 % |
| State income tax expense (net of federal benefit) | 7.7 | 5.9 | 4.3 |
| Change in valuation allowance | — | 0.1 | 0.4 |
| TRA (income) expense | (0.3) | — | — |
| 162(m) | 0.5 | 0.8 | 0.2 |
| WOTC Credit | (0.9) | (0.5) | (0.9) |
| Stock option exercises | 0.3 | (1.4) | (6.6) |
| Other | (0.3) | 0.3 | 0.4 |
| Total | 28.0 % | 26.2 % | 18.8 % |

As of December 28, 2022, the Company had no federal and less than $0.1 million state NOL carryforwards. These State NOLs expire beginning 2029. The Company also has state enterprise zone credits of approximately $9.2 million, which expire in 2023. The utilization of NOL carryforwards and state enterprise zone credits may be subject to limitation under section 382 of the Internal Revenue Code of 1986 (the “Code”) and similar state law provisions.

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

The Company has evaluated the available evidence supporting the realization of its gross deferred tax assets. After evaluating all of the positive and negative evidence, including the Company’s continued income from operations, the Company concluded that it is more likely than not that its deferred tax assets except from certain state credits will be realized. In both fiscal 2021 and 2020, the Company recorded a valuation allowance of approximately $0.1 million against its deferred tax asset resulting from certain tax credits that may not be realizable prior to the time the credits expire. In fiscal 2022, the Company recorded an additional $0.5 million to the valuation allowance. As of December 28, 2022, the total valuation allowance was $6.7 million.

On July 30, 2014, the Company entered into the TRA. The TRA calls for the Company to pay its pre-IPO stockholders 85% of the cash savings that the Company realizes in its taxes as a result of utilizing its NOLs and other tax attributes attributable to preceding periods. The TRA charge expense (benefit) is a permanent add-back to the Company’s taxable income. TRA resulted in $0.4 million of income in fiscal 2022 as a result of the amortization of interest expense related to the total expected TRA payments and changes in estimates for actual tax returns filed and future forecasted taxable income, less than $0.1 million of expense in fiscal 2021 as a result of the amortization of interest expense related to the total expected TRA payments and changes in estimates for actual tax returns filed and future forecasted taxable income and $0.1 million of expense in fiscal 2020 as a result of changes to future forecasted results and deduction on 2018 legal settlement accrual. In fiscal 2022, 2021 and 2020, the Company paid $0.4 million, $1.7 million and $5.2 million, respectively, to its pre-IPO stockholders under the TRA.

As of December 28, 2022 and December 29, 2021, the deferred tax assets related to California Enterprise Zone credits, net of valuation allowances are $0.5 million and $1.3 million, respectively.

The Company's deferred tax assets and liabilities as of December 28, 2022 and December 29, 2021 are summarized below.

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Deferred assets: | | |
| Capital leases | $ 55 | $ 60 |
| Accrued vacation | 508 | 503 |
| Accrued workers' compensation | 2,201 | 2,616 |
| Enterprise zone and other credits | 7,258 | 7,524 |
| Net operating losses | 5 | 5 |
| Fixed assets | 2,392 | 4,393 |
| ROU assets | 50,112 | 51,864 |
| Other | 4,397 | 5,694 |
| Total deferred tax assets | 66,928 | 72,659 |
| Valuation allowance | (6,727) | (6,181) |
| Net deferred tax assets | 60,201 | 66,478 |
| Deferred liabilities: | | |
| Goodwill | (6,420) | (6,349) |
| Trademark | (16,721) | (16,727) |
| Prepaid expense | (595) | (498) |
| ROU liabilities | (44,737) | (46,484) |
| Other | 267 | 361 |
| Deferred tax liabilities | (68,206) | (69,697) |
| Net deferred tax liability | $ (8,005) | $ (3,219) |

The net deferred tax asset amounts above as of December 28, 2022 and December 29, 2021 have been classified in the accompanying consolidated balance sheets as noncurrent assets and are as follows (in thousands):

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Noncurrent: | | |
| Assets - state | $ 512 | $ 2,245 |
| Liabilities - federal | (8,517) | (5,464) |
| Net deferred tax liability | $ (8,005) | $ (3,219) |

As of December 28, 2022 and December 29, 2021, the Company had no accrual for unrecognized tax benefits. Consequently, no interest or penalties have been accrued by the Company. The Company believes that no significant changes to the amount of unrecognized tax benefits will occur within the next twelve months. The Company is subject to taxation in the United States and in various state jurisdictions.

The Company is no longer subject to U.S. examination for years before 2019 by the federal taxing authority, and for years before 2018 by state taxing authorities.

**10. EMPLOYEE BENEFIT PLANS**

The Company sponsors a defined contribution employee benefit plan that permits its employees, subject to certain eligibility requirements, to contribute up to 25% of their qualified compensation to the plan. The Company matches 100% of the employees' contributions of the first 3% of the employees' annual qualified compensation, and 50% of the employees' contributions of the next 2% of the employees' annual qualified compensation. The Company's matching contribution immediately fully vests. The Company's contributions to the plan were $0.8 million for the years ended December 28, 2022, December 29, 2021 and December 30, 2020.

**11. STOCK-BASED COMPENSATION**

Pursuant to the 2018 Omnibus Equity Incentive Plan the Company grants stock options ("options"), restricted stock units, performance-based stock units and restricted stock. The Company has authorized 5,652,240 shares of common stock for issuance in connection with stock awards. On June 8, 2021, our stockholders approved amending the Equity Incentive Plan, formerly the 2018 Omnibus Equity Incentive Plan, under which the new aggregate share limit was increased to be 2,000,000 shares. As of December 28, 2022, 945,282 shares were available for grant.

During the years ended December 28, 2022, December 29, 2021 and December 30, 2020, the Company recognized stock-based compensation expense of $3.5 million, $3.2 million and $3.1 million, respectively. These expenses were included in general and administrative expenses consistent with the salary expense for the related optionees in the accompanying consolidated statements of income.

**Stock Options**

At December 28, 2022, options to purchase 1,068,179 shares of common stock of the Company were outstanding, including 625,436 vested and 442,743 unvested. Unvested options vest over time, or upon our achieving annual financial goals. However, the compensation committee of the board of directors, as administrator of the Company's Equity Incentive Plan, has the power to accelerate the vesting schedule of stock-based compensation, and, generally, in the event of an employee termination in connection with a change in control of the Company, any unvested portion of an award under the plan shall become fully vested. At December 28, 2022, 180,020 premium options, options granted above the stock price at date of grant, remained outstanding. In fiscal 2022, the Company granted 372,958 options, with an exercise price equal to the fair market value of the common stock on the date of grant. The options granted in fiscal 2022 had a four year vesting period. Stock options generally expire ten years from the date of grant. In fiscal 2021, the Company granted 256,172 options, with an exercise price equal to the fair market value of the common stock on the date of grant. The options granted in fiscal 2021 had a four year vesting period. Stock options generally expire 10 years from the date of grant. Changes in options for the years ended December 28, 2022 and December 29, 2021, are as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Contractual Life Life (Years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding - December 30, 2020 | 1,030,866 | $ 9.82 | | |
| Grants | 256,172 | 17.55 | | |
| Exercised | (132,760) | 6.52 | | |
| Forfeited, cancelled or expired | (176,200) | 14.48 | | |
| Outstanding - December 29, 2021 | 978,078 | $ 11.45 | | |
| Grants | 372,958 | 10.54 | | |
| Exercised | (185,798) | 9.22 | | |
| Forfeited, cancelled or expired | (97,059) | $ 12.06 | | |
| Outstanding - December 28, 2022 | 1,068,179 | $ 9.92 | 5.68 | $ 1,368 |
| Vested and expected to vest at December 28, 2022 | 1,060,880 | $ 9.92 | 5.66 | $ 1,362 |
| Exercisable at December 28, 2022 | 625,436 | $ 9.50 | 3.37 | $ 1,033 |

The intrinsic value of options exercised, calculated as the difference between the market value on the date of exercise and the exercise price, was $0.8 million, $1.6 million and $9.9 million for fiscal years 2022, 2021 and 2020, respectively.

The Company measures and recognizes compensation expense for the estimated fair value of stock options for employees and non-employee directors and similar awards based on the grant-date fair value of the award. For options that are based on a service requirement, the cost is recognized on a straight-line basis over the requisite service period, usually the vesting period. For options that were based on performance requirements, costs were recognized over periods to which the performance criteria related. In order to calculate our stock options' fair values and the associated compensation costs for share-based awards, the Company utilizes the Black–Scholes option pricing model and has developed estimates of various inputs including forfeiture rate, expected term, expected volatility, and risk-free interest rate. The forfeiture rate is based on historical rates and reduces the compensation expense recognized. The expected term for options granted is derived using the "simplified" method, in accordance with SEC guidance. The Company calculates the risk-free interest rate using the implied yield for a U.S. Treasury security with constant maturity and a remaining term equal to the expected term of the Company's employee stock options. The Company does not anticipate paying any cash dividends for the foreseeable future and therefore uses an expected dividend yield of zero for option valuation purposes. Expected volatility is based on the Company's historical data. Volatility is calculated by taking the historical daily closing equity prices of the Company, prior to the grant date, over a period equal to the expected term.

The weighted-average estimated fair value of employee stock options granted in fiscal 2022 and 2021 was $4.89 and $8.10 per share, respectively, using the Black–Scholes model with the following weighted-average assumptions used to value the option grants:

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Expected volatility | 43.0 % | 46.9 % |
| Risk-free interest rate | 2.9 % | 1.1 % |
| Expected term (years) | 6.25 | 6.25 |
| Expected dividends | — | — |

As of December 28, 2022, the Company had total unrecognized compensation expense of $2.1 million related to unvested stock options, which the Company expects to recognize over a weighted average period of 3.0 years.

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

The Company estimates its forfeiture rate based on an analysis of its actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior, and other factors. Changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously-estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously-estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the financial statements. The effect of forfeiture adjustments was insignificant in fiscal 2022, 2021 and 2020. The Company will continue to use significant judgment in evaluating the expected term, volatility, and forfeiture rate related to its stock-based compensation.

**Restricted Shares**

In fiscal 2022 and 2021, 356,610 and 222,741 restricted share awards were granted, respectively, at the fair market value on the date of grant. These grants vest based on continued service over three years for directors and four years for employees.

Changes in restricted shares for the years ended December 28, 2022 and December 29, 2021, are as follows:

| | Shares | Weighted-Average Fair Value |
|---|---|---|
| Unvested shares at December 30, 2020 | 742,404 | $ 11.68 |
| Granted | 222,741 | $ 17.13 |
| Released | (248,255) | $ 11.99 |
| Forfeited, cancelled, or expired | (221,110) | $ 11.80 |
| Unvested shares at December 29, 2021 | 495,780 | $ 13.92 |
| Granted | 356,610 | $ 10.37 |
| Released | (201,043) | $ 13.32 |
| Forfeited, cancelled, or expired | (105,867) | $ 12.91 |
| Unvested shares at December 28, 2022 | 545,480 | $ 12.02 |

As of December 28, 2022, there was total unrecognized compensation expense of $5.0 million related to unvested restricted share awards, which the Company expects to recognize over a weighted-average period of 2.62 years. As of December 28, 2022, all remaining performance stock units and restricted units were forfeited, cancelled, expired, or released.

## 12. EARNINGS PER SHARE

Basic EPS is calculated using the weighted-average number of shares of common stock outstanding during the years ended December 28, 2022, December 29, 2021, and December 30, 2020. Diluted EPS is calculated using the weighted-average number of shares of common stock outstanding and potentially dilutive during the period, using the treasury stock method.

On October 11, 2022, the Company’s Board of Directors approved a share repurchase program (the “2022 Stock Repurchase Plan”) under which the Company is authorized to repurchase up to $20.0 million of shares of our common stock. The 2022 Stock Repurchase Plan will terminate on March 28, 2024, may be modified, suspended or discontinued at any time, and does not obligate the Company to acquire any particular number of shares.

Under the 2022 Stock Repurchase Plan, the Company is permitted to repurchase its common stock from time to time, in amounts and at prices that the Company deemed appropriate, subject to market conditions and other considerations. The Company’s repurchases will be executed using open market purchases, including pursuant to Rule 10b5-1 trading plans, and/or through privately negotiated transactions.

For the year ended December 28, 2022, the Company did not repurchase any shares of common stock under the 2022 Stock Repurchase Plan.

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

| | For the Years Ended | | |
|---|---|---|---|
| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
| Numerator: | | | |
| Net income | $ 20,801 | $ 29,121 | $ 24,474 |
| Denominator: | | | |
| Weighted-average shares outstanding—basic | 36,350,579 | 35,973,892 | 35,193,325 |
| Weighted-average shares outstanding—diluted | 36,575,904 | 36,446,756 | 35,796,406 |
| Net income per share—basic | $ 0.57 | $ 0.81 | $ 0.70 |
| Net income per share—diluted | $ 0.57 | $ 0.80 | $ 0.68 |
| Anti-dilutive securities not considered in diluted EPS calculation | 535,574 | 136,397 | 81,041 |

Below is a reconciliation of basic and diluted share counts.

| | For the Years Ended | | |
|---|---|---|---|
| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
| Weighted-average shares outstanding—basic | 36,350,579 | 35,973,892 | 35,193,325 |
| Dilutive effect of stock options and restricted shares | 225,325 | 472,864 | 603,081 |
| Weighted-average shares outstanding—diluted | 36,575,904 | 36,446,756 | 35,796,406 |

## 13. COMMITMENTS AND CONTINGENCIES

### Legal Matters

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 LLC, under the caption Armen Galustyan v. Sather, et al. (Case No. 11676-VCL). The derivative complaint alleges that these defendants breached their fiduciary duties to Holdings and were unjustly enriched when they sold shares of Holdings at artificially inflated prices due to alleged misrepresentations and omissions regarding EPL's comparable store sales in the second quarter of 2015. The Holdings shareholder's requested remedies include an award of compensatory damages to Holdings, as well as a court order to improve corporate governance by putting forward for stockholder vote certain resolutions for amendments to Holdings' Bylaws or Certificate of Incorporation. The Holdings shareholder voluntarily dismissed the action on October 7, 2020. A second purported Holdings shareholder filed a derivative complaint on or about September 23, 2016, under the caption Diep v. Sather, CA 12760-VCL in the Delaware Court of Chancery. The Diep action is also purportedly brought on behalf of Holdings, names the same defendants and asserts substantially the same claims on substantially the same alleged facts as does Galustyan. Defendants moved to stay or dismiss the Diep action.

On March 17, 2017, the Delaware court granted in part, and denied in part, the motion to stay the Diep action. The court denied defendants' motion to dismiss the complaint for failure to state a claim. On January 17, 2018, the court entered an order granting the parties' stipulation staying all proceedings in the Diep action for five months or until the completion of an investigation of the allegations in the action by a special litigation committee of the Holdings board of directors (the "SLC"). On September 25, 2020, after concluding its investigation, the SLC filed a motion to dismiss the Diep action and filed its investigative report under seal as an exhibit to the motion to dismiss.

On May 21, 2021, while the SLC's motion to dismiss the Diep action was pending, the Company filed a notice of proposed partial settlement of the Diep action with respect to defendants Kay Bogeajis, Laurance Roberts, Stephen J. Sather, Edward J. Valle, Douglas K. Ammerman, and Samuel N. Borgese (collectively, the "Settling Defendants"). Defendant Trimaran Pollo Partners, LLC ("Trimaran") was not a party to the settlement. The court approved the settlement of $625,000, less Plaintiffs' fees of $156,250, on September 10, 2021, and dismissed all claims brought, or that could have been brought, against Settling Defendants. In connection with this settlement, the Company received $469,000 in insurance proceeds, which was recorded within general and administrative expenses in the Company's statement of income for the year ended December 29, 2021.

On July 30, 2021, the court granted the SLC's motion to dismiss with respect to the claims asserted against remaining defendant Trimaran. On October 4, 2021, Plaintiffs filed a notice of appeal of the court's granting of the motion to dismiss against defendant Trimaran. Plaintiff filed its opening brief on December 6, 2021. SLC filed its answering brief on December 20, 2021 and the public version of the brief was filed on January 7, 2022. Plaintiffs filed the reply brief on January 4, 2022. The hearing on the appeal took place on March 30, 2022. On June 28, 2022, the court's granting of the motion to dismiss against Trimaran was affirmed.

Janice P. Handlers-Bryman and Michael D. Bryman v. El Pollo Loco, Inc., Los Angeles Superior Court (Case No. MC026045) (the "Lancaster Lawsuit") was filed on February 9, 2016. Existing El Pollo Loco franchisees, Janice P. Handlers-Bryman and Michael D. Bryman, as individuals and in their capacities as trustees of the Handlers Bryman Trust (collectively, "Plaintiffs"), filed suit against us alleging, among other things, that we "imposed unreasonable time limitations" on their development of additional restaurant locations in Lancaster, California, and that we thereafter developed company-operated El Pollo Loco restaurants in the "market area" of Plaintiffs' existing El Pollo Loco restaurant in Lancaster.

During fiscal 2020, the Company reached an agreement with the Plaintiffs to resolve the lawsuit for a payment by the Company of $2.5 million, which was recorded within operating expenses in the Company's statement of income for the fiscal year ended December 30, 2020. Additionally, during fiscal 2020, the matter was formally resolved. On September 2, 2020, the California Court of Appeals entered an order, following a motion for stipulated reversal of the trial court's judgment jointly filed by the parties, reversing the trial court's judgment in the case and instructing the trial court to dismiss the matter with prejudice. On September 10, 2020, the trial court entered an order reversing its judgment and dismissing the case with prejudice. The settlement payment of $2.5 million has been made in the third quarter of 2020.

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

**Purchase Commitments**

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

At December 28, 2022, the Company's total estimated commitment to purchase chicken was $40.9 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 three lease agreements. These leases have various terms, the latest of which expires in 2036. As of December 28, 2022, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was $2.3 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at December 28, 2022 was $1.7 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.

**Employment Agreements**

As of December 28, 2022, the Company had employment agreements with three of the officers of the Company. These agreements provide for minimum salary levels, possible annual adjustments for cost-of-living changes, and incentive bonuses that are payable under certain business conditions.

**Indemnification Agreements**

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

**EL POLLO LOCO HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 14. RELATED PARTY TRANSACTIONS

As of December 28, 2022, LLC, FS Equity Partners V, L.P. and FS Affiliates V, L.P. own approximately 30.3%, 14.8% and 0.2%, respectively, of our outstanding common stock. FS Equity V and FS Affiliates V, which previously indirectly held shares of our common stock through LLC, received shares directly on August 31, 2022, upon LLC's pro rata distribution in kind of shares of our common stock to FS Equity V and FS Affiliates V.

## 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

### Revenue Recognition

*Nature of products and services*

The Company has two revenue streams, company-operated restaurant revenue and franchise related revenue. See Note 2 "Summary of Significant Accounting Policies" for a description of the revenue recognition policies.

*Franchise and franchise advertising revenue*

Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees, IT support services, and rental income for subleases to franchisees. Franchise advertising revenue consists of advertising contributions received from franchisees.

*Disaggregated revenue*

The following table presents the Company's revenues for the years ended December 28, 2022, December 29, 2021 and December 30, 2020 disaggregated by revenue source and market (in thousands):

| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
|---|---|---|---|
| **Core Market[(1)]:** | | | |
| Company-operated restaurant revenue | $ 384,504 | $ 371,067 | $ 346,662 |
| Franchise revenue | 17,953 | 16,062 | 14,216 |
| Franchise advertising fee revenue | 13,223 | 12,017 | 10,632 |
| Total core market | $ 415,680 | $ 399,146 | $ 371,510 |
| **Non-Core Market[(2)]:** | | | |
| Company-operated restaurant revenue | $ 18,714 | $ 23,666 | $ 27,402 |
| Franchise revenue | 20,272 | 17,667 | 15,202 |
| Franchise advertising fee revenue | 15,293 | 13,884 | 11,973 |
| Total non-core market | $ 54,279 | $ 55,217 | $ 54,577 |
| **Total revenue** | **$ 469,959** | **$ 454,363** | **$ 426,087** |

(1) Core Market includes markets with existing company-operated restaurants at the time of the Company's Initial Public Offering ("IPO") on July 28, 2014.

(2) Non-Core Market includes markets entered into by the Company subsequent to the IPO date.

The following table presents the Company's revenues disaggregated by geographic market for the years ended December 28, 2022, December 29, 2021 and December 30, 2020:

| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
|---|---|---|---|
| Greater Los Angeles area market | 71.2 % | 70.9 % | 71.3 % |
| Other markets | 28.8 % | 29.1 % | 28.7 % |
| Total | **100 %** | **100 %** | **100 %** |

*Contract balances*

The following table provides information about the change in the franchise contract liability balances during the year ended December 28, 2022 and December 29, 2021 (in thousands):

| | | |
|---|---|---|
| **December 30, 2020** | $ | 5,628 |
| Revenue recognized - beginning balance | | (680) |
| Additional contract liability | | 1,380 |
| **December 29, 2021** | $ | 6,328 |
| Revenue recognized - beginning balance | | (744) |
| Additional contract liability | | 793 |
| **December 28, 2022** | **$** | **6,377** |

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

For the year ended December 28, 2022, there was an increase to the contract liability balance due to the Company's completion of the sale of three company-operated restaurants within the Orange County area to an existing franchisee. This resulted in an additional contract liability of $0.8 million, relating to allocation of the transaction price to various performance obligations under the applicable contracts of the sale. For the year ended December 29, 2021, there was an increase to the contract liability balance due to the Company's completion of the sale of eight company-operated restaurants within the Sacramento area to an existing franchisee which resulted in an additional contract liability of $0.7 million, relating to allocation of the transaction price to various performance obligations under the applicable contracts of the sale.

The following table illustrates the estimated revenue to be recognized in the future related to performance obligations that are unsatisfied as of December 28, 2022:

| **Franchise revenues:** | | |
|---|---|---|
| 2023 | $ | 615 |
| 2024 | | 522 |
| 2025 | | 474 |
| 2026 | | 451 |
| 2027 | | 428 |
| Thereafter | | 3,887 |
| **Total** | **$** | **6,377** |

Changes in the loyalty rewards program liability included in other accrued expenses and current liabilities on the consolidated balance sheets were as follows (in thousands):

| | | December 28, 2022 | | December 29, 2021 | | December 30, 2020 |
|---|---|---|---|---|---|---|
| Loyalty rewards liability, beginning balance | $ | 687 | $ | 900 | $ | 1,084 |
| Revenue deferred | | 2,754 | | 2,677 | | 2,463 |
| Revenue recognized | | (2,915) | | (2,890) | | (2,647) |
| Loyalty rewards liability, ending balance | **$** | **526** | **$** | **687** | **$** | **900** |

The Company expects all loyalty points revenue related to performance obligations unsatisfied as of December 28, 2022 to be recognized within one year.

**EL POLLO LOCO HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Gift Cards*

The gift card liability included in other accrued expenses and current liabilities on the consolidated balance sheets was as follows (in thousands):

| | December 28, 2022 | December 29, 2021 |
|---|---|---|
| Gift card liability | $ 4,667 | $ 4,622 |

Revenue recognized from the redemption of gift cards that was included in other accrued expenses and current liabilities at the beginning of the year was as follows (in thousands):

| | December 28, 2022 | December 29, 2021 | December 30, 2020 |
|---|---|---|---|
| Revenue recognized from gift card liability balance at the beginning of the year | $ 1,145 | $ 1,218 | $ 1,028 |

*Contract Costs*

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

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15 (e) of the Exchange Act) that are 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 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 at the reasonable assurance level as of December 28, 2022.

**Management’s Report on Internal Control over Financial Reporting**

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 28, 2022 based on the criteria in Internal Control — Integrated Framework (“2013 Framework”) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 28, 2022 based on the criteria established in the 2013 Framework.

The effectiveness of our internal control over financial reporting as of December 28, 2022 has been audited by BDO USA, LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K, as stated in their report included herein.

**Changes in Internal Control over Financial Reporting**

No changes in our internal control over financial reporting occurred during the quarter ended December 28, 2022 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

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

**Opinion on Internal Control over Financial Reporting**

We have audited El Pollo Loco Holdings, Inc.'s (the "Company's") internal control over financial reporting as of December 28, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 28, 2022 and December 29, 2021, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2022, and the related notes and our report dated March 10, 2023, expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP
Costa Mesa, California
March 10, 2023

**ITEM 9B. OTHER INFORMATION**

None.

**ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2022 fiscal year. In addition, our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors, employees and officers, including our principal executive officer, principal financial officer, principal accounting officer, controller, and any persons performing similar functions. The current version of the Code of Business Conduct and Ethics is available on our website under the Corporate Governance section at *www.elpolloloco.com*. To the extent required by rules adopted by the SEC and The Nasdaq Stock Market LLC, we intend to promptly disclose future amendments to certain provisions of the Code of Business Conduct and Ethics, or waivers of such provisions granted to executive officers and directors, on our website under the Corporate Governance section at *www.elpolloloco.com*.

### ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2022 fiscal year.

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

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2022 fiscal year.

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

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2022 fiscal year.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2022 fiscal year.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

(2) Financial Statement Schedules: None.

(3) Exhibits:

| | | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|---|
| Number | Description | Filed Herewith | Form | Period Ended | Exhibit | Filing Date | SEC File Number |
| 3.1 | Amended and Restated Certificate of Incorporation of El Pollo Loco Holdings, Inc. | | 10-Q | 6/25/2014 | 3.1 | 9/5/2014 | 001-36556 |
| 3.2 | Amended and Restated By-Laws of El Pollo Loco Holdings, Inc. | | 10-Q | 6/25/2014 | 3.2 | 9/5/2014 | 001-36556 |
| 4.1 | Description of El Pollo Loco Holdings, Inc. Capital Stock | | 10-K | 12/25/2019 | 4.1 | 3/6/2020 | 001-36556 |
| 10.1 | Income Tax Receivable Agreement, dated July 30, 2014, between El Pollo Loco Holdings, Inc., and Trimaran Pollo Partners, L.L.C. | | 10-Q | 9/24/2014 | 10.1 | 11/7/2014 | 001-36556 |
| 10.2 | Franchise Development Agreement (Exclusive), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and Anil Yadav and Atour Eyvazian, collectively, as developer | | 8-K | N/A | 10.1 | 8/22/2014 | 001-36556 |
| 10.3 | Consent to and Assignment of Development Rights (Initial Change of Entity), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and (i) Anil Yadav and Atour Eyvazian, collectively, as assignor, and (ii) AA Pollo, Inc., as assignee | | 8-K | N/A | 10.2 | 8/22/2014 | 001-36556 |
| 10.4 | Franchise Development Option Agreement, dated July 11, 2014, between El Pollo Loco, Inc., and Trimaran Pollo Partners, L.L.C. | | S-1/A | N/A | 10.14 | 7/14/2014 | 333-197001 |
| 10.5 | Stockholders Agreement, dated as of November 18, 2005, by and among El Pollo Loco Holdings, Inc. (formerly | | S-1 | N/A | 10.3 | 6/24/2014 | 333-197001 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Chicken Acquisition Corp.) and the stockholders listed therein | | | | | |
| 10.6 | Amendment No. 1 to Stockholders Agreement, dated as of April 20, 2006, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C. | S-1 | N/A | 10.4 | 6/24/2014 | 333-197001 |
| 10.7 | Amendment No. 2 to Stockholders Agreement, dated as of December 26, 2007, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C. | S-1 | N/A | 10.5 | 6/24/2014 | 333-197001 |
| 10.8 | Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of March 8, 2006 | S-1 | N/A | 10.6 | 6/24/2014 | 333-197001 |
| 10.9 | Amendment No. 1 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of December 26, 2007 | S-1 | N/A | 10.7 | 6/24/2014 | 333-197001 |
| 10.10 | Amendment No. 2 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of January 30, 2008 | S-1 | N/A | 10.8 | 6/24/2014 | 333-197001 |
| 10.11 | Amendment No. 3 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of July 14, 2011 | S-1 | N/A | 10.9 | 6/24/2014 | 333-197001 |
| 10.12 | Form of Franchise Agreement | S-1 | N/A | 10.12 | 6/24/2014 | 333-197001 |
| 10.13* | Form of Franchise Development Agreement | S-1 | N/A | 10.13 | 6/24/2014 | 333-197001 |
| 10.14 | Form of Franchise Agreement (2019) | 10-K | 12/25/2019 | 10.15 | 3/6/2020 | 001-36556 |
| 10.15 | Form of Franchise Development Agreement (2019) | 10-K | 12/25/2019 | 10.16 | 3/6/2020 | 001-36556 |
| 10.16 | Form of Franchise Agreement (2021) | 10-K | N/A | 10.17 | 3/11/2022 | 001-36556 |
| 10.17 | Form of Franchise Development Agreement (2021) | 10-K | N/A | 10.18 | 3/11/2022 | 001-36556 |
| 10.18 | Credit Agreement, dated as of July 27, 2022, among El Pollo | 8-K | N/A | 10.1 | 8/2/2022 | 001-36556 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Loco, Inc., as borrower, El Pollo Loco Holdings, Inc., as guarantor, the other guarantors party thereto, the lenders party thereto and Bank of America, as administrative agent, swingline lender and letter of credit issuer | | | | | |
| 10.19 | Supplemental Agreement, dated as of August 31, 2022, by and among El Pollo Loco Holdings, Inc., FS Equity Partners V, L.P., and FS Affiliates V, L.P. | 10-Q | N/A | 10.4 | 11/4/2022 | 001-36556 |
| 10.20* | Form of Indemnification Agreement between El Pollo Loco Holdings, Inc. and each of its directors and executive officers | S-1/A | N/A | 10.27 | 7/22/2014 | 333-197001 |
| 10.21* | 2014 Omnibus Equity Incentive Plan | S-1/A | N/A | 10.22 | 7/22/2014 | 333-197001 |
| 10.22* | Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan | S-1/A | N/A | 10.25 | 7/22/2014 | 333-197001 |
| 10.23* | Form of Non-Officer Director Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan | S-1/A | N/A | 10.26 | 7/22/2014 | 333-197001 |
| 10.24* | Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan (Time Vesting Only) | 10-Q | 6/29/2016 | 10.27 | 8/5/2016 | 001-36556 |
| 10.25* | Form of Employee Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan | 10-Q | 9/28/2016 | 10.28 | 11/4/2016 | 001-36556 |
| 10.26* | 2018 Omnibus Equity Incentive Plan | S-8 | N/A | 4.3 | 8/6/2018 | 333-226621 |
| 10.27* | Form of Restricted Stock Agreement under 2018 Omnibus Equity Incentive Plan | 10-K | 12/25/2019 | 10.24 | 3/6/2020 | 001-36556 |
| 10.28* | Form of Restricted Stock Agreement under 2018 Omnibus Equity Incentive Plan (Non-Employee Directors) | 10-K | 12/25/2019 | 10.25 | 3/6/2020 | 001-36556 |
| 10.29* | Form of Restricted Stock Unit Agreement under 2018 Omnibus Equity Incentive Plan | 10-K | 12/25/2019 | 10.26 | 3/6/2020 | 001-36556 |
| 10.30* | Form of Stock Option Awards Agreement under 2018 Omnibus Equity Incentive Plan | 10-K | 12/25/2019 | 10.27 | 3/6/2020 | 001-36556 |
| 10.31* | El Pollo Loco Holdings, Inc. Equity Incentive Plan | 8-K | N/A | 10.1 | 6/14/2021 | 001-36556 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 10.32* | Form of Stock Option Awards Agreement under 2021 Equity Incentive Plan | | 10-K | N/A | 10.31 | 3/11/2022 | 001-36556 |
| 10.33* | Form of Restricted Share Agreement under 2021 Equity Incentive Plan | | 10-K | N/A | 10.32 | 3/11/2022 | 001-36556 |
| 10.34* | Form of Restricted Stock Agreement under 2021 Equity Incentive Plan (Non-Employee Directors) | | 10-K | N/A | 10.33 | 3/11/2022 | 001-36556 |
| 10.35* | Employment Agreement between Bernard Acoca and El Pollo Loco, Inc. | | 10-K | 12/27/2017 | 10.29 | 3/9/2018 | 001-36556 |
| 10.36* | Release and Consulting Agreement, dated October 14, 2021, between El Pollo Loco, Inc. and Bernard Acoca | | 8-K | N/A | 10.2 | 10/15/2021 | 001-36556 |
| 10.37* | Employment Agreement, dated March 9, 2022, between El Pollo Loco, Inc. and Laurance Roberts | | 10-K | 3/9/2022 | 10.37 | 3/11/2022 | 001-36556 |
| 10.38* | Employment Agreement between Miguel Lozano and El Pollo Loco, Inc. | | 10-Q | 3/27/2019 | 10.31 | 5/3/2019 | 001-36556 |
| 10.39* | Form of Restricted Share Unit Award Agreement between El Pollo Loco Holdings, Inc. and Bernard Acoca | | S-8 | N/A | 4.4 | 5/8/2018 | 333-224730 |
| 10.40* | Form of Performance Share Unit Award Agreement between El Pollo Loco Holdings, Inc. and Bernard Acoca | | S-8 | N/A | 4.5 | 5/8/2018 | 333-224730 |
| 10.41* | Severance and Separation Agreement, dated June 15, 2022, between El Pollo Loco Holdings, Inc. and Miguel Lozano | | 8-K | N/A | 10.1 | 6/21/2022 | 001-36556 |
| 10.42* | Employment Agreement, dated June 28, 2022, between El Pollo Loco Holdings, Inc. and Ira Fils | | 8-K | N/A | 10.1 | 7/1/2022 | 001-36556 |
| 21.1 | Subsidiaries of El Pollo Loco Holdings, Inc. | | S-1 | N/A | 21.1 | 6/24/2014 | 333-197001 |
| 23.1 | Consent of BDO USA, LLP | X | | | | | |
| 24.1 | Power of Attorney (included on signature page hereto) | X | | | | | |
| 31.1 | Certification of Chief Executive Officer under section 302 of the Sarbanes–Oxley Act of 2002 | X | | | | | |
| 31.2 | Certification of Chief Financial Officer under section 302 of the Sarbanes–Oxley Act of 2002 | X | | | | | |

| | | |
|---|---|---|
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. section 1350, adopted by section 906 of the Sarbanes–Oxley Act of 2002 | ** |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL Document | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | X |
| 104 | Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL Document | |

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

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EL POLLO LOCO HOLDINGS, INC.

By: /s/ Laurance Roberts
Laurance Roberts
President and Chief Executive Officer
Date: March 10, 2023

## SIGNATURES

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

| Name | Title | Date |
|---|---|---|
| /s/ Laurance Roberts<br>Laurance Roberts | Director, President and Chief Executive Officer (principal executive officer) | March 10, 2023 |
| /s/ Ira Fils<br>Ira Fils | Chief Financial Officer (principal financial and accounting officer) | March 10, 2023 |
| /s/ Michael G. Maselli<br>Michael G. Maselli | Chairman and Director | March 10, 2023 |
| /s/ Dean C. Kehler<br>Dean C. Kehler | Director | March 10, 2023 |
| /s/ John M. Roth<br>John M. Roth | Director | March 10, 2023 |
| /s/ Douglas J. Babb<br>Douglas J. Babb | Director | March 10, 2023 |
| /s/ Samuel N. Borgese<br>Samuel N. Borgese | Director | March 10, 2023 |
| /s/ Mark Buller<br>Mark Buller | Director | March 10, 2023 |
| /s/ William R. Floyd<br>William R. Floyd | Director | March 10, 2023 |
| /s/ Nancy Faginas-Cody<br>Nancy Faginas-Cody | Director | March 10, 2023 |
| /s/ Deborah Gonzalez<br>Deborah Gonzalez | Director | March 10, 2023 |
| /s/ Carol Lynton<br>Carol Lynton | Director | March 10, 2023 |

**Exhibit 23.1**

Consent of Independent Registered Public Accounting Firm

El Pollo Loco Holdings, Inc.
Costa Mesa, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-259661, No. 333-226621, No. 333-224730 and No. 333-197698), and Form S-3 (No. 333-269807) of El Pollo Loco Holdings, Inc. of our reports dated March 10, 2023, relating to the consolidated financial statements, and the effectiveness of El Pollo Loco Holdings, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP
Costa Mesa, California
March 10, 2023

**Exhibit 31.1**

CERTIFICATIONS

I, Laurance Roberts, certify that:

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

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

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

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

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

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

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

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

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

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

Date: March 10, 2023

/s/ Laurance Roberts
Laurance Roberts
President and Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

CERTIFICATIONS

I, Ira Fils, certify that:

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

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

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

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

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

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

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

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

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

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

Date: March 10, 2023

/s/ Ira Fils
Ira Fils
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 accompanying Annual Report on Form 10-K (the "Report"), the undersigned officers of El Pollo Loco Holdings, Inc. (the "Company") each certify that (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2023

/s/ Laurance Roberts
Laurance Roberts
President and Chief Executive Officer

/s/ Ira Fils
Ira Fils
Chief Financial Officer