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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 27, 2023

or

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

For the transition period from _________ to _________

Commission File Number: 001-36556

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

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

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

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

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
Rights to Purchase Series A Preferred Stock, par value $0.01 per share		The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of October 27, 2023, there were 32,953,268 shares of the issuer's common stock outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except share data)

	September 27, 2023	December 28, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 13,815	$ 20,493
Accounts and other receivables, net	9,622	10,084
Inventories	2,039	2,442
Prepaid expenses and other current assets	3,653	3,662
Income tax receivable	—	768
Total current assets	29,129	37,449
Property and equipment, net	82,187	78,644
Property and equipment held under finance lease, net	1,434	1,532
Property and equipment held under operating leases, net ("ROU asset")	166,697	165,584
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Deferred tax assets	—	512
Other assets	3,019	2,935
Total assets	**$ 593,028**	**$ 597,218**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under finance leases	$ 111	$ 110
Current portion of obligations under operating leases	19,425	19,995
Accounts payable	10,087	12,741
Accrued salaries and vacation	7,253	8,873
Accrued insurance	11,557	11,120
Accrued income taxes payable	5,622	—
Accrued interest	246	291
Current portion of income tax receivable agreement payable	323	263
Other accrued expenses and current liabilities	14,975	15,120
Total current liabilities	69,599	68,513
Revolver loan	80,000	66,000
Obligations under finance leases, net of current portion	1,542	1,626
Obligations under operating leases, net of current portion	166,864	165,149
Deferred taxes	9,270	8,517
Income tax receivable agreement payable, net of current portion	454	409
Other noncurrent liabilities	6,627	5,856
Total liabilities	334,356	316,070
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized; 100,000 shares designated as Series A Preferred Stock; none issued or outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized; 32,957,470 and 37,008,061 shares issued and outstanding as of September 27, 2023 and December 28, 2022, respectively	329	370
Additional paid-in-capital	248,732	292,244
Retained earnings (accumulated deficit)	9,611	(11,592)
Accumulated other comprehensive income	—	126
Total stockholders' equity	258,672	281,148
Total liabilities and stockholders' equity	**$ 593,028**	**$ 597,218**

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except share data)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Revenue				
Company-operated restaurant revenue	$ 102,703	$ 103,174	$ 304,477	$ 303,585
Franchise revenue	10,255	9,543	30,046	28,862
Franchise advertising fee revenue	7,441	7,161	21,894	21,590
Total revenue	120,399	119,878	356,417	354,037
Cost of operations				
Food and paper cost	27,552	30,163	82,928	89,586
Labor and related expenses	33,092	33,279	96,910	98,966
Occupancy and other operating expenses	27,289	26,920	77,751	76,597
Gain on recovery of insurance proceeds, lost profits, net	—	—	(151)	—
Company restaurant expenses	87,933	90,362	257,438	265,149
General and administrative expenses	9,144	9,855	31,451	29,488
Franchise expenses	9,583	9,027	28,107	27,315
Depreciation and amortization	3,946	3,530	11,277	10,745
Loss (gain) on disposal of assets	16	21	(34)	129
Gain on recovery of insurance proceeds, property, equipment and expenses	—	—	(242)	—
Gain on disposition of restaurants	(4,923)	—	(5,034)	—
Impairment and closed-store reserves	1,008	219	1,123	598
Total expenses	106,707	113,014	324,086	333,424
Income from operations	13,692	6,864	32,331	20,613
Interest expense, net	1,382	108	3,362	957
Income tax receivable agreement expense (income)	106	(29)	105	(345)
Income before provision for income taxes	12,204	6,785	28,864	20,001
Provision for income taxes	2,975	1,776	7,661	5,736
Net income	$ 9,229	$ 5,009	$ 21,203	$ 14,265
Net income per share				
Basic	$ 0.28	$ 0.14	$ 0.61	$ 0.39
Diluted	$ 0.28	$ 0.14	$ 0.60	$ 0.39
Weighted-average shares used in computing net income per share				
Basic	33,412,674	36,402,899	35,026,731	36,329,938
Diluted	33,490,004	36,507,050	35,179,483	36,491,624

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in thousands)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Net income	$ 9,229	$ 5,009	$ 21,203	$ 14,265
Other comprehensive (loss) income				
Changes in derivative instruments				
Unrealized net gains arising during the period from interest rate swap	—	43	—	974
Reclassifications of gains into net income	—	(369)	(170)	(197)
Income tax benefit (expense)	—	—	44	(297)
Other comprehensive (loss) income, net of taxes	—	(326)	(126)	480
Comprehensive income	$ 9,229	$ 4,683	$ 21,077	$ 14,745

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Amounts in thousands, except share data)

	Thirteen Weeks Ended September 27, 2023					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance, June 28, 2023	35,643,747	$ 356	$ 276,222	$ 382	$ —	$ 276,960
Stock-based compensation	—	—	926	—	—	926
Issuance of common stock related to restricted shares	28,222	—	—	—	—	—
Issuance of common stock upon exercise of stock options, net	35,666	—	347	—	—	347
Shares repurchased for employee tax withholdings	(4,639)	—	(46)	—	—	(46)
Repurchase of common stock	(2,706,214)	(27)	(28,437)	—	—	(28,464)
Repurchase of common stock - excise tax	—	—	(280)	—	—	(280)
Forfeiture of common stock related to restricted shares	(39,312)	—	—	—	—	—
Net income	—	—	—	9,229	—	9,229
Balance, September 27, 2023	32,957,470	$ 329	$ 248,732	$ 9,611	$ —	$ 258,672

	Thirteen Weeks Ended September 28, 2022					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance, June 29, 2022	37,002,513	$ 369	$ 346,095	$ (23,137)	$ 516	323,843
Stock-based compensation	—	—	1,009	—	—	1,009
Issuance of common stock related to restricted shares	53,476	1	(1)	—	—	—
Shares repurchased for employee tax withholdings	(2,584)	—	(24)	—	—	(24)
Other comprehensive income, net of tax	—	—	—	—	(326)	(326)
Net income	—	—	—	5,009	—	5,009
Balance, September 28, 2022	37,053,405	$ 370	$ 347,079	$ (18,128)	$ 190	$ 329,511

	Thirty-Nine Weeks Ended September 27, 2023					
	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance, December 28, 2022	37,008,061	$ 370	$ 292,244	$ (11,592)	$ 126	$ 281,148
Stock-based compensation	—	—	2,539	—	—	2,539
Issuance of common stock related to restricted shares	391,432	4	(4)	—	—	—
Issuance of common stock upon exercise of stock options, net	219,960	2	1,169	—	—	1,171
Shares repurchased for employee tax withholdings	(23,129)	—	(217)	—	—	(217)
Repurchase of common stock	(4,530,850)	(46)	(46,570)	—	—	(46,616)
Repurchase of common stock - excise tax	—	—	(430)	—	—	(430)
Forfeiture of common stock related to restricted shares	(108,004)	(1)	1	—	—	—
Other comprehensive loss, net of tax	—	—	—	—	(126)	(126)
Net income	—	—	—	21,203	—	21,203
Balance, September 27, 2023	32,957,470	$ 329	$ 248,732	$ 9,611	$ —	$ 258,672

	Thirty-Nine Weeks Ended September 28, 2022					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance, December 29, 2021	36,601,648	$ 365	$ 342,941	$ (32,393)	$ (290)	$ 310,623
Stock-based compensation	—	—	2,806	—	—	2,806
Issuance of common stock related to restricted shares	352,114	4	(4)	—	—	—
Issuance of common stock upon exercise of stock options, net	150,475	1	1,579	—	—	1,580
Shares repurchased for employee tax withholdings	(22,901)	—	(243)	—	—	(243)
Forfeiture of common stock related to restricted shares	(27,931)	—	—	—	—	—
Other comprehensive income, net of tax	—	—	—	—	480	480
Net income	—	—	—	14,265	—	14,265
Balance, September 28, 2022	37,053,405	$ 370	$ 347,079	$ (18,128)	$ 190	$ 329,511

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022
Cash flows from operating activities:		
Net income	$ 21,203	$ 14,265
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	11,277	10,745
Stock-based compensation expense	2,539	2,806
Income tax receivable agreement expense (income)	105	(345)
Fire insurance proceeds for expenses paid and lost profit	151	—
(Gain) loss on disposal of assets	(34)	129
Gain on recovery of insurance proceeds, property, equipment and expenses, net	(242)	—
Impairment of property and equipment	1,032	392
Gain on disposition of restaurants	(5,034)	—
Amortization of deferred financing costs	153	292
Deferred income taxes, net	1,138	2,351
Changes in operating assets and liabilities:		
Accounts and other receivables	462	(1,539)
Inventories	403	108
Prepaid expenses and other current assets	8	755
Income taxes payable (receivable)	6,391	(1,459)
Other assets	(236)	(150)
Accounts payable	(5,798)	1,285
Accrued salaries and vacation	(1,619)	(4,564)
Accrued insurance	437	93
Other accrued expenses and liabilities	173	(3,257)
Net cash flows provided by operating activities	32,509	21,907
Cash flows from investing activities:		
Proceeds from disposition of restaurants	7,722	—
Proceeds from fire insurance for property and equipment	163	—
Purchase of property and equipment	(15,297)	(13,022)
Net cash flows used in investing activities	(7,412)	(13,022)
Cash flows from financing activities:		
Proceeds from borrowings on revolver and swingline loans	25,000	—
Payments on revolver and swingline loan	(11,000)	(20,000)
Minimum tax withholdings related to net share settlements	(217)	(243)
Repurchases of common stock	(46,616)	—
Proceeds from issuance of common stock upon exercise of stock options, net of expenses	1,171	1,580
Payment of obligations under finance leases	(113)	(124)
Deferred financing costs for revolver loan	—	(869)
Net cash flows used in by financing activities	(31,775)	(19,656)
Decrease in cash and cash equivalents	(6,678)	(10,771)
Cash and cash equivalents, beginning of period	20,493	30,046
Cash and cash equivalents, end of period	$ 13,815	$ 19,275

	Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022
Supplemental cash flow information		
Cash paid during the period for interest	$ 3,554	$ 819
Cash paid during the period for income taxes	$ 54	$ 5,100
Unpaid purchases of property and equipment	$ 4,476	$ 3,030
Unpaid repurchases of common stock	$ 430	$ —

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

El Pollo Loco Holdings, Inc. (“Holdings”) is a Delaware corporation headquartered in Costa Mesa, California. Holdings and its direct and indirect subsidiaries are collectively referred to herein as the “Company.” The Company’s activities are conducted principally through its indirect wholly-owned subsidiary, El Pollo Loco, Inc. (“EPL”), which develops, franchises, licenses, and operates quick-service restaurants under the name El Pollo Loco® and operates under one operating segment. At September 27, 2023, the Company operated 171 and franchised 321 El Pollo Loco restaurants.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair statement of the Company’s condensed consolidated financial position and results of operations and cash flows for the periods presented. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The condensed consolidated financial statements and related notes do not include all information and footnotes required by GAAP for annual reports. This quarterly report should be read in conjunction with the consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 28, 2022.

The Company uses a 52- or 53-week fiscal year ending on the last Wednesday of the calendar year. In a 52-week fiscal year, each quarter includes 13 weeks of operations; in a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations, and the fourth quarter includes 14 weeks of operations. Every six or seven years, a 53-week fiscal year occurs. Fiscal 2023 and 2022 are both 52-week years, ending on December 27, 2023 and December 28, 2022, respectively. Revenues, expenses, and other financial and operational figures may be elevated in a 53-week year.

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), guarantee EPL’s 2022 Revolver (as defined below) on a full and unconditional basis (see Note 4, “Long-Term Debt”), 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, subject to the terms of the 2022 Revolver.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and revenue and expenses during the periods reported. Actual results could materially differ from those estimates. The Company’s significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, insurance reserves, lease accounting matters, stock-based compensation, contingent liabilities and income tax valuation allowances.

Cash and Cash Equivalents

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

Liquidity

The Company's principal liquidity and capital requirements are new restaurants, existing restaurant capital investments (remodels and maintenance), interest payments on its debt, lease obligations and working capital and general corporate needs. At September 27, 2023, the Company's total debt was $80.0 million. The Company's ability to make payments on its indebtedness and to fund planned capital expenditures depends on available cash and its ability to generate adequate cash flows in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond the Company's control. Based on current operations, the Company believes that its cash flow from operations, available cash of $13.8 million at September 27, 2023 and the outstanding borrowing availability under the 2022 Revolver will be adequate to meet the Company's liquidity needs for the next twelve months from the date of filing of these condensed consolidated financial statements.

Subsequent Events

Subsequent to the quarter-end, on November 2, 2023, the Company announced that Laurance Roberts, the Company's Chief Executive Officer and President, is leaving his position as Chief Executive Officer and President and as a member of the Company's Board of Directors effective as of the close of business on November 3, 2023. In connection with Mr. Roberts' departure, the Board has appointed Maria Hollandsworth as interim Chief Executive Officer and President of the Company, effective as of November 4, 2023. Ms. Hollandsworth currently serves as Chief Operating Officer of the Company and will continue in that role during her tenure as interim Chief Executive Officer and President. To help facilitate the transition from Mr. Roberts to Ms. Hollandsworth, the Company has retained Mr. Roberts as a consultant from November 4, 2023 through December 28, 2023 pursuant to a Release and Consulting Agreement dated November 1, 2023 between the Company and Mr. Roberts.

Further, on October 31, 2023, the Company's Board of Directors approved a share repurchase program under which the Company is authorized to repurchase up to $20.0 million of shares of the Company's common stock. The repurchase program will terminate on March 31, 2025, may be modified, suspended or discontinued at any time, and does not obligate the Company to acquire any particular number of shares.

Lastly, the Company paid down $9.0 million on its 2022 Revolver and outstanding borrowings as of November 2, 2023 were $71.0 million.

Concentration of Risk

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

The Company had no supplier for which amounts due totaled more than 10.0% of the Company's accounts payable at September 27, 2023. As of December 28, 2022, the Company had one supplier to whom amounts due totaled 41.7% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 26.6% and 27.0% of total expenses for the thirteen and thirty-nine weeks ended September 27, 2023, respectively, and 28.4% and 28.5% of total expenses for the thirteen and thirty-nine weeks ended September 28, 2022, respectively.

Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 71.6% and 71.1% of total revenue for the thirteen and thirty-nine weeks ended September 27, 2023, respectively, and 71.9% and 71.2% for the thirteen and thirty-nine weeks ended September 28, 2022, respectively.

Goodwill and Indefinite Lived Intangible Assets

The Company's indefinite-lived intangible assets consist of trademarks. Goodwill represents the excess of cost over fair value of net identified assets acquired in business combinations accounted for under the purchase method. The Company does not amortize its goodwill and indefinite-lived intangible assets. Goodwill resulted from 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 Company reports as one reporting unit. 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 or the thirty-nine weeks ended September 27, 2023.

The Company performs an annual impairment test 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 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 recognized as an impairment loss.

The assumptions used in the estimate of fair value are generally consistent with the past performance of the Company's reporting segment and are also consistent with the projections and assumptions that are used in current operating plans. These assumptions are subject to change as a result of changing economic and competitive conditions.

The Company determined that, in connection with the sale of 18 units, there were indicators of potential impairment of its goodwill and indefinite-lived intangible assets during the thirteen and thirty-nine weeks ended September 27, 2023. After completing the impairment analysis, the Company did not record any impairment to its goodwill or indefinite-lived intangible assets during the thirteen and thirty-nine weeks ended September 27, 2023.

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.

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

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the thirteen and thirty-nine weeks ended September 27, 2023, reflecting certain property and equipment assets and right-of-use ("ROU") assets for which an impairment loss was recognized during the corresponding periods, as discussed under Note 2, "Property and Equipment" and immediately below under "Impairment of Long-Lived Assets and ROU Assets" (in thousands):

		Fair Value Measurements at September 27, 2023 Using			Thirteen Weeks Ended September 27, 2023	Thirty-Nine Weeks Ended September 27, 2023
	Total	Level 1	Level 2	Level 3	Impairment Losses	Impairment Losses
Certain property and equipment, net	$ —	$ —	$ —	$ —	$ 979	$ 979
Certain ROU assets, net	$ 254	$ —	$ —	$ 254	$ —	$ 39

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

		Fair Value Measurements at September 28, 2022 Using			Thirteen Weeks Ended September 28, 2022	Thirty-Nine Weeks Ended September 28, 2022
	Total	Level 1	Level 2	Level 3	Impairment Losses	Impairment Losses
Certain property and equipment, net	$ —	$ —	$ —	$ —	$ 100	$ 353
Certain ROU assets, net	$ 332	$ —	$ —	$ 332	$ 39	$ 39

Impairment of Long-Lived Assets and ROU 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 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 for the last twelve months is 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 closed or been subleased and future estimated sublease income is less than lease payments under the head lease. 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 restaurants during the thirty-nine weeks ended September 27, 2023 that required an impairment review of certain of the Company's long-lived and ROU assets. Based on the results of the analysis, the Company recorded non-cash impairment charges of $1.0 million for both the thirteen and thirty-nine weeks ended September 27, 2023, primarily related to the carrying value of the ROU assets of one restaurant in California and the carrying value of the long-lived assets of one restaurant in Nevada.

The Company recorded a non-cash impairment charge of $0.1 million and $0.4 million for the thirteen and thirty-nine weeks ended September 28, 2022, respectively, primarily related to the carrying value of the long-lived assets of one restaurant in California. Given the inherent uncertainty in projecting results for newer restaurants in newer markets, as well as the impact of COVID-19 (and related economic effects) and the current macroeconomic environment, 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 both the thirteen and thirty-nine weeks ended September 27, 2023, the Company recognized $0.1 million of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for its closed locations. During the thirteen and thirty-nine weeks ended September 28, 2022, the Company recognized less than $0.1 million and $0.2 million, respectively, of closed-store reserve expense primarily related to the amortization of ROU assets, property taxes and CAM payments for its closed locations.

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 below), it terminated the interest rate swap on July 28, 2022.

The Company recorded the derivative instrument on its condensed 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.

Gain on Recovery of Insurance Proceeds, Lost Profits

In September 2022, one of the Company's restaurants incurred damage resulting from a fire. In 2022, the Company disposed of less than $0.1 million of assets related to the fire. The restaurant was reopened for business on October 27, 2022. In fiscal 2023, the Company incurred costs directly related to the fire of less than $0.1 million. The Company recognized gains of $0.2 million, related to the reimbursement of property and equipment and expenses incurred and $0.2 million related to the reimbursement of lost profits. The gain on recovery of insurance proceeds and reimbursement of lost profits, net of the related costs, is included in the accompanying condensed consolidated statements of income, for the thirty-nine weeks ended September 27, 2023, as a reduction of company restaurant expenses. The Company received from the insurance company cash of $0.4 million, net of the insurance deductible, during fiscal 2023.

Gain on Disposition of Restaurants

During the thirteen and thirty-nine weeks ended September 27, 2023, the Company completed the sale of 17 and 18 restaurants, respectively, within California, Utah and Texas to existing franchisees. 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. 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. During the thirteen and thirty-nine weeks ended September 27, 2023, these sales resulted in cash proceeds of $7.5 million and $7.7 million, respectively, and a net gain on sale of restaurant of $4.9 million and $5.0 million, respectively. Since the date of their sale, these restaurants are now included in the total number of franchised El Pollo Loco restaurants.

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 the Company is required to file.

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

The Company’s policy is to recognize interest and penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at September 27, 2023 or at December 28, 2022. The Company did not recognize interest or penalties during the thirteen and thirty-nine weeks ended September 27, 2023 and September 28, 2022, respectively, since there were no material unrecognized tax benefits. Management believes no significant changes to the amount of unrecognized tax benefits will occur within the next twelve months.

On July 30, 2014, the Company entered into the income tax receivable agreement (the “TRA”), which calls for the Company to pay to its pre-initial public offering (“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. For both the thirteen and thirty-nine weeks ended September 27, 2023, the Company recorded income tax receivable agreement expense of $0.1 million, and for the thirteen and thirty-nine weeks ended September 28, 2022, the Company recorded income tax receivable agreement income of less than $0.1 million and $0.3 million, respectively, in each case, related to 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.

For the quarter ended September 27, 2023, the Company recorded an income tax provision of $3.0 million, reflecting an estimated effective tax rate of 24.4%. For the quarter ended September 28, 2022, the Company recorded an income tax provision of $1.8 million, reflecting an estimated effective tax rate of approximately 26.2%. For the year-to-date period ended September 27, 2023, the Company recorded an income tax provision of $7.7 million, reflecting an estimated effective tax rate of approximately 26.5%. For the year-to-date period ended September 28, 2022, the Company recorded an income tax provision of $5.7 million, reflecting an estimated effective tax rate of approximately 28.7%. The difference between the 21.0% statutory rate and the effective tax rate of 26.5% for the year-to-date period ended September 27, 2023 is primarily a result of state taxes, a non-deductible executive compensation, partially offset by a Work Opportunity Tax Credit benefit.

2. PROPERTY AND EQUIPMENT

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

	September 27, 2023	December 28, 2022
Land	$ 12,323	$ 12,323
Buildings and improvements	145,589	153,377
Other property and equipment	84,085	83,035
Construction in progress	7,406	3,196
	249,403	251,931
Less: accumulated depreciation and amortization	(167,216)	(173,287)
	$ 82,187	$ 78,644

Depreciation expense was $3.9 million and $3.5 million for the thirteen weeks ended September 27, 2023 and September 28, 2022, respectively, and $11.3 million and $10.7 million for the thirty-nine weeks ended September 27, 2023 and September 28, 2022, respectively.

Based on the Company's review of its long-lived assets for impairment, the Company recorded non-cash impairment charges of $1.0 million for both the thirteen and thirty-nine weeks ended September 27, 2023, primarily related to the carrying value of the long-lived assets of one restaurant in Nevada. During the thirteen and thirty-nine weeks ended September 28, 2022, the Company recorded non-cash impairment charges of $0.1 million and $0.4 million, respectively, primarily related to the carrying value of the long-lived assets of one restaurant in California. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies – Impairment of Long-Lived Assets and ROU Assets" for additional information.

3. STOCK-BASED COMPENSATION

At September 27, 2023, options to purchase 1,169,959 shares of common stock were outstanding, including 480,160 vested and 689,799 unvested. Unvested options vest over time; however, upon a change in control, the Board of Directors may accelerate vesting. At September 27, 2023, there were no premium options, which are options granted above the stock price at date of grant, that were outstanding. A summary of stock option activity as of September 27, 2023 and changes during the thirty-nine weeks ended September 27, 2023 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Life Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding – December 28, 2022	1,068,179	$ 9.92		
Grants	482,701	9.27		
Exercised	(219,960)	5.32		
Forfeited, cancelled or expired	(160,961)	$ 11.47		
Outstanding – September 27, 2023	1,169,959	$ 10.30	7.17	$ —
Vested and expected to vest at September 27, 2023	1,156,593	$ 10.31	7.14	$ —
Exercisable at September 27, 2023	480,160	$ 11.31	4.26	$ —

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

	September 27, 2023	September 28, 2022
Expected volatility	43.7 %	43.0 %
Risk-free interest rate	3.6 %	2.9 %
Expected term (years)	6.25	6.25
Expected dividends	—	—

At September 27, 2023, the Company had total unrecognized compensation expense of $3.0 million related to unvested stock options, which it expects to recognize over a weighted-average period of 3.18 years.

A summary of restricted share activity as of September 27, 2023 and changes during the thirty-nine weeks ended September 27, 2023 is as follows:

	Shares	Weighted-Average Fair Value
Unvested shares at December 28, 2022	545,480	$ 12.02
Granted	391,432	$ 9.18
Released	(181,490)	$ 12.20
Forfeited, cancelled, or expired	(108,004)	$ 11.93
Unvested shares at September 27, 2023	647,418	$ 10.27

At September 27, 2023, the Company had unrecognized compensation expense of $5.4 million related to unvested restricted shares, which it expects to recognize over a weighted-average period of 2.66 years.

Total stock-based compensation expense was $0.9 million and $2.5 million for the thirteen and thirty-nine weeks ended September 27, 2023, respectively, and $1.0 million and $2.8 million for the thirteen and thirty-nine weeks ended September 28, 2022, respectively.

On October 11, 2022, the Company's Board of Directors approved a share repurchase program (the "2022 Stock Repurchase Plan") under which the Company was authorized to repurchase up to $20.0 million of shares of its common stock through March 28, 2024.

Under the 2022 Stock Repurchase Plan, the Company was 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. Pursuant to the 2022 Stock Repurchase Plan, the Company was authorized to effect repurchases using open market purchases, including pursuant to Rule 10b5-1 trading plans, and/or through privately negotiated transactions.

For the thirteen and thirty-nine weeks ended September 27, 2023, the Company repurchased 206,214 and 2,030,850 shares of common stock, respectively, under the 2022 Stock Repurchase Plan, using open market purchases, for total consideration of approximately $1.9 million and $20.0 million, respectively. The common stock repurchased under 2022 Stock Repurchase Plan were retired upon repurchase. The 2022 Stock Repurchase Plan commenced on January 9, 2023, and was completed on July 12, 2023.

On August 7, 2023, the Company entered into a Stock Repurchase Agreement (the "Repurchase Agreement") with FS Equity Partners V, L.P. and FS Affiliates V, L.P. (together, the "Sellers"), pursuant to which the Company agreed to purchase an aggregate of 2,500,000 shares of the Company's common stock from the Sellers at a price of $10.63 per share, representing the closing price of such shares as listed on Nasdaq on August 7, 2023, for a total purchase price of $26.6 million. The repurchase was completed in August 2023.

Prior to the repurchase, Freeman Spogli & Co. ("Freeman Spogli"), collectively with the Sellers and certain other funds managed by Freeman Spogli, was the Company's largest stockholder. In addition, John Roth, a director of the Company until his resignation on August 16, 2023, is a general partner of Freeman Spogli and its chief executive officer.

4. 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 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 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 (as defined in the 2022 Credit Agreement) 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. The interest rate range was 6.74% to 6.93% and 5.69% to 8.50% for the thirteen and thirty-nine weeks ended September 27, 2023, under the 2022 Revolver, respectively, and 2.87% to 6.00% and 1.35% to 6.00% for the thirteen and thirty-nine weeks ended September 28, 2022, respectively, under the 2022 Revolver and 2018 Revolver.

The 2022 Credit Agreement contains certain financial covenants. The Company was in compliance with the financial covenants as of September 27, 2023.

At September 27, 2023, the Company had $80.0 million in outstanding borrowings under the 2022 Revolver and $9.8 million of letters of credit that further reduce the amount available under the line of credit to $60.2 million in borrowing availability.

Maturities, Borrowings and Paydowns

On July 27, 2022, the Company refinanced and terminated the 2018 Revolver pursuant to the 2022 Credit Agreement. During the thirteen and thirty-nine weeks ended September 27, 2023 the Company borrowed $23.0 million and $25.0 million, respectively, and paid down $3.0 million and $11.0 million, respectively, on the 2022 Revolver. During both the thirteen and thirty-nine weeks ended September 28, 2022 the Company paid down $20.0 million on the 2022 Revolver. No amounts were borrowed on the 2022 Revolver during the thirty-nine weeks ended September 28, 2022. There are no required principal payments prior to maturity for the 2022 Revolver which matures on July 27, 2027.

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 with a maturity date 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, it 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, 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 was reclassified into earnings when the hedged forecasted transaction was reported in earnings.

As of September 27, 2023, there were no estimated net gains to be included in AOCI related to the Company's cash flow hedge that would be reclassified into earnings, based on current Term SOFR interest rates.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Interest expense on hedged portion of debt	$ —	$ 92	$ —	$ 439
Interest income on interest rate swap	—	(369)	(170)	(197)
Interest (income) expense on debt and derivatives, net	$ —	$ (277)	$ (170)	$ 242

The following table summarizes the effect of the Company's cash flow hedge accounting on AOCI for the thirteen and thirty-nine weeks ended September 27, 2023 and September 28, 2022 (in thousands):

	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
	Net Gain Recognized in OCI		Gain Reclassified from AOCI into Interest Income		Net Gain Recognized in OCI		Gain Reclassified from AOCI into Interest Income	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 202
Interest rate swap	$ —	$ 43	$ —	$ (369)	$ —	$ 974	$ (170)	$ (197

See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for information about the fair value of the Company's derivative asset.

5. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

	September 27, 2023	December 28, 2022
Accrued sales and property taxes	$ 5,950	$ 5,270
Gift card liability	4,047	4,667
Loyalty rewards program liability	633	526
Accrued advertising	710	831
Accrued legal settlements and professional fees	1,091	1,303
Deferred franchise and development fees	599	610
Other	1,945	1,913
Total other accrued expenses and current liabilities	$ 14,975	$ 15,120

6. OTHER NONCURRENT LIABILITIES

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

	September 27, 2023	December 28, 2022
Deferred franchise and development fees	$ 6,584	$ 5,767
Other	43	89
Total other noncurrent liabilities	$ 6,627	$ 5,856

7. COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company is involved in various 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, condensed consolidated financial condition, results of operations, and cash flows.

Purchasing Commitments

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

At September 27, 2023, the Company's total estimated commitment to purchase chicken was $14.9 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 2038. As of September 27, 2023, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was $3.9 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at September 27, 2023 was $2.6 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 September 27, 2023, the Company had employment agreements with two 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.

8. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated using the weighted-average number of shares of common stock outstanding during the thirteen and thirty-nine weeks ended September 27, 2023 and September 28, 2022. Diluted EPS is calculated using the weighted-average number of shares of common stock outstanding and potentially dilutive during the period, using the treasury stock method.

Below are basic and diluted EPS data for the periods indicated (in thousands except for share and per share data):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Numerator:				
Net income	$ 9,229	$ 5,009	$ 21,203	$ 14,265
Denominator:				
Weighted-average shares outstanding—basic	33,412,674	36,402,899	35,026,731	36,329,938
Weighted-average shares outstanding—diluted	33,490,004	36,507,050	35,179,483	36,491,624
Net income per share—basic	$ 0.28	$ 0.14	$ 0.61	$ 0.39
Net income per share—diluted	$ 0.28	$ 0.14	$ 0.60	$ 0.39
Anti-dilutive securities not considered in diluted EPS calculation	1,216,015	1,434,825	790,077	944,183

Below is a reconciliation of basic and diluted share counts:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Weighted-average shares outstanding—basic	33,412,674	36,402,899	35,026,731	36,329,938
Dilutive effect of stock options and restricted shares	77,330	104,151	152,752	161,686
Weighted-average shares outstanding—diluted	33,490,004	36,507,050	35,179,483	36,491,624

9. RELATED PARTY TRANSACTIONS

On March 28, 2023, Trimaran Pollo Partners, L.L.C. (“LLC”) and certain of LLC’s affiliates (collectively, the “Trimaran Group”) distributed substantially all of the shares of the Company’s common stock held by the Trimaran Group to their respective investors, members and limited partners. The Trimaran Group intends to subsequently liquidate or distribute its remaining assets and wind up.

On August 7, 2023, the Company entered into the “Repurchase Agreement with the Sellers, pursuant to which the Company agreed to purchase an aggregate of 2,500,000 shares of the Company’s common stock from the Sellers at a price of $10.63 per share, representing the closing price of such shares as listed on Nasdaq on August 7, 2023, for a total purchase price of $26.6 million. The repurchase was completed in August 2023.

Prior to the repurchase, Freeman Spogli, collectively with the Sellers and certain other funds managed by Freeman Spogli, was the Company’s largest stockholder. In addition, John Roth, a director of the Company until his resignation on August 16, 2023, is a general partner of Freeman Spogli and its chief executive officer.

10. 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.

Company-operated restaurant revenue

Revenues from the operation of company-operated restaurants are recognized as food and beverage products are delivered to customers and payment is tendered at the time of sale. The Company presents sales, net of sales-related taxes and promotional allowances.

The Company offers a loyalty rewards program, which awards a customer points for dollars spent. Customers earn points for each dollar spent and points can be redeemed for multiple redemption options. If a customer does not earn or use points within a one-year period, their account is deactivated and all points expire. 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 September 27, 2023 and December 28, 2022, the revenue allocated to loyalty points that have not been redeemed was $0.6 million and $0.5 million, respectively, which is reflected in the Company's accompanying condensed consolidated balance sheets within other accrued expenses and current liabilities. The Company expects the loyalty points to be redeemed and recognized over a one-year period.

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

Franchise and franchise advertising revenue

Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees, IT support services, and rental income for subleases to franchisees. Franchise advertising revenue consists of advertising contributions received from franchisees. These revenue streams are made up of the following performance obligations:

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

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

The sales-based royalty fee and sales-based advertising fee are considered variable consideration and will continue to be recognized as revenue as such sales are earned by the franchisees. Both sales-based fees qualify under the royalty constraint exception, and do not require an estimate of future transaction price. Additionally, the Company is utilizing the practical expedient 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 allocates a portion of the initial franchise fee to this discounted renewal, on a pro-rata basis, assuming a 20-year renewal. This performance obligation is satisfied over the renewal term, typically 10 or 20 years, while payment is fixed and due at the time the renewal is signed.

The Company purchases hardware, such as scanners, printers, cash registers and tablets, from third party vendors, which it then sells to franchisees. As the Company is considered the principal in this relationship, payment for the hardware is considered revenue, and is received upon transfer of the goods from the Company to the franchisee. As of September 27, 2023, there were no performance obligations related to hardware services that were unsatisfied or partially satisfied.

Disaggregated revenue

The following table presents the Company's revenues disaggregated by revenue source and market (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Core Market[1]:				
Company-operated restaurant revenue	$ 97,966	$ 98,732	$ 289,534	$ 289,798
Franchise revenue	5,021	4,501	14,454	13,559
Franchise advertising fee revenue	3,456	3,336	10,098	10,008
Total core market	$ 106,443	$ 106,569	$ 314,086	$ 313,365
Non-Core Market[2]:				
Company-operated restaurant revenue	$ 4,737	$ 4,442	$ 14,943	$ 13,787
Franchise revenue	5,234	5,042	15,592	15,303
Franchise advertising fee revenue	3,985	3,825	11,796	11,582
Total non-core market	$ 13,956	$ 13,309	$ 42,331	$ 40,672
Total revenue	**$ 120,399**	**$ 119,878**	**$ 356,417**	**$ 354,037**

(1) Core Market includes markets with existing company-operated restaurants at the time of the Company's 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:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Greater Los Angeles area market	71.6 %	71.9 %	71.1 %	71.2 %
Other markets	28.4 %	28.1 %	28.9 %	28.8 %
Total	**100 %**	**100 %**	**100 %**	**100 %**

Contract balances

The following table provides information about the change in the franchise contract liability balances during the thirty-nine weeks ended September 27, 2023 and September 28, 2022 (in thousands):

December 28, 2022	$ 6,377
Revenue recognized - beginning balance	(545)
Additional contract liability	1,351
September 27, 2023	**$ 7,183**
December 29, 2021	$ 6,328
Revenue recognized - beginning balance	(558)
Additional contract liability	618
September 28, 2022	**$ 6,388**

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 condensed 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.

The following table illustrates the estimated revenue to be recognized in future periods related to performance obligations under the applicable contracts that are unsatisfied as of September 27, 2023 (in thousands):

Franchise revenues:	
2023	$ 157
2024	597
2025	551
2026	529
2027	508
Thereafter	4,841
Total	**$ 7,183**

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

	September 27, 2023	December 28, 2022
Loyalty rewards liability, beginning balance	$ 526	$ 687
Revenue deferred	1,571	2,754
Revenue recognized	(1,464)	(2,915)
Loyalty rewards liability, ending balance	**$ 633**	**$ 526**

The Company expects all loyalty points revenue related to performance obligations unsatisfied as of September 27, 2023 to be recognized within one year.

Gift Cards

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

	September 27, 2023	December 28, 2022
Gift card liability	$ 4,047	$ 4,667

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):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Revenue recognized from gift card liability balance at the beginning of the year	$ 205	$ 237	$ 817	$ 967

Contract Costs

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

11. LEASES

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 September 27, 2023, the Company had one lease 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 10 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 that 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 CAM, 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 thirteen and thirty-nine weeks ended September 27, 2023, the Company reassessed the lease terms on five and 27 restaurants, respectively, due to certain triggering events, such as the addition of significant leasehold improvements with useful lives that extend past the current lease expiration, the decision to terminate a lease, or the decision to renew. As a result of the reassessment, an additional $1.9 million and $15.4 million of ROU asset and lease liabilities for the thirteen and thirty-nine weeks ended September 27, 2023, respectively, were recognized and will be amortized over the new lease term. During the thirteen and thirty-nine weeks ended September 28, 2022, the Company reassessed the lease terms on five and 18 restaurants, respectively, due to certain triggering events, such as the addition of significant leasehold improvements with useful lives that extend past the current lease expiration, the decision to terminate a lease, or the decision to renew. This reassessment resulted in an additional $2.0 million and $10.5 million of ROU asset and lease liabilities for the thirteen and thirty-nine weeks ended September 28, 2022, respectively, which 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 thirty-nine weeks ended September 28, 2022 which represented $0.7 million of the $10.5 million total additional ROU asset and lease liabilities for the period. 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 the thirty-nine weeks ended September 27, 2023, the Company recorded a less than $0.1 million non-cash impairment charge primarily related to the carrying value of ROU assets of one restaurant in California. During the thirty-nine weeks ended September 28, 2022, the Company recorded a less than $0.1 million non-cash impairment charge related to the carrying value of ROU assets of one restaurant in California. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies – Impairment of Long-Lived Assets and ROU Assets" for additional information.

Equipment

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

Significant Assumptions and Judgments

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

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

The Company also made significant assumptions and judgments in determining an appropriate discount rate for property leases. These included using a consistent discount rate for a portfolio of leases entered into at varying dates, using the full 20-year term of the lease, excluding any options, and using the total minimum lease payments. The Company utilizes a third-party valuation firm in determining the discount rate, based on the above assumptions. 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.

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

	Thirteen Weeks Ended					
	September 27, 2023			September 28, 2022		
	Property Leases	Equipment Leases	Total	Property Leases	Equipment Leases	Total
Finance lease cost:						
Amortization of right-of-use assets	$ 18	$ 1	$ 19	$ 18	$ 1	$ 19
Interest on lease liabilities	9	1	10	10	1	11
Operating lease cost	6,903	43	6,946	6,646	256	6,902
Short-term lease cost	—	2	2	—	4	4
Variable lease cost	150	332	482	151	196	347
Sublease income	(1,280)	—	(1,280)	(1,130)	—	(1,130)
Total lease cost	$ 5,800	$ 379	$ 6,179	$ 5,695	$ 458	$ 6,153

	Thirty-Nine Weeks Ended					
	September 27, 2023			September 28, 2022		
	Property Leases	Equipment Leases	Total	Property Leases	Equipment Leases	Total
Finance lease cost:						
Amortization of right-of-use assets	$ 55	$ 2	$ 57	$ 55	$ 2	$ 57
Interest on lease liabilities	29	2	31	32	2	34
Operating lease cost	20,589	342	20,931	19,795	776	20,571
Short-term lease cost	—	6	6	—	11	11
Variable lease cost	422	909	1,331	458	463	921
Sublease income	(3,773)	—	(3,773)	(3,387)	—	(3,387)
Total lease cost	$ 17,322	$ 1,261	$ 18,583	$ 16,953	$ 1,254	$ 18,207

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2023	September 28, 2022	September 27, 2023	September 28, 2022
Lease cost – Occupancy and other operating expenses	$ 6,043	$ 5,969	$ 18,101	$ 17,709
Lease cost – General & administrative	107	133	375	343
Lease cost – Depreciation and amortization	19	18	57	55
Lease cost – Interest expense	10	11	31	35
Lease cost – Closed-store reserve	—	22	19	65
Total lease cost	$ 6,179	$ 6,153	$ 18,583	$ 18,207

During the thirty-nine weeks ended September 27, 2023 and September 28, 2022, the Company had the following cash and non-cash activities associated with its leases (dollars in thousands):

	Thirty-Nine Weeks Ended September 27, 2023			Thirty-Nine Weeks Ended September 28, 2022		
	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	$ 20,797	$ 297	$ 21,094	$ 20,364	$ 737	$ 21,101
Financing cash flows used for finance leases	$ 70	$ 43	$ 113	$ 82	$ 42	$ 124
Non-cash investing and financing activities:						
Operating lease ROU assets obtained in exchange for lease liabilities:						
Operating lease ROU assets	$ 15,445	$ 54	$ 15,499	$ 10,486	$ 86	$ 10,572
Finance lease ROU assets obtained in exchange for lease liabilities:						
Finance lease ROU assets	$ —	$ —	$ —	$ —	$ 28	$ 28
Derecognition of ROU assets due to terminations, impairment or modifications	$ (40)	$ (4)	$ (44)	$ (39)	$ (24)	$ (63)
Other Information						
Weighted-average remaining years in lease term—finance leases	17.12	2.46		18.12	3.44	
Weighted-average remaining years in lease term—operating leases	10.56	3.42		10.91	1.57	
Weighted-average discount rate—finance leases	2.57 %	1.53 %		2.57 %	1.53 %	
Weighted-average discount rate—operating leases	4.85 %	4.45 %		4.49 %	3.82 %	

Information regarding the Company's minimum future lease obligations as of September 27, 2023 is as follows (in thousands):

	Finance Leases	Operating Leases	
For the Years Ending	Minimum Lease Payments	Minimum Lease Payments	Minimum Sublease Income
December 27, 2023	$ 38	$ 7,050	$ 1,021
December 25, 2024	151	27,867	4,041
December 31, 2025	147	26,149	3,653
December 30, 2026	114	23,778	3,289
December 29, 2027	104	22,314	3,239
Thereafter	1,479	134,298	21,645
Total	$ 2,033	$ 241,456	$ 36,888
Less: imputed interest (1.53% - 4.85%)	(380)	(55,167)	
Present value of lease obligations	1,653	186,289	
Less: current maturities	(111)	(19,425)	
Noncurrent portion	$ 1,542	$ 166,864	

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 condensed consolidated statements 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 was incurred.

Lessor

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

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

The Company received $0.1 million of lease income from company-owned locations for each of the thirteen weeks ended September 27, 2023 and September 28, 2022. The Company received $0.2 million and $0.3 million of lease income from company-owned locations for the thirty-nine weeks ended September 27, 2023 and September 28, 2022, respectively.

12. SHAREHOLDER RIGHTS AGREEMENT

On August 8, 2023, the Company's Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each share of common stock, par value $0.01 per share, of the Company (the "Common Shares") outstanding on August 18, 2023 to the stockholders of record on that date. In connection with the distribution of the Rights, the Company entered into a Rights Agreement (the "Rights Agreement"), dated as of August 8, 2023, between the Company and Equiniti Trust Company, LLC, as rights agent. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred Stock, par value $0.01 per share, of the Company (the "Preferred Shares") at a price of $53.75 per one one-thousandth of a Preferred Share represented by a Right, subject to adjustment.

Under the Rights Agreement, the Rights will generally be exercisable only in the event that a person or group of affiliated or associated persons (such person or group being an "Acquiring Person"), other than certain exempt persons, acquires (or commences a tender offer or exchange offer the consummation of which would result in) beneficial ownership of 12.5% or more of the outstanding Common Shares. In such case (with certain limited exceptions), each holder of a Right (other than the Acquiring Person, whose Rights shall become void) will have the right to receive, upon exercise at the then current exercise price of the Right, Common Shares (or, if the Board so elects, cash, securities, or other property) having a value equal to two times the exercise price of the Right.

At any time after any person or group becomes an Acquiring Person, the Board may exchange the Rights at an exchange ratio of one Common Share per Right (subject to adjustment).

If, at any time after a person or group becomes an Acquiring Person, (i) the Company engages in a consolidation or merger and, in connection there with all or part of the Common Shares are or will be changed into or exchanged for stock or other securities of any other person or cash or any other property; or (ii) 50% or more of the Company's consolidated assets or earning power are sold, then each holder of a Right will thereafter have the right to receive, upon exercise at the then current exercise price of the Right, that number of shares of common stock of the acquiring company having a market value of two times the exercise price of the Right.

At any time prior to the time any person or group becomes an Acquiring Person, the Board may redeem the Rights at a price of $0.001 per Right (the "Redemption Price"). Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends. The Rights will expire at the close of business on August 7, 2024.

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

Cautionary Statement Concerning 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:

- global economic or other business conditions that may affect the desire or ability of our customers to purchase our products such as inflationary pressures, high unemployment levels, increases in gas prices, and declines in median income growth, consumer confidence and consumer discretionary spending;
- our ability to open new restaurants in new and existing markets, including difficulty in finding sites and in negotiating acceptable leases;
- our ability to compete successfully with other quick-service and fast casual restaurants;
- vulnerability to changes in political and economic conditions and consumer preferences;
- our ability to attract, develop, assimilate and retain employees;
- vulnerability to conditions in the greater Los Angeles area and to natural disasters given the geographic concentration and real estate intensive nature of our business;
- the impacts of the uncertainty regarding a potential resurgence of COVID-19 or another pandemic, epidemic or infectious disease outbreak on our company, our employees, our customers, our partners, our industry and the

economy as a whole, as well as our franchisees' ability to operate their individual restaurants without disruption;
- the possibility that we may continue to incur significant impairment of certain of our assets, in particular in our new markets;
- changes in food and supply costs, especially for chicken, labor, construction and utilities;
- social media and negative publicity, whether or not valid, and our ability to respond to and effectively manage the accelerated impact of social media;
- our ability to continue to expand our digital business, delivery orders and catering;
- concerns about food safety and quality and about food-borne illness;
- dependence on frequent and timely deliveries of food and supplies;
- our ability to service our level of indebtedness;
- uncertainty related to the success of our marketing programs, new menu items, advertising campaigns and restaurant designs and remodels;
- adverse changes in the economic environment, including inflation and increased labor and supply costs, which may affect our franchisees, with adverse consequences to us;
- our limited control over our franchisees and potential deterioration of our relations with existing or potential franchisees;
- potential exposure to unexpected costs and losses from our self-insurance programs;
- potential obligations under long-term and non-cancelable leases, and our ability to renew leases at the end of their terms;
- the possibility that Delaware law, our organizational documents, our shareholder rights agreement, and our existing and future debt agreements may impede or discourage a takeover;
- the impact of shareholder activism on our expenses, business and stock price;
- the impact of any failure of our information technology system or any breach of our network security;
- the impact of any security breaches on our ability to protect our customers' payment method data or personal information;
- our ability to enforce and maintain our trademarks and protect our other proprietary intellectual property;
- risks related to government regulation and litigation, including employment and labor laws; and
- other risks set forth in our filings with the SEC from time to time, including under Item 1A, Risk Factors in our annual report on Form 10-K for the year ended December 28, 2022, which filings are available online at www.sec.gov.

We caution you that the important factors referenced above 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.

Overview

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the limited service restaurant segment. We strive to offer food that integrates the culinary traditions of Mexico with the healthier lifestyle." 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. We believe that 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

On September 28, 2023, Governor Newsom signed AB 1228 into law, which will repeal and replace the Fast Food Accountability and Standards Recovery Act (FAST Act) on January 1, 2024 if a referendum seeking repeal of the FAST Act is withdrawn prior to that date. The FAST Act was previously signed into law in September 2022 and would have, among other things, established a council to set minimum wage standards for industry workers in California. In connection with the adoption of AB 1228, the proponents of the referendum seeking repeal of the FAST Act indicated their agreement to withdraw the referendum. If AB 1228 becomes effective January 1, 2024, the minimum wage at fast food restaurants that are part of brands which have more than 60 establishments nationwide will rise to $20 an hour on April 1, 2024, and a Fast Food Council created by AB 1228 will have limited power to approve annual wage increases until 2029. Under the law, the Fast Food Council will also have the power to develop and propose minimum standards for fast food workers, including standards for working hours, working conditions, and health and safety. As a result of AB 1228, we expect our labor and regulatory compliance costs will increase beginning in fiscal 2024 and that our results of operations and profitability will be adversely affected if we are not able to implement other measures to counter these increased costs.

We have experienced inflationary pressures affecting our operations in certain areas such as food cost, labor costs, construction costs and utility costs. We have also experienced temporary shortages in food, equipment and other goods, as well as an increase in freights costs, due in part to supply chain impacts of overall economic conditions in the markets in which we operate. We have been able to substantially offset these inflationary and other cost pressures through various actions, such as increasing menu prices, managing menu mix, and productivity improvements. However, we expect these inflationary and other cost pressures to continue throughout the remainder of fiscal year 2023 and we may not be able to offset cost increases in the future.

Growth Strategies and Outlook

As of September 27, 2023, we had 492 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. For the thirty-nine weeks ended September 27, 2023, we opened one new company-operated in Nevada and our franchisees opened one new restaurant in California. 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.

To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend. The success of these growth plans is not guaranteed.

Highlights and Trends

Comparable Restaurant Sales

For the thirteen weeks ended September 27, 2023, system-wide comparable restaurant sales increased by 0.8% from the comparable period in the prior year. For the thirty-nine weeks ended September 27, 2023, system-wide comparable restaurant sales decreased by 0.7% from the comparable period in the prior year. For company-operated restaurants, comparable restaurant sales for the thirteen and thirty-nine weeks ended September 27, 2023 increased by 0.3% and 0.5%, respectively. For company-operated restaurants, the quarter's change in comparable restaurant sales consisted of a 1.3% increase in average check size, partially offset by a 0.9% decrease in transactions, and the year-to-date change in comparable restaurant sales consisted of a 3.2% increase in average check size, partially offset by a 2.6% decrease in transactions. For franchised restaurants, comparable restaurant sales increased 1.1% and decreased 1.4% for the thirteen and thirty-nine weeks ended September 27, 2023, respectively. Refer to Comparable Restaurant Sales definition in "Key Performance Indicators" section below.

Restaurant Development

Our restaurant counts at the beginning and end of each of the last three fiscal years and the thirty-nine weeks ended September 27, 2023, were as follows:

	Thirty-Nine Weeks Ended September 27, 2023	Fiscal Year Ended 2022	2021	2020
Company-operated restaurant activity:				
Beginning of period	188	189	196	195
Openings	1	4	2	1
Restaurant sale to franchisee	(18)	(3)	(8)	—
Closures	—	(2)	(1)	—
Restaurants at end of period	171	188	189	196
Franchised restaurant activity:				
Beginning of period	302	291	283	287
Openings	1	9	2	3
Restaurant sale to franchisee	18	3	8	—
Closures	—	(1)	(2)	(7)
Restaurants at end of period	321	302	291	283
System-wide restaurant activity:				
Beginning of period	490	480	479	482
Openings	2	13	4	4
Closures	—	(3)	(3)	(7)
Restaurants at end of period	492	490	480	479

Restaurant Remodeling

During the thirty-nine weeks ended September 27, 2023, we completed 12 company-operated restaurant remodels and 21 franchise remodels. In fiscal 2023, we plan to continue our standard practices for remodels, which includes completing a total of 14-15 company and 28-32 franchise remodels. The cost of our restaurant remodels varies depending on the scope of the work required, but on average the investment is $0.3 million 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 points can be redeemed for multiple redemption options. If a customer does not earn or use points within a one-year period, their account is deactivated and all points expire. 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 September 27, 2023 and December 28, 2022, the revenue allocated to loyalty points that had not been redeemed was $0.6 million and $0.5 million, respectively, which is reflected in our accompanying condensed consolidated balance sheets within other accrued expenses and current liabilities. We had over 3.6 million loyalty program members as of September 27, 2023.

Critical Accounting Policies and Use of Estimates

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

Accounting policies are an integral part of our condensed consolidated financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. Management believes that our critical accounting policies and estimates involve the most difficult management judgments, due to the sensitivity of the methods and assumptions used. For a summary of our critical accounting policies and a discussion of our use of estimates, see “Critical Accounting Policies and Estimates” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K for the year ended December 28, 2022.

There have been no material changes to our critical accounting policies or uses of estimates since our annual report on Form 10-K for the year ended December 28, 2022.

Key Financial Definitions

Revenue

Our revenue is derived from three primary sources: company-operated restaurant revenue, franchise revenue, which is comprised primarily of franchise royalties and, to a lesser extent, franchise fees and sublease rental income, and franchise advertising fee revenue. See Note 10, “Revenue from Contracts with Customers” in the Notes to Condensed Consolidated Financial Statements above for further details regarding our revenue recognition policy.

Food and Paper Costs

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

Labor and Related Expenses

Labor and related expenses include wages, payroll taxes, workers’ compensation expense, benefits, and bonuses paid to our restaurant management teams. Like other expense items, we expect labor costs to grow proportionately as our restaurant revenue grows. Factors that influence labor costs include minimum wage and payroll tax legislation, state labor laws (which, in California, may include AB 1228), 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.

Franchise Expenses

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

Depreciation and Amortization

Depreciation and amortization primarily consists 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 asset's 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.

Interest Expense, Net

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

Provision for Income Taxes

Provision for income taxes consists of federal and state taxes on our income.

Comparison of Results of Operations

Our operating results for the thirteen weeks ended September 27, 2023 and September 28, 2022 and expressed as percentages of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as percentages of company-operated restaurant revenue, are compared in the tables below.

	Thirteen Weeks Ended					
	September 27, 2023		September 28, 2022		Increase / (Decrease)	
	($,000)	(%)	($,000)	(%)	($,000)	(%)
Statements of Income Data						
Company-operated restaurant revenue	$ 102,703	85.3	$ 103,174	86.0	$ (471)	(0.5)
Franchise revenue	10,255	8.5	9,543	8.0	712	7.5
Franchise advertising fee revenue	7,441	6.2	7,161	6.0	280	3.9
Total revenue	**120,399**	**100.0**	**119,878**	**100.0**	**521**	**0.4**
Cost of operations						
Food and paper costs (1)	27,552	26.8	30,163	29.2	(2,611)	(8.7)
Labor and related expenses (1)	33,092	32.2	33,279	32.3	(187)	(0.6)
Occupancy and other operating expenses (1)	27,289	26.6	26,920	26.1	369	1.4
Company restaurant expenses (1)	**87,933**	**85.6**	**90,362**	**87.6**	**(2,429)**	**(2.7)**
General and administrative expenses	9,144	7.6	9,855	8.2	(711)	(7.2)
Franchise expenses	9,583	8.0	9,027	7.5	556	6.2
Depreciation and amortization	3,946	3.3	3,530	2.9	416	11.8
Loss on disposal of assets	16	0.0	21	0.0	(5)	(23.8)
Gain on disposition of restaurants	(4,923)	(4.1)	—	—	(4,923)	N/A
Impairment and closed-store reserves	1,008	0.8	219	0.2	789	360.3
Total expenses	**106,707**	**88.6**	**113,014**	**94.3**	**(6,307)**	**(5.6)**
Income from operations	**13,692**	**11.4**	**6,864**	**5.7**	**6,828**	**99.5**
Interest expense, net of interest income	1,382	1.1	108	0.1	1,274	1,179.6
Income tax receivable agreement expense (income)	106	0.1	(29)	(0.1)	135	(465.5)
Income before provision for income taxes	**12,204**	**10.2**	**6,785**	**5.7**	**5,419**	**79.9**
Provision for income taxes	2,975	2.5	1,776	1.5	1,199	67.5
Net income	**$ 9,229**	**7.7**	**$ 5,009**	**4.2**	**$ 4,220**	**84.2**

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

Our operating results for the thirty-nine weeks ended September 27, 2023 and September 28, 2022 and expressed as percentages of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below.

	Thirty-Nine Weeks Ended					
	September 27, 2023		September 28, 2022		Increase / (Decrease)	
	($,000)	(%)	($,000)	(%)	($,000)	(%)
Statements of Income Data						
Company-operated restaurant revenue	$ 304,477	85.4	$ 303,585	85.7	$ 892	0.3
Franchise revenue	30,046	8.4	28,862	8.2	1,184	4.1
Franchise advertising fee revenue	21,894	6.2	21,590	6.1	304	1.4
Total revenue	**356,417**	**100.0**	**354,037**	**100.0**	**2,380**	**0.7**
Cost of operations						
Food and paper costs (1)	82,928	27.2	89,586	29.5	(6,658)	(7.4)
Labor and related expenses (1)	96,910	31.8	98,966	32.6	(2,056)	(2.1)
Occupancy and other operating expenses (1)	77,751	25.5	76,597	25.2	1,154	1.5
Gain on recovery of insurance proceeds, lost profits, net (1)	(151)	(0.0)	—	—	(151)	N/A
Company restaurant expenses (1)	**257,438**	**84.6**	**265,149**	**87.3**	**(7,711)**	**(2.9)**
General and administrative expenses	31,451	8.8	29,488	8.3	1,963	6.7
Franchise expenses	28,107	7.9	27,315	7.7	792	2.9
Depreciation and amortization	11,277	3.2	10,745	3.0	532	5.0
(Gain) loss on disposal of assets	(34)	(0.0)	129	0.0	(163)	(126.4)
Gain on recovery of insurance proceeds, property, equipment and expenses	(242)	(0.1)	—	—	(242)	N/A
Gain on disposition of restaurants	(5,034)	(1.4)	—	—	(5,034)	N/A
Impairment and closed-store reserves	1,123	0.3	598	0.2	525	87.8
Total expenses	**324,086**	**90.9**	**333,424**	**94.2**	**(9,338)**	**(2.8)**
Income from operations	**32,331**	**9.1**	**20,613**	**5.8**	**11,718**	**56.8**
Interest expense, net of interest income	3,362	0.9	957	0.3	2,405	251.3
Income tax receivable agreement expense (income)	105	0.0	(345)	(0.1)	450	(130.4)
Income before provision for income taxes	**28,864**	**8.2**	**20,001**	**5.6**	**8,863**	**44.3**
Provision for income taxes	7,661	2.1	5,736	1.6	1,925	33.6
Net income	**$ 21,203**	**6.1**	**$ 14,265**	**4.0**	**$ 6,938**	**48.6**

(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

For the quarter ended September 27, 2023, company-operated restaurant revenue decreased $0.5 million, or 0.5%, from the comparable period in the prior year. The decrease in company-operated restaurant revenue was mainly due to a $1.6 million decrease in revenue primarily from the four company-operated restaurants sold by the Company to existing franchisees during the prior quarters and a $0.2 million decrease in revenue recognized for our loyalty points program. This company-operated restaurant revenue decrease was partially offset by $1.0 million of additional sales from restaurants opened during or after the third quarter of 2022 as well as an increase in company-operated comparable restaurant revenue of $0.3 million, or 0.3%. The company-operated comparable restaurant sales increase consisted of a 1.3% increase in average check size due to increases in menu prices, partially offset by an approximately 0.9% decrease in transactions.

Year-to-date, company-operated restaurant revenue increased $0.9 million, or 0.3%, from the comparable period in the prior year. The increase in company-operated restaurant revenue was primarily due to $3.8 million of additional sales from restaurants opened during or after the first quarter of 2022. In addition, the increase in company-operated restaurant sales was due to an increase in company-operated comparable restaurant revenue of $1.4 million, or 0.5%. The company-operated comparable restaurant sales increase consisted of an approximately 3.2% increase in average check size due to increases in menu prices, partially offset by a 2.6% decrease in transactions. This company-operated restaurant revenue increase was offset by a $4.2 million decrease in revenue primarily from the four company-operated restaurants sold by the Company to existing franchisees during the prior quarters.

Franchise Revenue

For the quarter ended September 27, 2023, franchise revenue increased $0.7 million, or 7.5%, from the comparable period in the prior year. This increase was primarily due to a franchise comparable restaurant sales increase of 1.1%, seven franchise-operated restaurant openings and four company-operated restaurants sold by the Company to existing franchisees in each case, during the prior quarters.

Year-to-date, franchise revenue increased $1.2 million, or 4.1%, from the comparable period in the prior year. This increase was primarily due to ten franchise-operated restaurant openings and four company-operated restaurants sold by the Company to existing franchisees during the prior quarters. This franchise revenue increase was partially offset by a franchise comparable restaurant sales decrease of 1.4% and the closure of one franchise location during or subsequent to the first quarter of 2022.

Franchise Advertising Fee Revenue

For the quarter ended September 27, 2023, franchise advertising fee revenue increased $0.3 million, or 3.9%, from the comparable period in the prior year. Year-to-date, franchise advertising fee revenue increased $0.3 million, or 1.4%, from the comparable period in the prior year. As advertising fee revenue is a percentage of franchisees' revenue, both the quarter and year-to-date period fluctuations were due to the increases and decreases noted in franchise revenue above.

Food and Paper Costs

For the quarter ended September 27, 2023, food and paper costs decreased $2.6 million, or 8.7%. Year-to-date, food and paper costs decreased $6.7 million, or 7.4%, from the comparable period in the prior year. The decrease in food and paper costs for the quarter and year-to-date resulted primarily due to lower transactions, partially offset by commodity inflation. For the quarter, food and paper costs as a percentage of company-operated restaurant revenue were 26.8%, down from 29.2% in the comparable period of the prior year. Year-to-date, food and paper costs as a percentage of company-operated restaurant revenue were 27.2%, down from 29.5% in the comparable period of the prior year. The percentage decrease for both the quarter and year-to-date period was primarily due to an increase in pricing, partially offset by commodity inflation.

Labor and Related Expenses

For the quarter ended September 27, 2023, labor and related expenses decreased $0.2 million, or 0.6%, from the comparable period in the prior year. The decrease in labor and related expenses for the quarter was primarily due to a $0.8 million decrease related to the 0.9% decrease in quarter-over-quarter sales transactions and a $0.6 million decrease in overtime pay due to improvements in operational execution. The decrease in labor and related expenses for the quarter was partially offset by a $0.7 million increase primarily related to higher wage rates from minimum wage increases in California during fiscal 2023 and 2022 and other labor wage increases as a result of competitive pressure and a $0.6 million increase in worker's compensation expenses.

Year-to-date, labor and related expenses decreased $2.1 million, or 2.1%, from the comparable period in the prior year. The decrease for the year-to-date period was due to a $2.9 million decrease related to the 2.6% decrease in year-over-year sales transactions, a $2.7 million decrease in overtime pay due to improvements in operational execution and a $1.5 million decrease related to COVID-19 sick pay. The decrease in labor and related expenses for the year was partially offset by a $3.1 million increase primarily related to higher wage rates from minimum wage increases in California during fiscal 2023 and 2022 and other labor wage increases as a result of competitive pressure and a $1.8 million increase in labor related costs related to improved management staffing.

For the quarter ended September 27, 2023, labor and related expenses as a percentage of company-operated restaurant revenue were 32.2%, down from 32.3% in the comparable period in the prior year. The percentage change for the quarter was impacted by the cost increases highlighted above, partially offset by an increase in pricing. Year-to-date labor and related expenses as a percentage of company-operated restaurant revenue were 31.8%, down from 32.6% in the comparable period in the prior year primarily due to the increase in pricing, and overtime and sick pay decreases, partially offset by the cost increases highlighted above.

Occupancy and Other Operating Expenses

For the quarter ended September 27, 2023, occupancy and other operating expenses increased $0.4 million, or 1.4%, from the comparable period in the prior year. The increase was primarily due to a $0.3 million increase in occupancy costs as well as $0.1 million increase in higher utility costs.

Year-to-date, occupancy and other operating expenses increased $1.2 million, or 1.5%, from the comparable period in the prior year. The increase was primarily due to a $1.0 million increase in occupancy costs, a $0.5 million increase in other operating services and supplies and a $0.2 million increase in repairs and maintenance. The year-to-date increase in occupancy and other operating expenses was partially offset by a $0.5 million decrease in utilities.

For the quarter ended September 27, 2023, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 26.6%, up from 26.1% in the comparable period. Year-to-date, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 25.5%, up from 25.2% in the comparable period of the prior year. Both the quarter and year-to-date period increases resulted from the cost increases highlighted above.

Gain on Recovery of Insurance Proceeds

In September 2022, one of our restaurants incurred damage resulting from a fire. In 2022, we disposed of less than $0.1 million of assets related to the fire. The restaurant was reopened for business on October 27, 2022. In fiscal 2023, we incurred costs directly related to the fire of less than $0.1 million. We recognized gains of $0.2 million related to the reimbursement of property and equipment and expenses incurred and $0.2 million related to the reimbursement of lost profits. The gain on recovery of insurance proceeds and reimbursement of lost profits, net of the related costs is included in the accompanying condensed consolidated statements of income, for the thirty-nine weeks ended September 27, 2023, as a reduction of company restaurant expenses. We received from the insurance company cash of $0.4 million, net of the insurance deductible, during fiscal 2023.

General and Administrative Expenses

For the quarter ended September 27, 2023, general and administrative expenses decreased $0.7 million, or 7.2%, from the comparable period in the prior year. The decrease for the quarter was primarily due to a $0.9 million decrease in labor related costs, primarily related to a decrease in estimated management bonus expense and a $0.1 million decrease in stock compensation expense partially offset by a $0.3 million increase in other legal related costs pertaining to an adoption of a Shareholder Rights Agreement (see Note 12, “Shareholder Rights Agreement” for further details on the Shareholder Rights Agreement).

Year-to-date, general and administrative expenses increased $2.0 million, or 6.7%, from the comparable period in the prior year. The increase for the year-to-date period was due primarily to a $0.5 million increase in labor related costs, primarily related to an increase in estimated management bonus expense, a $1.1 million increase in restructuring costs related to certain positions in the organization, a $0.3 million increase in special costs related to the share distribution on March 28, 2023 and a $0.3 million increase in other legal related costs pertaining to the adoption of the Shareholder Rights Agreement (see Note 9, “Related Party Transactions” and Note 12, “Shareholder Rights Agreement” for further details on the share distribution and the Shareholder Rights Agreement, respectively). The increase in general and administrative expenses for the year was partially offset by a $0.2 million decrease in professional fees.

For the quarter ended September 27, 2023, general and administrative expenses as a percentage of total revenue were 7.6%, down from 8.2% in the comparable period of the prior year. The percentage decrease for the quarterly period is primarily due to the cost decreases noted above. Year-to-date, general and administrative expenses as a percentage of total revenue were 8.8%, up from 8.3% in the comparable period of the prior year. The percentage increase for the year-to-date period is primarily due to the cost increases discussed above.

Gain on Disposition of Restaurants

During the thirteen and thirty-nine weeks ended September 27, 2023, we completed the sale of 17 and 18 restaurants, respectively, within California, Utah and Texas to existing franchisees. 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. We initially defer and subsequently recognize the franchise fees over the term of the franchise agreement. During the thirteen and thirty-nine weeks ended September 27, 2023, these sales resulted in cash proceeds of $7.5 million and $7.7 million, respectively, and a net gain on sale of restaurant of $4.9 million and $5.0 million, respectively. Since the date of their sale, these restaurants are now included in the total number of franchised El Pollo Loco restaurants.

Impairment and Closed-Store Reserves

During both the thirteen and thirty-nine weeks ended September 27, 2023, we recorded non-cash impairment charges of $1.0 million, primarily related to the carrying value of the ROU assets of one restaurant in California and the carrying value of the long-lived assets of one restaurant in Nevada. During the thirteen and thirty-nine weeks ended September 28, 2022, we recorded non-cash impairment charges of $0.1 million and $0.4 million, respectively, primarily related to the long-lived assets of one restaurant in California. Given the inherent uncertainty in projecting results for newer restaurants in newer markets we are monitoring the recoverability of the carrying value of the assets of several restaurants on an ongoing basis. For these restaurants, if expected performance is not realized, an impairment charge may be recognized in future periods, and such charge could be material.

When a restaurant is closed, we 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 CAM payments relating to closed restaurants are included within closed-store expense. During both the thirteen and thirty-nine weeks ended September 27, 2023, we recognized $0.1 million of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for our closed locations. During the thirteen and thirty-nine weeks ended September 28, 2022, we recognized $0.1 million and $0.2 million, respectively, of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for our closed locations.

Interest Expense, Net

For the quarter ended September 27, 2023, interest expense, net, increased $1.3 million from the comparable period in the prior year. For the year-to-date period, interest expense, net, increased $2.4 million from the comparable period in the prior year. Both the quarter and year-to-date period increase in interest expense was primarily related to the higher outstanding balances on our 2022 Revolver (as defined below) as well as the higher interest rates in the fiscal 2023 periods versus the comparable periods in the prior year. This increase was partially offset by the unwinding of our interest rate swap and the corresponding payout that was recognized as part of interest income during the thirty-nine weeks ended September 27, 2023.

Income Tax Receivable Agreement

On July 30, 2014, we entered into the income tax receivable agreement (the “TRA”). The TRA calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses (“NOLs”) and other tax attributes attributable to preceding periods. For both the thirteen and thirty-nine weeks ended September 27, 2023, we recorded income tax receivable agreement expense of $0.1 million and for the thirteen and thirty-nine weeks ended September 28, 2022 we recorded income tax receivable agreement income of less than $0.1 million and $0.3 million, respectively.

Provision for Income Taxes

For the quarter ended September 27, 2023, we recorded an income tax provision of $3.0 million, reflecting an estimated effective tax rate of 24.4%. For the quarter ended September 28, 2022, we recorded an income tax provision of $1.8 million, reflecting an estimated effective tax rate of approximately 26.2%. For the year-to-date period ended

September 27, 2023, we recorded an income tax provision of $7.7 million, reflecting an estimated effective tax rate of approximately 26.5%. For the year-to-date period ended September 28, 2022, we recorded an income tax provision of $5.7 million, reflecting an estimated effective tax rate of approximately 28.7%.

The difference between the 21.0% statutory rate and our effective tax rate of 26.5% for the year-to-date period ended September 27, 2023 is primarily a result of state taxes, a non-deductible executive compensation, partially offset by a Work Opportunity Tax Credit benefit.

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, restaurant contribution, restaurant contribution margin, new restaurant openings, EBITDA, and Adjusted EBITDA.

System-Wide Sales

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
(Dollar amounts in thousands)	**September 27, 2023**	**September 28, 2022**	**September 27, 2023**	**September 28, 2022**
Company-operated restaurant revenue	$ 102,703	$ 103,174	$ 304,477	$ 303,585
Franchise revenue	10,255	9,543	30,046	28,862
Franchise advertising fee revenue	7,441	7,161	21,894	21,590
Total Revenue	120,399	119,878	356,417	354,037
Franchise revenue	(10,255)	(9,543)	(30,046)	(28,862)
Franchise advertising fee revenue	(7,441)	(7,161)	(21,894)	(21,590)
Sales from franchised restaurants	166,052	159,742	488,117	481,351
System-wide sales	$ 268,755	$ 262,916	$ 792,594	$ 784,936

Company-Operated Restaurant Revenue

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

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

Comparable Restaurant Sales

Comparable restaurant sales reflect year-over-year sales changes for comparable company-operated, franchised, and system-wide restaurants. A restaurant enters our comparable restaurant base the first full week after it has operated for fifteen months. Comparable restaurant sales exclude restaurants closed during the applicable period. At September 27, 2023 and September 28, 2022, there were 470 and 466 comparable restaurants, 181 and 184 company-operated restaurants and 289 and 282 franchised restaurants, respectively. Comparable restaurant sales indicate the performance of existing restaurants, since new restaurants are excluded. 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.

Comparable restaurant sales growth can be generated by an increase in the number of meals sold and/or by increases in the average check amount, resulting from a shift in menu mix and/or higher prices resulting from new products or price increases.

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, asset 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 stockholders because of the exclusion of certain corporate-level expenses. Restaurant contribution margin is defined as restaurant contribution as a percentage of net company-operated restaurant revenue.

Restaurant contribution and restaurant contribution margin are supplemental measures of operating performance of our restaurants, and our calculations thereof may not be comparable to those reported by other companies. Restaurant contribution and restaurant contribution margin have limitations as analytical tools, and you should not consider them in isolation, or superior to, or as substitutes for the analysis of our results as reported under GAAP. Management uses restaurant contribution and restaurant contribution margin as a supplemental measure of restaurant performance. Management believes that restaurant contribution and restaurant contribution margin are important tools for investors, because they are widely-used metrics within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance. Management further believes restaurant level operating is useful to investors to highlight trends in our core business that may not otherwise be apparent to investors when relying solely on GAAP financial measures.

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

(Dollar amounts in thousands)	Thirteen Weeks Ended September 27, 2023	Thirteen Weeks Ended September 28, 2022	Thirty-Nine Weeks Ended September 27, 2023	Thirty-Nine Weeks Ended September 28, 2022
Restaurant contribution:				
Income from operations	$ 13,692	$ 6,864	$ 32,331	$ 20,613
Add (less):				
General and administrative expenses	9,144	9,855	31,451	29,488
Franchise expenses	9,583	9,027	28,107	27,315
Depreciation and amortization	3,946	3,530	11,277	10,745
Loss (gain) on disposal of assets	16	21	(34)	129
Gain on recovery of insurance proceeds, property, equipment and expenses	—	—	(242)	—
Franchise revenue	(10,255)	(9,543)	(30,046)	(28,862)
Franchise advertising fee revenue	(7,441)	(7,161)	(21,894)	(21,590)
Impairment and closed-store reserves	1,008	219	1,123	598
Gain on disposition of restaurants	(4,923)	—	(5,034)	—
Restaurant contribution	$ 14,770	$ 12,812	$ 47,039	$ 38,436
Company-operated restaurant revenue:				
Total revenue	$ 120,399	$ 119,878	$ 356,417	$ 354,037
Less:				
Franchise revenue	(10,255)	(9,543)	(30,046)	(28,862)
Franchise advertising fee revenue	(7,441)	(7,161)	(21,894)	(21,590)
Company-operated restaurant revenue	$ 102,703	$ 103,174	$ 304,477	$ 303,585
Restaurant contribution margin (%)	14.4 %	12.4 %	15.4 %	12.7 %

New Restaurant Openings

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

EBITDA and Adjusted EBITDA

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

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

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

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

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

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

(Amounts in thousands)	Thirteen Weeks Ended September 27, 2023	Thirteen Weeks Ended September 28, 2022	Thirty-Nine Weeks Ended September 27, 2023	Thirty-Nine Weeks Ended September 28, 2022
Net income	**$ 9,229**	**$ 5,009**	**$ 21,203**	**$ 14,265**
Non-GAAP adjustments:				
Provision for income taxes	2,975	1,776	7,661	5,736
Interest expense, net of interest income	1,382	108	3,362	957
Depreciation and amortization	3,946	3,530	11,277	10,745
EBITDA	**$ 17,532**	**$ 10,423**	**$ 43,503**	**$ 31,703**
Stock-based compensation expense (a)	926	1,009	2,514	2,806
Loss (gain) on disposal of assets (b)	16	21	(34)	129
Impairment and closed-store reserves (c)	1,008	219	1,123	598
Gain on disposition of restaurants (d)	(4,923)	—	(5,034)	—
Income tax receivable agreement expense (income) (e)	106	(29)	105	(345)
Securities class action legal expense (f)	—	(10)	2	443
Special dividend (g)	—	—	129	—
Legal settlements (h)	—	(541)	—	(541)
Special legal expenses (i)	—	350	299	350
Shareholder advisory fees (j)	293	—	293	—
Gain on recovery of insurance proceeds (k)	—	—	(394)	—
Severance (l)	—	—	1,055	—
Pre-opening costs (m)	39	131	227	280
Adjusted EBITDA	**$ 14,997**	**$ 11,573**	**$ 43,788**	**$ 35,423**

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

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

(c) Includes costs related to impairment of long-lived and ROU assets and closing restaurants. During both the thirteen and thirty-nine weeks ended September 27, 2023, we recorded non-cash impairment charges of $1.0 million, primarily related to the carrying value of the ROU assets of one restaurant in California and the carrying value of the long-lived assets of one restaurant in Nevada. During the thirteen and thirty-nine weeks ended September 28, 2022, we recorded non-cash impairment charges of $0.1 million and $0.4 million, respectively, primarily related to the long-lived assets of one restaurant in California.
During both the thirteen and thirty-nine weeks ended September 27, 2023, we recognized $0.1 million of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for our closed locations. During the thirteen and thirty-nine weeks ended September 28, 2022, we recognized $0.1 million and $0.2 million, respectively, of closed-store reserve expense related to the amortization of ROU assets, property taxes and CAM payments for our closed locations.

(d) During the thirteen and thirty-nine weeks ended September 27, 2023, we completed the sale of 17 and 18 restaurants, respectively, within California, Utah and Texas to existing franchisees. During the thirteen and thirty-nine weeks ended September 27, 2023, these sales resulted in cash proceeds of $7.5 million and $7.7 million, respectively, and a net gain on sale of restaurant of $4.9 million and $5.0 million, respectively.

(e) 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 NOLs and other tax attributes attributable to preceding periods. For the thirteen and thirty-nine weeks ended September 27, 2023 and September 28, 2022, income tax receivable agreement expense (income) consisted of the amortization of interest expense and changes in estimates for actual tax returns filed, related to our total expected TRA payments.

(f) Consists of costs and recoveries related to the defense of securities lawsuits.

(g) 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.

(h) Includes $0.5 million received from legal settlements, net of legal expenses.

(i) Consists of legal costs related to the share distribution that occurred on March 28, 2023. Refer to Note 9, “Related Party Transactions” for further details on the share distribution.

(j) Consists of advisory fees pertaining to a Shareholder Rights Agreement adopted in connection with a shareholder's accumulation of a significant amount of shares of our common stock. Refer to Note 12, "Shareholder Rights Agreement" for further details on the Shareholder Rights Agreement.
(k) In September 2022, one of our restaurants incurred damage resulting from a fire. In 2022, we disposed of less than $0.1 million of assets related to the fire. The restaurant was reopened for business on October 27, 2022. In fiscal 2023, we incurred costs directly related to the fire of less than $0.1 million. We recognized gains of $0.2 million, related to the reimbursement of property and equipment and expenses incurred and $0.2 million related to the reimbursement of lost profits. The gain on recovery of insurance proceeds and reimbursement of lost profits, net of the related costs is included in the accompanying condensed consolidated statements of income, for fiscal 2023, as a reduction of company restaurant expenses. We received from the insurance company cash of $0.4 million, net of the insurance deductible, during fiscal 2023.
(l) On April 13, 2023 the Company made the decision to eliminate and restructure certain positions in the organization, which resulted in one-time costs of approximately $1.1 million.
(m) 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 our 2022 Revolver (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 from the issuance of the condensed consolidated financial statements.

The following table presents summary cash flow information for the periods indicated (in thousands):

	Thirty-Nine Weeks Ended	
(Amounts in thousands)	**September 27, 2023**	**September 28, 2022**
Net cash (used in) provided by		
Operating activities	$ 32,509	$ 21,907
Investing activities	(7,412)	(13,022)
Financing activities	(31,775)	(19,656)
Net decrease in cash	$ (6,678)	$ (10,771)

Operating Activities

For the thirty-nine weeks ended September 27, 2023, net cash from operating activities increased by approximately $10.6 million from the comparable period of the prior year. This change was due to favorable working capital fluctuations and higher profitability compared to the same period in the prior year.

Investing Activities

For the thirty-nine weeks ended September 27, 2023, net cash used in investing activities decreased by $5.6 million from the comparable period of the prior year. This change was due to an increase in purchase of property and equipment mostly related to restaurant remodeling during the thirty-nine weeks ended September 27, 2023 when compared to the prior quarter. The overall decrease in use of investing activities was partially offset by the cash proceeds of $7.7 million received during the thirty-nine weeks ended September 27, 2023 related to the sale of nine company-operated restaurants within Texas to an existing franchisee, eight company-operated restaurants within California to existing franchisees and one company-operated restaurant in Utah to another existing franchisee.

Financing Activities

For the thirty-nine weeks ended September 27, 2023, net cash used in financing activities increased by $12.1 million from the comparable period of the prior year. The increase was due primarily to repurchases of common stock of $46.6 million during the thirty-nine weeks ended September 27, 2023. This increase was partially offset by $14.0 million in net borrowings on the 2022 Revolver during the thirty-nine weeks ended September 27, 2023 compared to the net pay downs of $20.0 million on the 2022 Revolver during the thirty-nine weeks ended September 28, 2022. This change was further impacted by a $1.2 million cash inflow related to option exercises during the thirty-nine weeks ended September 27, 2023 compared to a $1.6 million cash inflow related to option exercises during thirty-nine weeks ended September 28, 2022.

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. The interest rate range was 6.74% to 6.93% and 5.69% to 8.50% for the thirteen and thirty-nine weeks ended September 27, 2023 under the 2022 Revolver, respectively, and 2.87% to 6.00% and 1.35% to 6.00%

for the thirteen and thirty-nine weeks ended September 28, 2022, respectively, under the 2022 Revolver and 2018 Revolver.

The 2022 Credit Agreement contains certain financial covenants. We were in compliance with the financial covenants as of September 27, 2023.

At September 27, 2023, we had $80.0 million in outstanding borrowings under the 2022 Revolver and $9.8 million of letters of credit that further reduce the amount available under the line of credit to $60.2 million in borrowing availability.

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. See Note 4, “Long-term debt” for additional information.

Material Cash Requirements

Our material cash requirements as of September 27, 2023 have not changed materially since those disclosed under “Material Cash Requirements” in Part II, Item 7 of our annual report on Form 10-K for the year ended December 28, 2022. Our material cash requirements relate mostly to future (i) debt payments, including expected interest expense, calculated based on current interest rates, (ii) restaurant operating lease payments, (iii) income tax receivable agreement payments, (iv) purchasing commitments for chicken, (v) restaurant finance lease payments, and (vi) capital expenditures.

Share Repurchase Program

On October 11, 2022, our Board of Directors approved the 2022 Stock Repurchase Agreement under which we were authorized to repurchase up to $20.0 million of shares of our common stock through March 28, 2024.

Under the 2022 Stock Repurchase Plan, we were permitted to repurchase our common stock from time to time, in amounts and at prices that we deemed appropriate, subject to market conditions and other considerations. Pursuant to the 2022 Stock Repurchase Plan, we were authorized to repurchase shares of our common stock using open market purchases, including pursuant to Rule 10b5-1 trading plans, and/or through privately negotiated transactions. As of September 27, 2023, the program was completed.

Repurchase Agreement

On August 7, 2023, we entered into a Stock Repurchase Agreement (the “Repurchase Agreement”) with FS Equity Partners V, L.P. and FS Affiliates V, L.P. (together, the “Sellers”), pursuant to which we agreed to purchase an aggregate of 2,500,000 shares of our common stock from the Sellers at a price of $10.63 per share for a total purchase price of $26.6 million. The repurchase was completed in August 2023.

Prior to the repurchase, Freeman Spogli & Co. (“Freeman Spogli”), collectively with the Sellers and certain other funds managed by Freeman Spogli, was our largest stockholder. In addition, John Roth, a director of the Company until his resignation on August 16, 2023, is a general partner of Freeman Spogli and its chief executive officer.

Item 3. 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 September 27, 2023, we had outstanding borrowings of $80.0 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 $0.8 million on an annualized basis.

During the thirteen and thirty-nine weeks ended September 27, 2023, we borrowed $23.0 million and $25.0 million, respectively, and paid down $3.0 million and $11.0 million, respectively, on our 2022 Revolver and the outstanding balance as of September 27, 2023 was $80.0 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 was reclassified into earnings when the hedged forecasted transaction was 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 4. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) of the Securities Exchange Act of 1934, as amended (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 time periods specified in the SEC's rules and forms 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 concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of September 27, 2023.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended September 27, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various claims such as wage and hour and other legal actions that arise in the ordinary course of business, but neither we nor our subsidiaries are party to any material legal proceedings. See Note 7, "Commitments and Contingencies—Legal Matters" in the "Notes to Condensed Consolidated Financial Statements" for additional information.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 28, 2022 filed with the SEC on March 10, 2023, except for the revision of the first and second risk factors and the addition of the third risk factor that immediately follow.

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 are expected to be adversely impacted as a result of AB 1228, signed into law by Governor Newsom on September 28, 2023, which will repeal and replace the Fast Food Accountability and Standards Recovery Act (FAST Act) on January 1, 2024 if a referendum seeking repeal of the FAST Act is withdrawn prior to that date. The FAST Act was previously signed into law in September 2022 and would have, among other things, established a council to set minimum wage standards for industry workers in California. In connection with the adoption of AB 1228, the proponents of the referendum seeking repeal of the FAST Act indicated their agreement to withdraw the referendum. If AB 1228 becomes effective January 1, 2024, the minimum wage at fast food restaurants that are part of brands which have more than 60 establishments nationwide will rise to $20 an hour on April 1, 2024, and a Fast Food Council created by AB 1228 will have limited power to approve annual wage increases until 2029. Under the law, the Fast Food Council will also have the power to develop and propose minimum standards for fast food workers, including standards for working hours, working conditions, and health and safety. As a result of AB 1228, we expect our labor and regulatory compliance costs will increase beginning in fiscal 2024 and that our results of operations and profitability will be adversely affected if we are not able to implement other measures to counter these increased costs. Further, this law 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.

Delaware law, our organizational documents, our shareholder rights agreement, 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, in certain circumstances, the shareholder rights plan adopted by our Board of Directors in August 2023 would cause dilution to a person or group that acquires a large block of our common stock and thereby make it more difficult for such person or group to acquire the Company. See "*Shareholder activism could cause us to incur significant expense, disrupt our business, result in a proxy contest or litigation and impact our stock price*" for additional information regarding our shareholder rights plan.

Furthermore, 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 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.

These provisions, either alone or in combination with each other, give our current directors and executive officers a substantial ability to influence the outcome of a proposed acquisition of the Company. These provisions would apply even if an acquisition or other significant corporate transaction was considered beneficial by some of our shareholders. If a change in control or change in management is delayed or prevented by these provisions, the market price of our securities could decline.

Shareholder activism could cause us to incur significant expense, disrupt our business, result in a proxy contest or litigation and impact our stock price.

We may be subject to shareholder activism in the future, which could result in substantial costs and divert management's and our Board's attention and resources from our business. Such shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with our employees, customers, or suppliers and make it more difficult to attract and retain qualified personnel. We may be required to incur significant fees and other expenses related to activist shareholder matters, including for third party advisors. We may be subjected to a proxy contest or to litigation by activist investors. Our stock price has been and could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any shareholder activism.

In addition, in August 2023, our Board of Directors adopted a shareholder rights plan and declared a dividend of one preferred share purchase right (a "Right") for each share of our common stock outstanding on August 18, 2023 to the stockholders of record on that date. In the event that a person or group of affiliated or associated persons has acquired beneficial ownership of 12.5% or more of our outstanding common stock, subject to certain exceptions, each Right would entitle its holder (other than such person or members of such group) to purchase additional shares of our common stock at a substantial discount to the public market price. In addition, at any time after a person or group of affiliated or associated persons has acquired beneficial ownership of 12.5% or more of our outstanding common stock (and prior to the acquisition by any person or group of a majority of the outstanding shares of our common stock), the Board of Directors may exchange one share of our common stock for each outstanding Right (other than Rights owned by such person or group, which would have become void). The shareholder rights plan would cause dilution to a person or group that acquires a large block of our common stock on terms that are not approved by our Board of Directors and thereby make it more difficult for such person or group to acquire the Company.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

On October 11, 2022, the Company's Board of Directors approved a share repurchase program (the "2022 Stock Repurchase Plan") under which the Company was authorized to repurchase up to $20.0 million of shares of our common stock through March 28, 2024. The 2022 Stock Repurchase Plan commenced on January 9, 2023, and was completed on July 12, 2023.

Under the 2022 Stock Repurchase Plan, the Company was 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. Pursuant to the 2022 Stock Repurchase Plan, the Company was authorized to effect repurchases using open market purchases, including pursuant to Rule 10b5-1 trading plans, and/or through privately negotiated transactions.

On August 7, 2023, the Company entered into a Stock Repurchase Agreement (the "Repurchase Agreement") with FS Equity Partners V, L.P. and FS Affiliates V, L.P. (together, the "Sellers"), pursuant to which the Company agreed to purchase an aggregate of 2,500,000 shares of the Company's common stock from the Sellers at a price of $10.63 per share, representing the closing price of such shares as listed on Nasdaq on August 7, 2023, for a total purchase price of $26.6 million. The repurchase was completed in August 2023.

Prior to the repurchase, Freeman Spogli & Co. ("Freeman Spogli"), collectively with the Sellers and certain other funds managed by Freeman Spogli, were the Company's largest stockholder. In addition, John Roth, a director of the Company until his resignation on August 16, 2023, is a general partner of Freeman Spogli and its chief executive officer.

The following table summarizes the Company's purchases of common stock, including under the 2022 Stock Repurchase Plan and the Repurchase Agreement, in the quarterly period ended September 27, 2023 (in thousands, except number of shares and per share amounts):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Be Purchased Under the Plans or Programs
June 29, 2023 to July 26, 2023	206,214	$ 9.14	206,214	$ -
July 27, 2023 to August 23, 2023	2,504,639	$ 10.63	—	$ -
August 23, 2023 to September 27, 2023	—	$ -	—	$ -
Total	2,710,853 (1)		206,214	

(1) Consists of 206,214 shares purchased by the Company pursuant to the 2022 Stock Repurchase Plan (which was completed on July 12, 2023), 2,500,000 shares purchased by the Company in August 2023 pursuant to the Repurchase Agreement, and 4,639 shares acquired by the Company to satisfy employee tax withholding obligations in connection with the vesting of previously issued restricted stock.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Index

Number	Description	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	Certificate of Designations of Series A Preferred Stock of El Pollo Loco Holdings, Inc., as filed with the Secretary of State of the State of Delaware on August 9, 2023		8-K	N/A	3.1	8/9/2023	001-36556
3.3	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	Rights Agreement, dated as of August 8, 2023, between El Pollo Loco Holdings, Inc. and Equiniti Trust Company, LLC, as rights agent		8-K	N/A	4.1	8/9/2023	001-36556
10.1	Stock Repurchase Agreement, dated August 7, 2023, between El Pollo Loco Holdings, Inc., FS Equity Partners V, L.P. and FS Affiliates V, L.P.		8-K	N/A	99.1	8/8/2023	001-36556
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	Inline 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 Schema 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	X

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

SIGNATURES

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

	El Pollo Loco Holdings, Inc.
	(Registrant)
Date: November 3, 2023	/s/ Laurance Roberts
	Laurance Roberts President and Chief Executive Officer *(duly authorized officer)*
Date: November 3, 2023	/s/ Ira Fils
	Ira Fils Chief Financial Officer *(principal financial officer)*

Exhibit 31.1

CERTIFICATIONS

I, Laurance Roberts, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 3, 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 quarterly report on Form 10-Q of El Pollo Loco Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 3, 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 attached periodic report, the undersigned each certify that (i) the periodic report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: November 3, 2023

/s/ Laurance Roberts

Laurance Roberts
President and Chief Executive Officer

/s/ Ira Fils

Ira Fils
Chief Financial Officer