

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 25, 2019

or

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

For the transition period from _____ to _____

Commission file number 001-36556

EL POLLO LOCO HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

State or other jurisdiction of
incorporation or organization

3535 Harbor Blvd., Suite 100, Costa Mesa, California

(Address of principal executive offices)

20-3563182

(I.R.S. Employer
Identification No.)

92626

(Zip Code)

(714) 599-5000

Registrant's telephone number, including area code

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	LOCO	The Nasdaq Stock Market LLC

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

None
(Title of class)

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of June 26, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common equity held by non-affiliates was approximately \$214 million, deeming purely for purposes of this calculation all directors and executive officers and Trimaran Pollo Partners, L.L.C. to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of February 27, 2020, there were 35,089,983 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III hereof incorporates by reference certain portions of the registrant's definitive proxy statement for its 2020 annual meeting of stockholders to be filed not later than 120 days after the end of the registrant's 2019 fiscal year.

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FORWARD-LOOKING STATEMENTS

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

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

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

PART I

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

ITEM 1. BUSINESS

Our Company

El Pollo Loco is Spanish for "The Crazy Chicken." We were organized as a Delaware corporation in 2005. We opened our first location on Alvarado Street in Los Angeles, California, in 1980, and have grown our restaurant system to 482 restaurants, comprised of 195 company-operated and 287 franchised restaurants as of December 25, 2019. Our restaurants are located in California, Arizona, Nevada, Texas, Utah and Louisiana. Our typical restaurant is a free-standing building with drive-thru service that ranges in size from 2,200 to 3,000 square feet with seating for approximately 50-70 people.

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the limited service restaurant ("LSR") segment. We strive to offer food that integrates the culinary traditions of Mexico with the healthier lifestyle of Los Angeles, a combination that we call "LA-Mex". Our distinctive menu features our signature product, citrus-marinated fire-grilled chicken, as well as a variety of Mexican and LA-inspired entrees that we create from our chicken. Every day in every restaurant, we marinate and fire-grill our chicken over open flames, and slice whole tomatoes, avocados, serrano peppers, and cilantro to make our salsas, guacamole, and cilantro dressings from scratch. The design of our kitchens reveals our cooking process and allows our customers to watch our Grill Masters and team members fire-grill and hand-cut our signature chicken, as well as watch team members make burritos, salads, tostadas, bowls, stuffed quesadillas, and chicken entrees.

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 shrimp. Our entrees include favorites such as our Chicken Avocado Burrito, Under 500 Calorie entrees, chicken tostada salads, and Pollo Bowls. Our famous Creamy Cilantro dressings and salsas are prepared fresh daily, allowing our customers to create their favorite flavor profiles to enhance their culinary experience. Our distinctive menu with healthier alternatives appeals to consumers across a wide variety of socio-economic backgrounds and drives our balanced composition of sales throughout the day (our "day-part mix"), including at lunch and dinner.

The Company operates in one operating segment. All significant revenues relate to retail sales of food and beverages through either company or franchised restaurants. Financial information about our operations, including our revenues and expenses for fiscal 2019, 2018 and 2017, and our total assets as of the end of fiscal 2019 and 2018, is included in our "Audited Consolidated Financial Statements" and accompanying "Notes to Consolidated Financial Statements" in this Annual Report. See "Item 8. Financial Statements and Supplementary Data."

Our Industry

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

Our Competitive Strengths

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

Differentiated Restaurant Concept with Broad Appeal. We believe that our food, which combines the culinary traditions of Mexico with the healthier lifestyle of Los Angeles, served in contemporary restaurant environments at reasonable prices, positions us well to satisfy the needs of our core Hispanic family market and appeal to the broader general market who seek convenient and high-quality meals at reasonable prices. We provide our customers with the opportunity to enjoy citrus-marinated, fire-grilled chicken and Mexican-inspired entrees containing distinctive ingredients such as avocados, mangos, and serrano peppers at price points that appeal to a broad consumer base. We believe that our entree prices are typically lower than

the fast-casual segment, and a slight premium to the QSR segment. We prepare our entrees to order in approximately four minutes and allow our customers the option to create their favorite flavor profiles using our freshly-prepared salsas before they enjoy their meals in our dining rooms or take their meals to go from the counter or the drive-thru. We also believe that our concept, which integrates the complexity of creating real food in real kitchens with the speed of our service model and the skill of our trained Grill Masters, provides a layer of competitive insulation around our restaurant model. We believe that our positioning appeals to a broad customer base, and that our brand crosses over traditional age, ethnic, and income demographics, giving consumers the best of both the fast-casual and QSR segments. We seek to position ourselves as a differentiated restaurant concept, which we believe sources traffic from both dining segments and, as a result, we expect it to drive transaction growth in the future.

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

Our bone-in chicken meals and Mexican-inspired entrees accounted for 46% and 47% of our company-operated restaurant sales, respectively, in 2019. Our individual and family-sized chicken meals appeal to customers looking to dine at the restaurant or take out during dinnertime, while our Mexican-inspired entrees draw traffic from customers at lunchtime or for an afternoon snack, enabling us to generate sales almost equally between lunch and dinner. We believe that our family-sized chicken meals provide a healthier and convenient alternative for families looking to solve the “dinnertime dilemma” of providing their families with high-quality meals without investing significant time or money. In 2019, approximately 28% of our company-operated sales were generated from family-sized meals.

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

Developing High Average Unit Volumes (“AUVs”) and Strong Unit Economics One Chicken at a Time. We seek to position ourselves as a differentiated LSR business, which we believe drives restaurant operating results that are competitive with other leading restaurant concepts in both the fast-casual and QSR industry segments. We believe that our restaurant model is designed to generate strong cash flow, consistent restaurant-level financial results, and high returns on invested capital. In 2019, our company-operated restaurants generated average annual sales per restaurant of approximately \$1.9 million and restaurant-level contribution margins of 18.7%.

Experienced Leadership. Most of our senior management team has extensive operating experience in the restaurant industry. Members of the senior leadership team include Bernard Acoca as our President and Chief Executive Officer (“CEO”), Larry Roberts as our Chief Financial Officer, Miguel Lozano as our Chief Operating Officer, Hector Munoz as our Chief Marketing Officer, Jason Weintraub as our Chief Legal Officer, Jennifer Jaffe as our Chief People Officer, and Brian Carmichall as our Chief Development Officer.

Our Growth Strategy

We believe that we are well-positioned for sales growth because of our strong appeal to our core Hispanic family market, appeal to the broader general market, disciplined business model, and strong unit economics. Our system has experienced annual comparable restaurant sales growth for nine consecutive years through our fiscal year ended December 25, 2019. We plan to continue to expand our business, drive restaurant sales growth and increase company profits by executing our Transformation Agenda, which consists of the following four key strategies:

Develop a People-first Culture - Invest in and Grow our Talent. We believe that success in the restaurant industry is highly correlated with employee engagement, which is dependent upon hiring, retaining, developing and motivating employees. We continue to build a culture centered around our mission, which is to “Feed the Love that Makes Us All Feel Like Family” and “Heart-Centered Leadership, which is predicated on servant-led leadership, employee recognition and community involvement.

We believe that executing on our mission will result in a better and more meaningful work experience for our employees. For example, in 2019 we implemented a food donation program with Food Donation Connection, agreed to donate 75,000 tacos as part of our “Buy One, Feed Many” initiative, and celebrated Caesar Chavez Day by recruiting 500 company employees, franchisees and customers to refresh a high school located in south Los Angeles. We also continue to invest in leadership training to ensure that our managers have the tools they need to be effective leaders and motivating coaches. We believe that our focus on culture and leadership will result in highly engaged and motivated employees, which will lead to a better experience for our customers.

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

We engage customers through our seasonal product calendar, which features new, unique limited time offers (“LTOs”) and variations of menu items like our Chicken Tostada Salads and Stuffed Burritos. Our key points of differentiation are communicated through our advertising campaign, which highlights the brand's authenticity, healthier menu options and dedication to high-quality ingredients. We tailor our message from television and direct mail, which garners broad exposure, to our Loco Rewards loyalty program and social media platform where we engage in more personalized marketing.

We believe that investing in consumer-facing technology is critical to further differentiating our brand and reaching customers for whom convenience and value are key decision factors. During the second quarter of 2017, we introduced a new Loyalty Reward program in an effort to increase sales and loyalty among our customers, by offering rewards that incentivize customers to visit our restaurants more each month. As of December 25, 2019, there were more than 1.5 million members in the Loco Rewards loyalty program, whom we target with segmented, dynamic campaigns with special offers tailored to each customer segment with the goals of increasing visit frequency and growing overall spend.

In June 2018, we implemented delivery through DoorDash, a third-party delivery provider. DoorDash delivers meals ordered directly from our restaurants or through their market place delivery platform. For meals ordered through their market place platform, restaurants incur a fee based on a percentage of the ticket. For those ordered directly from the restaurant, no fee is charged to the restaurant as the full delivery cost is borne by the customer. In September 2019, we added Postmates and Uber Eats as additional marketplace delivery providers. As with DoorDash, restaurants incur a fee for marketplace delivery orders. DoorDash currently maintains exclusivity for delivery orders placed directly with our restaurants. In total, during the fourth quarter of 2019, delivery orders constituted approximately 3% of our total sales mix. As of December 25, 2019, except for two Corporate and franchise restaurants, all locations offered integrated delivery through a third-party service.

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

Simplify Operations - Make It Easier for Employees and Franchisees to Run Our Restaurants. We believe that simplifying our restaurant operations will further enhance our ability to attract and retain the best employees and further improve customer service. In 2019, we implemented a number of initiatives to make it easier for our employees to operate our restaurants. These included a reduction in menu items, a new inventory management system, new chicken cooking procedures and simplified standard operating procedures. Additional initiatives are currently in process, including a systemized restaurant cleaning process and a state-of-the-art human resource management system. We expect that these initiatives will allow our restaurant employees to increase their focus on customers and speed of service. We believe that this focus, combined with renewed emphasis on providing an exceptional customer experience, will lead to higher sales over the longer term.

Grow the Business - Responsibly and Profitably for the Long Term. We believe that execution of our first three strategies will enable us to grow our restaurant base. Our restaurant model is designed to generate strong cash flow, attractive restaurant-level financial results and high returns on invested capital. We are currently working on a new restaurant design that we believe will clearly differentiate and communicate our brand, both on the exterior and interior. In addition, we are redesigning the back-of-house to make it easier for employees to operate the restaurant. We expect to complete the remodel of several restaurants using the new design by the end of June 2020. Provided we are pleased with the results, we plan to require all remodels and new builds to use this design starting July 1, 2020. We believe that this new design will deliver strong new unit volumes and cash on cash returns in both existing and new markets. We also believe that our remodels using this new design will result in higher

restaurant revenue and a strengthened brand. This new design replaces our "Vision" design, which was implemented in 2016. As of December 25, 2019, including new builds and remodels, 119 restaurants in the system were modeled on the Vision design.

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

Site Selection and Expansion

Restaurant Development

We believe that our restaurant model is designed to generate strong cash flow, attractive restaurant-level financial results, and high returns on invested capital, which we believe provide us with a strong foundation for unit growth over the long-term. In 2019, we opened two new company-operated restaurants and two new franchised restaurants.

As part of a strategy to focus company-operated restaurant development on our core markets and accelerate franchise development in outer and new markets, in 2019 we sold four company-operated restaurants in the San Francisco area, seven in Phoenix and five in Dallas to existing franchisees. Each of these transactions included development agreements requiring the franchisees to build new restaurants in those markets over several years. Going forward, we expect the large majority of new restaurant development outside of core markets to be completed by franchisees. During 2019, we closed four company-operated restaurants in Texas and California. For a discussion of the impairment of these restaurants, see below in "Item 1A. Risk Factors-Risks Related to Our Business and Industry-We have incurred, and may continue to incur, significant impairment of certain of our assets, in particular in our new markets."

In fiscal 2020, we intend to open three to four new company-operated and five to eight new franchised restaurants. There is no guarantee that we will be able to open new company-operated or franchised restaurants, or to increase the overall number of our restaurants. We may be unsuccessful in expanding within existing or into new markets for a variety of reasons as described below in "Item 1A. Risk Factors," including competition for customers, sites, franchisees, employees, licenses, and financing.

Site Selection Process

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

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

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

Restaurant Construction

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

Restaurant Management and Operations

Service

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

Operations

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

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

Managers and Team Members

Each of our restaurants typically has a general manager, an assistant manager and two to three shift leaders. There are between 20 and 35 team members per restaurant, who prepare our food fresh daily and provide customer service. To lead our restaurant management teams, we have area leaders, each of whom is responsible for 8 to 12 restaurants. Overseeing the area leaders are two Vice Presidents of Operations who report to our Chief Operating Officer. Franchise operations are supported by three directors of franchise who report to one of the Vice Presidents of Operations. The restaurant development team is supported by four directors who all currently report to the Chief Development Officer.

Training

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

Franchise Program

We use a franchising strategy to increase new restaurant growth in certain markets, leveraging the ownership of entrepreneurs with specific local market expertise and requiring a relatively minimal capital commitment by us. As of December 25, 2019, there were a total of 287 franchised restaurants. Franchisees range in size from single-restaurant operators to the largest franchisee, which owned 66 restaurants as of December 25, 2019. Our existing franchise base consists of many successful, longstanding, multi-unit restaurant operators. As of December 25, 2019, approximately 76% of franchised restaurants were owned and operated by franchisees that had been with us for over 20 years.

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

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

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

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

Marketing and Advertising

We strive to distinguish the El Pollo Loco brand by building a brand equity that we believe not only accentuates our strengths but also deepens the strong emotional connections we have with our customers. In October 2018, we completed codifying our brand architecture in a comprehensive brand book, which shapes our strategic brand decisions and influences how we communicate the El Pollo Loco brand to consumers. We promote our restaurants and products by emphasizing our points of differentiation, which include our Mexican and LA heritages, our fresh ingredients and made-from-scratch preparation, and the cooking of our citrus-marinated chicken on open fire grills in our kitchens, as well as the convenience and quality we offer for families.

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

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

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

Our online ordering program makes it easy for customers to skip the line and order ahead. Available for every location and accessible from elpollo.com or the El Pollo Loco mobile app, any order can be placed and paid for before arriving at the restaurant. During 2019, we made it easier for customers to access our food by renovating our website and adding Facebook messenger, Apple ABC chat and Alexa. For additional convenience, in September 2019 we added two third-party delivery services to our portfolio providing consumers a total of three platforms from which to order from us.

In 2004, we created El Pollo Loco Charities, a non-profit charity, to support the communities surrounding our restaurants. El Pollo Loco Charities has provided over 15,000 meals per year to underprivileged families, through organizations like Food on Foot, Habitat for Humanity, Children's Institute, and Court Appointed Special Advocates. In addition, during 2019 we enhanced our community outreach through several initiatives, including: 1) the implementation of a food donation program in which restaurants donate food that would otherwise be discarded; 2) committing to donate 75,000 tacos to charity as part of our "Buy One, Feed Many" National Taco Day promotion; 3) recruiting 500 company, franchise and customer volunteers to refresh a high school located in south Los Angeles; and 4) entering into a relationship with an Orange County-based organization to provide job opportunities for the homeless.

Purchasing and Distribution

Maintaining a high degree of quality in our restaurants depends in part on our ability to acquire fresh ingredients, and other necessary supplies that meet our specifications, from reliable suppliers. We regularly inspect our vendors to ensure that products purchased conform to our standards and that prices offered are competitive. We have a quality assurance team and third-party accredited auditors that perform comprehensive supplier audits on a frequency schedule based on the potential food safety risk for each product. We contract with McLane Company (our "primary distributor"), a major foodservice distributor, for substantially all of our food and supplies, including the poultry that our restaurants receive from suppliers. Our primary distributor delivers supplies to most of our restaurants three times per week. Our restaurants in Texas utilize regional distributors for produce. Our franchisees are required to use our primary distributor or an approved regional distributor, and franchisees must purchase food and supplies from approved suppliers. Poultry is our largest product cost item and represented approximately 40% of our total food and paper costs for 2019. Fluctuations in supply and in price can significantly impact our restaurant service and profit performance. We actively manage cost volatility for poultry by negotiating with multiple suppliers and entering into what we believe are the most favorable contract terms given existing market conditions. In the past, we have entered into contracts ranging from one to two years depending on current and expected market conditions. We currently source

poultry from six suppliers, with two accounting for approximately 64% of our planned purchases for fiscal 2020. We have fixed prices for 100% of our poultry supply through the end of 2020.

Intellectual Property

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

Competition

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

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

Environmental Matters

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

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

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

Regulation and Compliance

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

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

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

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

Management Information Systems

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

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

Employees

As of December 25, 2019, we had approximately 5,005 employees, of whom approximately 4,846 were hourly restaurant employees comprised of 3,980 crewmembers, 209 general managers/acting general managers, 171 assistant managers, 450 shift leaders, and 36 employees in limited-time roles as acting managers or as managers in training. The remaining 159 employees were corporate and office personnel. None of our employees are part of a collective bargaining agreement, and we believe that our relationships with our employees are satisfactory.

Seasonality

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

Available Information

We make available free of charge on our Internet website our Annual Reports, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our Internet address is www.elpollo.com. The

contents of our Internet website are not part of this annual report, and are not incorporated by reference. Our Internet address is provided as an inactive textual reference only.

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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

One of the key means to achieving our growth strategy is and will be through opening new restaurants and operating those restaurants on a profitable basis. We opened two new company-operated restaurants in fiscal 2019 and plan to open three to four in fiscal 2020. Our franchisees opened two new restaurants in fiscal 2019 and plan to open five to eight in fiscal 2020. The ability to open new restaurants is dependent upon a number of factors, many of which are beyond our control, including our and our franchisees' abilities to:

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

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

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

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

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

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

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

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

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

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

Food service businesses depend on consumer discretionary spending and are often affected by changes in consumer tastes, national, regional, and local economic conditions, and demographic trends. Factors such as traffic patterns, weather, fuel prices, local demographics, and the type, number, and locations of competing restaurants may adversely affect the performances of individual locations. In addition, economic downturns, inflation, or increased food or energy costs could harm the restaurant industry in general and our locations in particular. An outbreak of disease, epidemic or pandemic, or similar public threat, or fear of such an event, that negatively impacts consumer spending or consumers' willingness to dine out could have a material impact on our business, financial condition and operating results and could also adversely impact the economy generally. Adverse changes affecting consumer preferences or economic conditions within the restaurant industry or the economy more generally could reduce consumer transactions or impose practical limits on pricing that could harm our business, financial condition, results of operations, and cash flow. Further, there can be no assurance that consumers will continue to regard chicken-based or Mexican-inspired food favorably or that we will be able to develop new products that appeal to consumer preferences. Our business, financial condition, and results of operations depend in part on our ability to anticipate, identify, and respond to changing consumer preferences and economic conditions. See also "-A prolonged downturn could materially affect us in the future" below.

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

Our success is dependent upon continued customer acceptance of our Mexican-inspired food. Increases in tariffs, restrictions on trade, or other deterioration in American political or economic relations with Mexico, or a decrease in American consumers'

interest in Mexican-inspired food, could harm our brand and profitability. Additionally, changes in trade, labor, or immigration policy could raise our input prices, or reduce the supply of immigrants who are in many cases our customers or employees, diminishing our sales and increasing our labor costs.

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

Our company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 70.5% of our revenue in fiscal 2019 and approximately 69.2% in fiscal 2018. Adverse changes in demographic, unemployment, economic, or regulatory conditions in the greater Los Angeles area or in the State of California, including, but not limited to, enforcement policies for and changes in immigration law, have had and may continue to have material adverse effects on our business. We believe that an increase in unemployment would have a negative impact on transactions in our restaurants. As a result of our concentration in the greater Los Angeles area, we have been disproportionately affected by the above adverse economic conditions as compared to other national chain restaurants.

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

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

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

We intend to develop new restaurants in our existing markets, expand our footprint into adjacent markets and selectively enter into new markets. In order to build new restaurants, we must first identify markets where we can enter or expand our footprint, taking into account numerous factors, including the location of our current restaurants, local economic trends, population density, area demographics, cost of construction and real estate and geography. Then we must secure appropriate restaurant sites, which is one of our biggest challenges. There are numerous factors involved in identifying and securing an appropriate restaurant site, including:

- evaluating size of the site, traffic patterns, local retail, residential and business attractions and infrastructure that will drive high levels of customer traffic and sales;
- competition in new markets, including competition for restaurant sites;
- financial conditions affecting developers and potential landlords, such as the effects of macro-economic conditions and the credit market (including the potential for rising interest rates), which could lead to these parties delaying or canceling development projects (or renovations of existing projects), in turn reducing the number of appropriate restaurant sites available;
- developers and potential landlords obtaining licenses or permits for development projects on a timely basis;
- proximity of potential restaurant sites to existing restaurants;
- anticipated commercial, residential and infrastructure development near the potential restaurant site; and
- availability of acceptable lease terms and arrangements, including construction costs.

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

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

During fiscal 2019, we determined that the carrying value of assets at certain restaurants may not be recoverable. As a result, we recorded a \$3.6 million impairment expense primarily related to the carrying value of the right-of-use assets ("ROU asset") of four restaurants sold to franchisees during fiscal 2019, and the long-lived assets of one restaurant in California.

In fiscal 2018, we recorded a non-cash impairment charge of \$5.1 million, primarily related to the carrying value of four restaurants in Arizona, California and Texas, including a restaurant in Texas that opened in early 2018. In fiscal 2017, we recorded a non-cash impairment charge of \$32.6 million, primarily related to the carrying value of the assets of 23 restaurants in Arizona, California and Texas. The impairment expense for fiscal 2017 included an impairment expense of \$27.7 million, representing the entire value of capitalized assets of all of the company-operated restaurants in Texas, net of previously recorded depreciation. Factors which led to the impairment of our Texas restaurants included operating results, which indicated that the restaurants would not achieve the sales volumes required to generate positive cash flows or improve profitability in the Texas market, along with the related future cash flow assumptions, including comparable sales rate growth and restaurant operating costs, over the remaining lease terms and the age of the restaurants in Texas. The restaurants in Texas began opening in late 2014, causing a higher net book value at the time of impairment testing, and increased difficulty projecting results for newer restaurants in newer markets. Given the difficulty in projecting results for newer restaurants in newer markets, we are also monitoring the recoverability of the carrying value of the assets of several other restaurants on an ongoing basis. For those restaurants, if expected performance improvements are not realized, an impairment charge may be recognized in future periods, and such charge could be material. Asset impairments to new units or future capital expenditures could present additional exposure. Closures could also require additional expenditures. Furthermore, franchised unit closings could result in the loss of franchise revenue and have other adverse effects on us.

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

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

Our principal food product is chicken. In fiscal 2019, 2018, and 2017, the cost of chicken included in our product cost was approximately 10.9%, 11.0%, and 11.3%, respectively, of our revenue from company-operated restaurants. Material increases in the cost of chicken could materially and adversely affect our business, operating results, and financial condition. Changes in the cost of chicken can result from a number of factors, including seasonality, increases in the cost of grain, disease, and other factors that affect domestic and international supply of and demand for chicken products. Additionally, environmental and animal rights regulations or voluntary programs could increase the cost or supply of chicken and other foods. We often ask our suppliers to use fixed price contracts or other financial risk management strategies to reduce potential price fluctuations in the cost of chicken and other commodities. We have implemented menu price increases in the past to significantly offset increased chicken prices, due to competitive pressures and compressed profit margins. We may not be able to offset all or any portion of increased food and supply costs through higher menu prices in the future. If we implement further menu price increases in the future to protect our margins, average check size and restaurant transactions could be materially and adversely affected, at both company-operated and franchised restaurants.

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

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

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have a material adverse impact on our business.

There has been a widespread and dramatic increase in the use of social media platforms that allow users to access a broad audience of consumers and other interested persons. The availability of information on social media can be virtually immediate, as can its impact, and users of many social media platforms can post information without filters or checks on the accuracy of the content posted. Adverse information concerning our restaurants or brand, whether accurate or inaccurate, may be posted on such platforms at any time and can quickly reach a wide audience. The resulting harm to our reputation may be immediate, without affording us an opportunity to correct or otherwise respond to the information, and it is challenging to monitor and anticipate developments on social media in order to respond in an effective and timely manner. As a result, social media may exacerbate the risks we face related to negative publicity.

In addition, although search engine marketing, social media and other new technological platforms offer great opportunities to increase awareness of and engagement with our restaurants and brand, our failure to use social media effectively in our marketing efforts may further expose us to the risks associated with the accelerated impact of social media. Many of our competitors are expanding their use of social media and the social media landscape is rapidly evolving, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our social media strategies in order to maintain broad appeal with guests and brand relevance, and we may not do so effectively. A variety of additional risks associated with our use of social media include the possibility of improper disclosure of proprietary information, exposure of personally identifiable information of our employees or guests, fraud, or the publication of out-of-date information, any of which may result in material liabilities or reputational damage. Furthermore, any inappropriate use of social media platforms by our employees could also result in negative publicity that could damage our reputation, or lead to litigation that increases our costs.

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

For the year ended December 25, 2019, December 26, 2018 and December 27, 2017, 3.7%, 2.1% and 1.1% of our revenue was derived from digital and delivery orders, respectively. This growth rate may not be sustainable for even the short term, and if our digital business does not continue to expand it may be difficult for us to achieve our planned sales growth. We have also increased our efforts to promote delivery orders, which have also grown considerably. We rely on third-party providers to fulfill delivery orders, and the ordering and payment platforms used by these third parties, or our mobile app or online ordering system, could be damaged or interrupted by technological failures, user errors, cyber-attacks or other factors, which may adversely impact our sales through these channels and could negatively impact our brand. Additionally, our delivery partners are responsible for order fulfillment and may make errors or fail to make timely deliveries, leading to customer disappointment that may negatively impact our brand. We also incur additional costs associated with using third-party service providers to fulfil these digital orders. Moreover, the third-party restaurant delivery business is intensely competitive, with a number of players competing for market share, online traffic, capital, and delivery drivers and other people resources. The third-party delivery services with which we work may struggle to compete effectively, and if they were to cease or curtail operations or fail to provide timely delivery services in a cost-effective manner, or if they give greater priority on their platforms to our competitors, our delivery business may be negatively impacted. We have also introduced catering offerings on both a pick-up and delivery basis, and customers may choose our competitors' catering offerings over ours, be disappointed with their experience with our catering, or experience food safety problems if they do not serve our food in a safe manner, which may negatively impact us. Such delivery and catering offerings also increase the risk of illnesses associated with our food because the food is transported and/or served by third parties in conditions we cannot control.

Because all of these offerings are relatively new, it is difficult for us to anticipate the level of sales they may generate. That may result in operational challenges, both in fulfilling orders made through these channels and in operating our restaurants as we balance fulfillment of these orders with service of our traditional in-restaurant guests as well. Any such operational challenges may negatively impact the customer experience associated with our digital, delivery or catering orders, the guest experience for our traditional in-restaurant business, or both. These factors may adversely impact our sales and our brand reputation.

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

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

We cannot guarantee that our internal controls and training will be fully effective in preventing all food-borne illnesses. Additionally, no food safety protocols can completely eliminate the risk of food-borne illness in any restaurant, including as a result of possible failure by restaurant personnel or suppliers to follow food safety policies and procedures. Furthermore, our reliance on third-party food processors makes it difficult to monitor food safety compliance, and may increase the risk that a food-borne illness would affect multiple locations rather than a single restaurant. Some food-borne illness incidents could be caused by third-party food suppliers and transporters outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise that could cause claims or allegations on a retroactive basis. One or more instances of food-borne illness in one of our company-operated or franchised restaurants could negatively affect sales at all of our restaurants if highly publicized. This risk would exist even if it were later determined that an illness had been wrongly attributed to one of our restaurants. A number of other restaurant chains have experienced incidents related to food-borne illnesses that have had material adverse impacts on their operations, and we cannot guarantee that we could avoid a similar impact upon the occurrence of a similar incident at one of our restaurants. Additionally, even if food-borne illnesses were not identified at El Pollo Loco restaurants, our restaurant sales could be adversely affected, both financially and otherwise, if instances of food-borne illnesses at other restaurant chains were highly publicized. In addition, our restaurant sales could be adversely affected by publicity regarding other high-profile illnesses such as avian flu that customers may associate with our food products.

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

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

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

We have substantial debt service obligations. At December 25, 2019, our total debt was \$97.0 million, and we had \$44.6 million of credit available under our secured revolving credit facility, which was reduced by \$8.4 million from outstanding letters of credit.

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

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy, and other purposes;

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

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

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

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

Under our secured revolving credit facility, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to \$1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by our past or present officers, directors, or employees (or their estates) upon death, disability, or termination of employment, (ii) 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 our secured revolving credit facility.

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

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

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

We rely in part on our franchisees and the manner in which they operate their locations to develop and promote our business. As of December 25, 2019, our top 10 franchisees operated 68.6% of our franchised restaurants and two franchisees operated 34.5% of our franchised restaurants. Due to the continuing challenging economic environment, it is possible that some franchisees could file for bankruptcy or become delinquent in their payments to us, which could have significant adverse impacts on our business, due to loss or delay in payments of (i) royalties, (ii) information technology (“IT”) support service fees, (iii) contributions to our advertising funds, and (iv) other fees. Bankruptcies by our franchisees could (i) prevent us from terminating their franchise agreements, so that we could offer their territories to other franchisees, (ii) negatively impact our market share and operating results, as we might have fewer well-performing restaurants, and (iii) adversely impact our ability to attract new franchisees.

As of December 25, 2019, we had executed development agreements that represent commitments to open 54 franchised restaurants at various dates through 2028. Although we have developed criteria to evaluate and screen prospective developers and franchisees, we cannot be certain that the developers and franchisees that we select will have the business acumen or financial resources necessary to open and operate successful franchises in their franchise areas, and state franchise laws may limit our ability to terminate or modify these franchise arrangements. Moreover, franchisees may fail to operate their restaurants in fashions consistent with our standards and requirements, or to hire and train qualified managers and other restaurant personnel. Failures of developers and franchisees to open and operate franchises successfully could materially and adversely affect our reputation, brand, business, financial condition, results of operations, cash flows, and ability to attract prospective franchisees.

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

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

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

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

Our growth depends on maintaining amicable relations with our franchisees, including their participation in and adherence to our restaurant operating guidelines. Although we believe we generally enjoy a positive working relationship with our franchisees, they are independent business operators, and they may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under the franchise agreement. Because our ability to control our franchisees is limited, disagreement may lead to inaction by our franchisees with respect to our initiatives, or even disputes with our franchisees. We expect such disputes to occur from time to time as we continue to offer franchises due to our size and the general nature of the franchisor-franchisee relationship. Disputes between us and our franchisees, whether in court, arbitration or otherwise, could relate to either party’s actual or alleged violation of its contractual, statutory or common law obligations. Unfavorable judgments, awards or settlements relating to franchisee disputes could result in monetary or injunctive relief against us, including the voiding of non-compete, territorial exclusivity, or other development-related provisions upon which we rely to protect our brand. For example, in a recent suit where a franchisee challenged the enforceability of the territorial exclusivity clause in its franchise agreement with us, a jury found in favor of the franchisee. Although we are vigorously appealing the judgment, if this or similar clauses were held unenforceable, we could be negatively impacted. To the extent that we have such disputes, the attention, time, and financial resources of our management and our

franchisees may be diverted from our restaurants, which could have a material adverse effect on our (and our franchisees') business, financial condition, results of operations, and cash flows, as well as our ability to attract new franchisees. Even our success in franchisee disputes could damage our (or our franchisees') finances or operations, as well as our relationships with our franchisees and our ability to attract new franchisees given the negative connotations of any franchisor-franchisee disputes.

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

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

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

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

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

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

We accept electronic payment cards from our customers in our restaurants. Customers also have the ability to pay for online orders with their mobile phones using a stored value component built into our app. For the fiscal year ended December 25, 2019, approximately 56.3% of our sales were attributable to credit/debit card transactions, and credit/debit card usage could continue to increase. A number of restaurant operators and retailers have experienced actual or potential security breaches in which credit/debit card information may have been compromised or stolen. While we have taken reasonable steps to prevent the occurrence of security breaches in this respect, it is possible that these measures may not be adequate and we may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit/debit card information. We may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit/debit card information may be brought by payment card providers, banks, and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit), and federal and state regulators. Any such proceedings could distract our management team members from running our business and cause us to incur significant unplanned losses and expenses.

We also sell and accept for payment, El Pollo Loco gift cards, and our loyalty rewards program provides points that can be redeemed for purchases. Like credit and debit cards, gift cards and rewards points are vulnerable to theft, whether physical or electronic. We believe that our gift cards are primarily vulnerable to physical theft, as we have implemented gift card policies such as requiring a physical card to be presented when redeeming value from a gift card; however, there could be instances of

non-compliance with these policies. We believe that, due to their electronic nature, rewards points and payment information stored within our app are primarily vulnerable to hacking. Customers affected by any loss of data or funds could litigate against us, and security breaches or even unsuccessful attempts at hacking could harm our reputation, and guarding against or responding to hacks could require significant time and resources.

We also receive and maintain certain personal information about our customers and team members. The use of this information by us is regulated at the federal and state levels. If our security and information systems are compromised or our team members fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, as well as the results of operations, and could result in litigation against us or the imposition of penalties. In addition, our ability to accept credit/debit cards as payment in our restaurants and online depends on us maintaining our compliance status with standards set by the PCI Security Standards Council. These standards, set by a consortium of the major credit card companies, require certain levels of system security and procedures to protect our customers' credit/debit card information as well as other personal information. Privacy and information security laws and regulations change over time, including the California Consumer Privacy Act ("CCPA") which took effect January 1, 2020. The CCPA imposes new obligations on certain companies doing business in California with respect to the personal information of California residents. This includes new notice and privacy policy requirements, and new obligations to respond to requests to know and access to personal information, to delete personal information and to say no to the sale of personal information, which may impose significant costs on us.

Compliance with the CCPA and other legal and regulatory changes may result in cost increases due to necessary system and process changes. Further, while we have implemented policies and procedures to ensure compliance with the CCPA, the California Attorney General has not yet finalized his regulations for the CCPA and the manner in which the California Attorney General may interpret and enforce the CCPA is uncertain. Despite our diligent efforts, we may not be successful in complying with such regulations due to both internal and external factors. Noncompliance with the CCPA and other privacy laws could result in injunctions, fines and/or proceedings against us by governmental agencies or others. There could also be uncertainty surrounding compliance with privacy laws in other jurisdictions such as state-specific laws which may conflict with existing legislation or future laws and regulations.

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

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

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

In addition, any litigation to enforce our intellectual property rights will likely be costly and may not be successful. Although we believe that we have sufficient rights to all of our trademarks and service marks, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and could divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks or service marks in the future and may be liable for damages, which in turn could have a material adverse effect on our business, financial condition and results of operations.

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

Various federal, state and local labor laws govern our relationships with our employees and affect operating costs. These laws include employee classifications as exempt or non-exempt, minimum wage requirements, unemployment tax rates, workers' compensation rates, citizenship requirements, and other wage and benefit requirements for employees classified as non-exempt.

Significant additional government regulations and new laws mandating increases in minimum wages or benefits such as health insurance could materially affect our business, financial condition, operating results, and cash flow. Furthermore, the unionization of our employees and of the employees of our franchisees could materially affect our business, financial condition, operating results, and cash flow.

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

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

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

Our business is subject to the risk of litigation by employees, consumers, suppliers, stockholders, and others through private actions, class actions, administrative proceedings, regulatory actions, and other litigation. The outcome of litigations, particularly class and regulatory actions, is difficult to assess or quantify. In recent years, restaurant companies, including us, have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state laws regarding workplace and employment conditions, discrimination, and similar matters. A number of these lawsuits have resulted in payments of substantial damages by the defendants. Similar lawsuits have been instituted from time to time alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal deductions, overtime eligibility of managers, and failure to pay for all hours worked. In the past, we have been a party to wage and hour class action lawsuits and are currently a party to such lawsuits on behalf of purported classes. See additional information presented in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report.

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

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

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

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

We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state, or local minimum wage, and increases in the minimum wage will increase our labor costs and the labor costs of our franchisees. The California minimum wage rose to \$13.00 per hour on January 1, 2020, and is scheduled to rise to (i) \$14.00 per hour on January 1, 2021, and (ii) \$15.00 per hour on January 1, 2022, subject, in each case, to the governor's ability to pause any scheduled increase ("off-ramp" provisions) for one year if either economy or budget conditions are met. Initial determinations are to be made by the governor by August 1 of each year prior to a January increase. The governor makes the final determination by September 1. Thereafter, the state minimum wage is to be indexed annually for inflation.

Local minimum wages may exceed or ramp up faster than state levels. In particular, the minimum wage in the City of Los Angeles and the unincorporated areas of the County of Los Angeles is scheduled to rise to \$15.00 by July 1, 2020 in accordance with a June 2015 ordinance. On September 29, 2015, the Board of Supervisors of the County of Los Angeles adopted an ordinance amending the Los Angeles County Code and establishing a countywide minimum wage covering unincorporated areas of the county following the same schedule.

Other municipalities have followed and may continue to follow the trend of increasing local minimum wages exceeding state levels.

In 2019, approximately 70.5% of our revenue, excluding franchise advertising revenue, came from company-operated and franchised restaurants in the greater Los Angeles area, including 9.6% from the City of Los Angeles, 36.4% from other incorporated cities in the County of Los Angeles, and 1.3% from unincorporated areas of the County of Los Angeles. Those restaurants that are not directly covered by these ordinances may be covered by future ordinances, may face competitive or political pressures to match these wage levels, or may suffer from any regional economic distress caused by these ordinances.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming. Additionally, if consumer health regulations or consumer eating habits change significantly,

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

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

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

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

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

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

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

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

Our payments under the TRA may be material. As of December 25, 2019, we had an accrued payable related to this agreement of approximately \$8.2 million. In fiscal 2019, we paid \$5.8 million to our pre-IPO stockholders under the TRA.

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

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

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

A recent court judgment includes an injunction which could have an adverse impact on our business, financial conditions and results of operations in 2020 and beyond.

Our growth strategy depends in part on opening new restaurants in existing and new markets and expanding our franchise system. A key part of this expansion is our ability to enter into franchise agreements for restaurants to be located in certain desirable geographic areas. In a recent lawsuit in the Los Angeles Superior Court, an existing franchisee challenged our right to open new restaurants within a certain distance from that franchisee's existing restaurant. A jury found in favor of the franchisee and, among other things, the trial court issued an injunction requiring us to revise our franchise agreement and franchise disclosure document in a manner that limits our rights to open new restaurants within certain proximities of existing franchised restaurants. See additional information presented in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report. We are appealing that decision, and our motion to stay the injunctive relief was denied by the trial and appellate courts. We therefore are now required to use an amended franchise agreement and franchise disclosure document that includes the terms specified in the injunction, including constraints on the locations at which we can open new restaurants. Although most of the locations protected from development by the injunction are not in markets in which we had intended to open restaurants under our current growth strategy, nevertheless, and especially in existing markets with many franchised restaurants, the injunctive relief may adversely impact our growth, which may adversely affect our business, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

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

Trimaran Pollo Partners, L.L.C. ("LLC"), owns approximately 47.7% of our outstanding common stock. This large position means that LLC and its majority owners—predecessors and affiliates of, and certain funds managed by, Trimaran Capital Partners and Freeman Spogli & Co. (collectively, "Trimaran" and "Freeman Spogli," respectively)—possess significant influence when stockholders vote on matters such as election of directors, mergers, consolidations and acquisitions, the sale of all or substantially all of our assets, decisions affecting our capital structure, amendments to our certificate of incorporation or our by-laws, and our winding up and dissolution. So long as LLC maintains at least 40% ownership, (i) any member of the board of directors may be removed at any time without cause by affirmative vote of a majority of our common stock, and (ii) stockholders representing 40% or greater ownership may cause special stockholder meetings to be called. Currently, three of our nine directors, including our chairman, are affiliated with Trimaran or Freeman Spogli.

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

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

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

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

We do not expect to declare or pay any cash or other dividends in the foreseeable future on our common stock, because we intend to use cash flow generated by operations to grow our business. Our secured revolving credit facility restricts our ability to pay cash dividends on our common stock. We may also enter into other credit agreements or other borrowing arrangements in the future that restrict or limit our ability to pay cash dividends on our common stock. See “-Our level of indebtedness, and restrictions under our credit facility, could materially and adversely affect our business, financial condition, and results of operations.”

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could materially and adversely affect our business and the market price of our common stock.

Under the Sarbanes-Oxley Act, we must maintain effective disclosure controls and procedures and internal control over financial reporting, which require significant resources and management oversight. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. Matters impacting our internal controls may cause us to be unable to report our financial data on a timely basis, or may cause us to restate previously issued financial data, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in the market price for our common stock and impairing our ability to raise capital.

Additionally, as we are no longer an emerging growth company, as defined by the JOBS Act, our independent registered public accounting firm is required pursuant to Section 404(b) of the Sarbanes-Oxley Act to attest to the effectiveness of our internal control over financial reporting on an annual basis. If we cannot maintain effective disclosure controls and procedures or internal control over financial reporting, or our independent registered public accounting firm cannot provide an unqualified attestation report on the effectiveness of our internal control over financial reporting, investor confidence and, in turn, the market price of our common stock could decline.

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

The market price of our common stock has fluctuated and may continue to fluctuate, or may decline significantly in the future. Shares of our common stock were sold in our IPO in July 2014 at a price of \$15.00 per share, and our common stock has subsequently traded as high as \$41.70 and as low as \$9.05. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

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

- announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic relationships, joint ventures, or capital commitments; and
- general market, political, and economic conditions, including local conditions in the markets in which we operate.

These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. The stock market in general has from time to time experienced extreme price and volume fluctuations, including recently. In addition, in the past, following periods of volatility in the overall market and decreases in the market price of a company's securities, securities class action litigation has often been instituted against that company. We are currently defending against such litigation. See additional information presented in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report. Such litigation could result in substantial costs and a diversion of our management's attention and resources.

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

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

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

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

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that such sales could occur. LLC presently owns approximately 47.7% of our outstanding common stock and could sell stock publicly either if the stock were registered or if the exemption requirements of Rule 144 were satisfied. No lock-up agreements presently are in effect.

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

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

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

- provide for a classified board of directors with staggered three-year terms;
- do not permit cumulative voting in the election of directors, which would allow a minority of stockholders to elect director candidates;
- delegate the sole power to a majority of the board of directors to fix the number of directors;
- provide the power to our board of directors to fill any vacancy on our board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- authorize the issuance of "blank check" preferred stock without any need for action by stockholders;

- eliminate the ability of stockholders to call special meetings of stockholders;
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and
- provide that, on or after the date that LLC ceases to beneficially own at least 40% of the total votes eligible to be cast in the election of directors, a 75% supermajority vote will be required to amend or repeal provisions relating to, among other things, the classification of the board of directors, the filling of vacancies on the board of directors, and the advance notice requirements for stockholder proposals and director nominations.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 25, 2019, our restaurant system consisted of 482 restaurants, comprised of 195 company-operated restaurants and 287 franchised restaurants, located in California, Arizona, Nevada, Texas, Louisiana and Utah. In addition, we currently license our brand to one restaurant in the Philippines. We have not included this licensed restaurant as part of our unit count as presented in this annual report. The table below sets forth the locations (by state) for all restaurants in operation as of December 25, 2019.

State	Company-Operated	Franchised	Total
California	163	220	383
Nevada	22	5	27
Arizona	—	26	26
Texas	9	28	37
Utah	1	7	8
Louisiana	—	1	1
Total	195	287	482

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

Restaurant leases provide for a specified annual rent, and some leases call for additional or contingent rent based on revenue above specified levels. Generally, our leases are “net” leases that require us to pay a pro rata share of taxes, insurance, and maintenance costs. We own 15 properties, currently operating 12 and licensing 3 to franchisees. In addition, we operate 183 company-operated restaurants on leased real estate, an owned operating unit with additional parking on leased real estate, and have another 26 leased sites that are subleased or assigned to franchisees who operate El Pollo Loco restaurants. We also have eight closed units two of which are subleased for uses other than El Pollo Loco.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market Information

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

As of February 27, 2020, there were approximately 50 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered at such date and does not include holders of shares in "street name" or persons, partnerships, associates, corporations, or other entities in security position listings maintained by depositories.

Issuer Purchases of Equity Securities

On April 30, 2019, as part of the Company's focus on stockholder returns, the Board of Directors approved a new stock repurchase program. The Company entered into a stock repurchase plan on May 17, 2019 (the "2019 Stock Repurchase Plan"), which allowed for the repurchase up to \$30.0 million of the Company's common stock. The 2019 Stock Repurchase Plan commenced on June 27, 2019, and was exhausted on September 26, 2019.

The following table summarizes the Company's purchases of common stock under the 2019 Stock Repurchase Program and withholdings of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees related to awards under our compensation plans in the quarterly period ended December 25, 2019 (in thousands, except number of shares and per share amounts):

	Total Number of Shares Purchased ⁽¹⁾	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
September 26, 2019 to October 23, 2019	12,346	\$ 11.50	10,872	\$ —
October 24, 2019 to November 20, 2019	—	\$ —	—	\$ —
November 21, 2019 to December 25, 2019	—	\$ —	—	\$ —
Total	<u>12,346</u>		<u>10,872</u>	

⁽¹⁾ During the quarterly period ended December 25, 2019, the Company withheld 1,474 shares of common stock surrendered to the Company to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees related to awards under our compensation plans for total consideration of less than \$0.1 million.

Recent Sales of Unregistered Securities

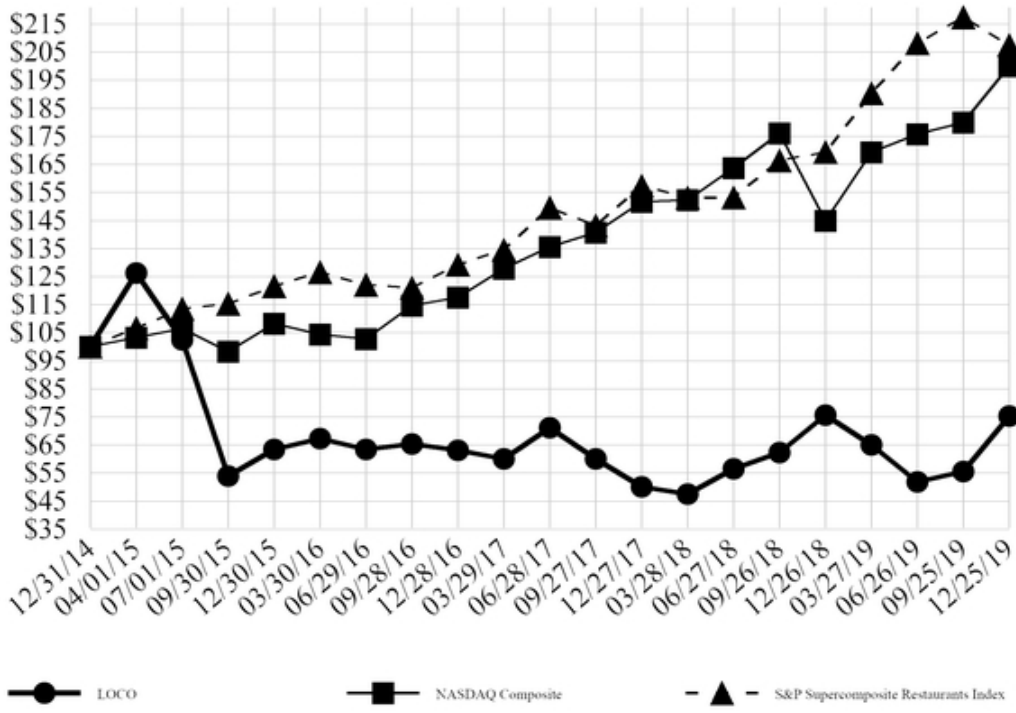
None.

Stock Performance Graph

The following graph and table illustrate the total cumulative shareholder return for (i) our common stock, (ii) the Nasdaq Composite Total Return Index and (iii) the Standard and Poor's Supercomposite Restaurants Index, for the five years ended December 25, 2019. The graph assumes the investment of \$100 at the beginning of the period (at the closing price on our first day of trading on July 25, 2014) of our common stock on December 31, 2014 and the reinvestment of all dividends. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

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

Stock Performance Graph



Date	LOCO	Nasdaq Composite	S&P Supercomposite Restaurants Index
December 31, 2014	\$ 100.00	\$ 100.00	\$ 100.00
April 1, 2015	\$ 126.24	\$ 103.35	\$ 106.65
July 1, 2015	\$ 102.50	\$ 106.47	\$ 113.59
September 30, 2015	\$ 53.98	\$ 98.39	\$ 115.34
December 30, 2015	\$ 63.50	\$ 108.21	\$ 121.61
March 30, 2016	\$ 67.35	\$ 104.35	\$ 126.61
June 29, 2016	\$ 63.45	\$ 102.76	\$ 122.09
September 28, 2016	\$ 65.40	\$ 114.69	\$ 121.01
December 28, 2016	\$ 63.09	\$ 117.64	\$ 129.28
March 29, 2017	\$ 60.09	\$ 127.93	\$ 134.59
June 28, 2017	\$ 71.11	\$ 135.61	\$ 149.56
September 27, 2017	\$ 60.09	\$ 140.73	\$ 143.21
December 27, 2017	\$ 50.08	\$ 151.73	\$ 157.37
March 28, 2018	\$ 47.57	\$ 152.36	\$ 153.16
June 27, 2018	\$ 56.58	\$ 163.65	\$ 153.20
September 26, 2018	\$ 62.34	\$ 176.09	\$ 166.41
December 26, 2018	\$ 75.61	\$ 144.85	\$ 169.41
March 27, 2019	\$ 65.10	\$ 169.40	\$ 190.38
June 26, 2019	\$ 51.90	\$ 175.79	\$ 208.19
September 25, 2019	\$ 55.48	\$ 179.99	\$ 217.41
December 25, 2019	\$ 75.36	\$ 200.03	\$ 207.48

ITEM 6. SELECTED FINANCIAL DATA

The following tables contain selected historical consolidated financial data as of and for the last five fiscal years, derived from our audited consolidated financial statements. Not all periods shown are discussed in this Annual Report. You should read these tables in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and our "Audited Consolidated Financial Statements" and accompanying "Notes to Consolidated Financial Statements" in this Annual Report (dollar and share amounts in thousands, except per share data).

	Fiscal Year				
	2019	2018	2017	2016	2015
Statements of Operations Data:					
Revenue					
Company-operated restaurant revenue ⁽¹⁾	\$ 391,112	\$ 388,835	\$ 376,615	\$ 355,468	\$ 332,040
Franchise revenue ⁽¹⁾	28,819	25,771	25,086	24,655	23,017
Franchise advertising fee revenue ⁽¹⁾	22,399	21,222	—	—	—
Total revenue	442,330	435,828	401,701	380,123	355,057
Cost of operations					
Food and paper costs	109,264	111,142	109,898	107,218	105,917
Labor and related expenses	116,703	112,417	106,584	97,471	84,231
Occupancy and other operating expenses	92,005	91,385	85,631	78,263	69,977
Gain on recovery of insurance proceeds, lost profits	—	—	—	(502)	—
Company restaurant expenses	317,972	314,944	302,113	282,450	260,125
General and administrative expenses	40,389	50,261	38,523	34,661	28,997
Legal settlements	—	36,258	—	—	—
Franchise expenses	27,612	24,429	3,335	3,823	3,456
Depreciation and amortization	17,855	17,825	18,128	16,053	13,092
Loss on disposal of assets	266	278	799	674	471
Expenses related to fire loss	—	—	—	48	—
Gain on recovery of insurance proceeds, property, equipment and expenses	—	—	—	(741)	—
Recovery of securities lawsuits related legal expenses	(10,000)	(8,356)	(1,666)	—	—
Impairment and closed-store reserves	4,852	9,650	33,645	8,554	92
Loss on disposition of restaurants	5,058	—	—	—	—
Total expenses	404,004	445,289	394,877	345,522	306,233
Gain on disposition of restaurants	—	—	—	28	—
Income (loss) from operations	38,326	(9,461)	6,824	34,629	48,824
Interest expense, net	3,687	3,502	3,278	3,155	3,707
Expenses related to selling shareholders	—	—	—	—	50
Income tax receivable agreement expense (income)	57	(761)	(5,570)	352	156
Income (loss) before provision (benefit) for income taxes	34,582	(12,202)	9,116	31,122	44,911
Provision (benefit) for income taxes	9,682	(3,208)	497	12,783	20,857
Net income (loss)	\$ 24,900	\$ (8,994)	\$ 8,619	\$ 18,339	\$ 24,054
Per Share Data:					
Net income (loss) per share					
Basic	\$ 0.68	\$ (0.23)	\$ 0.22	\$ 0.48	\$ 0.63
Diluted	\$ 0.67	\$ (0.23)	\$ 0.22	\$ 0.47	\$ 0.62
Weighted average shares used in computing net income (loss) per share					
Basic	36,739,209	38,574,553	38,453,347	38,357,805	37,949,316
Diluted	37,441,503	38,574,553	39,086,676	39,026,950	39,039,558

(1) On December 28, 2017 we adopted Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). Results for reporting periods beginning on or after December 28, 2017 are presented under Accounting Standards Codification (“ASC”) Topic 606 (“ASC 606”). Prior period amounts were not revised and continue to be reported in accordance with ASC Topic 605 (“ASC 605”), the accounting standard then in effect. See “Note 15 Revenue from Contracts with Customers” for further information.

	Fiscal Year				
	2019	2018	2017	2016	2015
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	\$ 36,135	\$ 45,442	\$ 53,671	\$ 49,299	\$ 57,971
Net cash used in investing activities	\$ (10,669)	\$ (27,802)	\$ (36,238)	\$ (35,202)	\$ (30,835)
Net cash used in financing activities	\$ (24,365)	\$ (19,221)	\$ (11,051)	\$ (18,030)	\$ (32,534)
Consolidated Balance Sheet Data—(at period end):					
Cash and cash equivalents	\$ 8,070	\$ 6,969	\$ 8,550	\$ 2,168	\$ 6,101
Net property ⁽¹⁾	\$ 91,778	\$ 104,145	\$ 102,794	\$ 118,470	\$ 102,421
Total assets ⁽²⁾	\$ 624,752	\$ 450,226	\$ 442,711	\$ 471,305	\$ 461,028
Total debt ^{(2), (3)}	\$ 97,000	\$ 74,184	\$ 93,316	\$ 104,461	\$ 123,638
Total stockholders' equity	\$ 245,566	\$ 265,236	\$ 274,950	\$ 265,182	\$ 244,633

- (1) Net property consists of property and equipment, net of accumulated depreciation and amortization.
- (2) On December 27, 2018 we adopted ASU No. 2016-02, "Leases (Topic 842)". Results for reporting periods beginning on or after December 27, 2018 are presented under Topic 842. Prior period amounts were not revised and continue to be reported in accordance with ASC Topic 840 ("Topic 840"), the accounting standard then in effect. See "Note 2. Summary of Significant Accounting Policies - Change in Accounting Policies" and "Note 5. Leases" for further information.
- (3) Total debt consists of borrowings under the 2018 Revolver and the 2014 Revolver (each, as defined below in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Other Obligations"), and our capital lease obligations in 2018 and prior.

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

The following discussion should be read in conjunction with "Item 6. Selected Financial Data," and our "Audited Consolidated Financial Statements" and accompanying "Notes to Consolidated Financial Statements" included elsewhere in this Annual Report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause actual results to differ materially from management's expectations. See "Forward-Looking Statements" and "Item 1A. Risk Factors" included elsewhere in this Annual Report. We assume no obligation to update any of these forward-looking statements.

Basis of Presentation

We use a 52- or 53-week fiscal year ending on the last Wednesday of each calendar year. Fiscal 2019, 2018, and 2017 ended on December 25, 2019, December 26, 2018 and December 27, 2017, respectively. In a 52-week fiscal year, each quarter includes 13 weeks of operations. In a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations, and the fourth quarter includes 14 weeks of operations. Approximately every six or seven years a 53-week fiscal year occurs. Fiscal 2019, 2018, and 2017 were 52-week fiscal years. 53-week years may cause revenues, expenses, and other results of operations to be higher due to the additional week of operations. Fiscal years are identified in this report according to the calendar years in which they ended. For example, references to fiscal 2019 refer to the fiscal year ended December 25, 2019.

Overview

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the LSR segment. We strive to offer food that integrates the culinary traditions of Mexico with the healthier lifestyle of Los Angeles, a combination that we call “LA-Mex”. 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 shrimp. Our entrees include favorites such as our Chicken Avocado Burrito, Under 500 Calorie entrees, chicken tostada salads, and Pollo Bowls. Our famous Creamy Cilantro dressings and salsas are prepared fresh daily, allowing our customers to create their favorite flavor profiles to enhance their culinary experience. Our distinctive menu with healthier alternatives appeals to consumers across a wide variety of socio-economic backgrounds and drives our balanced composition of sales throughout the day (our “day-part mix”), including at lunch and dinner.

Growth Strategies and Outlook

We plan to continue to expand our business, drive restaurant sales growth, enhance our competitive positioning, and improve our operations by executing our Transformation Agenda, which consists of the following four key strategies:

- Develop a people-first culture - invest in and grow our talent;
- Differentiate the brand - accentuate our strengths and build upon them;
- Simplify operations - make it easier for employees and franchisees to run our restaurants; and
- Grow the business - responsibly and profitably for the long term.

As of December 25, 2019, we had 482 locations in six states. In fiscal 2019, we opened two new company-operated restaurants and our franchisees opened two new restaurants all in California. In fiscal 2018, we opened eight new company-operated and nine new franchised restaurants across Arizona, California, Utah, Louisiana and Texas. In 2020, we intend to open three to four new company-operated and five to eight new franchised restaurants. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend.

Highlights and Trends

Comparable Restaurant Sales

In fiscal 2019, 2018, and 2017, comparable restaurant sales system-wide increased 2.0%, 1.2%, and 1.5%, respectively. Comparable restaurant sales growth reflects the change in year-over-year sales for the comparable restaurant base. A restaurant enters our comparable restaurant base the first full week after its 15-month anniversary. System-wide comparable restaurant sales include restaurant sales at all comparable company-operated restaurants and at all comparable franchised restaurants, as reported by franchisees. Comparable restaurant sales at company-operated restaurants increased 1.9% in fiscal 2019, 0.4% in fiscal 2018, and 1.0% in fiscal 2017. In fiscal 2019, the increase in company-operated comparable restaurant sales was primarily the result of an increase in average check size of 2.9%, partially offset by a decrease in transactions of 1.0%. The increase in average check includes a 3.6% benefit from gross menu price increases that were implemented during 2018 and 2019. In fiscal 2018, the increase in company-operated comparable restaurant sales was primarily the result of an increase in average check size of 1.4%, partially offset by a decrease in transactions of 1.0%. In fiscal 2017, the increase in company-operated comparable restaurant sales was driven by an increase in average check size of 1.9%, partially offset by a decrease in transactions of 0.9%. In fiscal 2019, 2018, and 2017, comparable restaurant sales at franchised restaurants increased 2.0%, 1.8%, and 1.8%, respectively.

Restaurant Development

In fiscal 2019, we opened two company-operated restaurants, and our franchisees opened two new restaurants. From time to time, we and our franchisees close restaurants. In fiscal 2019, we closed four restaurants and our franchisees closed two restaurants. Additionally, we sold 16 company-operated restaurants to franchisees. Our restaurant counts at the beginning and end of each of the last three years were as follows:

	Fiscal Year		
	2019	2018	2017
Company-operated restaurant activity:			
Beginning of period	213	212	201
Openings	2	8	16
Restaurant sale to franchisee	(16)	—	—
Closures	(4)	(7)	(5)
Restaurants at end of period	195	213	212
Franchised restaurant activity:			
Beginning of period	271	265	259
Openings	2	9	7
Restaurant sale to franchisee	16	—	—
Closures	(2)	(3)	(1)
Restaurants at end of period	287	271	265
Total restaurant activity:			
Beginning of period	484	477	460
Openings	4	17	23
Closures	(6)	(10)	(6)
Restaurants at end of period	482	484	477

As of December 25, 2019, together with our franchisees, we have remodeled 34 company-operated and 44 franchised restaurants using our newest Vision restaurant design. The Vision design elevates the brand image with exterior and interior features that embrace the brand's authentic roots with warm textures, rustic elements and a focus on the signature open kitchen layout established in previous designs. As of December 25, 2019, including new builds and remodels, we had 119 restaurants open with the "Vision" design in our system. Remodeling is a use of cash and has implications for our net property and depreciation line items on our consolidated balance sheets and statements of operations, among others. The cost of our restaurant remodels varies depending on the scope of work required, but on average the investment is \$0.3 to \$0.4 million per restaurant. We believe that our remodeling program will result in higher restaurant revenue and a strengthened brand. In addition, we are currently working on a new asset design that we believe will clearly differentiate and communicate our brand, both on the exterior and interior. We believe that this new design will deliver good new unit volumes and cash on cash returns in both existing and new markets. We also believe that our remodels using this new design will result in higher restaurant revenue and a strengthened brand. This new design replaces our "Vision" design, which was implemented in 2016.

Loco Rewards

During the second quarter of 2017, we introduced a new loyalty rewards points program in an effort to increase sales and loyalty among our customers, by offering rewards that incentivize customers to visit our restaurants more often each month. Customers earn 1 point for each \$1 spent and 100 points can be redeemed for a \$10 reward to be used for a future purchase. If a customer does not earn or use points within a one-year period, their account is deactivated and all points expire. Additionally, if a \$10 reward is not used within six months, it expires. When a customer is part of the rewards program, the obligation to provide future discounts related to points earned is considered a separate performance obligation, to which a portion of the transaction price is allocated. The performance obligation related to loyalty points is deemed to have been satisfied, and the amount deferred in the balance sheet is recognized as revenue, when the points are transferred to a \$10 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 point's terms.

In addition, customers can earn additional points and free entrées for a variety of engagement activities. As points are available for redemption past the quarter earned, a portion of the revenue associated with the earned points will be deferred until redemption or expiration. As of December 25, 2019, the amount of revenue deferred related to the earned points, net of redemptions, is \$1.1 million. The Company had more than 1.5 million loyalty program members as of December 25, 2019.

Key Financial Definitions

Revenue

Our revenue is derived from two primary sources: company-operated restaurant revenue and franchise related revenue. Beginning in fiscal 2018 with the adoption of Accounting Standards Update ("ASU") ASU 2014-09, franchise related revenue includes franchise advertising fee revenue representing advertising contributions received from franchisees and franchise revenue, which is comprised primarily of franchise royalties and, to a lesser extent, franchise fees and sublease rental income.

Food and Paper Costs

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

Labor and Related Expenses

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

Occupancy Costs and Other Operating Expenses

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

General and Administrative Expenses

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

Legal Settlements

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

Franchise Expenses

Franchise expenses prior to fiscal 2018 were primarily comprised of rent expenses incurred on properties leased by us and then sublet to franchisees, and expenses incurred in support of franchisee information technology systems. Beginning in fiscal 2018 with the adoption of ASU 2014-09, franchise expenses also include all expenses of the advertising fund representing the franchised restaurants portion of advertising expenses.

Depreciation and Amortization

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

Loss on Disposal of Assets

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

Impairment and Closed-Store Reserves

We review long-lived assets such as property, equipment, and intangibles, as well as ROU assets in a net asset position, on a unit-by-unit basis for impairment when events or circumstances indicate a carrying value of the assets that may not be

recoverable. We determine if there is impairment at the restaurant level by comparing undiscounted future cash flows from the related long-lived assets to their respective carrying values, and record an impairment charge when appropriate. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term, including sales trends, labor rates, commodity costs and other operating cost assumptions. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value. This process of assessing fair values requires the use of estimates and assumptions, including our ability to sell or reuse the related assets and market conditions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets and these charges could be material.

Prior to the adoption of Topic 842 "Leases," closure costs include non-cash restaurant charges such as up-front expensing of the net present value of unpaid rent remaining on the life of a lease, offset by assumed sublease income. Upon the adoption of Topic 842, the Company no longer recognizes a closed-store reserve when the Company closes a restaurant, as a lease liability related to the future lease payments is already recognized. Rather, when a restaurant is closed, the Company will evaluate the ROU asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense.

Loss on Disposition of Restaurants

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

Interest Expense, Net

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

Provision (Benefit) for Income Taxes

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

Results of Operations

Fiscal Year 2019 Compared to Fiscal Year 2018

Our operating results for the fiscal years ended December 25, 2019 and December 26, 2018, in absolute terms and expressed as a percentage of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below:

	Fiscal Year					
	2019 (52-Weeks)		2018 (52-Weeks)		Increase / (Decrease)	
	(\$,000)	(%)	(\$,000)	(%)	(\$,000)	(%)
Statements of Operations Data:						
Revenue						
Company-operated restaurant revenue	\$ 391,112	88.4	\$ 388,835	89.2	\$ 2,277	0.6
Franchise revenue	28,819	6.5	25,771	5.9	3,048	11.8
Franchise advertising fee revenue	22,399	5.1	21,222	4.9	1,177	5.5
Total revenue	442,330	100.0	435,828	100.0	6,502	1.5
Cost of operations						
Food and paper costs (1)	109,264	27.9	111,142	28.6	(1,878)	(1.7)
Labor and related expenses (1)	116,703	29.8	112,417	28.9	4,286	3.8
Occupancy and other operating expenses (1)	92,005	23.5	91,385	23.5	620	0.7
Company restaurant expenses (1)	317,972	81.3	314,944	81.0	3,028	1.0
General and administrative expenses	40,389	9.1	50,261	11.5	(9,872)	(19.6)
Legal settlements	—	—	36,258	8.3	(36,258)	(100.0)
Franchise expenses	27,612	6.2	24,429	5.6	3,183	13.0
Depreciation and amortization	17,855	4.0	17,825	4.1	30	0.2
Loss on disposal of assets	266	0.1	278	0.1	(12)	(4.3)
Recovery of securities lawsuits related legal expenses	(10,000)	(2.3)	(8,356)	(1.9)	(1,644)	19.7
Impairment and closed-store reserves	4,852	1.1	9,650	2.2	(4,798)	(49.7)
Loss on disposition of restaurants	5,058	1.1	—	—	5,058	N/A
Total expenses	404,004	91.3	445,289	102.2	(46,343)	(9.3)
Income (loss) from operations	38,326	8.7	(9,461)	(2.2)	47,787	(505.1)
Interest expense, net	3,687	0.8	3,502	0.8	185	5.3
Income tax receivable agreement expense (income)	57	0.0	(761)	(0.2)	818	(107.5)
Income (loss) before provision for income taxes	34,582	7.8	(12,202)	(2.8)	46,784	(383.4)
Provision (benefit) for income taxes	9,682	2.2	(3,208)	(0.7)	12,890	(401.8)
Net income (loss)	\$ 24,900	5.6	\$ (8,994)	(2.1)	\$ 33,894	(376.9)

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

Company-Operated Restaurant Revenue

In fiscal 2019, company-operated restaurant revenue increased \$2.3 million, or 0.6%, due to \$7.6 million of additional sales from restaurants opened during or after the first quarter of the prior year. In addition, company-operated revenue was favorably impacted by an increase in company-operated comparable restaurant sales of \$7.0 million, or 1.9%, and an increase in other revenue of \$0.6 million. The growth in company-operated comparable restaurant sales was due primarily to an increase in average check size of 2.9%, partially offset by a decline in transactions of 1.0%, compared to the prior year. The increase in average check includes a 3.6% benefit from gross menu price increases that were implemented during 2018 and 2019. The increase in company-operated restaurant revenue was partially offset by \$12.9 million of net impact of lost sales from restaurants closed in fiscal 2019 and 2018, and the 16 company-operated restaurants sold by the Company to franchisees during the 2019.

Franchise Revenue

In fiscal 2019, franchise revenue increased \$3.0 million, or 11.8%. This increase was primarily due to higher fees received from franchised restaurants related to their use of our point-of-sales system, a franchise comparable restaurant sales increase of 2.0%, the opening of 11 new franchised restaurants during or after the first quarter of the prior year and 16 company-operated restaurants sold by the Company to franchisees during the year. This franchise revenue increase was partially offset by the closure of five franchise locations during the same period.

Franchise Advertising Fee Revenue

Franchise advertising fee revenue increased, which is paid as a percentage of the franchise restaurants' net sales, \$1.2 million, or 5.5% from the comparable period in the prior year. This increase was primarily due to an increase in the number of franchise locations and increased franchise comparable restaurant sales.

Food and Paper Costs

Food and paper costs decreased \$1.9 million, or 1.7%, in fiscal 2019, due to a \$1.8 million decrease in food costs and a \$0.1 million decrease in paper costs. The decrease in food and paper costs resulted primarily from lower company transactions, partially offset by higher commodity inflation. Food and paper costs as a percentage of company-operated restaurant revenue were 27.9% in fiscal 2019, compared to 28.6% in fiscal 2018. This percentage decrease was due primarily to an increase in pricing, partially offset by commodity inflation.

Labor and Related Expenses

Payroll and benefit expenses increased \$4.3 million, or 3.8% in fiscal 2019. This increase was due primarily to additional labor needs arising from the opening of two new restaurants in fiscal 2019 and eight new restaurants in fiscal 2018, minimum wage increases in California and, specifically, Los Angeles, and higher workers' compensation expense due to increased claims activity, partially offset by a reduction in labor for restaurant closures and locations sold to franchisees in fiscal 2019 and 2018. Payroll and benefit expenses as a percentage of company-operated restaurant revenue were 29.8% in fiscal 2019, compared to 28.9% in fiscal 2018. This increase was primarily due to the wage increases noted above, partially offset by higher restaurant revenue from increases in pricing.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased \$0.6 million, or 0.7%, in fiscal 2019. This increase for the year-to-date period was due to a \$1.1 million increase in customer order delivery fees due to increased delivery orders, a \$0.2 million increase in repair and maintenance costs and a \$0.2 million increase in utilities costs. These increases were partially offset by a \$0.8 million decrease in advertising costs and a \$0.1 million decrease in other operating expenses. Occupancy and other operating expenses as a percentage of company-operated restaurant revenue was 23.5% for both fiscal 2019 and fiscal 2018, primarily due to the higher costs noted above, offset by increased pricing.

General and Administrative Expenses

General and administrative expenses decreased \$9.9 million, or 19.6%, in fiscal 2019. The decrease for the year-to-date period was due primarily to (i) a \$10.2 million decrease in legal expenses related primarily to a decrease in securities class action litigation costs, (ii) a \$0.5 million decrease in restaurant pre-opening costs, (iii) a \$0.3 million decrease in travel expense and (iv) a \$0.3 million decrease in recruiting costs. These decreases were partially offset by a \$0.6 million increase in labor related costs, primarily related to an increase in estimated management bonus expenses, a \$0.5 million increase in stock compensation expenses and a \$0.3 million increase in other general and administrative expenses. General and administrative expenses as a percentage of total revenue were 9.1% in fiscal 2019, compared to 11.5% in fiscal 2018. This decrease is primarily due to the cost decreases noted above.

Legal Settlements

Legal settlements decreased \$36.3 million in fiscal 2019. The decrease was due to (i) an accrual in 2018 of a settlement amount in fiscal 2019 related to an agreement in principle to settle all claims and allegations for the securities class action as discussed in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report and (ii) an accrual in 2018 of an expected settlement amount related to an agreement in principle to settle all claims and allegations related to multiple wage and hour class action suits as discussed in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report.

Franchise Expenses

Franchise expenses increased \$3.2 million, or 13.0%, in fiscal 2019. The increase for the year-to-date period was primarily due to increase in expenses initially paid by the Company on behalf of the franchisee, and subsequently reimbursed by the

franchisee. Specifically, related to advertising expenses, rent expense for locations sub-leased and the franchisee use of our point-of-sale system.

Impairment and Closed-Store Reserves

During fiscal 2019, we determined that the carrying value of ROU assets and long-lived assets at certain restaurants may not be recoverable. As a result, we recorded a \$3.6 million impairment expense primarily related to the carrying value of the ROU assets of four restaurants sold to franchisees and one restaurant closed during fiscal 2019, and the long-lived assets of one restaurant in California.

During fiscal 2018, we determined that the carrying value of assets at certain restaurants may not be recoverable. As a result, we recorded a \$5.1 million impairment expense primarily related to four restaurants, in Arizona, California and Texas, including a restaurant in Texas that opened in early 2018.

During fiscal 2018, we closed seven restaurants in Arizona, California and Texas. These closures resulted in closed-store reserve expenses of \$4.5 million during fiscal 2018.

Subsequent to the adoption of Topic 842, the Company no longer recognizes a closed-store reserve when the Company closes a restaurant, as there is already a lease liability on its books related to the future lease payments. Rather, when a restaurant is closed, the Company will evaluate the ROU Asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU Asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense.

During the fiscal 2019, the Company closed two restaurants in California and two in Texas and recognized \$1.3 million of closed-store reserve expense for fiscal 2019, primarily related to the amortization of ROU assets for the closed stores.

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

Interest Expense, Net

For fiscal 2019, net interest expense, increased by \$0.2 million, primarily due to higher outstanding balances on our 2018 Revolver (as defined below), partially offset by interest income received related to the interest rate swap entered into during fiscal 2019. See "Note 6, Long-Term Debt, Interest Rate Swap."

Income Tax Receivable Agreement

In fiscal 2019 we recognized income tax receivable agreement expense of \$0.1 million as a result of changes to future forecasted results. In 2018, we incurred income tax receivable agreement income of \$0.8 million, resulting from changes to future forecasted results and timing of the deductibility of certain temporary differences including the current year legal settlement accrual. In fiscal 2019 and 2018, we paid \$5.8 million and \$7.3 million, respectively, to our pre-IPO stockholders under the TRA.

Provision for Income Taxes

In fiscal 2019, we recorded an income tax expense of \$9.7 million, compared to income tax benefit of \$3.2 million in fiscal 2018, reflecting an estimated effective tax rate of 28.0% and 26.3%, respectively. The higher effective tax rate in 2019 resulted primarily from an increase in disallowed executive compensation under section 162(m) and a decrease in benefit from Workers Opportunity Tax Credit relative to pretax book income. In addition, there was a \$1.0 million valuation allowance against our deferred tax assets recorded in each of fiscal 2018 and fiscal 2017. The valuation allowance against our deferred tax assets resulted from certain tax credits that may not be realizable prior to the time the credits expire.

Fiscal Year 2018 Compared to Fiscal Year 2017

Our operating results for the fiscal years ended December 26, 2018 and December 27, 2017, in absolute terms and expressed as a percentage of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below:

	Fiscal Year					
	2018 (52-Weeks)		2017 (52-Weeks)		Increase / (Decrease)	
	(\$,000)	(%)	(\$,000)	(%)	(\$,000)	(%)
Statements of Operations Data:						
Revenue						
Company-operated restaurant revenue	\$ 388,835	89.2	\$ 376,615	93.8	\$ 12,220	3.2
Franchise revenue	25,771	5.9	25,086	6.2	685	2.7
Franchise advertising fee revenue	21,222	4.9	—	—	21,222	N/A
Total revenue	435,828	100.0	401,701	100.0	34,127	8.5
Cost of operations						
Food and paper costs (1)	111,142	28.6	109,898	29.2	1,244	1.1
Labor and related expenses (1)	112,417	28.9	106,584	28.3	5,833	5.5
Occupancy and other operating expenses (1)	91,385	23.5	85,631	22.7	5,754	6.7
Company restaurant expenses (1)	314,944	81.0	302,113	80.2	12,831	4.2
General and administrative expenses	50,261	11.5	38,523	9.6	11,738	30.5
Legal settlements	36,258	8.3	—	—	36,258	N/A
Franchise expenses	24,429	5.6	3,335	0.8	21,094	632.5
Depreciation and amortization	17,825	4.1	18,128	4.5	(303)	(1.7)
Loss on disposal of assets	278	0.1	799	0.2	(521)	(65.2)
Recovery of securities lawsuits related legal expenses	(8,356)	(1.9)	(1,666)	(0.4)	(6,690)	401.6
Impairment and closed-store reserves	9,650	2.2	33,645	8.4	(23,995)	(71.3)
Total expenses	445,289	102.2	394,877	98.3	50,412	12.8
(Loss) income from operations	(9,461)	(2.2)	6,824	1.7	(16,285)	(238.6)
Interest expense, net	3,502	0.8	3,278	0.8	224	6.8
Income tax receivable agreement income	(761)	(0.2)	(5,570)	(1.4)	4,809	(86.3)
(Loss) income before provision for income taxes	(12,202)	(2.8)	9,116	2.3	(21,318)	(233.9)
(Benefit) provision for income taxes	(3,208)	(0.7)	497	0.1	(3,705)	(745.5)
Net (loss) income	\$ (8,994)	(2.1)	\$ 8,619	2.1	\$ (17,613)	(204.4)

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

Company-Operated Restaurant Revenue

In fiscal 2018, company-operated restaurant revenue increased \$12.2 million, or 3.2%, due to \$16.3 million of additional sales from new restaurants. In addition, company-operated revenue was favorably impacted by an increase in company-operated comparable restaurant sales of \$1.6 million, or 0.4%. The increase in average check includes a 2.1% benefit from gross menu price increases that were implemented during 2017 and 2018. The growth in company-operated comparable restaurant sales was due primarily to an increase in average check size of 1.4%, partially offset by a decline in transactions of 1.0%, compared to the prior year. The increase in company-operated restaurant revenue was partially offset by \$5.3 million of net impact of lost sales from closed restaurants in fiscal 2018 and 2017, and a \$0.4 million decrease in other revenue.

Franchise Revenue

In fiscal 2018, franchise revenue increased \$0.7 million, or 2.7%. This increase was due primarily to an increase in franchised comparable restaurant sales of 1.8%, and higher sales revenue resulting from additional franchise units. This was partially offset by a decline in franchise agreement and development agreement fees and lower levels of rent received from franchised restaurants related to their use of our owned or leased properties.

Franchise Advertising Fee Revenue

Beginning in fiscal 2018, we implemented ASU 2014-09, which requires us to present franchise advertising contributions received from franchisees as franchise advertising fee revenue and record all expenses of the advertising fund within franchise expenses, resulting in an increase in revenues and expenses on our consolidated statements of operations. As such, franchise revenue increased \$21.2 million, from the comparable period in the prior year, as this was the first year of implementation. Refer to the Consolidated Financial Statements, "Note 15, Revenue from Contracts with Customers", in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for further details.

Food and Paper Costs

Food and paper costs increased \$1.2 million in fiscal 2018, due to a \$0.6 million increase in food costs and a \$0.6 million increase in paper costs. This increase was due primarily to higher restaurant revenue. Food and paper costs as a percentage of company-operated restaurant revenue were 28.6% in fiscal 2018, compared to 29.2% in fiscal 2017. This percentage decrease was due primarily to higher restaurant revenues due to increases in pricing.

Labor and Related Expenses

Payroll and benefit expenses increased \$5.8 million in fiscal 2018. This increase was due primarily to additional labor needs arising from the opening of eight new restaurants in fiscal 2018 and 16 new restaurants in fiscal 2017 (partially offset by reduced labor for restaurant closures in fiscal 2018 and 2017), minimum wage increases in California and Los Angeles, and higher group insurance costs due to increased claims activity. Payroll and benefit expenses as a percentage of company-operated restaurant revenue were 28.9% in fiscal 2018, compared to 28.3% in fiscal 2017. This increase was primarily due to the wage increases noted above, partially offset by higher restaurant revenue from increases in pricing.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased \$5.8 million in fiscal 2018. This increase for the year-to-date period was due to a \$1.8 million increase in occupancy costs, due primarily to additional rent and property tax, a \$1.3 million increase in other controllable costs, resulting primarily from an increase in operating supply costs and trash collection costs, a \$1.0 million increase in advertising costs and a \$0.8 million increase in other operating expenses, resulting primarily from an increase in credit card fees and customer order delivery fees. The increases in fiscal 2018 were partially due to new restaurant openings during or after the first quarter of 2017. Occupancy and other operating expenses as a percentage of company-operated restaurant revenue was 23.5% in fiscal 2018, compared to 22.7% in fiscal 2017. This increase is primarily due to the higher costs noted above.

General and Administrative Expenses

General and administrative expenses increased \$11.7 million in fiscal 2018. The increase was due primarily to (i) an \$8.7 million increase in legal expense primarily related to the securities class action as discussed in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report, (ii) a \$1.4 million increase in payroll expense due primarily to an increase in our accrual for our annual bonus program and an increase in severance costs related to executive terminations, (iii) a \$0.9 million increase in stock compensation related expenses, primarily related to the stock modification discussed in "Note 11. Stock-Based Compensation" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report and (iv) a \$0.5 million increase in other professional fees, primarily related to general internal audit control development and effectiveness testing as well as additional tax services during 2018. These increases were partially offset by a \$1.1 million decrease in new restaurant opening costs. General and administrative expenses as a percentage of total revenue was 11.5% in fiscal 2018, compared to 9.6% in fiscal 2017. This increase is primarily due to the higher costs noted above.

Legal Settlements

Legal settlements increased \$36.3 million in fiscal 2018. The increase was due to (i) an accrual of an expected settlement amount in fiscal 2018 related to an agreement in principle to settle all claims and allegations for the securities class action as discussed in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report and (ii) an accrual of an expected settlement amount in fiscal 2018 related to an agreement in principle to settle all claims and allegations related to multiple wage and hour class action suits as discussed in "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report.

Franchise Expenses

Beginning in fiscal 2018, we implemented ASU 2014-09, which requires us to present franchise advertising contributions received from franchisees as franchise advertising fee revenue and record all expenses of the advertising fund within franchise expenses, resulting in an increase in revenues and expenses on our consolidated statements of income. As such, franchise expenses increased by \$21.1 million, from the comparable period in the prior year, representing the presentation of advertising fund expenses within franchise expenses as this was the first year of implementation. Refer to the Consolidated Financial Statements, "Note 15, Revenue from Contracts with Customers", in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report for further details.

Impairment and Closed-Store Reserves

During fiscal 2018, we determined that the carrying value of assets at certain restaurants may not be recoverable. As a result, we recorded a \$5.1 million impairment expense primarily related to four restaurants, in Arizona, California and Texas, including a restaurant in Texas that opened in early 2018. During fiscal 2017, we determined that the carrying value of the assets of 21 restaurants, in Arizona, California and Texas, may not be recoverable. Additionally, we made a strategic decision to close two additional restaurants in Texas. As a result, we recorded a \$32.6 million impairment expense. The impairment expense for fiscal 2017 included an impairment expense of \$27.7 million, representing the entire remaining value of capitalized assets of all of our company-operated restaurants in Texas, net of previously recorded depreciation. Factors which led to the impairment of our Texas restaurants included operating results, which indicated that the restaurants did not achieve the sales volumes required to generate positive cash flows or improve profitability in the Texas market, along with the related future cash flow assumptions, including comparable sales rate growth and restaurant operating costs, over the remaining lease terms and the age of the restaurants in Texas. The restaurants in Texas began opening in late 2014, causing a higher net book value at the time of impairment testing, and increased difficulty projecting results for newer restaurants in newer markets.

During fiscal 2018, we closed seven restaurants in Arizona, California and Texas. These closures resulted in closed-store reserve expenses of \$4.5 million during fiscal 2018. During fiscal 2017, we closed four restaurants in Texas, one of which was fully impaired during the fourth quarter of 2016, one of which was fully impaired during the third quarter of 2016 and the other two were fully impaired in fiscal 2017. Additionally, we closed one restaurant in Arizona, which was fully impaired in the third quarter of 2016. These closures resulted in closed-store reserve expenses of \$1.1 million during fiscal 2017.

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

Interest Expense, Net

For fiscal 2018, interest expense, net increased by \$0.2 million primarily due to an increase in the interest rate on our revolving debt during 2018.

Income Tax Receivable Agreement

In fiscal 2018, we recognized income tax receivable agreement income of \$0.8 million as a result of changes to future forecasted results and the timing of the deductibility of certain temporary differences including the current year legal settlement accruals. In 2017 we incurred income tax receivable agreement income of \$5.6 million, resulting from the amortization of interest expense related to our total expected TRA payments, changes to future forecasted results, the reduction of the expected TRA liability as a result of the impact of the Tax Cuts and Jobs Act (the "Tax Act") on the corporate tax rate on future years, and expected realization of various pre-IPO tax credits. In fiscal 2018 and 2017, we paid \$7.3 million and \$11.1 million, respectively, to our pre-IPO stockholders under the TRA.

Provision for Income Taxes

In fiscal 2018, we recorded an income tax expense of \$3.2 million, compared to income tax expense of \$0.5 million in fiscal 2017, reflecting an estimated effective tax rate of 26.3% and 5.5%, respectively. The lower effective tax rate in 2017 resulted

primarily from the Tax Act enacted on December 22, 2017. The Tax Act had the following effects on our income tax expense for the year ended December 27, 2017:

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

In addition, there was a \$1.0 million valuation allowance against our deferred tax assets recorded in each of fiscal 2018 and 2017. The valuation allowance against our deferred tax assets resulted from certain tax credits that may not be realizable prior to the time the credits expire.

Key Performance Indicators

To evaluate the performance of our business, we utilize a variety of financial and performance measures. These key measures include company-operated restaurant revenue, system-wide sales, comparable restaurant sales, company-operated average unit volumes ("AUV"), restaurant contribution, restaurant contribution margin, new restaurant openings, EBITDA, and Adjusted EBITDA. In fiscal 2019, our restaurants generated company-operated restaurant revenue of \$391.1 million and system-wide sales of \$894.5 million, and system comparable sales increased 2.0%, consisting of company-operated restaurant comparable sales growth of 1.9% and franchised comparable sales growth of 2.0%. The company-operated comparable sales increase consisted of a 2.9% check growth, partially offset by a 1.0% transaction decrease. In fiscal 2019, for company-operated restaurants, our annual AUV was \$1.9 million, restaurant contribution margin was 18.7%, and Adjusted EBITDA was \$62.5 million.

Company-Operated Restaurant Revenue

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

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

System-Wide Sales

System-wide sales are neither required by, nor presented in accordance with, accounting principles generally accepted in the United States of America ("GAAP"). System-wide sales are the sum of company-operated restaurant revenue and sales from franchised restaurants. Our total revenue in our consolidated statements of operations 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:

(Dollar amounts in thousands)	Fiscal Year		
	2019	2018	2017
Company-operated restaurant revenue	\$ 391,112	\$ 388,835	\$ 376,615
Franchise revenue	28,819	25,771	25,086
Franchise advertising fee revenue	22,399	21,222	—
Total Revenue	442,330	435,828	401,701
Franchise revenue	(51,218)	(46,993)	(25,086)
Sales from franchised restaurants	503,413	479,574	465,149
System-wide sales	\$ 894,525	\$ 868,409	\$ 841,764

Comparable Restaurant Sales

Comparable restaurant sales reflect year-over-year sales changes for comparable company-operated, franchised, and system-wide restaurants. A restaurant enters our comparable restaurant base the first full week after it has operated for fifteen months. Comparable restaurant sales exclude restaurants closed during the applicable period. At December 25, 2019, December 26, 2018 and December 27, 2017, there were 460, 449, and 424 comparable restaurants, 195, 195, and 181 company-operated and 265, 254 and 243 franchised, respectively. Comparable restaurant sales indicate the performance of existing restaurants, since new restaurants are excluded. Comparable restaurant sales growth can be generated by an increase in the number of meals sold and/or by increases in the average check amount, resulting from a shift in menu mix and/or higher prices resulting from new products or price increases.

Company-Operated Average Unit Volumes

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

Restaurant Contribution and Restaurant Contribution Margin

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

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

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

(Dollar amounts in thousands)	Fiscal Year		
	2019	2018	2017
Restaurant contribution:			
Income (loss) from operations	\$ 38,326	\$ (9,461)	\$ 6,824
Add (less):			
General and administrative expenses	40,389	50,261	38,523
Legal settlements	—	36,258	—
Franchise expenses	27,612	24,429	3,335
Depreciation and amortization	17,855	17,825	18,128
Loss on disposal of assets	266	278	799
Franchise revenue	(28,819)	(25,771)	(25,086)
Franchise advertising fee revenue	(22,399)	(21,222)	—
Recovery of securities lawsuits related legal expenses	(10,000)	(8,356)	(1,666)
Impairment and closed-store reserves	4,852	9,650	33,645
Loss on sale of restaurants	5,058	—	—
Restaurant contribution	\$ 73,140	\$ 73,891	\$ 74,502
Company-operated restaurant revenue:			
Total revenue	\$ 442,330	\$ 435,828	\$ 401,701
Less:			
Franchise revenue	(28,819)	(25,771)	(25,086)
Franchise advertising fee revenue	(22,399)	(21,222)	—
Company-operated restaurant revenue	\$ 391,112	\$ 388,835	\$ 376,615
Restaurant contribution margin (%)	18.7%	19.0%	19.8%

New Restaurant Openings

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

EBITDA and Adjusted EBITDA

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

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

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

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

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

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

	Fiscal Year		
	2019	2018	2017
Net income (loss)	\$ 24,900	\$ (8,994)	\$ 8,619
Non-GAAP adjustments:			
Provision (benefit) for income taxes	9,682	(3,208)	497
Interest expense, net	3,687	3,502	3,278
Depreciation and amortization	17,855	17,825	18,128
EBITDA	\$ 56,124	\$ 9,125	\$ 30,522
Stock-based compensation expense (a)	2,474	1,278	1,056
Loss on disposal of assets (b)	266	278	799
Recovery of securities lawsuits related legal expense (c)	(10,000)	(8,356)	(1,666)
Impairment and closed-store reserves (d)	4,852	9,650	33,645
Loss on disposition of restaurants (e)	5,058	—	—
Legal settlements (f)	—	36,258	—
Income tax receivable agreement expense (income) (g)	57	(761)	(5,570)
Securities class action legal expense (h)	3,181	13,532	4,236
Pre-opening costs (i)	366	837	1,981
Executive transition costs (j)	151	1,081	284
Adjusted EBITDA	\$ 62,529	\$ 62,922	\$ 65,287

- (a) Includes non-cash, stock-based compensation, excluding stock-based compensation costs associated with the transition of our former CEO.
- (b) Loss on disposal of assets includes the loss on disposal of assets related to retirements and replacement or write-off of leasehold improvements or equipment.
- (c) In fiscal 2019, we received insurance proceeds of \$10.0 million related to the settlement of the securities class action lawsuit and in fiscal 2018 we received insurance proceeds of \$8.4 million related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report.

- (d) Includes costs related to impairment of long-lived and ROU assets and closing restaurants. During fiscal 2019, we recorded impairment charges of \$3.6 million for the year ended December 25, 2019, primarily related to the carrying value of the ROU assets of four restaurants sold to franchisees and one restaurant closed during fiscal 2019, and the long-lived assets of one restaurant in California. Additionally, during fiscal 2019, we closed two restaurants in California and two restaurants in Texas and recognized \$1.3 million of closed-store reserve expense for the fiscal year ended 2019, primarily related to the amortization of ROU assets for closed stores.
- In fiscal 2018, we recorded a non-cash impairment charge of \$5.1 million, primarily related to the carrying value of four restaurants in Arizona, California and Texas, including a restaurant in Texas that opened in early 2018. Additionally, during fiscal 2018, we closed seven restaurants in Texas, California and Arizona. These closures resulted in closed-store reserve expenses of \$4.5 million during fiscal 2018.
- In fiscal 2017, we recorded a non-cash impairment charge of \$32.6 million, primarily related to the carrying value of the assets of 23 restaurants in Arizona, California and Texas. The impairment expense for fiscal 2017 includes an impairment expense of \$27.7 million, representing the entire value of capitalized assets of all of the company-operated restaurants in Texas, net of previously recorded depreciation. Additionally, during fiscal 2017, we closed four restaurants in Texas, one of which was fully impaired during the fourth quarter of 2016, one of which was impaired during the third quarter of 2016 and the other two were impaired in fiscal 2017. Additionally, we closed one restaurant in Arizona, which was fully impaired in the third quarter of 2016. These closures resulted in closed-store reserve expenses of \$1.1 million during fiscal 2017.
- (e) During fiscal 2019, we completed the sale of four company-operated restaurants within the San Francisco area to an existing franchisee, seven company-operated restaurants in the Phoenix area to another existing franchisee and five company-operated restaurants in Texas to a third franchisee, which resulted in cash proceeds of \$4.8 million and a net loss on sale of restaurants of \$5.1 million for the year ended December 25, 2019.
- (f) Legal settlements of \$36.3 million in fiscal 2018 included (i) an accrual of an expected settlement amount in fiscal 2018 related to an agreement in principle to settle all claims and allegations for the securities class action and (ii) an accrual of an expected settlement amount in fiscal 2018 related to an agreement in principle to settle all claims and allegations, related to multiple wage and hour class action suits. For additional information on legal settlements, see "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report.
- (g) On July 30, 2014, we entered into the income tax receivable agreement ("TRA"). This agreement calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the years ended December 25, 2019 and December 26, 2018, income tax receivable agreement expense (income) consisted of the amortization of interest expense and changes to future forecasted results and the timing of deductibility of certain timing differences, including for fiscal 2018 the legal settlement accruals, related to our total expected TRA payments. For fiscal 2017, the income tax receivable agreement income was primarily due to the Tax Cuts and Jobs Act (the "Tax Act"), and the resulting changes to the Federal corporate income tax rate.
- (h) Consists of costs related to the defense of securities lawsuits. See "Note 13. Commitments and Contingencies—Legal Matters" in the accompanying "Notes to Consolidated Financial Statements" in this Annual Report.
- (i) Pre-opening costs are a component of general and administrative expenses, and consist of costs directly associated with the opening of new restaurants and incurred prior to opening, including management labor costs, staff labor costs during training, food and supplies used during training, marketing costs, and other related pre-opening costs. These are generally incurred over the three to five months prior to opening. Pre-opening costs also include occupancy costs incurred between the date of possession and the opening date for a restaurant.
- (j) Includes costs associated with the transition of our CEO, such as executive recruiting costs and stock-based compensation costs associated with the transition of our former CEO in 2018.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources have been cash provided from operations, cash and cash equivalents, and our secured revolving credit facility. Our primary requirements for liquidity and capital are new restaurants, existing restaurant capital investments (remodels and maintenance), legal defense costs, lease obligations, interest payments on our debt, working capital and general corporate needs. Our working capital requirements are not significant, since our customers pay for their purchases in cash or by payment card (credit or debit) at the time of sale. Thus, we are able to sell many of our inventory items

before we have to pay our suppliers. Our restaurants do not require significant inventories or receivables. We believe that these sources of liquidity and capital are sufficient to finance our continued operations and expansion plans for at least the next 12 months from the issuance of the consolidated financial statements.

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

(Amounts in thousands)	Fiscal Year		
	2019	2018	2017
Net cash provided by (used in)			
Operating activities	\$ 36,135	\$ 45,442	\$ 53,671
Investing activities	(10,669)	(27,802)	(36,238)
Financing activities	(24,365)	(19,221)	(11,051)
Net increase (decrease) in cash and cash equivalents	\$ 1,101	\$ (1,581)	\$ 6,382

Operating Activities

In fiscal 2019, net cash provided by operating activities decreased by \$9.3 million compared to fiscal 2018. This was due primarily to unfavorable working capital fluctuations.

In fiscal 2018, net cash provided by operating activities decreased by \$8.2 million compared to fiscal 2017. This was due primarily to unfavorable working capital fluctuations.

Investing Activities

In fiscal 2019, net cash used in investing activities decreased by \$17.1 million compared to fiscal 2018. This was due to a decrease of \$12.4 million in capital expenditure spending, due primarily to opening two new company-operated restaurants in fiscal 2019, compared to eight new restaurants in fiscal 2018, and cash proceeds of \$4.8 million related to the sale of four company-operated restaurants within the San Francisco area to an existing franchisee and seven company-operated restaurants in the Phoenix area to another existing franchisee. In fiscal 2019, we incurred capital expenditures of approximately \$15.4 million, consisting of \$6.6 million related to new restaurants, \$2.4 million related to the remodeling of existing restaurants, and \$6.4 million related to major maintenance and other corporate capital expenditures. Capital expenditures for these periods exclude unpaid purchases of property and equipment.

In fiscal 2018, net cash used in investing activities decreased by \$8.4 million compared to fiscal 2017. This was due to a decrease in capital expenditure spending, due primarily to opening eight new company-operated restaurants in fiscal 2018, compared to 16 new restaurants in fiscal 2017. In fiscal 2018, we incurred capital expenditures of approximately \$27.8 million, consisting of \$14.6 million related to new restaurants, \$6.3 million related to the remodeling of existing restaurants, and \$6.9 million related to major maintenance and other corporate capital expenditures. Capital expenditures for these periods exclude unpaid purchases of property and equipment.

Financing Activities

In fiscal 2019, net cash used by financing activities increased by \$5.1 million compared to fiscal 2018. This was due primarily to an increase in repurchases of common stock of \$47.4 million and a decrease in proceeds received from stock option exercises of \$0.4 million in fiscal 2019 compared to fiscal 2018, partially offset by an increase in net borrowings on our revolving debt of \$42.7 million.

In fiscal 2018, net cash used by financing activities increased by \$8.2 million compared to fiscal 2017. This was due primarily to an increase in net prepayments on our revolving debt of \$8.7 million and an increase in repurchases of common stock of \$1.0 million which were partially offset by an increase in proceeds received from stock option exercises of \$1.7 million in fiscal 2018 compared to fiscal 2017.

Debt and Other Obligations

Current Credit Agreement

On July 13, 2018, the Company refinanced its credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto (the "2014 Revolver") pursuant to a credit agreement (the "2018 Credit Agreement") among El Pollo Loco, Inc. ("EPL"), our indirect wholly owned operating subsidiary, as borrower, and the Company and EPL Intermediate, Inc. ("Intermediate"), Holdings' direct subsidiary, as guarantors, Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a \$150.0 million five-year senior secured revolving credit facility (the

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

Borrowings under the 2018 Revolver (other than any swingline loans) bear interest, at the borrower’s option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the published Bank of America prime rate, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.25% to 2.25%, and for base rate loans the margin is in the range of 0.25% to 1.25%. For borrowings under the 2018 Revolver during fiscal 2019, the interest rate range was 3.2% to 6.0%. For borrowings under both the 2014 Revolver and the 2018 Revolver during fiscal 2018, the interest rate range was 3.3% to 4.0%. The interest rate under the 2018 Revolver was 3.2% at December 25, 2019 and 4.0% under the 2018 Revolver at December 26, 2018.

The 2018 Credit Agreement contains certain financial covenants. The Company was in compliance with all such covenants at December 25, 2019. See the “Notes to the Consolidated Financial Statements,” “Note 1, Description of Business” for restrictions on the payment of dividends under the 2018 Credit Agreement. At December 25, 2019, \$8.4 million of letters of credit and \$97.0 million of the revolving line of credit were outstanding. The amount available under the revolving line of credit was \$44.6 million at December 25, 2019.

During the year ended December 25, 2019, we entered into an interest rate swap with a notional amount of \$40.0 million, related to the outstanding borrowings under our 2018 Revolver. The interest rate swap was designated as a cash flow hedge and effectively converted a portion of our outstanding borrowings to a fixed rate of 2.81%. The interest rate swap matures in June 2023.

Contractual Obligations

The following table represents our contractual commitments to make future payments pursuant to our debt and other obligations disclosed above and pursuant to our restaurant operating leases outstanding as of December 25, 2019:

(Amounts in thousands)	Payments Due by Period				
	Total	2020	2021-2022	2023-2024	2025 and thereafter
Operating leases	\$ 259,171	\$ 26,808	\$ 50,849	\$ 42,060	\$ 139,454
Finance leases	153	54	99	—	—
Long-term debt ⁽¹⁾	109,461	3,150	6,207	100,104	—
Income tax receivable agreement	8,236	4,935	2,292	1,009	—
Purchasing commitments—chicken	25,185	25,185	—	—	—
Total	\$ 402,206	\$ 60,132	\$ 59,447	\$ 143,173	\$ 139,454

(1) Includes expected interest expenses, calculated based on applicable interest rates at December 25, 2019.

Off-Balance Sheet Arrangements

At December 25, 2019, December 26, 2018, and December 27, 2017, we had \$8.4 million, \$8.5 million, and \$8.1 million, respectively, of borrowing capacity on the 2018 Revolver or 2014 Revolver pledged as collateral to secure outstanding letters of credit.

Critical Accounting Policies and Use of Estimates

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

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. Management believes that the critical accounting policies and estimates discussed below involve the most difficult management judgments, due to the sensitivity of

the methods and assumptions used. Our significant accounting policies are described in "Note 2. Summary of Significant Accounting Policies" in the accompanying "Notes to Consolidated Financial Statements" included elsewhere in this Annual Report.

Revenue Recognition

We record revenue from company-operated restaurants as food and beverage products are delivered to customers and payment is tendered at the time of sale. We present sales net of sales-related taxes and promotional allowances. In the case of gift card sales, we record revenue when the gift card is redeemed by the customer. We record royalties from franchised restaurant sales based on a percentage of restaurant revenues in the period that the related franchised restaurants' revenues are earned. Prior to the adoption of ASU 2014-09, the Company's accounting policy was to recognize initial franchise fees, development fees, and franchise agreement renewals when all material obligations had been performed and conditions were satisfied, typically when operations of the franchised restaurant commenced. In accordance with the terms of the new guidance in ASU 2014-09 adopted for fiscal 2018, the initial franchise services, or exclusivity of the development agreements, are not distinct from the continuing rights or services offered during the term of the franchise agreement and will, therefore, be treated as a single performance obligation. As such, initial franchise and development fees received, and subsequent renewal fees, will be recognized over the franchise, or renewal, term, which is typically 20 years. For additional information regarding the adoption of ASU 2014-09, see "Note 2. Summary of Significant Accounting Policies" and "Note 15. Revenue from Contracts with Customers" in our accompanying "Notes to Consolidated Financial Statements" included in "Item 8. Financial Statements and Supplementary Data" in this Annual Report.

Goodwill and Indefinite-Lived Intangible Assets, Net

Intangible assets consist primarily of goodwill and trademarks.

We do not amortize our goodwill and indefinite-lived intangible assets. We perform an annual impairment test for goodwill during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. For our annual goodwill impairment assessment at December 25, 2019, we performed a qualitative assessment and concluded that the fair value of the reporting unit to which goodwill was assigned exceeded our book equity. Accordingly, we did not identify any goodwill impairment.

We perform an annual impairment test for indefinite-lived intangible assets during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. For our impairment test for indefinite-lived intangible assets at December 25, 2019, we performed a qualitative assessment and concluded that the fair value of the indefinite-lived intangible assets exceeded their carrying value and that there was no impairment.

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

Long-Lived Assets

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

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

projected undiscounted future cash flows used in our impairment review analysis. If actual performance does not achieve the projections, we may recognize impairment charges in future periods, and such charges could be material.

Insurance Reserves

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

Accounting for Lease Obligations

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

In the first quarter of fiscal 2019, we adopted Topic 842. In applying the requirements of Topic 842 we 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 our contracts contain a lease, we made assumptions and judgments related to our ability to direct the use of any assets stated in the contract and the likelihood of renewing any short-term contracts for a period extending past twelve months. We also 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. We utilized a third-party valuation firm to assist in determining the discount rate, based on the above assumptions. For all other leases, we used the discount rate implicit in the lease, or the Company's incremental borrowing rate.

Franchise Operations

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

Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. As of December 25, 2019, we had federal and state net operating loss ("NOL") carryforwards of \$8.6 million and less than \$0.1 million, respectively. These Federal and State NOLs expire beginning in 2033 and 2028, respectively.

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

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

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

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

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

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

On July 30, 2014, we entered into the TRA. The TRA calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. We are permitted to make TRA payments under the 2018 Revolver. In fiscal 2019, we recognized an expense of \$0.1 million as a result of changes to future forecasted results. In fiscal 2018, we recognized a benefit of \$0.8 million, as a result of changes to future forecasted results and the timing of the deductibility of certain temporary differences including the current year legal settlement accruals. In fiscal 2017, we recognized a benefit of \$5.6 million, related to the amortization of the present value of the TRA obligation, the impact of the Tax Act on the corporate tax rate on future years, and an adjustment to the expected TRA liability, due to the expected realization of various pre-IPO tax credits.

In addition, in fiscal 2014, we applied for various tax credits that resulted in \$6.7 million of additional deferred tax assets and tax benefits. As of fiscal 2019, the deferred asset balance related to these various tax credits, net of valuation allowance was \$3.3 million. The fiscal 2019 provision includes a \$6.0 million valuation allowance against our deferred tax asset, resulting from certain tax credits that may not be realizable prior to the time the credits expire. Also, in fiscal 2019, federal work opportunity tax credits (“WOTC”) of approximately \$0.3 million were generated.

Stock-Based Compensation

We measure and recognize compensation expense for the estimated fair value of equity instruments for employees and non-employee directors based on the grant-date fair value of the award. For awards that are based on a service requirement, the cost is recognized on a straight-line basis over the requisite service period, usually the vesting period. In fiscal 2019, the Company granted 323,900 stock options and 299,052 restricted stock awards, with an exercise price equal to the fair market value of the common stock on the date of grant. The awards granted in fiscal 2019, 2018 and 2017 had a four-year vesting period for employees and three-year vesting period for directors. Included in the fiscal 2018 restricted stock award grants were 72,116 performance share units which have a five-year term. Performance share units are granted at fair market value on the date of grant and are subject to service-based and market-based vesting conditions. For stock options that were based on performance requirements, costs were recognized over the periods to which the performance criteria related. As of December 25, 2019, there were no remaining performance-based stock options outstanding. In order to calculate our stock options’ fair values and the associated compensation costs for share-based awards, we utilize the Black-Scholes option pricing model.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in "Note 2. Summary of Significant Accounting Policies" in our accompanying "Notes to Consolidated Financial Statements" included in this Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risk from changes in interest rates on our debt, which bears interest at USD LIBOR plus a margin between 1.25% and 2.25%. As of December 25, 2019, we had outstanding borrowings of \$97.0 million related to our 2018 Revolver and another \$8.4 million of letters of credit in support of our insurance programs and the applicable margin on outstanding borrowings under 2018 Revolver was 1.5%. In addition, there is currently uncertainty around whether LIBOR will continue to exist after 2021. If LIBOR ceases to exist, we may need to enter into an amendment to the 2018 Credit Agreement and we cannot predict what alternative index would be negotiated with our lenders. If our lenders have increased costs due to changes in LIBOR, 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. After giving effect to the \$40.0 million of interest rate swaps, we effectively had \$57.0 million of long-term debt subject to variations in interest rates and a one percent increase in the variable rate of interest would increase annual interest expense by \$0.6 million.

We manage our interest rate risk through normal operating and financing activities and, when determined appropriate, through the use of derivative financial instruments. To balance our portfolio, we entered into an interest rate swap during the year ended December 25, 2019 with a notional amount of \$40.0 million, related to the outstanding borrowings under our 2018 Revolver. The interest rate swap was designated as a cash flow hedge and effectively converted a portion of our outstanding borrowings to a fixed rate of 2.81%. The interest rate swap matures in June 2023.

Inflation

Inflation has an impact on food, paper, construction, utility, labor and benefits, general and administrative, and other costs, all of which can materially impact our operations. We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state, or local minimum wage, and increases in the minimum wage will increase our labor costs. On January 1, 2018, the State of California (where most of our restaurants are located) minimum wage rose to \$11.00 per hour, and on January 1, 2019 and on January 1, 2020, it was increased to \$12.00 per hour and \$13.00 per hour, respectively. We also do substantial business in locales such as the City of Los Angeles and the County of Los Angeles. On July 1, 2018 and July 1, 2019, the minimum wage in the City of Los Angeles increased to \$13.25 per hour and \$14.25 per hour, respectively. Starting July 1, 2020, the minimum wage in the City of Los Angeles will increase to \$15.00 per hour. For details, see "Item 1A. Risk Factors—Risks Related to Our Business and Industry—If we or our franchisees face labor shortages or increased labor costs, our results of operations and growth could be adversely affected." In general, we have been able to substantially offset cost increases resulting from inflation by increasing menu prices, managing menu mix, improving productivity, or making other adjustments. We may not be able to offset cost increases in the future.

Commodity Price Risk

We are exposed to market price fluctuation in food product prices. Given the historical volatility of certain of our food product prices, including chicken, other proteins, grains, produce, dairy products, and cooking oil, these fluctuations can materially impact our food and beverage costs. While our purchasing commitments partially mitigate the risk of such fluctuations, there is no assurance that supply and demand factors such as disease or inclement weather will not cause the prices of the commodities used in our restaurant operations to fluctuate. In periods where the prices of commodities drop, we may pay higher prices under our purchasing commitments. In rapidly-fluctuating commodities markets, it may prove difficult for us to adjust our menu prices in accordance with input price fluctuations. Therefore, to the extent that we do not pass along cost increases to our customers, our results of operations may be adversely affected. At this time, we do not use financial instruments to hedge our commodity risk. See "Item 1A. Risk Factors—Risks Related to Our Business and Industry—Changes in food and supply costs, especially for chicken, could adversely affect our business, financial condition and results of operations," and "Note 13. Commitments and Contingencies—Purchase Commitments" in our accompanying "Notes to Consolidated Financial Statements" included in this Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

EL POLLO LOCO HOLDINGS, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of El Pollo Loco Holdings, Inc. (the "Company") as of December 25, 2019 and December 26, 2018, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 25, 2019 and December 26, 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 25, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 6, 2020, expressed an unqualified opinion thereon.

Change in Accounting Method Related to Leases and Revenue

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of Accounting Standards Codification ("ASC") 842 - *Leases*.

As discussed in Notes 2 and 15 to the consolidated financial statements, the Company has changed its method of accounting for revenues in 2018 due to the adoption of ASC 606 - *Revenue from Contracts with Customers*.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

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

Costa Mesa, California

March 6, 2020

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

	December 25, 2019	December 26, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,070	\$ 6,969
Accounts and other receivables, net	8,505	9,599
Inventories	2,009	2,479
Prepaid expenses and other current assets	5,718	2,998
Income tax receivable	376	—
Total current assets	24,678	22,045
Property and equipment, net	91,778	104,145
Property held under finance lease, net	—	16
Property held under operating leases, net (ROU Asset)	192,395	—
Goodwill	248,674	248,674
Trademarks, net	61,888	61,888
Other intangible assets, net	—	280
Deferred tax assets	3,709	11,709
Other assets	1,630	1,469
Total assets	\$ 624,752	\$ 450,226
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under finance leases	\$ 34	\$ 68
Current portion of obligations under operating leases	16,406	—
Accounts payable	5,627	9,564
Accrued salaries and benefits	8,618	7,574
Accrued insurance	9,440	7,076
Accrued income taxes payable	—	71
Accrued interest	302	149
Current portion of income tax receivable agreement payable	4,935	6,637
Other accrued expenses and current liabilities	28,597	51,764
Total current liabilities	73,959	82,903
Revolver loan	97,000	74,000
Obligations under finance leases, net of current portion	83	116
Obligations under operating leases, net of current portion	197,492	—
Deferred taxes	1,672	—
Other intangible liabilities, net	—	642
Income tax receivable agreement payable, net of current portion	3,301	7,305
Other noncurrent liabilities	5,679	20,024
Total liabilities	379,186	184,990
Commitments and contingencies (Note 13)		
Stockholders' Equity		
Preferred stock, \$0.01 par value—100,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.01 par value—200,000,000 shares authorized; 35,126,582 and 39,009,451 shares issued and outstanding as of December 25, 2019 and December 26, 2018, respectively	351	390
Additional paid-in capital	330,950	375,734
Accumulated deficit	(85,988)	(110,888)

Accumulated other comprehensive income	253	—
Total stockholders' equity	<u>245,566</u>	<u>265,236</u>
Total liabilities and stockholders' equity	<u>\$ 624,752</u>	<u>\$ 450,226</u>

See notes to consolidated financial statements.

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

For the Years Ended	December 25, 2019	December 26, 2018	December 27, 2017
Revenue			
Company-operated restaurant revenue	\$ 391,112	\$ 388,835	\$ 376,615
Franchise revenue	28,819	25,771	25,086
Franchise advertising fee revenue	22,399	21,222	—
Total revenue	442,330	435,828	401,701
Cost of operations			
Food and paper costs	109,264	111,142	109,898
Labor and related expenses	116,703	112,417	106,584
Occupancy and other operating expenses	92,005	91,385	85,631
Company restaurant expenses	317,972	314,944	302,113
General and administrative expenses	40,389	50,261	38,523
Legal settlements	—	36,258	—
Franchise expenses	27,612	24,429	3,335
Depreciation and amortization	17,855	17,825	18,128
Loss on disposal of assets	266	278	799
Recovery of securities lawsuits related legal expenses	(10,000)	(8,356)	(1,666)
Impairment and closed-store reserves	4,852	9,650	33,645
Loss on disposition of restaurants	5,058	—	—
Total expenses	404,004	445,289	394,877
Income (loss) from operations	38,326	(9,461)	6,824
Interest expense, net	3,687	3,502	3,278
Income tax receivable agreement expense (income)	57	(761)	(5,570)
Income (loss) before provision (benefit) for income taxes	34,582	(12,202)	9,116
Provision (benefit) for income taxes	9,682	(3,208)	497
Net income (loss)	\$ 24,900	\$ (8,994)	\$ 8,619
Net income (loss) per share:			
Basic	\$ 0.68	\$ (0.23)	\$ 0.22
Diluted	\$ 0.67	\$ (0.23)	\$ 0.22
Weighted average shares used in computing net income (loss) per share:			
Basic	36,739,209	38,574,553	38,453,347
Diluted	37,441,503	38,574,553	39,086,676

See notes to consolidated financial statements.

EL POLLO LOCO HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands)

	December 25, 2019	December 26, 2018	December 27, 2017
Net income (loss)	\$ 24,900	\$ (8,994)	\$ 8,619
Other comprehensive income (loss)			
Changes in derivative instruments			
Unrealized gains arising during the period from interest rate swap	430	—	—
Reclassifications of gains into net income	(84)	—	—
Income tax	(93)	—	—
Other comprehensive income, net of taxes	253	—	—
Comprehensive income (loss)	<u>\$ 25,153</u>	<u>\$ (8,994)</u>	<u>\$ 8,619</u>

See notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance, December 28, 2016	38,473,772	\$ 385	\$ 371,843	\$ (107,046)	\$ —	\$ 265,182
Stock-based compensation	—	—	1,056	—	—	1,056
Issuance of common stock related to restricted shares, net	170,417	2	(2)	—	—	—
Issuance of common stock upon exercise of stock options	17,661	—	93	—	—	93
Net income	—	—	—	8,619	—	8,619
Balance, December 27, 2017	38,661,850	387	372,990	(98,427)	—	274,950
Cumulative effect of accounting change (see Note 2)	—	—	—	(3,467)	—	(3,467)
Stock-based compensation	—	—	2,005	—	—	2,005
Issuance of common stock related to restricted shares, net	155,229	1	(1)	—	—	—
Issuance of common stock upon exercise of stock options	269,549	3	1,834	—	—	1,837
Shares repurchased for employee tax withholdings	(10,768)	—	(114)	—	—	(114)
Repurchase of common stock	(66,409)	(1)	(980)	—	—	(981)
Net loss	—	—	—	(8,994)	—	(8,994)
Balance, December 26, 2018	39,009,451	390	375,734	(110,888)	—	265,236
Stock-based compensation	—	—	2,474	—	—	2,474
Issuance of common stock related to restricted shares, net	309,404	2	(2)	—	—	—
Issuance of common stock upon exercise of stock options	234,728	2	1,448	—	—	1,450
Shares repurchased for employee tax withholdings	(31,397)	—	(365)	—	—	(365)
Repurchase of common stock	(4,395,604)	(43)	(48,339)	—	—	(48,382)
Other comprehensive income, net of income tax	—	—	—	—	253	253
Net income	—	—	—	24,900	—	24,900
Balance, December 25, 2019	35,126,582	\$ 351	\$ 330,950	\$ (85,988)	\$ 253	\$ 245,566

See notes to consolidated financial statements.

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

<u>For the Years Ended</u>	<u>December 25, 2019</u>	<u>December 26, 2018</u>	<u>December 27, 2017</u>
Cash flows from operating activities			
Net income (loss)	\$ 24,900	\$ (8,994)	\$ 8,619
Adjustments to reconcile changes in net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	17,855	17,825	18,128
Stock-based compensation expense	2,474	2,005	1,056
Income tax receivable agreement expense (income)	57	(761)	(5,570)
Loss on disposition of restaurants	5,058	—	—
Loss on disposal of assets	266	278	799
Impairment of property, equipment and ROU Asset	3,559	5,147	32,594
Closed-store reserves	—	4,503	1,051
Amortization of deferred financing costs	251	280	304
Amortization of other intangible assets, net	—	(47)	(119)
Deferred income taxes, net	9,578	(3,428)	250
Changes in operating assets and liabilities:			
Accounts and other receivables, net	1,094	(2,387)	(294)
Inventories	338	(190)	(177)
Prepaid expenses and other current assets	(2,727)	(319)	425
Income taxes receivable/payable	(448)	37	(85)
Other assets	(412)	122	47
Accounts payable	(3,192)	482	1,088
Accrued salaries and benefits	1,044	235	1,585
Accrued insurance	2,364	1,225	407
Payment related to tax receivable agreement	(5,764)	(7,272)	(11,109)
Other accrued expenses and liabilities	(20,160)	36,701	4,547
Restricted cash	—	—	125
Net cash flows provided by operating activities	36,135	45,442	53,671
Cash flows from investing activities			
Proceeds from disposition of restaurants	4,770	—	—
Purchase of property and equipment	(15,439)	(27,802)	(36,238)
Net cash flows used in investing activities	(10,669)	(27,802)	(36,238)
Cash flows from financing activities			
Proceeds from borrowings on revolver and swingline loans	42,000	13,307	8,000
Payments on revolver and swingline loan	(19,000)	(33,000)	(19,000)
Minimum tax withholdings related to net share settlements	(365)	(114)	—
Proceeds from issuance of common stock upon exercise of stock options, net of expenses	1,450	1,837	93
Payment of obligations under finance leases	(68)	(132)	(144)
Deferred financing costs for revolver loan	—	(138)	—
Repurchases of common stock	(48,382)	(981)	—
Net cash flows used in financing activities	(24,365)	(19,221)	(11,051)
Increase (decrease) in cash and cash equivalents	1,101	(1,581)	6,382
Cash and cash equivalents, beginning of year	6,969	8,550	2,168
Cash and cash equivalents, end of year	\$ 8,070	\$ 6,969	\$ 8,550
	<u>December 25, 2019</u>	<u>December 26, 2018</u>	<u>December 27, 2017</u>
Supplemental cash flow information			
Cash paid for interest, net of capitalized interest	\$ 3,649	\$ 3,393	\$ 3,314
Cash paid during the year for income taxes, net	\$ 558	\$ 183	\$ 336
Non-cash investing and financing activity			
Unpaid purchases of property and equipment	\$ 746	\$ 1,543	\$ 4,741
Schedule of non-cash transactions			
Borrowing on revolver for financing fees	\$ —	\$ 693	\$ —

See notes to consolidated financial statements.

EL POLLO LOCO HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

El Pollo Loco Holdings, Inc. (“Holdings”) is a Delaware corporation headquartered in Costa Mesa, California. Holdings and its direct and indirect subsidiaries are collectively known as “we,” “us” or the “Company.” The Company’s activities are conducted principally through its indirect wholly-owned subsidiary, El Pollo Loco, Inc. (“EPL”), which develops, franchises, licenses and operates quick-service restaurants under the name El Pollo Loco ®. The restaurants, which are located principally in California but also in Arizona, Nevada, Texas, Utah and Louisiana, specialize in fire-grilling citrus-marinated chicken in a wide variety of contemporary Mexican and LA-inspired entrees, including specialty chicken burritos, chicken quesadillas, chicken tostada salads, chicken tortilla soup, variations on our Pollo Bowl®, Pollo Salads and our Under 500 Calorie entrees. At December 25, 2019, the Company operated 195 (143 in the greater Los Angeles area) and franchised 287 (136 in the greater Los Angeles area) El Pollo Loco restaurants. In addition, the Company currently licenses one restaurant in the Philippines. The Company’s largest stockholder is Trimaran Pollo Partners, L.L.C. (“LLC”), which is controlled by affiliates of Trimaran Capital, L.L.C. LLC acquired Chicken Acquisition Corp. (“CAC”), a predecessor of Holdings, on November 17, 2005 (the “Acquisition”) and has a 47.7% ownership interest as of December 25, 2019. LLC’s only material asset is its investment in Holdings.

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

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), guarantee EPL’s 2018 Revolver (see Note 6) on a full and unconditional basis and Intermediate has no subsidiaries other than EPL. EPL is a separate and distinct legal entity, and has no obligation to make funds available to Intermediate. EPL and Intermediate may pay dividends to Intermediate and to Holdings, respectively.

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

On August 2, 2018, the Company announced that the Board of Directors had authorized a stock repurchase program. The Company entered into a stock repurchase plan on August 28, 2018 (the “2018 Stock Repurchase Plan”), which allowed for the repurchase of up to \$20.0 million of the Company’s common stock. The 2018 Stock Repurchase Plan commenced on November 6, 2018 and terminated on June 26, 2019.

On April 30, 2019, as part of the Company’s focus on stockholder returns, the Board of Directors approved a new stock repurchase program. The Company entered into a stock repurchase plan on May 17, 2019 (the “2019 Stock Repurchase Plan”), which allowed for the repurchase up to \$30.0 million of the Company’s common stock. The 2019 Stock Repurchase Plan commenced on June 27, 2019, and was exhausted on September 26, 2019.

Under the 2019 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. The Company’s repurchases were executed using open market purchases, including pursuant to Rule 10b5-1 trading plans, and/or through privately negotiated transactions.

For the year ended December 25, 2019, the Company repurchased 1,558,836 and 2,836,768 shares of common stock under the 2018 Stock Repurchase Plan and the 2019 Stock Repurchase Plan, respectively, executed using open market purchases, for total consideration of approximately \$18.4 million and \$30.0 million, respectively. The common stock repurchased under both the 2018 Stock Repurchase Plan and the 2019 Stock Repurchase Plan was retired upon repurchase. For the year ended December 26, 2018, the Company repurchased 66,409 shares of common stock under the 2018 Stock Repurchase Plan for total considerations of approximately \$1.0 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquidity

The Company’s principal liquidity and capital requirements are new restaurants, existing restaurant capital investments (remodel and maintenance), interest payments on our debt, lease obligations and working capital and general corporate needs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At December 25, 2019, the Company's total debt was \$97.0 million. The Company's ability to make payments on its indebtedness and to fund planned capital expenditures depends on available cash and its ability to generate adequate cash flows in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Company's control. Based on current operations, the Company believes that its cash flows from operations, available cash of \$8.1 million at December 25, 2019, and available borrowings under the 2018 Revolver (See "Note 6. Long-Term Debt") will be adequate to meet the Company's liquidity needs for the next twelve months from the issuance of the consolidated financial statements.

Basis of Presentation

The Company uses a 52- or 53-week fiscal year ending on the last Wednesday of each calendar year. Fiscal 2019, 2018, and 2017 ended on December 25, 2019, December 26, 2018 and December 27, 2017, respectively. In a 52-week fiscal year, each quarter includes 13 weeks of operations. In a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations and the fourth quarter includes 14 weeks of operations. Approximately every six or seven years a 53-week fiscal year occurs. Fiscal 2019, 2018 and 2017 were 52-week fiscal years. 53-week years may cause revenues, expenses, and other results of operations to be higher due to the additional week of operations. 2020 will be a 53-week fiscal year.

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Subsequent Events

Subsequent to December 25, 2019, the Company made a \$10.0 million borrowing, net, on the 2018 Revolver, primarily to fund payment of a \$16.3 million legal settlement, which was made on February 28, 2020 and previously accrued for during fiscal 2018. See Note 13 for further details regarding the settlement payments.

The Company evaluated subsequent events that have occurred after December 25, 2019, and determined that there were no other events or transactions occurring during this reporting period that require recognition or disclosure in the consolidated financial statements.

Concentration of Risk

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

The Company had one supplier for which amounts due at December 25, 2019 totaled 11.7% of the Company's accounts payable. As of December 26, 2018, the Company had one supplier for which amounts due totaled 36.0% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 29.0% of the Company's purchases for fiscal 2019, 28.8% for fiscal 2018 and 29.3% for fiscal 2017 with no amounts payable at December 25, 2019 or December 26, 2018. In fiscal 2019, 2018 and 2017, Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 70.5%, 69.2%, and 72.9%, respectively, of total revenue. one franchisee accounted for 10% of total

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

accounts receivable as of December 25, 2019, and two franchisees accounted for 40% of total accounts receivable as of December 26, 2018.

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

Accounts and Other Receivables, Net

Accounts and other receivables consist primarily of royalties, advertising and sublease rent and related amounts receivable from franchisees. Such receivables are due on a monthly basis, which may differ from the Company's fiscal month-end dates. Accounts and other receivables also include credit/debit card receivables. The need for an allowance for doubtful accounts is reviewed on a specific identification basis and takes into consideration past due balances and the financial strength of the obligor. Bad debt expense was immaterial for the years ended December 25, 2019, December 26, 2018, and December 27, 2017.

Inventories

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

Property and Equipment, Net

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

The estimated useful service lives are as follows:

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

The Company capitalizes certain directly attributable internal costs in conjunction with the acquisition, development and construction of future restaurants. The Company also capitalizes certain directly attributable costs, including interest, in conjunction with constructing new restaurants. These costs are included in property and amortized over the shorter of the life of the related buildings and leasehold improvements or the lease term. Costs related to abandoned sites and other site selection costs that cannot be identified with specific restaurants are charged to general and administrative expenses in the accompanying consolidated statements of operations, and were \$0.1 million, \$0.3 million and \$0.5 million for the years ended December 25, 2019, December 26, 2018, and December 27, 2017, respectively. The Company capitalized internal costs related to site selection and construction activities of \$1.1 million, \$1.3 million and \$1.9 million for the years ended December 25, 2019, December 26, 2018, and December 27, 2017, respectively. Capitalized internal interest costs related to site selection and construction activities were \$0.1 million, \$0.2 million and \$0.2 million for the years ended December 25, 2019, December 26, 2018, and December 27, 2017, respectively.

Impairment of Long-Lived and ROU Assets

The Company reviews its long-lived and right-of-use assets ("ROU assets") for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying value of certain long-lived and ROU assets may not be recoverable. The Company considers a triggering event, related to long-lived assets or ROU assets in a net asset position, to have occurred related to a specific restaurant if the restaurant's cash flows for the last twelve months are less than a minimum

threshold or if consistent levels of undiscounted cash flows for the remaining lease period are less than the carrying value of the restaurant's assets. Additionally, the Company considers a triggering event related to ROU assets, to have occurred related to a specific lease if the location has been subleased and future estimated sublease income is less than current lease payments. 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. Based on the results of this analysis, the Company recorded non-cash impairment charges of \$3.6 million for the year ended December 25, 2019, primarily related to the carrying value of the ROU assets of four restaurants sold to franchisees and one restaurant closed during fiscal 2019, and the long-lived assets of one restaurant in California.

In fiscal 2018, the Company recorded a non-cash impairment charge of \$5.1 million, primarily related to the carrying value of four restaurants in Arizona, California and Texas, including a restaurant in Texas that opened in early 2018. In fiscal 2017, the Company recorded a non-cash impairment charge of \$32.6 million, primarily related to the carrying value of the assets of 23 restaurants in Arizona, California and Texas. The impairment expense for fiscal 2017 includes an impairment expense of \$27.7 million, representing the entire value of capitalized assets of all of the company-operated restaurants in Texas, net of previously recorded depreciation. Factors which led to the impairment of the Texas restaurants included operating results, which indicated that the restaurants did not achieve the sales volumes required to generate positive cash flows or improve profitability in the Texas market, along with the related future cash flow assumptions, including comparable sales rate growth and restaurant operating costs, over the remaining lease terms and the age of the restaurants in Texas. The restaurants in Texas began opening in late 2014, causing a higher net book value at the time of impairment testing, and increased difficulty projecting results for newer restaurants in newer markets. Given the difficulty in projecting results for newer restaurants in newer markets, we are also monitoring the recoverability of the carrying value of the assets of several other restaurants on an ongoing basis. For these restaurants, if expected performance improvements are not realized, an impairment charge may be recognized in future periods, and such charge could be material.

Closed-Store Reserves

Prior to the adoption of Topic 842 "Leases," when the Company closed a restaurant, it reviewed the future minimum lease payments and related ancillary costs from the date of the restaurant closure to the end of the remaining lease term and recorded a lease charge for the lease liabilities to be incurred, net of any estimated sublease recoveries. The estimates of future closed-store reserves were re-evaluated and adjusted each period based on information available as of the period. In addition, an impairment charge was recognized for any remaining carrying value of certain restaurant assets. During fiscal 2018, the Company closed seven restaurants in Arizona, California and Texas. These closures resulted in closed-store reserve expenses of \$4.5 million during fiscal 2018. During fiscal 2017, the Company closed four restaurants in Texas, one of which was fully impaired during the fourth quarter of 2016, one of which was impaired during the third quarter of 2016 and the other two were impaired in fiscal 2017. Additionally, the Company closed one restaurant in Arizona, which was fully impaired in the third quarter of 2016. These closures resulted in closed-store reserve expenses of \$1.1 million during fiscal 2017.

Subsequent to the adoption of Topic 842, the Company no longer recognizes a closed-store reserve when the Company closes a restaurant, as there is already a lease liability on its books related to the future lease payments. Rather, when a restaurant is closed, the Company will evaluate the ROU Asset for impairment, based on anticipated sublease recoveries. The remaining value of the ROU Asset is amortized on a straight-line basis, with the expense recognized in closed-store reserve expense.

During fiscal 2019, the Company closed two restaurants in California and two in Texas and recognized \$1.3 million of closed-store reserve expense for the fiscal year ended 2019.

Goodwill and Indefinite-Lived Intangible Assets

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ("ASU 2017-04"), simplifying the manner in which an entity is required to test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. The Company adopted ASU 2017-04 in the fourth quarter of 2018.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Upon the sale of a restaurant, the Company evaluates whether there is a decrement of goodwill. The amount of goodwill included in the cost basis of the asset sold is determined based on the relative fair value of the portion of the reporting unit disposed of compared to the fair value of the reporting unit retained. The Company determined there was no decrement of goodwill related to the disposition of restaurants in fiscal 2019.

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

The Company reviews goodwill for impairment utilizing either a qualitative assessment or 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 an impairment test is performed which determines the carrying amount of a reporting unit is greater than its fair value, an impairment charge will be recognized for the amount by which the carrying amount of a reporting unit is greater than its fair value, up to the amount of its allocated goodwill.

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

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

Although the Company recognized expense related to the impairment of assets of one restaurant and ROU assets of four restaurants during the year ended December 25, 2019, upon completion of the qualitative assessment, the Company did not identify any indicators of potential impairment for its goodwill or indefinite-lived intangible assets. Furthermore, the Company did not identify any indicators of potential impairment during the years ended December 26, 2018 or December 27, 2017, and thus no impairment was recorded.

Other Intangibles, Net—Definite Lived

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

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

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

Upon the Company's adoption of the new lease guidance in the first quarter of 2019, the Company's favorable and unfavorable leasehold improvements are now included as part of the ROU asset. See "Note 5. Leases" for more information.

Deferred Financing Costs

Deferred financing costs are capitalized and amortized over the period of the loan on a straight-line basis, which approximates the effective interest method. Transaction costs of \$0.8 million were incurred in connection with the July 13, 2018 refinancing and were capitalized during fiscal 2018. Included in other assets are deferred financing costs (net of accumulated amortization), related to the revolver, of \$0.8 million and \$1.1 million as of December 25, 2019 and December 26, 2018, respectively. Amortization expense for deferred financing costs was approximately \$0.3 million for each of the three years ended December 25, 2019, December 26, 2018, and December 27, 2017, and is reflected as a component of interest expense in the accompanying consolidated statements of operations.

Insurance Reserves

The Company is responsible for workers' compensation, general and health insurance claims up to a specified aggregate stop loss amount. The Company maintains a reserve for estimated claims both reported and incurred but not reported, based on historical claims experience and other assumptions. At December 25, 2019 and December 26, 2018, the Company had accrued \$9.4 million and \$7.1 million, respectively, and such amounts are reflected as accrued insurance in the accompanying consolidated balance sheets. The expense for such reserves for the years ended December 25, 2019, December 26, 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

and December 27, 2017, totaled \$9.6 million, \$8.0 million, and \$6.8 million, respectively. These amounts are included in labor and related expenses and general and administrative expenses on the accompanying consolidated statements of operations.

Restaurant Revenue

Revenues from the operation of company-operated restaurants are recognized as food and beverage products are delivered to customers and payment is tendered at the time of sale. The Company presents sales net of sales-related taxes and promotional allowances. Promotional allowances amounted to approximately \$8.0 million, \$8.8 million and \$8.9 million during the years ended December 25, 2019, December 26, 2018, and December 27, 2017, respectively.

The Company offers a loyalty rewards program, which awards a customer one point for every \$1 spent. When 100 points are accumulated a \$10 reward to be used on future purchases is earned. If a customer does not earn or use points within a one-year period, their account is deactivated and all points expire. Additionally, if a \$10 reward is not used within six months it expires. When a customer is part of the rewards program, the obligation to provide future discounts related to points earned is considered a separate performance obligation, to which a portion of the transaction price is allocated. The performance obligation related to loyalty points is deemed to have been satisfied, and the amount deferred in the balance sheet is recognized as revenue, when the points are transferred to a \$10 reward and redeemed, the points or reward expire, or the likelihood of redemption is remote. A portion of the transaction price is allocated to loyalty points, if necessary, on a pro-rata basis, based on stand-alone selling price, as determined by menu pricing and loyalty point terms. As of December 25, 2019 and December 26, 2018, the revenue allocated to loyalty points that have not been redeemed are \$1.1 million and \$1.0 million, respectively, which are reflected in the Company's accompanying consolidated balance sheets within other accrued expenses and current liabilities. The Company expects the loyalty points to be redeemed and recognized over a one year period.

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

The Company adopted Accounting Standards Codification ("ASC") Topic 606 - Revenue from Contracts with Customers ("Topic 606") on December 28, 2017. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. The Company generates a substantial amount of its revenues from company-operated restaurants. This revenue stream was not impacted by the adoption of Topic 606.

The Company applied Topic 606 using the modified retrospective method by recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity at December 28, 2017. The cumulative catch-up adjustment recorded to accumulated deficit was approximately \$3.5 million, net of taxes, related to franchise and development fees. The adoption of this guidance did not have a material change on revenue from Company-operated restaurant revenue, gift cards or the Company's loyalty program. The fiscal year 2017 comparative information has not been adjusted and continues to be reported under Topic 605. The details of the significant changes and quantitative impact of the changes are set out below and in "Note 15. Revenue from Contracts with Customers."

Franchise Revenue

Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees and IT support services. Rental income for subleases to franchisees are outside of the scope of the revenue standard and are within the scope of lease guidance. Under Topic 842, sublease income is recorded on a gross basis within the consolidated statements of operations. Franchise royalties are based upon a percentage of net sales of the franchisee and were previously recorded as income as such sales are earned by the franchisees, which does not change with the adoption of Topic 606.

For franchise and development agreement fees, the Company's previous accounting policy was to recognize initial franchise fees, development fees, and franchise agreement renewals when all material obligations had been performed and conditions had been satisfied, typically when operations of the franchised restaurant had commenced. In accordance with the new guidance, the initial franchise services, or exclusivity of the development agreements, are not distinct from the continuing rights or services offered during the term of the franchise agreement and are, therefore, treated as a single performance obligation. As such, initial franchise and development fees received, and subsequent renewal fees, are recognized over the franchise or renewal term, which is typically twenty years. As of December 25, 2019, the Company had executed development agreements that represent commitments to open 44 franchised restaurants at various dates through 2022.

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

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

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

The sales-based royalty fee and sales-based advertising fee are considered variable consideration and will continue to be recognized as revenue as such sales are earned by the franchisees. Both sales-based fees qualify under the royalty constraint exception, and do not require an estimate of future transaction price. Additionally, the Company is utilizing the practical expedient regarding disclosure of the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for sales-based royalties.

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

The Company purchases hardware, such as scanners, printers, cash registers and tablets, from third-party vendors, which it then sells to franchisees. As the Company is considered the principal in this relationship, payment received for the hardware is considered revenue, and is received upon transfer of the goods from the Company to the Franchisee. As of December 25, 2019, there were no performance obligations, related to hardware services that were unsatisfied or partially satisfied.

Franchise Advertising Fee Revenue

The Company's previous accounting policy was to recognize advertising funded by franchisees on a net basis in the consolidated statements of operations, and as a liability within the consolidated balance sheets. Under the new guidance, the Company presents advertising contributions received from franchisees as franchise advertising fee revenue and records all expenses of the advertising fund within franchise expenses, resulting in an increase in revenues and expenses on the consolidated statements of operations, with no change to the consolidated balance sheets.

Advertising Costs

Advertising expense is recorded as the obligation to contribute to the advertising fund is accrued, generally when the associated revenue is recognized. Advertising expense, which is a component of occupancy and other operating expenses, was \$16.1 million for both years ended December 25, 2019 and December 26, 2018 and \$15.5 million for the year ended December 27, 2017, and is in addition to \$22.4 million, \$21.2 million and \$20.5 million, respectively, funded by the franchisees' advertising fees.

Franchisees pay a monthly fee to the Company that ranges from 4% to 5% of their restaurants' net sales as reimbursement for advertising, public relations and promotional services the Company provides, which is included within franchise advertising fee revenue. Fees received in advance of provided services are included in other accrued expenses and current liabilities and were \$0.5 million and \$0.3 million at December 25, 2019 and December 26, 2018, respectively. Pursuant to the Company's Franchise Disclosure Document, company-operated restaurants contribute to the advertising fund on the same basis as franchised restaurants. At December 25, 2019, the Company was obligated to spend \$0.5 million more in future periods to comply with this requirement.

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

Preopening Costs

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Preopening costs incurred in connection with the opening of new restaurants are expensed as incurred. Preopening costs, which are included in general and administrative expenses on the accompanying consolidated statements of operations, were \$0.4 million, \$0.8 million and \$2.0 million for the years ended December 25, 2019, December 26, 2018, and December 27, 2017, respectively.

Leases

The Company's operations utilize property, facilities, equipment and vehicles. Buildings and facilities leased from others are primarily for restaurants and support facilities. Restaurants are operated under lease arrangements that generally provide for a fixed base rent and, in some instances, contingent rent based on a percentage of gross operating profit or net revenues in excess of a defined amount. Initial terms of land and restaurant building leases generally have terms of 20 years, exclusive of options to renew. Leases of equipment primarily consist of restaurant equipment, computer systems and vehicles. The Company subleases facilities to certain franchisees and other non-related parties which are recorded on a straight-line basis. Refer to "Changes in Accounting Policy" below for more details on treatment of operating leases under Topic 842 that was adopted on December 27, 2018.

For periods prior to the adoption of Topic 842, leases are accounted for under Topic 840. Under Topic 840, rent expense for the Company's operating leases, which generally have escalating rents over the term of the lease, is recorded on a straight-line basis over the expected lease term. The lease term begins when the Company has the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. Rent expense is included in occupancy and other operating expenses on the consolidated statements of operations. The difference between rent expense and rent paid is recorded as deferred rent, which is included in current liabilities and other noncurrent liabilities in the accompanying consolidated balance sheets. Percentage rent expenses are recorded based on estimated sales or gross margin for respective restaurants over the contingency period.

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

Loss on Disposition of Restaurants

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

These sales resulted in cash proceeds of \$4.8 million and a net loss on sale of restaurants of \$5.1 million for the year ended December 25, 2019. These restaurants are now included in the total number of franchised El Pollo Loco restaurants.

Recovery of Securities Class Action Legal Expense

During fiscal 2019, 2018 and 2017, the Company received insurance proceeds of \$10.0 million, \$8.4 million and \$1.7 million, respectively, related to the reimbursement of certain legal expenses paid in prior years for the defense of securities lawsuits. See "Note 13. Commitments and Contingencies—Legal Matters."

Derivative Financial Instruments

The Company uses an interest rate swap, a derivative instrument, to hedge interest rate risk and are not used for trading purposes. The derivative contract is entered into with financial institutions.

The Company records the derivative instrument at fair value within other assets on its consolidated balance sheet. The derivative instrument qualifies as a hedging instrument in a qualifying cash flow hedge relationship, the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive 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 into earnings immediately.

As a result of the use of an interest rate swap, the Company is exposed to risk that the counterparty will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Company will only enter into contracts with major financial institutions, based upon their credit ratings and other factors, and will continue to assess the creditworthiness of the counterparty. As of December 25, 2019, the counterparty to the Company's interest rate swap has performed in accordance with their contractual obligation.

Income Taxes

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

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

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

The Company's policy is to recognize interest or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at December 25, 2019 or December 26, 2018, and did not recognize interest or penalties during the years ended December 25, 2019, December 26, 2018, and December 27, 2017, since there were no material unrecognized tax benefits. Management believes no significant change to the amount of unrecognized tax benefits will occur within the next twelve months.

On July 30, 2014, the Company entered into an income tax receivable agreement ("TRA"). The TRA calls for the Company to pay to its pre-IPO stockholders 85% of the savings in cash that the Company realizes in its taxes as a result of utilizing its net operating losses and other tax attributes attributable to preceding periods. In fiscal 2015, the Company incurred a charge of approximately \$41.4 million relating to the present value of its total expected TRA payments. As of December 25, 2019 and December 26, 2018, the Company had accrued \$8.2 million and \$13.9 million, respectively relating to expected TRA payments. In fiscal 2019, 2018 and 2017, we paid \$5.8 million, \$7.3 million and \$11.1 million, respectively, to our pre-IPO stockholders under the TRA.

Fair Value Measurements

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

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: 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.

During the year ended December 25, 2019, the Company entered into an interest rate swap, which is required to be measured at fair value on a recurring basis. The fair value was determined based on Level 2 inputs, which include valuation models, as

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

reported by the Company's counterparty. These valuation models use a discounted cash flow analysis on the cash flows of the derivative based on the terms of the contract and the forward yield curves adjusted for our credit risk. The key inputs for the valuation models are observable market prices, discount rates, and forward yield curves. See "Note 6. Long-Term Debt" for further discussion regarding our interest rate swaps. The following table presents fair value for the interest rate swap at December 25, 2019 (in thousands):

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Other assets - Interest rate swap	\$ 360	\$ —	\$ 360	\$ —

The Company had no assets or liabilities required to be measured at fair value on a recurring basis as of December 26, 2018.

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

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the year ended December 25, 2019 (in thousands):

	Total	Fair Value Measurements Using			Impairment Losses
		Level 1	Level 2	Level 3	
Certain ROU assets, net	\$ 6,196	\$ —	\$ —	\$ 6,196	\$ 3,220
Certain property and equipment, net	\$ —	\$ —	\$ —	\$ —	\$ 339

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the year ended December 26, 2018 (in thousands):

	Total	Fair Value Measurements Using			Impairment Losses
		Level 1	Level 2	Level 3	
Certain property and equipment, net	\$ 449	\$ —	\$ —	\$ 449	\$ 5,147

The following non-financial instruments were measured at fair value, on a nonrecurring basis, as of and for the year ended December 27, 2017 (in thousands):

	Total	Fair Value Measurements Using			Impairment Losses
		Level 1	Level 2	Level 3	
Certain property and equipment, net	\$ —	\$ —	\$ —	\$ —	\$ 32,594

During fiscal 2019, the Company recorded \$3.6 million of expenses related to the impairment of assets primarily related to the carrying value of the ROU assets of four restaurants sold to franchisees and the long-lived assets of one restaurant in California. In fiscal 2018, the Company recorded \$5.1 million in impairment charges primarily related to the carrying value of the long-lived assets of four restaurants in Arizona, California and Texas, as well as the strategic decision to close two restaurants in Texas. In fiscal 2017, the Company recorded \$32.6 million in impairment charges that was primarily related to the carrying value of the long-lived assets of 23 restaurants in Arizona, California and Texas. The fair value measurements used in these impairment evaluations were based on discounted cash flow estimates using unobservable Level 3 inputs, based on market assumptions.

Fair Value of Financial Instruments

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

Stock-Based Compensation

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

Earnings per Share

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

Recently Adopted Accounting Pronouncements

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, "Disclosure Update and Simplification," amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The Company adopted SEC Release No. 33-10532 as of December 27, 2018.

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", ("ASU 2018-07") which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. ASU 2018-07 is effective for financial statements issued for annual periods beginning after December 15, 2018, and for the interim periods therein. The Company adopted ASU 2018-07 as of December 27, 2018 and it did not have a significant impact on the Company's consolidated financial position or results of operations.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging," which refines and expands existing hedge accounting guidance. The Company adopted ASU 2017-12 as of December 27, 2018. The adoption of this standard did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," ("Topic 842"). Topic 842 establishes a right-of-use model that requires a lessee to record a ROU Asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard was effective for fiscal years beginning after December 15, 2018, including interim periods therein. In July 2018, the FASB issued ASU No. 2018-11, which provides an alternative transition method that allows entities to apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted Topic 842, and all related ASU's as of December 27, 2018. See "Changes in Accounting Policies" below for further details.

Recent Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which modifies Topic 740 to simplify the accounting for income taxes. ASU 2019-12 is effective for financial statements issued for annual periods beginning after December 15, 2020, and for the interim periods therein. The adoption of ASU 2019-12 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

Changes in Accounting Policies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The Company adopted Topic 842 with a date of initial application of December 27, 2018. As a result, the Company has changed its accounting policy for leases as detailed below.

The Company's operations utilize property, facilities, equipment and vehicles, the majority of which are operating leases. Additionally, the Company has various contracts with vendors that have been determined to contain an embedded lease in accordance with Topic 842. As of the date of adoption, the Company recognized a ROU Asset and lease liability equal to the present value of these leases within its consolidated balance sheet for any leases with terms longer than 12 months. The Company also has one finance lease, subleases facilities to certain franchises and is the lessor for certain property, facilities and equipment owned by the Company. The adoption of Topic 842 did not have an impact on our current accounting policies for these items. Furthermore, the adoption of this standard did not have any impact on the Company's consolidated statement of operations or the consolidated statement of cash flows.

The Company applied Topic 842 using the effective date method, which allowed the Company to apply the standard as of the adoption date, and to recognize the cumulative effect of initially applying Topic 842 as an adjustment to retained earnings at December 27, 2018, if applicable. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 840. However, the adoption of Topic 842 did not have any impact to its retained earnings.

Additionally, the Company elected to apply the package of practical expedients, which allowed for carryforwards of 1) historical lease classifications, 2) determination of whether a contract contains a lease under the new definition of a lease and 3) whether previously capitalized initial direct costs qualify for capitalization. See "Note 5. Leases," for further details.

Franchise Development Option Agreement with Related Party

On July 11, 2014, EPL and LLC entered into a Franchise Development Option Agreement relating to development of our restaurants in the New York–Newark, NY–NJ–CT–PA Combined Statistical Area (the "Territory"). EPL granted LLC the exclusive option to develop and open 15 restaurants in the Territory over five years (the "Initial Option"), and, provided that the Initial Option is exercised, the exclusive option to develop and open up to an additional 100 restaurants in the Territory over ten years. The Franchise Development Option Agreement terminates (i) ten years after execution, or (ii) if the Initial Option is exercised, five years after that exercise. LLC may only exercise the Initial Option if EPL first determines to begin development of company-operated restaurants in the Territory or support the development of the Territory. We have no current intention to begin development in the Territory and as of December 25, 2019, no stores have been opened in the Territory.

3. PROPERTY AND EQUIPMENT

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

	December 25, 2019	December 26, 2018
Land	\$ 12,323	\$ 12,323
Buildings and improvements	144,794	156,806
Other property and equipment	75,234	76,061
Construction in progress	4,213	2,989
	<u>236,564</u>	<u>248,179</u>
Less: accumulated depreciation and amortization	(144,786)	(144,034)
	<u>\$ 91,778</u>	<u>\$ 104,145</u>

Depreciation and amortization expense was \$17.9 million, \$17.8 million and \$18.1 million for the years ended December 25, 2019, December 26, 2018, and December 27, 2017, respectively.

Based on the Company's review of its long-lived assets for impairment, the Company recorded non-cash impairment charges of \$0.3 million, \$5.1 million and \$32.6 million for the years ended December 25, 2019, December 26, 2018, and December 27, 2017, respectively.

4. TRADEMARKS, OTHER INTANGIBLE ASSETS AND LIABILITIES

Domestic trademarks consist of the following (in thousands):

	December 25, 2019	December 26, 2018
Cost	\$ 120,700	\$ 120,700
Accumulated impairment charges	(58,812)	(58,812)
Trademarks, net	<u>\$ 61,888</u>	<u>\$ 61,888</u>

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

	December 25, 2019	December 26, 2018
Favorable leasehold interest	\$ —	\$ 6,038
Less: accumulated amortization	—	(5,758)
Total favorable leasehold interest, net	<u>\$ —</u>	<u>\$ 280</u>
Unfavorable leasehold interest liability	\$ —	\$ (9,156)
Less: accumulated amortization	—	8,514
Unfavorable leasehold interest liability, net	<u>\$ —</u>	<u>\$ (642)</u>

Upon the adoption of Topic 842 the favorable and unfavorable leasehold interest balances were netted with the ROU Asset for the respective operating lease. See "Change in accounting policies" in Note 2 and "Note 5. Leases" for further details of the Company's adoption of Topic 842. The aggregate amortization expense for the years ended December 26, 2018, and December 27, 2017 was less than \$0.1 million and \$0.1 million, respectively.

5. LEASES**Adoption of Topic 842 "Leases"**

On December 27, 2018, the Company adopted Topic 842, using the effective date method, recognizing and measuring all leases that existed as of December 27, 2018. The Company recorded a cumulative-effect adjustment as of December 27, 2018. Comparative periods are presented in accordance with ASC Topic 840 and do not include any retrospective adjustments to comparative periods to reflect the adoption of Topic 842. All leases that either (1) commenced, or (2) were modified or re-measured after December 27, 2018 are accounted for under Topic 842.

As a result of Topic 842, the Company recognized a ROU Asset of \$205.2 million and a lease liability of \$222.3 million on its consolidated balance sheet as of December 27, 2018. However, the adoption of Topic 842 did not result in a material impact on the Company's consolidated statement of operations or consolidated statement of cash flows.

Nature of leases

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

As of December 25, 2019, 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 lease that is classified as a finance lease.

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

EL POLLO LOCO HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

determined not to separate lease and non-lease components, these payments are based on actual costs, making them variable consideration and excluding them from the calculations of the ROU Asset and lease liability.

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

During the year ended December 25, 2019, the Company reassessed the lease terms on 11 restaurants due to certain triggering events, such as, the addition of significant leasehold improvements, the decision to terminate a lease, or the decision to renew. As a result of the reassessment, an additional \$4.7 million of ROU assets and lease liabilities for the year ended December 25, 2019 were recognized, and will be amortized over the new lease term. The reassessment did not have any impact on the original lease classification. Additionally, as the Company adopted all practical expedients available under Topic 842, no reallocation between lease and non-lease components was necessary.

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

During fiscal 2019, we determined that the carrying value of ROU assets at certain restaurants was not recoverable. As a result, we recorded a \$3.2 million impairment expense for the year ended December 25, 2019. The impairment primarily related to four restaurants sold to franchisees and one restaurant closed during fiscal 2019.

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 at December 25, 2019, disaggregated by underlying asset (in thousands):

EL POLLO LOCO HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Property Leases	Equipment Leases	Total
Finance lease cost:			
Amortization of right-of-use assets	\$ 9	\$ —	\$ 9
Interest on lease liabilities	27	—	27
Operating lease cost	26,212	1,273	27,485
Short-term lease cost	—	34	34
Variable lease cost	455	186	641
Sublease income	(2,430)	—	(2,430)
Total lease cost	\$ 24,273	\$ 1,493	\$ 25,766

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

	December 25, 2019
Lease cost – Occupancy and other operating expenses	\$ 24,540
Lease cost – General & administrative	463
Lease cost – Depreciation and amortization	9
Lease cost – Interest expense	27
Lease cost - Closed-store reserve	727
Total lease cost, net	\$ 25,766

During the year ended December 25, 2019, the Company had the following cash and non-cash activities associated with its leases (in thousands):

	December 25, 2019		
	Property Leases	Equipment Leases	Total
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows used for operating leases	\$ 25,168	\$ 1,282	\$ 26,450
Financing cash flows used for finance leases	\$ (68)	\$ —	\$ (68)

Non-cash investing and financing activities:

Operating lease ROU assets obtained in exchange for lease liabilities:

Operating lease ROU assets	10,339	256	\$ 10,595
Derecognition of ROU assets due to terminations, impairment or modifications	(4,574)	(157)	\$ (4,731)

Operating lease ROU assets obtained and liabilities incurred as a result of adoption of ASC 842:

Operating lease ROU assets	\$ 200,555	\$ 4,668	\$ 205,223
Operating lease liabilities	\$ 217,615	\$ 4,668	\$ 222,283

Other Information

Weighted-average remaining lease term—finance leases	2.83	—	
Weighted-average remaining lease term—operating leases	12.08	3.20	
Weighted-average discount rate—finance leases	11.10%	—	
Weighted-average discount rate—operating leases	4.38%	3.96%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Information regarding the Company's minimum future lease obligations at December 25, 2019 is as follows (in thousands):

For the Years Ending	Finance Leases	Operating Leases	
	Minimum Lease Payments	Minimum Lease Payments	Minimum Sublease Income
December 30, 2020	\$ 54	\$ 26,808	\$ 2,754
December 29, 2021	54	25,978	2,887
December 28, 2022	45	24,871	3,284
December 27, 2023	—	22,309	3,318
December 25, 2024	—	19,751	3,203
Thereafter	—	139,454	27,265
Total	\$ 153	\$ 259,171	\$ 42,711
Less: imputed interest (3.96% to 11.1%)	(36)	(45,273)	
Present value of capital lease obligations	117	213,898	
Less: current maturities	(34)	(16,406)	
Noncurrent portion	\$ 83	\$ 197,492	

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

For the Years Ending	Capital Leases	Operating Leases	
	Minimum Lease Payments	Minimum Lease Payments	Minimum Sublease Income
December 25, 2019	\$ 95	\$ 25,388	\$ 1,443
December 30, 2020	54	24,437	1,108
December 29, 2021	54	23,342	1,078
December 28, 2022	45	22,338	1,001
December 27, 2023	—	20,634	989
Thereafter	—	150,342	2,612
Total	\$ 248	\$ 266,481	\$ 8,231
Less: imputed interest (11.0% to 11.1%)	(64)		
Present value of capital lease obligations	184		
Less: current maturities	(68)		
Noncurrent portion	\$ 116		

Short-Term Leases

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

Lessor

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

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

For each of the years ended December 25, 2019, December 26, 2018 and December 27, 2017, the Company received \$0.5 million of lease income from company-owned locations.

6. LONG-TERM DEBT

On July 13, 2018, the Company refinanced the 2014 Revolver, pursuant to a credit agreement (the "2018 Credit Agreement") among EPL, as borrower, and the Company and Intermediate, as guarantors, Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for the \$150.0 million five-year 2018 Revolver. The 2018 Revolver includes a sub limit of \$15.0 million for letters of credit and a sub limit of \$15.0 million for swingline loans. The obligations under the 2018 Credit Agreement and related loan documents are guaranteed by the Company and Intermediate. The obligations of the Company, EPL and Intermediate under the 2018 Credit Agreement and related loan documents are secured by a first priority lien on substantially all of their respective assets.

Under the 2018 Revolver, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to \$1.0 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under its income tax receivable agreement (the "TRA"), and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors, 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 2018 Revolver.

Borrowings under the 2018 Revolver (other than any swingline loans) bear interest, at the borrower's option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the published Bank of America prime rate, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.25% to 2.25%, and for base rate loans the margin is in the range of 0.25% to 1.25%. For borrowings under the 2018 Revolver during fiscal 2019, the interest rate range was 3.2% to 6.0%. For borrowings under the 2014 Revolver and the 2018 Revolver during fiscal 2018, the interest rate range was 3.3% to 4.0%. The interest rate under the 2018 Revolver was 3.2% at December 25, 2019 and 4.0% under the 2018 Revolver at December 26, 2018. For the year ended December 25, 2019, the Company had interest expense of \$3.1 million under the 2018 Revolver. For the year ended December 26, 2018, the Company had interest expense of \$3.0 million under the 2018 and 2014 Revolver, and for the year ended December 27, 2017, the Company had interest expense of \$2.7 million under the 2014 Revolver.

The 2018 Credit Agreement contains certain financial covenants. The Company was in compliance with all such covenants at December 25, 2019.

At December 25, 2019, \$8.4 million of letters of credit and \$97.0 million of the revolving line of credit were outstanding. The amount available under the revolving line of credit was \$44.6 million at December 25, 2019.

Maturities

The 2018 Revolver and 2018 Credit Agreement will mature on July 13, 2023. During the year ended December 25, 2019, the Company borrowed \$23.0 million net of pay downs of \$19.0 million on the Company's 2018 Revolver, primarily to fund settlement payments. See Note 13 for further details regarding the settlement payments. During the year ended December 26, 2018, the Company elected to pay down \$20.0 million, net of new borrowings of \$13.0 million during the year, of outstanding borrowings on the Company's 2014 Revolver, respectively. There are no required principal payments prior to maturity for the 2018 Revolver.

Interest Rate Swap

During the year ended December 25, 2019, the Company entered into a variable-to-fixed interest rate swap agreement with a notional amount of \$40.0 million that matures in June 2023. The objective of the interest rate swap is 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. Under the terms of the swap agreement, the variable LIBOR-based component of interest payments are converted to a fixed rate

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of 2.81%. The interest rate swap is designated as a cash flow hedge, as the changes in the future cash flows of the swap are expected to offset changes in expected future interest payments on the related variable-rate debt, in accordance with ASC 815, Derivatives and Hedging. There were no interest rate swaps outstanding as of December 26, 2018.

The changes in the fair value of the interest rate swap are not included in earnings, but are included in other comprehensive income (“OCI”). These changes in fair value are subsequently reclassified into net earnings as a component of interest expense as the hedged interest payments are made on the variable rate borrowings.

For the year ended December 25, 2019, the swap was a highly effective cash flow hedge.

As of December 25, 2019, the estimated net gain included in AOCI related to the Company's cash flow hedge that will be reclassified into earnings in the next 12 months is \$0.3 million, based on current LIBOR interest rates.

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

	December 25, 2019	
	Notional	Fair value
Other Assets - Interest rate swap	\$ 40,000	\$ 360

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

	December 25, 2019	December 26, 2018
Interest expense on hedged portion of debt	\$ 461	\$ —
Interest income on interest rate swap	(84)	—
Interest expense on debt and derivatives, net	\$ 377	\$ —

The following table summarizes the effect of the Company's cash flow hedge accounting on AOCI for the years ended December 25, 2019 and December 26, 2018 (in thousands):

	Gain Recognized in OCI		(Gain) Reclassified from AOCI into Interest expense	
	December 25, 2019	December 26, 2018	December 25, 2019	December 26, 2018
Interest rate swap	\$ 430	—	\$ (84)	—

See Note 2 for the fair value of the Company's derivative asset.

7. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

	December 25, 2019	December 26, 2018
Accrued sales and property taxes	\$ 4,665	\$ 5,016
Accrued legal settlements and professional fees	16,901	38,639
Gift card liability	3,006	2,512
Deferred franchise and development fees	705	369
Other ⁽¹⁾	3,320	5,228
Total other accrued expenses and current liabilities	\$ 28,597	\$ 51,764

(1) The Company previously included the short-term portion deferred rent, tenant improvement allowance and lease escalation liabilities within "Other accrued expenses and current liabilities." Upon its adoption of Topic 842, these balances were netted with the ROU Asset for the respective operating lease. See "Change in accounting policies" in Note 2 and Note 5 for further details of the Company's adoption of Topic 842.

8. OTHER NONCURRENT LIABILITIES

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

	December 25, 2019	December 26, 2018
Deferred rent ⁽¹⁾	\$ —	\$ 10,660
Deferred franchise and development fees	5,612	5,224
Other ⁽²⁾	67	4,140
Total other noncurrent liabilities	\$ 5,679	\$ 20,024

(1) In accordance with the Company's adoption of Topic 842 "Leases" all deferred rent balances are now included with in the Company's ROU Asset. Refer to "Changes in accounting policies" in Note 2 and Note 5 for further details of the Company's adoption of Topic 842.

(2) The Company previously included the non-current portion tenant improvement allowance and lease escalation liabilities within "Other noncurrent liabilities." Upon its adoption of Topic 842, these balances were netted with the ROU Asset for the respective operating lease. See "Changes in accounting policies" in Note 2 and Note 5 for further details of the Company's adoption of Topic 842.

9. INCOME TAXES

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

For the Years Ended	December 25, 2019	December 26, 2018	December 27, 2017
Current income taxes:			
Federal	\$ —	\$ —	\$ —
State	104	220	250
Total current	104	220	250
Deferred income taxes:			
Federal	5,991	(3,526)	1,495
State	3,587	98	192
Total deferred	9,578	(3,428)	1,687
Adjustment to deferred taxes for tax rate change	—	—	(1,440)
Tax provision (benefit) for income taxes	\$ 9,682	\$ (3,208)	\$ 497

On December 22, 2017 the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduces the corporate tax rate to from 35% to 21%, effective for tax years beginning January 1, 2018. The Company is subject to the provisions of ASC 740, Income Taxes, which requires that the effect on deferred tax assets and liabilities of a change in tax rates be recognized in the period the tax rate change was enacted. The enacted reduction in the corporate federal income tax rate resulted in a re-measurement of the Company's net deferred tax assets and liabilities with a one-time, non-cash increase to income tax benefit. Consequently, we recorded a decrease related to deferred tax assets and deferred tax liabilities of \$12.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

million and \$13.5 million, respectively, with a net benefit to deferred income tax expense of \$1.4 million for the year ended December 27, 2017. In addition, under the new tax law, the corporate alternative minimum tax (“AMT”) is repealed effective for tax years beginning January 1, 2018. For tax years beginning in 2018, 2019 and 2020, to the extent AMT credit carryovers exceed regular tax liability, 50% of the excess of AMT credit carryovers would be refundable. Any remaining AMT credits would be fully refundable in 2021.

The provision for income taxes differs from the amount computed by applying the federal income tax rate of 21.0% for both fiscal 2019 and 2018 and 35.0% for fiscal 2017 as follows:

For the Years Ended	December 25, 2019	December 26, 2018	December 27, 2017
Statutory federal income tax rate applied to earnings before income taxes and extraordinary items	21.0 %	21.0 %	35.0 %
State tax benefit (net of federal benefit)	6.0	5.0	0.6
Change in valuation allowance	2.4	(6.9)	10.9
TRA expense	—	1.3	(21.4)
Revaluation of deferred taxes	—	—	(15.8)
WOTC Credit	(0.8)	3.3	(2.5)
Stock option exercises	(1.0)	2.1	—
Other	0.3	0.5	(1.3)
Total	27.9 %	26.3 %	5.5 %

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

The Company has evaluated the available evidence supporting the realization of its gross deferred tax assets. After evaluating all of the positive and negative evidence, including the Company’s continued income from operations, the Company concluded that it is more likely than not that its deferred tax assets will be realized. In fiscal 2018 and 2017, the Company recorded a valuation allowance of approximately \$5.1 million and \$4.3 million, respectively, against its deferred tax asset resulting from certain tax credits that may not be realizable prior to the time the credits expire. In fiscal 2019, the Company recorded an additional \$0.9 million to the valuation allowance. As of December 25, 2019, the total valuation allowance was \$6.0 million.

On July 30, 2014, the Company entered into the TRA. The TRA calls for the Company to pay its pre-IPO stockholders 85% of the cash savings that the Company realizes in its taxes as a result of utilizing its NOLs and other tax attributes attributable to preceding periods. The TRA charge expense (benefit) is a permanent add-back to the Company’s taxable income. TRA resulted in approximately \$0.1 million of expense in fiscal 2019 as a result of changes to future forecasted results, \$0.8 million of benefit in fiscal 2018 as a result of changes to future forecasted results and timing of deductibility of certain temporary differences including the current year settlement accrual and \$5.6 million benefit in fiscal 2017 as a result of reduction in the federal corporate income tax rate related to tax reform. In fiscal 2019, we paid \$5.8 million to our pre-IPO stockholders under the TRA.

As of December 25, 2019 and December 26, 2018, the deferred tax assets related to California Enterprise Zone credits, net of valuation allowances are \$3.3 million and \$4.4 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company's deferred tax assets and liabilities as of December 25, 2019 and December 26, 2018 are summarized below. The balances reflect the revaluation for the reduction in the Federal corporate rate to 21.0%.

	December 25, 2019	December 26, 2018
Deferred assets:		
Capital leases	\$ 31	\$ 53
Accrued vacation	454	456
Accrued legal	4,434	10,343
Deferred rent	—	3,788
Accrued workers' compensation	1,090	1,660
Enterprise zone and other credits	10,442	13,001
Net operating losses	1,814	6,260
Fixed assets	2,955	3,374
ROU assets	57,931	—
Other	4,698	5,239
Total deferred tax assets	83,849	44,174
Valuation allowance	(5,993)	(5,149)
Net deferred tax assets	77,856	39,025
Deferred liabilities:		
Goodwill	(6,060)	(6,229)
Trademark	(16,745)	(17,654)
Prepaid expense	(791)	(528)
ROU liabilities	(52,056)	—
Other	(167)	(2,905)
Deferred tax liabilities	(75,819)	(27,316)
Net deferred tax asset	\$ 2,037	\$ 11,709

The net deferred tax asset amounts above as of December 25, 2019 and December 26, 2018 have been classified in the accompanying consolidated balance sheets as noncurrent assets.

As of December 25, 2019, the Company has federal and state NOL carryforwards of approximately \$8.6 million and less than \$0.1 million, respectively, which expire beginning in 2032 and 2027, respectively. The Company also has state enterprise zone credits of approximately \$10.6 million, which expire in 2023, and federal Work Opportunity Credits of approximately \$1.7 million, which will expire in 2038. The utilization of NOL carryforwards may be subject to limitation under section 382 of the Internal Revenue Code of 1986 (the "Code") and similar state law provisions.

As of December 25, 2019, December 26, 2018, and December 27, 2017, the Company had no accrual for unrecognized tax benefits. Consequently, no interest or penalties have been accrued by the Company. The Company believes that no significant changes to the amount of unrecognized tax benefits will occur within the next twelve months. The Company is subject to taxation in the United States and in various state jurisdictions.

The Company is no longer subject to U.S. examination for years before 2015 by the federal taxing authority, and for years before 2014 by state taxing authorities. The Company is currently under IRS examination for tax year ending December 28, 2016 and December 27, 2017. As of December 25, 2019, no proposed adjustments were issued by the IRS. During the first quarter of 2020, the Company has had new discussions with the IRS regarding a potential timing difference adjustment that would not result in a significant impact to the financial statements, if agreed to by the Company.

10. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution employee benefit plan that permits its employees, subject to certain eligibility requirements, to contribute up to 25% of their qualified compensation to the plan. The Company matches 100% of the employees' contributions of the first 3% of the employees' annual qualified compensation, and 50% of the employees' contributions of the next 2% of the employees' annual qualified compensation. The Company's matching contribution immediately fully vests. The Company's contributions to the plan were \$0.8 million for both years ended December 25, 2019 and December 26, 2018 and \$0.7 million for the year ended December 27, 2017.

11. STOCK-BASED COMPENSATION

Stock Options

At December 25, 2019, options to purchase 2,077,570 shares of common stock of the Company were outstanding, including 1,518,145 vested and 559,425 unvested. Unvested options vest over time, or upon our achieving annual financial goals. However, the compensation committee of the board of directors, as administrator of the Company's 2018 Omnibus Equity Incentive Plan, has the power to accelerate the vesting schedule of stock-based compensation, and, generally, in the event of an employee termination in connection with a change in control of the Company, any unvested portion of an award under the plan shall become fully vested. At December 25, 2019, 1,159,366 premium options, options granted above the stock price at date of grant, remained outstanding. In fiscal 2019 and 2018, the Company granted 323,900 and 311,272 options, respectively, with an exercise price equal to the fair market value of the common stock on the date of grant. The options granted in fiscal 2019 and 2018 had a four-year vesting period. On November 15, 2016, the board of directors approved the modification of the remaining performance-based stock options granted in 2014 and 2013 to vest based solely on service conditions. As a result, 17,378 performance-based stock options that would not have vested based on the 2017 performance target vested at the end of fiscal 2017, subject to continued employment of the option holder and the other terms and conditions of the 2014 Stock Option Plan. As of December 25, 2019, there were no remaining performance-based stock options and 2,077,570 time based stock options outstanding. Stock options generally expire 10 years from the date of grant. Changes in stock options for the years ended December 25, 2019 and December 26, 2018, are as follows:

	Shares	Weighted-Average Exercise Price
Outstanding - December 27, 2017	2,309,103	\$ 7.65
Grants	311,272	10.98
Exercised	(269,549)	6.81
Forfeited, cancelled or expired	(248,422)	12.46
Outstanding - December 26, 2018	2,102,404	7.68
Grants	323,900	11.51
Exercised	(234,728)	6.18
Forfeited, cancelled or expired	(114,006)	13.35
Outstanding - December 25, 2019	2,077,570	\$ 8.14
Vested and expected to vest at December 25, 2019	2,066,768	\$ 8.12
Exercisable at December 25, 2019	1,518,145	\$ 6.93

Stock options at December 25, 2019 are summarized as follows:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted- Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$4.09	99,531	3.50	\$ 4.09	99,531	\$ 4.09
\$5.84	1,159,366	2.55	5.84	1,159,366	\$ 5.84
\$9.65 - \$13.95	731,158	8.54	11.51	175,097	\$ 11.86
\$15.00	87,515	4.78	15.00	84,151	\$ 15.00
\$4.09 - \$15.00	\$ 2,077,570	3.28	\$ 8.14	\$ 1,518,145	\$ 6.93

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The intrinsic value of options outstanding and options exercisable, calculated as the difference between the market value as of December 25, 2019 and the exercise price, is \$14.3 million and \$12.3 million, respectively. The intrinsic value of options exercised, calculated as the difference between the market value on the date of exercise and the exercise price, was \$2.1 million, \$1.5 million and \$0.2 million for fiscal years 2019, 2018 and 2017, respectively.

The Company measures and recognizes compensation expense for the estimated fair value of stock options for employees and non-employee directors and similar awards based on the grant-date fair value of the award. For options that are based on a service requirement, the cost is recognized on a straight-line basis over the requisite service period, usually the vesting period. For options that were based on performance requirements, costs were recognized over periods to which the performance criteria related. The Company has authorized 5,652,240 shares of common stock for issuance in connection with stock awards. As of December 25, 2019, 1,040,703 shares were available for grant. In order to calculate our stock options' fair values and the associated compensation costs for share-based awards, the Company utilizes the Black-Scholes option pricing model, and has developed estimates of various inputs including forfeiture rate, expected term, expected volatility, and risk-free interest rate. The forfeiture rate is based on historical rates and reduces the compensation expense recognized. The expected term for options granted is derived using the "simplified" method, in accordance with SEC guidance. The Company calculates the risk-free interest rate using the implied yield for a U.S. Treasury security with constant maturity and a remaining term equal to the expected term of the Company's employee stock options. The Company does not anticipate paying any cash dividends for the foreseeable future and therefore uses an expected dividend yield of zero for option valuation purposes. Expected volatility is estimated using four publicly-traded companies in our market category. These are selected based on similarities of market capitalization, size, and other financial and operational characteristics. Volatility is calculated by taking the historical daily closing equity prices of our peer companies, prior to the grant date, over a period equal to the expected term.

The weighted-average estimated fair value of employee stock options granted in fiscal 2019 and 2018 was \$3.85 per share and \$3.78 per share, respectively, using the Black-Scholes model with the following weighted-average assumptions used to value the option grants:

	December 25, 2019	December 26, 2018
Expected volatility	28.7%	28.4%
Risk-free interest rate	2.3%	2.9%
Expected term (years)	6.25	6.25
Expected dividends	—	—

During the years ended December 25, 2019, December 26, 2018 and December 27, 2017, the Company recognized stock option compensation expense of \$0.5 million, \$1.1 million and \$0.6 million, respectively. These expenses were included in general and administrative expenses consistent with the salary expense for the related optionees in the accompanying consolidated statements of operations. In connection with the retirement of our former President and Chief Executive Officer ("CEO") during fiscal 2018, the Company modified previously granted equity awards to accelerate the vesting of 33,545 awards, which would have otherwise vested in May 2018, and extended the exercisability of all vested and outstanding options until the expiration of the original term of such awards. As a result, the Company incurred incremental stock-based compensation expense of \$0.8 million for the year ended December 26, 2018.

As of December 25, 2019, we had total unrecognized compensation expense of \$1.8 million related to unvested stock options, which the Company expects to recognize over a weighted average period of 2.95 years.

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

We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior, and other factors. Changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously-estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously-estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the financial statements. The effect of forfeiture adjustments was insignificant in fiscal 2019, 2018 and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2017. We will continue to use significant judgment in evaluating the expected term, volatility, and forfeiture rate related to our stock-based compensation.

Restricted Shares

In fiscal 2019 and 2018, 299,052 and 323,764 restricted share awards were granted, respectively, at the fair market value on the date of grant. These grants vest based on continued service over three years for directors and four years for employees. Additionally, in fiscal 2018, 72,116 performance share units were granted, which vest over a minimum of one year and a maximum of five years. Performance share units are granted at fair market value on the date of grant and are subject to service-based and market-based vesting conditions. A portion of the performance share units satisfied their market-based vesting conditions during the fourth quarter of fiscal 2018 and vested upon the satisfaction of their service condition in the second quarter of fiscal 2019. The Company bases the amount of unearned compensation recorded on the fair market value of the awards on the date of issuance. In fiscal 2019, 2018, and 2017 the Company recognized share-based compensation expense of \$2.0 million, \$1.0 million, and \$0.5 million, respectively. This expense was included in general and administrative expenses in the accompanying consolidated statements of operations. As of December 25, 2019, there was total unrecognized compensation expense of \$5.4 million related to unvested restricted share awards, which the Company expects to recognize over a weighted-average period of 2.79 years.

Changes in restricted shares for the years ended December 25, 2019 and December 26, 2018, are as follows:

	Shares	Weighted-Average Fair Value
Unvested shares at December 27, 2017	196,642	\$ 13.70
Granted	395,880	\$ 10.22
Released	(45,991)	\$ 13.86
Forfeited, cancelled, or expired	(55,831)	\$ 13.42
Unvested shares at December 26, 2018	490,700	\$ 10.91
Granted	299,052	\$ 11.62
Released	(147,862)	\$ 10.73
Forfeited, cancelled, or expired	(53,882)	\$ 11.81
Unvested shares at December 25, 2019	588,008	\$ 11.23

12. EARNINGS PER SHARE

Basic EPS is calculated using the weighted-average number of shares of common stock outstanding during the years ended December 25, 2019, December 26, 2018, and December 27, 2017. Diluted EPS is calculated using the weighted-average number of shares of common stock outstanding and potentially dilutive during the period, using the treasury stock method.

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

For the Years Ended	December 25, 2019	December 26, 2018	December 27, 2017
Numerator:			
Net income (loss)	\$ 24,900	\$ (8,994)	\$ 8,619
Denominator:			
Weighted-average shares outstanding—Basic	36,739,209	38,574,553	38,453,347
Weighted-average shares outstanding—Diluted	37,441,503	38,574,553	39,086,676
Net income (loss) per share—Basic	\$ 0.68	\$ (0.23)	\$ 0.22
Net income (loss) per share—Diluted	\$ 0.67	\$ (0.23)	\$ 0.22
Anti-dilutive securities not considered in diluted EPS calculation	526,295	2,593,104	747,985

Below is a reconciliation of basic and diluted share counts.

For the Years Ended	December 25, 2019	December 26, 2018	December 27, 2017
Weighted-average shares outstanding—Basic	36,739,209	38,574,553	38,453,347
Dilutive effect of stock options and restricted shares	702,294	—	633,329
Weighted-average shares outstanding—Diluted	37,441,503	38,574,553	39,086,676

13. COMMITMENTS AND CONTINGENCIES**Legal Matters**

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, under the caption Elliott Olvera, et al v. El Pollo Loco, Inc., et al (Case No. 30-2014-00707367-CU-OE-CXC) (the "Olvera Action") on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. The court recently certified two classes of plaintiffs - one class encompasses restaurant employees who were not provided proper rest breaks because they were not allowed to leave the premises during their breaks and the other class encompasses restaurant employees who were required to wait at the restaurant after they finished working for the night until the manager set the alarm for safety purposes. The parties reached a settlement in principle on January 24, 2019 of all claims brought on behalf of the 32,000+ putative class members in the Olvera Action, as well as all claims for failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements brought in the class actions captioned Martha Perez v. El Pollo Loco, Inc. (Los Angeles Superior Court Case No. BC624001), Maria Vega, et al. v. El Pollo Loco, Inc. (Los Angeles Superior Court Case No. BC649719), and Gonzalez v. El Pollo Loco, Inc. (Los Angeles Superior Court Case No. BC712867). The settlement reached in principle in the Olvera, Perez, Vega, and Gonzalez actions resolves all potential claims from April 12, 2010 through April 1, 2019 El Pollo Loco restaurant employees may have against El Pollo Loco for failure to pay for all compensation owed, failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements, among other wage and hour related claims. A \$16.3 million accrual of an expected settlement amount related to this matter was recorded as of December 26, 2018, and the court formally approved the settlement on January 31, 2020. Purported class actions alleging wage and hour violations are commonly filed against California employers. The Company fully expects to have to defend against similar lawsuits in the future.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al.

(Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016, on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, LLC, Trimaran Capital Partners, and Freeman Spogli & Co. (collectively, the "Controlling Shareholder Defendants"). Among other things, Plaintiffs allege that, in 2014 and early 2015, Holdings suffered losses due to rising labor costs in California and, in an attempt to mitigate the effects of such rising costs, removed a \$5 value option from the Company's menu, which resulted in a decrease in traffic from value-conscious consumers. Plaintiffs further allege that during the Class Period, Holdings and the Individual Defendants made a series of materially false and misleading statements that concealed the effect that these factors were having on store sales growth, resulting in Holdings stock continuing to be traded at artificially inflated prices. As a result, Plaintiffs and other members of the putative class allegedly suffered damages in connection with their purchase of Holdings' stock during the Class Period. In addition, Plaintiffs allege that the Individual Defendants and Controlling Shareholder Defendants had direct involvement in, and responsibility over, the operations of Holdings, and are presumed to have had, among other things, the power to control or influence the transactions giving rise to the alleged securities law violations. In both cases, Plaintiffs seek an unspecified amount of damages, as well as costs and expenses (including attorneys' fees).

On July 25, 2016, the Court issued an order granting, without prejudice, Defendants' Motion to Dismiss plaintiff's complaint for failure to state a claim. Plaintiffs were granted leave to amend their complaint, and filed an amended complaint on August 22, 2016. Defendants moved to dismiss the amended complaint, and on March 20, 2017, the Court dismissed the amended complaint and granted Plaintiffs leave to file another amended complaint. Plaintiffs filed another amended complaint on April 17, 2017. Defendants filed a motion to dismiss the amended complaint on or about May 17, 2017. The Court denied Defendants' motion to dismiss the third amended complaint on August 4, 2017. On December 8, 2017, Plaintiffs filed a motion for class certification, and on July 3, 2018, the Court granted Plaintiffs' motion and certified a class as to all of Plaintiffs' claims. Defendants filed a petition for appellate review of a portion of the Court's July 3, 2018 class certification order. On October 19, 2018 the Ninth Circuit Court of Appeals denied the petition.

On January 23, 2019, the parties filed a Notice of Settlement and Joint Request for Order to Stay Proceedings, stating the parties have reached an agreement in principle to settle the claims and allegations in the action and are negotiating the terms of a Stipulation of Settlement. On January 24, 2019, the Court ordered that all proceedings in the action be stayed until April 3, 2019, on or before which the parties are to file a Stipulation of Settlement and a motion for preliminary approval of the settlement. Defendants maintain that the Plaintiffs' claims are without merit, and have entered into the settlement to eliminate the uncertainties, burden and expense of further protracted litigation. A \$20.0 million accrual of an expected settlement amount related to this matter was recorded as of December 26, 2018 and all settlement payments were made during the year ended December 25, 2019.

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

On March 17, 2017, the Delaware court granted in part, and denied in part, the motion to stay the Diep action. The court denied defendants' motion to dismiss the complaint for failure to state a claim. On January 17, 2018, the court entered an order granting the parties' stipulation staying all proceedings in the Diep action for five months or until the completion of an investigation of the allegations in the action by a special litigation committee of the Holdings board of directors (the "SLC"). On February 13, 2019, after concluding its investigation, the SLC filed a motion to dismiss the Diep action. The SLC filed its investigative report under seal as an exhibit to the motion to dismiss. Discovery related to the SLC's motion is ongoing.

Janice P. Handlers-Bryman and Michael D. Bryman v. El Pollo Loco, Inc., Los Angeles Superior Court (Case No. MC026045) (the “Lancaster Lawsuit”) was filed on February 9, 2016. Existing El Pollo Loco franchisees, Janice P. Handlers-Bryman and Michael D. Bryman, as individuals and in their capacities as trustees of the Handlers Bryman Trust (collectively, “Plaintiffs”), filed suit against us alleging, among other things, that we “imposed unreasonable time limitations” on their development of additional restaurant locations in Lancaster, California, and that we thereafter developed company-operated El Pollo Loco restaurants in the “market area” of Plaintiffs’ existing El Pollo Loco restaurant in Lancaster. Plaintiffs asserted claims against us for, among other things, (i) breach of the implied covenant of good faith and fair dealing, (ii) intentional interference with prospective business, and (iii) unfair business practices. In addition to an unspecified amount of damages and costs of the lawsuit, Plaintiffs sought reformation of the contract, declaratory relief, disgorgement of alleged revenues and profits, injunctive relief, and a judicial mandate requiring us to either transfer the company-operated locations to Plaintiffs or to continuously disgorge to Plaintiffs the unjust enrichment allegedly obtained by us through the operation of the company-operated restaurants in Lancaster. We denied Plaintiffs’ allegations as the franchise agreement did not grant Plaintiffs any exclusive territorial rights and, instead, expressly reserved for us the right to open and operate - and the right to grant others the right to open and operate - El Pollo Loco restaurants “in the immediate vicinity of or adjacent to” Plaintiffs’ restaurant in Lancaster. On April 24, 2017, four days before the commencement of trial, Plaintiffs filed a voluntary dismissal, without prejudice, of the Lancaster Lawsuit without any payment or other concession by us. The corresponding dismissal was entered by the court on April 25, 2017. On May 22, 2017, Plaintiffs filed a motion for relief from the dismissal which was granted by the court on June 29, 2017. The trial in the case was bifurcated between the liability and damages phases. The liability phase commenced on November 16, 2017. The only cause of action that the court allowed to go to the jury was the cause of action for breach of the covenant of good faith and fair dealing. The court elected not to present the cause of action for intentional interference with prospective business to the jury. (The causes of action for reformation due to mistake and unconscionability, unfair business practices under California Business & Professions Code §17200 et seq., and declaratory relief were not presented to the jury as these types of equitable claims are to be decided by the court as a matter of law.) On December 11, 2017, the jury returned a verdict in favor of Plaintiffs finding that the Company breached the implied covenant of good faith and fair dealing by (1) constructing the two new company-operated El Pollo Loco restaurants in Lancaster, and (2) not offering the two new company-operated El Pollo Loco restaurants in Lancaster to Plaintiffs. Because the trial was bifurcated, the December 11, 2017 verdict did not include a determination of damages.

The damages phase of the trial commenced on April 20, 2018. On May 1, 2018, the jury returned a verdict on damages in favor of Plaintiffs in the following amounts: (1) \$4,356,600 in “impact damages” arising out of our construction of the two new company-operated El Pollo Loco restaurants in Lancaster, and (2) \$4,481,206 in “lost opportunity damages” arising out of our failure to offer the two new company-operated El Pollo Loco restaurants in Lancaster to Plaintiffs. On August 1, 2018, the court issued a final judgment and decision on the unfair business practices claim under California Business & Professions Code § 17200 et seq. As part of the final judgment, the court found El Pollo Loco liable and issued injunctive relief requiring El Pollo Loco to revise its franchise disclosure document and franchise agreement. The court also awarded Plaintiffs restitution of \$4,356,600 for “impact damages” arising out of our construction of the two new company-operated El Pollo Loco restaurants in Lancaster. The court, reversing its previous position, held that these damages could be awarded in addition to the “lost opportunity damages” awarded by the jury. Thus, the court entered a total monetary judgment of \$8,837,806. There was no ruling on the causes of action for reformation due to mistake, and declaratory relief, and on January 27, 2020, the court entered an amended judgment dismissing these claims. The trial court subsequently awarded the Plaintiffs \$249,728 in costs and \$1,391,703 in attorney fees. Post judgment interest is running at 10% simple interest per year on the total amount of the monetary judgment, costs, and attorney’ fees.

On August 27, 2018, the Company filed a notice of appeal as to the entire judgment. The appeal on the merits is currently pending. Briefing on the merits has not yet occurred in the appellate court. The record was delivered by the trial court clerk to the court of appeal on August 20, 2019. The Company’s opening brief is due to be filed in the Court of Appeals by April 1, 2020. Based on the assessment by management of the numerous legal arguments that can be raised on appeal, together with independent assessments from our legal trial and appellate counsel, the Company believes that a loss is currently not probable or estimable under ASC 450, “Contingencies”, and as of December 25, 2019 no accrual has been made with regard to the verdict.

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

Purchase Commitments

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

At December 25, 2019, the Company's total estimated commitment to purchase chicken was \$25.2 million.

Contingent Lease Obligations

As a result of assigning the Company's interest in obligations under real estate leases in connection with the sale of company-operated restaurants to some of the Company's franchisees, the Company is contingently liable on five lease agreements. These leases have various terms, the latest of which expires in 2036. As of December 25, 2019, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was \$2.0 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at December 25, 2019 was \$1.7 million. The Company's franchisees are primarily liable on the leases. The Company has cross-default provisions with these franchisees that would put them in default of their franchise agreements in the event of non-payment under the leases. The Company believes that these cross-default provisions reduce the risk that payments will be required to be made under these leases. Accordingly, no liability has been recorded in the Company's consolidated financial statements related to these contingent liabilities.

Employment Agreements

As of December 25, 2019, the Company had employment agreements with four of the officers of the Company. These agreements provide for minimum salary levels, possible annual adjustments for cost-of-living changes, and incentive bonuses that are payable under certain business conditions.

Indemnification Agreements

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

14. RELATED PARTY TRANSACTIONS

LLC owns approximately 47.7% of the Company's outstanding common stock. This large position means that LLC and its majority owners—predecessors and affiliates of, and certain funds managed by, Trimaran Capital Partners and Freeman Spogli & Co. (collectively, "Trimaran" and "Freeman Spogli," respectively)—possess significant influence when stockholders vote on matters such as election of directors, mergers, consolidations and acquisitions, the sale of all or substantially all of the Company's assets, decisions affecting the Company's capital structure, amendments to the Company's certificate of incorporation or by-laws, and the Company's winding up and dissolution. So long as LLC maintains at least 40% ownership, (i) any member of the board of directors may be removed at any time without cause by affirmative vote of a majority of the Company's common stock, and (ii) stockholders representing 40% or greater ownership may cause special stockholder meetings to be called.

15. REVENUE FROM CONTRACTS WITH CUSTOMERS**Adoption of Topic 606, "Revenue from Contracts with Customers"**

On December 28, 2017, the Company adopted Topic 606 using the modified retrospective method applied to those contracts, which were not fully satisfied as of December 28, 2017. Results for reporting periods beginning after December 28, 2017, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Revenue Recognition

Nature of products and services

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

Franchise and franchise advertising revenue

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

Disaggregated revenue

The following table presents our revenues for the years ended December 25, 2019 and December 26, 2018 disaggregated by revenue source and market (in thousands):

	December 25, 2019	December 26, 2018
Core Market⁽¹⁾:		
Company-operated restaurant revenue	\$ 351,624	\$ 340,421
Franchise revenue	14,918	14,144
Franchise advertising fee revenue	11,049	10,831
Total core market	<u>\$ 377,591</u>	<u>\$ 365,396</u>
Non-Core Market⁽²⁾:		
Company-operated restaurant revenue	\$ 39,488	\$ 48,414
Franchise revenue	13,901	11,627
Franchise advertising fee revenue	11,350	10,391
Total non-core market	<u>\$ 64,739</u>	<u>\$ 70,432</u>
Total revenue	<u>\$ 442,330</u>	<u>\$ 435,828</u>

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

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

The following table presents our revenues disaggregated by geographic market for the years ended December 25, 2019 and December 26, 2018:

	December 25, 2019	December 26, 2018
Greater Los Angeles area market	70.5%	69.2%
Other markets	29.5%	30.8%
Total	<u>100%</u>	<u>100%</u>

Contract balances

The following table provides information about the change in the franchise contract liability balances during the year ended December 25, 2019 and December 26, 2018 (in thousands):

December 27, 2017	\$	5,759
Revenue recognized - beginning balance		(396)
Additional contract liability		365
Revenue recognized - additional contract liability		(135)
December 26, 2018	\$	5,593
Revenue recognized - beginning balance		(441)
Additional contract liability		1,457
Revenue recognized - additional contract liability		(292)
December 25, 2019	\$	6,317

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

For the year ended December 25, 2019, there was an increase to the contract liability balance due to the Company's completion of the sale of four company-operated restaurants within the San Francisco area to an existing franchisee and seven company-operated restaurants in the Phoenix area to another existing franchisee. This resulted in an additional contract liability of \$0.7 million, relating to allocation of the transaction price to various performance obligations under the applicable contracts of the sale.

The following table illustrates the estimated revenue to be recognized in the future related to performance obligations that are unsatisfied as of December 25, 2019:

Franchise revenues (in thousands):

2020	\$	705
2021		515
2022		434
2023		420
2024		406
Thereafter		3,837
Total	\$	6,317

Contract Costs

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

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth a summary of our unaudited quarterly operating results for each of the last eight quarters in the period ended December 25, 2019. We have derived this data from our unaudited consolidated interim financial statements that, in our opinion, have been prepared on substantially the same basis as the audited financial statements contained elsewhere in this report and include all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. These unaudited quarterly results should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Dollar amounts in thousands, except share data)	2019				2018				
	December	September	June	March	December	September	June	March	
Selected Financial Data									
Total revenue (\$)	107,546	112,067	113,740	108,977	106,261	112,178	111,633	105,756	
Income (loss) from operations (\$)	5,336	10,118	20,580	2,292	(30,990)	(4)	9,492	7,589	4,448
Provision (benefit) for income taxes (\$)	728	2,940	5,665	349	(8,410)		2,388	865	1,949
Net income (loss) (\$)	3,498	6,402	14,087	913	(23,410)	(4)	6,835	5,052	2,529
Per Share Data (2):									
Net income (loss) per share:									
Basic	0.10	0.18	0.37	0.02	-0.60		0.18	0.13	0.07
Diluted	0.10	0.18	0.37	0.02	-0.60		0.17	0.13	0.06
Weighted average shares used in computing net income per share:									
Basic	34,503,722	35,859,502	37,939,912	38,633,702	38,751,522		38,602,658	38,482,074	38,465,208
Diluted	35,242,122	36,397,368	38,580,722	39,496,436	38,751,522	(3)	39,205,090	39,043,434	38,987,351
Selected Operating Data									
Number of restaurants (at period end)									
Company-operated	195	201	200	211	213		212	211	212
Franchised	287	284	284	273	271		271	269	268
System-wide	482	485	484	484	484		483	480	480
Average unit volume (AUV) (company-operated) (1)									
	1,931	1,978	1,934	1,838	1,785		1,891	1,890	1,791
Comparable restaurant sales growth (%)									
Company-operated	4.3	1.6	0.4	1.5	3.7		2.0	(1.6)	(2.0)
Franchised	3.6	0.6	0.9	3.2	5.1		3.0	(0.3)	(0.4)
System-wide	3.9	1.1	0.7	2.4	4.4		2.6	(0.9)	(1.1)

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

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

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

(4) Loss from operations and net loss includes a \$36.3 million legal settlement in the period.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 25, 2019.

Management Report on Internal Control over Financial Reporting

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 25, 2019 based on the criteria in Internal Control — Integrated Framework ("2013 Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 25, 2019 based on the criteria established in the 2013 Framework.

The effectiveness of our internal control over financial reporting as of December 25, 2019 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report included herein.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the thirteen weeks ended December 25, 2019 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited El Pollo Loco Holdings, Inc.'s (the "Company") internal control over financial reporting as of December 25, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 25, 2019 and December 26, 2018, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2019, and the related notes and our report dated March 6, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP

Costa Mesa, California

March 6, 2020

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2019 fiscal year. In addition, our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors, employees and officers, including our principal executive officer, principal financial officer, principal accounting officer, controller, and any persons performing similar functions. The current version of the Code of Business Conduct and Ethics is available on our website under the Corporate Governance section at www.elpolloloco.com. To the extent required by rules adopted by the SEC and The Nasdaq Stock Market LLC, we intend to promptly disclose future amendments to certain provisions of the Code of Business Conduct and Ethics, or waivers of such provisions granted to executive officers and directors, on our website under the Corporate Governance section at www.elpolloloco.com.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2019 fiscal year.

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

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2019 fiscal year.

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

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2019 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2019 fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

- (1) Financial Statements: Consolidated financial statements filed as part of this report are listed under Item 8. Financial Statements and Supplementary Data.
- (2) Financial Statement Schedules: None.
- (3) Exhibits:

Number	Description	Filed Herewith	Incorporated by Reference				SEC File Number
			Form	Period Ended	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of El Pollo Loco Holdings, Inc.		10-Q	6/25/2014	3.1	9/5/2014	001-36556
3.2	Amended and Restated By-Laws of El Pollo Loco Holdings, Inc.		10-Q	6/25/2014	3.2	9/5/2014	001-36556
4.1	Description of El Pollo Loco Holdings, Inc. Capital Stock	X					
10.1	Income Tax Receivable Agreement, dated July 30, 2014, between El Pollo Loco Holdings, Inc., and Trimaran Pollo Partners, L.L.C.		10-Q	9/24/2014	10.1	11/7/2014	001-36556
10.2	Credit Agreement, dated as of December 11, 2014, among El Pollo Loco, Inc., as borrower, El Pollo Loco Holdings, Inc., and EPL Intermediate, Inc., as guarantors, Bank of America, N.A., as administrative agent, swingline lender and letter of credit issuer, the lenders party thereto, and the other parties thereto		8-K	N/A	10.1	12/16/2014	001-36556
10.3	Franchise Development Agreement (Exclusive), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and Anil Yadav and Atour Eyvazian, collectively, as developer		8-K	N/A	10.1	8/22/2014	001-36556
10.4	Consent to and Assignment of Development Rights (Initial Change of Entity), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and (i) Anil Yadav and Atour Eyvazian, collectively, as assignor, and (ii) AA Pollo, Inc., as assignee		8-K	N/A	10.2	8/22/2014	001-36556
10.5	Franchise Development Option Agreement, dated July 11, 2014, between El Pollo Loco, Inc., and Trimaran Pollo Partners, L.L.C.		S-1/A	N/A	10.14	7/14/2014	333-197001

10.6	Stockholders Agreement, dated as of November 18, 2005, by and among El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and the stockholders listed therein	S-1	N/A	10.3	6/24/2014	333-197001
10.7	Amendment No. 1 to Stockholders Agreement, dated as of April 20, 2006, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C.	S-1	N/A	10.4	6/24/2014	333-197001
10.8	Amendment No. 2 to Stockholders Agreement, dated as of December 26, 2007, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C.	S-1	N/A	10.5	6/24/2014	333-197001
10.9	Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of March 8, 2006	S-1	N/A	10.6	6/24/2014	333-197001
10.10	Amendment No. 1 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of December 26, 2007	S-1	N/A	10.7	6/24/2014	333-197001
10.11	Amendment No. 2 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of January 30, 2008	S-1	N/A	10.8	6/24/2014	333-197001
10.12	Amendment No. 3 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of July 14, 2011	S-1	N/A	10.9	6/24/2014	333-197001
10.13	Form of Franchise Agreement	S-1	N/A	10.12	6/24/2014	333-197001
10.14*	Form of Franchise Development Agreement	S-1	N/A	10.13	6/24/2014	333-197001
10.15	Form of Franchise Agreement (2019)	X				
10.16	Form of Franchise Development Agreement (2019)	X				
10.17	Form of Indemnification Agreement between El Pollo Loco Holdings, Inc. and each of its directors and executive officers	S-1/A	N/A	10.27	7/22/2014	333-197001
10.18*	2014 Omnibus Equity Incentive Plan	S-1/A	N/A	10.22	7/22/2014	333-197001
10.19*	Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan	S-1/A	N/A	10.25	7/22/2014	333-197001

10.20*	Form of Non-Officer Director Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan	S-1/A	N/A	10.26	7/22/2014	333-197001
10.21*	Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan (Time Vesting Only)	10-Q	6/29/2016	10.27	8/5/2016	001-36556
10.22*	Form of Employee Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan	10-Q	9/28/2016	10.28	11/4/2016	001-36556
10.23*	2018 Omnibus Equity Incentive Plan Form of Restricted Stock Agreement under 2018 Omnibus Equity Incentive Plan	S-8	N/A	4.3	8/6/2018	333-226621
10.24*		X				
10.25*	Form of Restricted Stock Agreement under 2018 Omnibus Equity Incentive Plan (Non-Employee Directors)	X				
10.26*	Form of Restricted Stock Unit Agreement under 2018 Omnibus Equity Incentive Plan	X				
10.27*	Form of Stock Option Awards Agreement under 2018 Omnibus Equity Incentive Plan	X				
10.28*	Employment Agreement between Bernard Acoca and El Pollo Loco, Inc.	10-K	12/27/2017	10.29	3/9/2018	001-36556
10.29*	Employment Agreement between Laurance Roberts and El Pollo Loco, Inc.	S-1	N/A	10.15	6/24/2014	333-197001
10.30*	Employment Agreement between Hector Munoz and El Pollo Loco, Inc.	X				
10.31*	Employment Agreement between Miguel Lozano and El Pollo Loco, Inc.	10-Q	3/27/2019	10.31	5/3/2019	001-36556
10.32*	Retirement Agreement between Stephen J. Sather and El Pollo Loco, Inc. and Executive's Waiver and Release of Claims between Stephen J. Sather and El Pollo Loco, Inc.	10-K	12/27/2017	10.30	3/9/2018	001-36556
10.33*	Separation Agreement between Gus Siade and El Pollo Loco, Inc.	10-Q	3/27/2019	10.32	5/3/2019	001-36556
10.34*	Form of Non-Qualified Stock Option Agreement between El Pollo Loco Holdings, Inc. and Bernard Acoca	S-8	N/A	4.3	5/8/2018	333-224730
10.35*	Form of Restricted Share Unit Award Agreement between El Pollo Loco Holdings, Inc. and Bernard Acoca	S-8	N/A	4.4	5/8/2018	333-224730
10.36*	Form of Performance Share Unit Award Agreement between El Pollo Loco Holdings, Inc. and Bernard Acoca	S-8	N/A	4.5	5/8/2018	333-224730

21.1	Subsidiaries of El Pollo Loco Holdings, Inc.	S-1	N/A	21.1	6/24/2014	333-197001
23.1	Consent of BDO USA, LLP	X				
24.1	Power of Attorney (included on signature page hereto)	X				
31.1	Certification of Principal Executive Officer under section 302 of the Sarbanes–Oxley Act of 2002	X				
31.2	Certification of Principal Financial Officer under section 302 of the Sarbanes–Oxley Act of 2002	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. section 1350, adopted by section 906 of the Sarbanes–Oxley Act of 2002	**				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				

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

** Furnished herewith.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

EL POLLO LOCO HOLDINGS, INC.

By: /s/ Bernard Acoca
Bernard Acoca
President and Chief Executive Officer
Date: March 6, 2020

SIGNATURES

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Bernard Acoca</u> Bernard Acoca	Director, President and Chief Executive Officer (principal executive officer)	March 6, 2020
<u>/s/ Laurance Roberts</u> Laurance Roberts	Chief Financial Officer (principal financial and accounting officer)	March 6, 2020
<u>/s/ Michael G. Maselli</u> Michael G. Maselli	Chairman and Director	March 6, 2020
<u>/s/ Dean C. Kehler</u> Dean C. Kehler	Director	March 6, 2020
<u>/s/ John M. Roth</u> John M. Roth	Director	March 6, 2020
<u>/s/ Douglas J. Babb</u> Douglas J. Babb	Director	March 6, 2020
<u>/s/ Samuel N. Borgese</u> Samuel N. Borgese	Director	March 6, 2020
<u>/s/ Mark Buller</u> Mark Buller	Director	March 6, 2020
<u>/s/ William R. Floyd</u> William R. Floyd	Director	March 6, 2020
<u>/s/ Carol Lynton</u> Carol Lynton	Director	March 6, 2020

DESCRIPTION OF CAPITAL STOCK OF EL POLLO LOCO HOLDINGS, INC.

References to “we,” “us” and “our” refer to El Pollo Loco Holdings, Inc.

The following is a summary of the rights and preferences of our capital stock and preferred stock, related provisions of our certificate of incorporation and bylaws, and certain applicable provisions of Delaware law. While we believe that the following description covers the material terms of our capital stock, the description may not contain all of the information that is important to you. The following description is qualified by reference to our certificate of incorporation and our bylaws, which are filed as exhibits to our Annual Report on Form 10-K for the year ended December 25, 2019 filed with the Securities and Exchange Commission.

General

Our authorized capital stock consists of 200,000,000 shares of common stock, par value \$0.01 per share, and 100,000,000 shares of preferred stock, par value \$0.01 per share. As of February 27, 2020, we had 35,089,983 shares of common stock outstanding, and no shares of preferred stock outstanding.

Common Stock

Under our certificate of incorporation, each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to share ratably in all assets remaining after payment of liabilities and any amounts due to the holders of preferred stock. Holders of our common stock have no preemptive, conversion or subscription rights. No redemption or sinking fund provisions apply to our common stock. Holders of our common stock do not have the right of cumulative voting in elections of directors, which means that holders of a majority of the outstanding shares of our common stock can elect all of the directors standing for election at any annual meeting of stockholders.

Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of our common stock are entitled to receive ratably such dividends as may be declared from time to time by our board of directors out of legally available funds.

Preferred Stock

Our certificate of incorporation authorizes our board of directors, without stockholder approval, to issue up to 100,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions granted to or imposed upon each such series of preferred stock, including voting rights, dividend rights, conversion rights, terms of redemption, liquidation preference, sinking fund terms, subscription rights and the number of shares constituting any series or the designation of a series.

Our board of directors is able to issue, without stockholder approval, preferred stock with voting and conversion rights that could adversely affect the voting power of the holders of common stock and reduce the likelihood that such holders will receive dividend payments or payments upon liquidation. Such issuance could have the effect of decreasing the market price of the common stock.

Anti-Takeover Provisions of Delaware Law and Certain Charter and Bylaw Provisions

The following is a summary of certain provisions of the Delaware General Corporation Law (the “DGCL”), and our certificate of incorporation and bylaws that may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Classified Board of Directors

Our certificate of incorporation provides for our board of directors to be divided into three classes of directors, as nearly equal in number as possible, serving staggered terms. Approximately one-third of our board of directors is to be elected each year. Under Section 141 of the DGCL, unless the certificate of incorporation provides otherwise, directors serving on a classified board can only be removed for cause. Our certificate of incorporation provides that our directors may only be removed for cause, by a majority of the voting power of the outstanding voting stock voting as a single class to remove the director at an annual or special meeting. However, if Trimaran Pollo Partners, L.L.C. ("LLC") beneficially owns more than 40% of our common stock, our directors may be removed with or without cause, by a majority of the voting power of the outstanding stock voting as a single class. The provision for our classified board of directors may be amended, altered or repealed only upon the affirmative vote of the holders of a majority of our outstanding voting stock.

Number of Directors; Vacancies

Our certificate of incorporation provides that the number of directors on our board of directors is to be fixed exclusively pursuant to resolution adopted by our board of directors. The exact number of members on our board of directors is to be determined from time to time by resolution of a majority of our full board of directors.

Pursuant to our certificate of incorporation, each director is to serve until his or her successor is duly elected and qualified, unless he or she resigns, dies, becomes disqualified or is removed. Our certificate of incorporation further provides that, generally, vacancies or newly created directorships in our board of directors may only be filled by a resolution approved by a majority of our board of directors and any director so chosen will hold office until the next election of the class for which such director was chosen.

Stockholder Meetings

Our certificate of incorporation and bylaws prohibit our stockholders from calling special meetings once LLC ceases to beneficially own more than 40% of our common stock, in which event, special meetings of stockholders will be able to be called only by (i) the Chairman of our board of directors or (ii) our Secretary at the written request of a majority of the number of directors that we would have were there no vacancies on our board of directors.

Action by Stockholders Without a Meeting

The DGCL permits stockholder action by written consent unless otherwise provided by a corporation's certificate of incorporation. Our certificate of incorporation prohibits stockholder action by written consent when LLC ceases to beneficially own more than 40% of our common stock.

No Cumulative Voting

The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting in the election of directors.

Stockholder Proposals and Nominations

Our bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders or to nominate candidates for election as directors at an annual meeting of stockholders must provide timely notice of such proposed business in writing. To be timely, a stockholder's notice generally must be delivered to or mailed and received at our principal executive office not less than 90 days or more than 120 days prior to the first anniversary of the preceding year's annual meeting.

Our bylaws also provide certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders. A stockholder's notice must set forth, among other things, as to each business matter or nomination the stockholder proposes to bring before the meeting:

- the name and address of the stockholder and the beneficial owner, if any, on whose behalf the proposal or nomination is made;
- the class and number of shares that are owned of record and beneficially by the stockholder proposing the business or nominating the nominee;
- a representation that the stockholder giving the notice is a holder of record of shares of our voting stock entitled to vote at such annual meeting and intends to appear in person or by proxy at the annual meeting to propose the business or nominate the person or persons specified in the notice, as applicable; and
- whether such stockholder or beneficial owner intends to deliver a proxy statement and forms of proxy to holders of at least the percentage of shares of our voting stock required to approve such proposal or nominate such nominee or nominees.

If the stockholder is nominating a candidate for director, the stockholder's notice must also include the name, age, business address, residence address and occupation of the nominee proposed by the stockholder and the signed consent of the nominee to serve as a director on our board of directors if so elected. The candidate may also be required to present certain information and make certain representations and agreements at our request.

In addition, a stockholder must also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations under the Exchange Act with respect to matters relating to nomination of candidates for directors.

Supermajority provisions

The DGCL generally provides that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless the corporation's certificate of incorporation or bylaws require a greater percentage. Our amended and restated certificate of incorporation and bylaws require that the affirmative votes of holders of at least 75% of the total votes eligible to be cast in the election of directors are required to amend, alter, change or repeal specified provisions of our amended and restated certificate of incorporation on and after the date LLC ceases to beneficially own at least 40% of the total votes eligible to be cast in the election of directors, including:

- classified board of directors (the election and term of our directors);
- the provisions regarding director liability;
- the provisions regarding director and officer indemnification;

- the provisions regarding competition and corporate opportunities;
- the provisions regarding entering into business combinations with interested stockholders;
- the provisions regarding stockholder action by written consent;
- the provisions regarding calling special meetings of stockholders;
- filling vacancies on our board of directors;
- the advance notice requirements for stockholder proposals and director nominations; and
- the amendment provision requiring that the above provisions be amended only with a 75% supermajority vote.

This requirement of a supermajority vote to approve amendments to our amended and restated certificate of incorporation and bylaws could enable a minority of our stockholders to exercise veto power over any such amendments.

Delaware Anti-Takeover Statute

Section 203 of the DGCL, subject to certain exceptions, prohibits a publicly-held Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such person or entity became an interested stockholder, unless:

- prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding specified shares; or
- at or subsequent to such date of the transaction that resulted in a person or entity becoming an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines an “interested stockholder” as any person that is:

- owner of 15% or more of the outstanding voting stock of the corporation;

- an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant date; or
- an affiliate or associate of the above.

A Delaware corporation may “opt out” of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders’ amendment approved by at least a majority of the outstanding voting stock. We have opted out of these provisions. However, our certificate of incorporation provides that in the event that LLC ceases to beneficially own more than 15% of our common stock, we will automatically become subject to Section 203 of the DGCL.

Limitations on Liability and Indemnification of Directors and Officers

Section 145 of the DGCL provides that a Delaware corporation may indemnify any persons who are, or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was an officer, director, employee or agent of such corporation, or is or was serving at the request of such person as an officer, director, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided that such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was illegal.

A Delaware corporation may indemnify any persons who are, or are threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses that such officer or director has actually and reasonably incurred. Our certificate of incorporation provides for the indemnification of our directors and officers to the fullest extent permitted under the DGCL.

Expenses incurred by any officer or director in defending any such action, suit or proceeding in advance of its final disposition shall be paid by us upon delivery to us of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified by us.

Section 102(b)(7) of the DGCL permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, except for liability for any:

- transaction from which the director derives an improper personal benefit;
- act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

- unlawful payment of dividends or redemption of shares; or
- breach of a director's duty of loyalty to the corporation or its stockholders.

Our certificate of incorporation includes such a provision.

Section 174 of the DGCL provides, among other things, that a director who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption may be held liable for such actions. A director who was either absent when the unlawful actions were approved, or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing minutes of the meetings of the board of directors at the time such action occurred or immediately after such absent director receives notice of the unlawful acts.

Indemnification Agreements

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

Transfer Agent

The registrar and transfer agent for our common stock is American Stock Transfer & Trust Company, LLC.

Listing

Our common stock trades on The Nasdaq Stock Market LLC under the symbol "LOCO."



EL POLLO LOCO® FRANCHISE AGREEMENT

Dated: _____

Location:
Franchisee:
Franchisee Notice Address:
Franchisee Notice Facsimile Number:

(Disclosure Document Control No. 032619)

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EL POLLO LOCO® FRANCHISE AGREEMENT

This Franchise Agreement ("**Agreement**"), dated for identification purposes only as of ____, 20__, is made and entered into by and between **EL POLLO LOCO, INC.**, a Delaware corporation (the "**Franchisor**"), and , an individual ("**Franchisee**").

A.Franchisor operates and franchises others to operate a number of retail outlets for the sale of fire-grilled food items and related products, in connection with the "El Pollo Loco" name and Franchisor's distinctive plan of food service operation.

B.Franchisee desires to operate a restaurant under Franchisor's name and to utilize Franchisor's plan of food service operation, all in accordance with the terms, covenants and conditions of this Agreement.

C.Franchisee understands that the success of the business contemplated by this Agreement is subject to substantial risks and depends in large part on the business ability of Franchisee and its active participation in the development and management of the franchise business.

D.Franchisor and Franchisee (as Developer) entered into a Development Agreement dated _____ ("**Development Agreement**") for the Territory set forth on Exhibit A of the Development Agreement, and for restaurants to be developed per the Development Schedule set forth on Exhibit B of the Development Agreement.

1. SCOPE AND PURPOSE OF AGREEMENT

1.1. Franchisee desires and agrees to operate and manage an "El Pollo Loco" (or "EPL") restaurant to be located at _____ City of _____, County of _____, State of _____ (the "**Location**"). Franchisor owns certain proprietary and other property rights and interests in and to the "El Pollo Loco" trademark and service mark, and such other trademarks, service marks, logo types, insignias, trade dress designs and commercial symbols as Franchisor may from time to time authorize or direct Franchisee to use in connection with the operation of a "El Pollo Loco" Restaurant (the "**El Pollo Loco® Marks**"). Franchisor has a distinctive plan for the operation of retail outlets for the sale of fire-grilled food items and related products, which plan includes but is not limited to the El Pollo Loco® Marks and the Operations Manual (the "**Manual**"), policies, standards, procedures, recipes, employee uniforms, signs (including traditional or digital menu boards) and related items, and the reputation and goodwill of Franchisor's chain of restaurants (collectively, the "**El Pollo Loco® System**"). Therefore, in entering into this Agreement, Franchisee fully understands and agrees that this Agreement is conditioned upon the continued strict adherence by Franchisee to, and Franchisee agrees to comply with, all standards, policies, procedures and requirements published or which may from time to time be published or otherwise brought to Franchisee's attention by Franchisor for the operation, maintenance or improvement of "El Pollo Loco" restaurants under the El Pollo Loco® System and the El Pollo Loco® Marks. Franchisee understands and agrees that strict adherence to these standards, policies, procedures and requirements is essential to the value of the El Pollo Loco® System and the El Pollo Loco® Marks.

1.2. Franchisee represents that it is experienced in and has independent knowledge of the nature and specifics of the restaurant business. Franchisee understands that there is not, nor can there be, any assurance or guarantee of success in the franchise business and that Franchisee's business ability and attitude are primary in determining Franchisee's success. Franchisee represents that, in entering into this Agreement, it has relied solely on its personal knowledge and understanding and has not relied on any representation of Franchisor or any of its officers, directors, employees or agents, except those representations contained in any legally required Franchise Disclosure Document delivered to Franchisee.

a. In consideration of the foregoing representations and agreements of Franchisee and other consideration as set forth herein, and subject to all of the terms, covenants and conditions of this Agreement, Franchisor hereby grants to Franchisee, and Franchisee hereby accepts from Franchisor, the right and franchise to operate one (1) "El Pollo Loco" restaurant under the El Pollo Loco® Marks and in accordance with the El Pollo Loco® System (the "**Restaurant**") at the Location.

1.3. Except as otherwise provided in this Agreement, after the date of this Agreement and during the term of this Agreement, and so long as Franchisee is in compliance with its obligations under this Agreement, Franchisor shall not, without Franchisee's prior written consent, establish or franchise any other person to establish, an El Pollo Loco restaurant at any location within the "**Protected Area**" specified in Schedule 1 to this Agreement. Franchisor expressly retains all other rights and may, among other things, on any terms and conditions Franchisor deems advisable, and without granting Franchisee any right therein:

a. Establish and operate or franchise others to establish and operate El Pollo Loco® restaurants at any location outside the Protected Area;

b. Merchandise and distribute goods and services identified by the El Pollo Loco® Marks (including the same or similar products as sold by Franchisee at the Restaurant) to customers at any retail location, regardless of its proximity to the Location, through any method or channel of distribution, including, without limitation, at retail locations such as grocery or convenience stores and via the Internet, telemarketing, and direct marketing means, through other non-El Pollo Loco restaurants having the same or similar menu items or through any other distribution channel; and

c. Establish and operate and franchise other restaurants (not using the Marks) having the same or similar menu items, whether within or outside of the Protected Area.

1.4. It is expressly understood and agreed by the parties that Franchisee is and shall be an independent contractor, that Franchisee is not for any purpose an employee or agent of Franchisor, and that all of the personnel employed by Franchisee at the Restaurant will be employees or agents of Franchisee as an independent contractor and will not be employees or agents of Franchisor. Franchisee understands and agrees that, as an independent contractor, it does not have the authority to do anything for or on behalf of Franchisor including, but not limited to, holding itself out as Franchisor; signing contracts, notes or other instruments; purchasing, acquiring or disposing of any property; or incurring any other obligation or liability. It is further understood and agreed by the parties hereto that no fiduciary relationship is intended or created by this Agreement.

2. THE EL POLLO LOCO® MARKS & SYSTEM

2.1. Upon the terms, covenants and conditions contained herein and during the term hereof, Franchisee shall have the right to display and use the El Pollo Loco® Marks, but only for use in connection with retail sales and service of certain food products which Franchisee is required to prepare and sell to the general public in and at the Restaurant.

2.2. Nothing contained herein shall be construed as authorizing or permitting Franchisee to use the El Pollo Loco® Marks or the El Pollo Loco® System at any location other than the Location or for any purpose or in any manner other than that authorized herein; or in connection with the sale of any products for resale, or any products not required or approved by Franchisor, or any products prepared at any place other than at the Location; provided, however, that catering and special event sales may be undertaken by Franchisee in strict adherence with the limitations and procedures set forth in the Manual. Notwithstanding anything to the contrary contained herein, Franchisor may require Franchisee to discontinue the preparation, offer or sale of any product or item which, in the opinion of Franchisor or any of its representatives, does not conform to the quality standards or image of Franchisor and its products.

2.3. Nothing contained herein shall give Franchisee any right, title or interest in or to any of the El Pollo Loco® Marks excepting only the privilege and license, during the term hereof, to display and use the same according to the foregoing limitations. Any and all goodwill arising in connection with Franchisee's use of the El Pollo Loco® Marks and the El Pollo Loco® System shall belong to Franchisor.

2.4. The business franchised hereunder shall be named "El Pollo Loco" without any suffix or prefix attached thereto. Franchisee shall use signs (including traditional or digital menu boards) ("**Signs**") and other advertising which denote that the Restaurant is named "El Pollo Loco" and which are approved by Franchisor in advance. If Franchisee is transferred to an Entity (as defined below), the name of such corporation shall not contain any of the El Pollo Loco® Marks.

2.5. Except as Franchisor may otherwise permit in writing, Franchisee shall not display or use the trademark, trade name, service mark, logo types, label, design or other identifying symbol or name of any other person, or Entity in, on or at the Restaurant or the Location.

2.6. In all public records, in Franchisee's relationship with other persons or companies, and in any offering document, prospectus or similar document, Franchisee shall indicate clearly that Franchisee's business is independently owned and that the operations of said business are separate and distinct from the operation of Franchisor's business. Franchisee shall display at the Restaurant, in such locations as may be specified by Franchisor and in all correspondence and forms, a notification that the Restaurant is operated by an independent operator and not by Franchisor.

2.7. Franchisee shall not develop, create, generate, own, license, lease or use in any manner any computer medium or electronic medium (including, without limitation, any Internet home page, e-mail address, website, domain name, bulletin board, newsgroup or other Internet-related medium) which in any way uses or displays, in whole or in part, the El Pollo Loco® Marks, or any of them, or any words, symbols or terms confusingly similar thereto without Franchisor's express written consent, and then only in such manner and in accordance with such procedures, policies, standards and specifications as Franchisor may establish from time to time.

2.8. Franchisor is the owner of, and will retain all right, title and interest in and to the domain names "elpolloloco" and "crazychicken;" the URLs and/or websites: www.elpolloloco.com, www.elpolloloco.net, www.elpolloloco.org, www.myepl.net, www.crazychicken.com, www.eplmarketing.com, www.eplportal.com, www.eplfranchisee.com, and www.orderelpolloloco.com; all existing and future domain names, URLs, websites, future addresses and subaddresses using the El Pollo Loco® Marks in any manner; all software; all content prepared for, or used on, the above Websites; and all intellectual property rights in and to any of them.

2.9. Franchisor reserves all rights to use the El Pollo Loco® Marks in any manner.

3. TERM

3.1. The term of this Agreement shall commence on the date Franchisee first opens the Restaurant to the public (the "**Opening Date**") and shall end on the date which is the 20th anniversary of the Opening Date, unless sooner terminated as provided herein ("**Initial Term**"). Should Franchisee lease the site of the Restaurant, the lease or sublease must be for a term which with renewal options is not less than the Initial Term of the Franchise Agreement, and contain the provisions required in Section 2 of the Development Agreement. Should Franchisee be unable to lease the site of the Restaurant for a term equal to the Initial Term, then as our sole and absolute right to determine, the Initial Term of the Franchise Agreement may be reduced to match the term of the lease or sublease and the initial franchise fee will be appropriately pro-rated. Promptly following the Opening Date, the parties shall execute a Memorandum of Opening Date attached as **Exhibit 1** which shall confirm the Opening Date; provided, however, if the parties fail to execute such Memorandum of Opening Date, the Opening Date shall be as determined in good faith by Franchisor. Upon the expiration or earlier termination of this Agreement, Franchisee shall have no right or option to extend the term of this Agreement. The sole conditions under which Franchisee will have the opportunity to obtain a successor Franchise Agreement upon the expiration of the term of this Agreement are set forth at Section 20.

4. SITE DEVELOPMENT

4.1. After execution of this Agreement, Franchisee will be required to achieve certain milestones to assure the timely development of the Restaurant

a. Within six (6) months following the date of Franchisor's execution of this Agreement, Franchisee must have completed all of the site development work (including, but not limited to, engineering, architectural/design, entitlements, and permitting) and commence construction of the Restaurant.

b. Within twelve (12) months following the date of Franchisor's execution of this Agreement, or the date specified in the Development Agreement, if earlier, Franchisee must have completed construction of the Restaurant at the Location and the Restaurant shall be open to the public.

4.2. Franchisee understands and acknowledges that in accepting Franchisee's Location, or by granting a franchise for a Location (whether or not formerly operated as a Franchisor or franchisee-owned Restaurant),

Franchisor does not in any way endorse, warrant or guarantee either directly or indirectly the suitability of such Location or the success of the franchise business to be operated by Franchisee at such Location. The suitability of the Location and the success of the franchise business depends upon a number of factors outside of Franchisor's control including, but not limited to, Franchisee's operational abilities, site location, consumer trends and such other factors that are within the direct control of Franchisee. Franchisor may require, as a condition to its approval of a site, a "**Market Study**", which shall include a site description and analysis, traffic and other demographic information and an analysis of the impact of the proposed site on other franchise restaurants surrounding or within the vicinity of such proposed site all in such format as the Franchisor may require. All such analyses, information and studies shall be prepared at the sole cost and expense of Franchisee.

4.3. If Franchisee purchases a currently operating Restaurant from Franchisor (a "**Turnkey Restaurant**"), then Franchisee shall begin operation of the Restaurant on the date possession of the Restaurant is transferred to Franchisee pursuant to the agreement entered into between Franchisee and Franchisor for the purchase of the Restaurant. Failure to do so shall constitute a material default hereunder. With respect to non-Turnkey Restaurants, failure to reach each milestone described in Section 4.1 above within the specified time frames shall constitute a material default hereunder. Prior to opening the Restaurant, Franchisee shall obtain and thereafter maintain throughout the term of this Agreement all necessary business licenses, permits and other documentation necessary for the operation of an El Pollo Loco® restaurant.

5. IMPROVEMENTS, FIXTURES AND EQUIPMENT

5.1. If the Location is other than a Turnkey Restaurant, then this Section 5 will apply to the building, reconstruction, remodeling, or other changes necessary to conform the Location to the requirements set forth in this Section or as provided and updated by Franchisor from time to time in accordance with this Section.

5.2. Franchisee, at its sole expense, shall construct or, in the case of an existing building, remodel the Location and install such Signs, fixtures, furniture and equipment at the Location as are required in accordance with Franchisor's current requirements and specifications for same. Franchisee shall be responsible for obtaining all zoning classifications and clearances which may be required by state or local laws, ordinances or regulations. Franchisee shall obtain from applicable governmental authorities all permits, licenses and certifications required for lawful construction or remodeling work and for the operation of the Restaurant. If requested by Franchisor, Franchisee shall submit to Franchisor a copy of all such required permits, licenses and certifications for the construction or remodeling work prior to commencing the construction or remodeling of the Location.

5.3. Franchisor shall provide Franchisee with standard plans and a sample layout for a typical El Pollo Loco® restaurant and a set of typical construction, equipment and decor specifications (the "**Plans**"). At all times, Franchisee shall use its best efforts to treat and keep the Plans and the information contained therein as confidential as possible and limit access to the Plans to employees and independent contractors of Franchisee on a need to know basis only (including preferred development professionals). Franchisee acknowledges that the unauthorized use or disclosure of Franchisor's Plans and the confidential information contained therein will cause irreparable injury to Franchisor and that damages are not an adequate remedy. Franchisee accordingly covenants that without Franchisor's prior written consent, Franchisee shall not disclose (except to such employees, agents, contractors or subcontractors as must have access to such Plans in order to construct the Restaurant at the Location) or use or permit the use of such Plans (except as may be required by applicable law or authorized by this Agreement), or copy, duplicate, record or otherwise reproduce such Plans, in whole or in part, or otherwise make the same available to any person or source not authorized in writing by Franchisor to receive such Plans or the information contained therein at any time during the term of this Agreement or thereafter.

5.4. Franchisee, at its sole expense, shall employ licensed architects, designers, engineers, development consultants or others as may be necessary to complete, substitute, adapt or modify the Plans for the Restaurant so as to create a set of final plans and specifications. Creating a set of final plans and specifications may include, but is not limited to, adapting plans for structural engineering, architectural requirements, interior and exterior materials, locally available building materials, local weather requirements and federal, state and local code requirements. In some cases, these can lead to substantial changes and costs in the provided plans. FRANCHISEE SHALL SUBMIT TO FRANCHISOR A COMPLETE SET OF FINAL PLANS AND SPECIFICATIONS, INCLUDING A SITE PLAN, AND OBTAIN FRANCHISOR'S WRITTEN APPROVAL OF SUCH PLANS AND SPECIFICATIONS PRIOR TO

COMMENCING THE CONSTRUCTION OF THE RESTAURANT OR, IN THE CASE OF AN EXISTING BUILDING, THE REMODELING WORK FOR THE RESTAURANT. Franchisor shall review such final plans and specifications promptly and approve or disapprove the same, and Franchisor may provide comments on the plans and specifications to Franchisee. Such review and approval by Franchisor will be limited to items and issues relating to the El Pollo Loco® System only and is not intended to be a verification or approval of the structure of the building, mechanical systems or document accuracy. Examples of conceptual areas related to the El Pollo Loco® System include Signs, logos, finishes, decor and aesthetics, guest comfort, and ability to serve food within Franchisor's standards for quality, timeliness and cleanliness.

5.5. Franchisee shall use a qualified licensed general contractor to perform the construction or remodeling work at the Restaurant. Franchisee's general contractor shall provide a schedule to Franchisor before the start of construction. Franchisor shall not be responsible for delays in the construction, equipping or decoration of the Restaurant or for any loss resulting from the Restaurant design or construction. All changes in the Restaurant plans relating to the El Pollo Loco® System, as described in Section 5.4 above, to the construction or remodeling of the Restaurant or the implementation of such changes are subject to Franchisor's prior written approval. FRANCHISEE SHALL PROVIDE WRITTEN NOTICE TO FRANCHISOR OF THE DATE UPON WHICH CONSTRUCTION OF THE RESTAURANT COMMENCED WITHIN SEVEN (7) DAYS AFTER COMMENCEMENT AND THEREAFTER SHALL PROVIDE TO FRANCHISOR MONTHLY PROGRESS REPORTS OF THE STATUS OF THE CONSTRUCTION WORK SIGNED BY FRANCHISEE'S ARCHITECT OR GENERAL CONTRACTOR. Franchisee's failure to commence the design, construction or remodeling, equipping and opening of the Restaurant promptly and with due diligence shall be grounds for the termination of this Agreement. Franchisor shall make a final inspection of the completed Restaurant and Location and may require such corrections and modifications as it deems necessary to bring the Restaurant and the Location into compliance with approved final plans and specifications. FRANCHISEE SHALL NOTIFY FRANCHISOR OF THE DATE OF COMPLETION OF CONSTRUCTION AND, WITHIN A REASONABLE TIME THEREAFTER, FRANCHISOR SHALL CONDUCT THE FINAL INSPECTION OF THE RESTAURANT AND ITS PREMISES. Franchisee acknowledges and agrees that Franchisee shall not open the Restaurant for business without the express written authorization of Franchisor and that Franchisor's authorization to open shall be conditioned upon Franchisee's furnishing to Franchisor:

a. A letter from the general contractor responsible for the construction or remodeling of the Restaurant indicating that the Restaurant has been constructed or remodeled in substantial conformance with the approved final plans and specifications, including any changes thereto approved by Franchisor, and in accordance with all applicable state and local governmental laws, statutes and ordinances regulating such construction including, without limitation, building, fire, health and safety codes; and

b. A temporary or final Certificate of Occupancy issued by the applicable local governmental entity.

5.6. Franchisee shall, at its sole expense, purchase all required Signs, fixtures, furniture and equipment for the Restaurant and Location from a distributor listed on the Approved Brands and Distributors List (as defined below) or another distributor approved pursuant to Section 11.4. The items purchased shall be installed in strict accordance with the specifications of Franchisor and erected and displayed in the manner and at such locations as are approved and authorized by Franchisor in writing. Franchisee shall maintain and display Signs which reflect the current image of El Pollo Loco® restaurants and shall not place additional Signs at the Restaurant without the prior written consent of Franchisor. Franchisee shall discontinue the use of and remove, or modify, as applicable, such Signs that are declared obsolete by Franchisor within thirty (30) days after Franchisee's receipt of Franchisor's written request, subject to reasonable extension if Franchisee is unable after using reasonable diligence to obtain required governmental approvals for modification of such Signs. Proper signage is fundamental to the El Pollo Loco® System and Franchisee hereby grants to Franchisor the right to enter the Location, including the Restaurant and any nearby areas where Signs are displayed, in order to remove and de-identify any unapproved or obsolete Signs in the event Franchisee has failed to do so within the above-specified time frame.

5.7. Franchisee is solely responsible for the acts or omissions of its contractors regarding compliance with all of the provisions of this Section 5, and Franchisor shall have no responsibility for such acts or omissions. Franchisor shall not be liable for any loss or damage arising from the design or plan of the Restaurant by reason of its approval of plans and specifications, or otherwise. Franchisee shall indemnify Franchisor for any loss, cost or expense, including attorneys' fees, that may be sustained by Franchisor because of the acts or omissions of Franchisee's

contractors or arising out of the design, construction or remodeling of the Restaurant, except to the extent that any such loss, cost or expense arises as a result of the grossly negligent acts or omissions of Franchisor, its employees and/or agents.

5.8. Franchisee shall give to Franchisor at least thirty (30) days prior written notice of the anticipated Opening Date. Franchisee shall not open the Restaurant to the public until it has received written approval from Franchisor to open. If Franchisee did not deliver to Franchisor a final Certificate of Occupancy prior to the Opening Date, Franchisee shall deliver to Franchisor a copy of an unconditional final Certificate of Occupancy issued by the applicable local governmental entity no later than ninety (90) days following the Opening Date.

6. FEES, TAXES AND OTHER CHARGES

6.1. Franchisee shall pay to Franchisor during the term of this Agreement the following:

a. An initial franchise fee of Forty Thousand Dollars (\$40,000.00), in full within 30 days of delivery of execution copies of this Agreement to Franchisee; provided, however, if the Restaurant is a Turnkey Restaurant the initial franchise fee shall be payable upon execution of this Agreement. As our sole and absolute right to determine, you may be offered an Initial Term of less than 20 years and as such, the initial franchise fee will be appropriately pro-rated. All such payments shall be made by cashier's check or other form of payment acceptable to Franchisor. Franchisee hereby acknowledges and agrees that the grant of this franchise constitutes the sole and only consideration for the payment of the initial franchise fee and the initial franchise fee shall be fully earned by Franchisor upon execution of this Agreement. In that regard, upon the payment of any portion of the initial franchise fee, the entire initial franchise fee shall be deemed fully earned and non-refundable in consideration of the administrative and other expenses incurred by Franchisor in granting this franchise and for Franchisor's lost or deferred opportunity to franchise to others.

b. A monthly royalty fee equal to five percent (5%) of Franchisee's immediately prior month's Gross Sales (as defined in Section 7.1).

c. A monthly advertising fee, which shall be used in accordance with Section 8, for advertising, public relations and promotion and for the creation and development of advertising, public relations and promotional campaigns ("**Advertising Fee**"), in the amount of: (i) five percent (5%) of Franchisee's immediately prior month's Gross Sales, as defined in Section 7.1 if the Restaurant is located outside of the Los Angeles ("**LA**") Designated Market Area ("**DMA**") or (ii) four percent (4%) of Franchisee's immediately prior month's Gross Sales, as defined in Section 7.1 if the Restaurant is located within the Los Angeles DMA. If the Restaurant is located within the LA DMA, the Advertising Fee may be increased, as our sole and absolute right to determine, to not more than one percent (1%) above your original Advertising Fee during the Initial Term of your Franchise Agreement and upon 90 days written notice to you. Some existing franchisees may pay lower Advertising Fees. Restaurants owned and operated by us will contribute on the same basis as those existing franchisees within the same DMA. Franchisor also reserves the right to increase the Advertising Fee in the future by a voting mechanism. Except as otherwise provided in existing franchise agreements, each operating restaurant (both company-owned and franchised restaurants) located in the geographical area that would be affected by such an increase in the Advertising Fee shall be entitled to one vote. Franchisor must gain an approval vote of fifty-one percent (51%) of all such operating restaurants within the applicable geographical area. The minimum geographical area that would be affected by such an increase would be no smaller than a local DMA, although, multiple local DMAs may be involved.

d. The amount of all sales taxes, use taxes and similar taxes imposed upon or required to be collected or paid by Franchisor on account of goods or services furnished to Franchisee by Franchisor, whether such goods or services are furnished by sale, lease or otherwise. Franchisee shall reimburse Franchisor for the invoice amount within seven (7) days after the invoice has been delivered to Franchisee.

e. Monthly POP Fees for in-restaurant and drive-thru point-of-purchase materials.

f. Monthly Gift Card Discount Fees associated with the sale of gift cards (charged to the restaurant that redeemed the gift cards and earned the sales revenue)

g. Franchisee's pro-rata share of costs for the Customer Feedback Program(s).

h. Re-inspection fees per re-inspection of Franchisee's Restaurant, (required if a deficiency or unsatisfactory condition is noted and a subsequent re-inspection is necessary to determine if the deficiency or unsatisfactory condition has been cured) and a Coaching fees (required if Franchisee's Restaurant has failed two (2) consecutive inspections or as determined by Franchisor in our sole and absolute right in certain circumstances).

i. A surcharge of twelve cents (\$0.12) for each case of chicken (Whole Birds and Saddles) ordered by franchise and company operators as contributions to the obsolete inventory fund used to pay for pertinent, unsold inventory of qualified suppliers at the conclusion of limited time promotions and to expedite the delivery of products for situations in which sales exceed prior forecasts. We periodically review the added cost per case and as our sole and absolute right, determine whether to increase or decrease the cost per case.

6.2. Franchisee shall pay interest to Franchisor on any amounts which may become due to Franchisor from Franchisee, if such are not paid when due, at the rate of fifteen percent (15%) per annum (pro-rated) or the maximum interest rate permitted by law, whichever is less.

7. FINANCIAL REPORTING, BILLING AND PAYMENT

7.1. The term "**Gross Sales**" as used in this Agreement shall mean the total revenues derived by Franchisee in and from the Restaurant from all sales of food, goods, wares, merchandise and all services, rights, and anything else of value, made in, upon, or from the Restaurant, whether for cash, check, credit or otherwise, without reserve or deduction for inability or failure to collect the same, including, without limitation, all revenues derived from delivery, catering, and special event sales, such sales and services where the orders therefor originate at and are accepted by Franchisee into the Restaurant but delivery or performance thereof is made from or at any other place, or other similar orders are received or billed at or from the Restaurant, and any sums or receipts derived from the sale of meals to employees of the Restaurant. Gross Sales shall not include rebates or refunds to customers; or the amount of any sales taxes or other similar taxes that Franchisee collects from customers and that are actually paid to any federal, state or local taxing authority.

7.2. Franchisee shall deliver to Franchisor on or before the sixth (6th) calendar day after each close of the sales month, a monthly Gross Sales statement ("**Monthly T-Sheet**"), in the form specified by Franchisor, setting forth the amount of Gross Sales for the preceding month and a calculation of the monthly fees payable on such sales. Monthly fees, such as Royalty Fees and Advertising Fees, in addition to other fees such as POP Fees, Gift Card Discount Fees, Customer Feedback Costs and Re-Inspection Fees (hereinafter collectively will be referred to as "**Fees**") shall be due and payable on the tenth (10th) day after the close of the sales month, which closing shall be designated by El Pollo Loco® as its sole and absolute right upon ten (10) days advance written notice to Franchisee ("**Sales Month Closing**"). Franchisee shall make all payments due hereunder by pre-arranged draft or sweep of Franchisee's business bank operating account ("**ACH**"). Franchisee will give Franchisor authorization in the format set forth in the Authorization Agreement for Prearranged Payments, **Exhibit 4** attached hereto for direct debits from Franchisee's business bank operating account (the "**Operating Account**"). Franchisee acknowledges it is Franchisee's responsibility to notify Franchisor of any changes to the bank operating account in a timely fashion. Franchisor may choose, as its sole and absolute right, to accept other forms of payment including check, cashier's check and Electronic Funds Transfer ("**EFT**"). Franchisee will contribute to the Obsolete Inventory Fund as described above. Contributions are payable to the vendor at the time of inventory purchase.

7.3. If Franchisee is delinquent in any payment of such Fees, or if Franchisee has not submitted the Monthly T-Sheet for more than a two-month period when due, Franchisor may, as its sole and absolute right initiate an ACH or/and EFT transfer from the Operating Account an estimated amount of Fees due Franchisor for such period which shall be based on the average of the immediately preceding three (3) months' Gross Sales. If, at any time, Franchisor determines that Franchisee has under-reported the monthly Gross Sales of the Restaurant, or underpaid the monthly royalty, advertising Fees, DMA Advertising Fee, or other amounts due to Franchisor under this Agreement, or any other agreement, Franchisor may, in addition to exercising all other rights and remedies available to it under this Agreement, initiate an immediate transfer from the Operating Account in the amount equal to the unpaid Fees in

accordance with the foregoing procedure, including interest as provided in Section 6.2 above. Any overpayment of Fees will be credited to the Operating Account effective as of the first Due Date after Franchisor and Franchisee determine that such credit is due.

7.4. In connection with payment of the monthly Fees by ACH or EFT, Franchisee shall: (1) comply with procedures specified by Franchisor relating to ACH or EFT transfers; (2) perform those acts and sign and deliver those documents as may be necessary to accomplish payment by ACH or EFT as described in Section 7.2 and 7.4; (3) give Franchisor an authorization in the form designated by Franchisor to initiate debit entries and/or credit correction entries to the Operating Account for payments of the monthly royalty and advertising Fees, or other amounts due to Franchisor under this Agreement, or any other agreement, including any interest charges; and (4) make sufficient funds available in the Operating Account for withdrawal by ACH or EFT of Fees due no later than each Due Date.

7.5. In addition to the sales data required to be provided in the Monthly T-Sheet to be delivered pursuant to Section 7.2, Franchisee shall deliver (in the manner prescribed by Franchisor) to Franchisor on or before the tenth (10th) day after the end of each sales month during the term of this Agreement any other sales and menu mix data reasonably requested by Franchisor with respect to the preceding sales month, whether specified in the Manual or otherwise.

7.6. Thirty (30) days after the end of each calendar quarter and one hundred twenty (120) days after the end of each calendar year during the term of this Agreement, Franchisee shall provide to Franchisor a financial statement of the franchise business which shall include such information and data as specified in the financial reporting format set forth in **Exhibit 6** attached hereto or in such other format reasonably approved by Franchisor. Such fiscal year-end financial statements must be signed by Franchisee, Franchisee's treasurer or Franchisee's chief financial officer and contain a representation that the financial statements present fairly the financial position of Franchisee and the results of operations of the franchise business during the period covered.

7.7. Franchisee shall make all payments when due to third parties for obligations arising out of or in any way connected with the existence, operation or maintenance of the Restaurant, including, but not limited to, rental and mortgage payments and payments for utilities, services, products, equipment, supplies, goods, inventory, materials, taxes, labor and other matters. In the event that Franchisee fails to make any such payment in accordance with the foregoing and the nonpayment results or may reasonably result in a condition or event which threatens public safety or health or which may materially and adversely affect the ownership, condition or operation of the Restaurant, in either case in the reasonable judgment of Franchisor, Franchisor shall have the sole and absolute right, after five (5) days written notice to Franchisee, but not the obligation, to make such payment on behalf of Franchisee. Such payment shall be without prejudice and in addition to all other available rights and remedies. Any payment made by Franchisor pursuant to this Section 7.7 shall be paid by Franchisee to Franchisor as an additional amount for the monthly billing period in which such payment is made by Franchisor.

7.8. Franchisee shall maintain accurate and complete books and records pertaining to the operation and maintenance of the Restaurant as required by the standards, policies and procedures established by Franchisor in accordance with the Manual. Franchisee shall be solely responsible for performing all record keeping duties, and the cost for all such services shall be borne solely by Franchisee.

7.9. Franchisee shall obtain, install, and use the computer system that Franchisor requires or approves in writing. The term "**Computer System**" means communications, computer systems, and hardware to be used by the Restaurant, including (a) back office and point of sale systems, (b) cash register systems; (c) physical, electronic, and other security systems; (d) printers and other peripheral devices; (e) archival back-up systems; and (f) internet access mode (for example, Franchisee's telecommunications connection). In connection with the Computer System:

a. Franchisee must obtain, install, and use the computer software programs required by Franchisor (the "**Required Software**") from time to time. Franchisee must utilize any proprietary software program that Franchisor may develop internally or with the assistance of outside suppliers or consultants or that Franchisor may license for use by the El Pollo Loco[®] System.

b. Franchisor may modify specifications for and components of the Computer System and Required Software. The Computer System and Required Software must be purchased or leased from Franchisor or from suppliers approved by Franchisor, and must be installed by Franchisor or by suppliers approved by Franchisor at Franchisee's expense. (Franchisor may be the only approved supplier of the Computer System and Required Software.) All Computer System components must be installed in accordance with Franchisor's standards and procedures. Franchisor's modification of specifications for the Computer System and Required Software may require Franchisee, at Franchisee's expense, to purchase, lease, and/or license new or modified computer hardware and/or software and/or communications capabilities. Franchisee will not be required to replace the Computer System more than once every four (4) years during the term of this Agreement. Franchisee shall be required to enter into an El Pollo Loco® IT Support Services Agreement (a "**Support Agreement**") in connection with the operation of the Computer System. The Support Agreement is attached to this Agreement as **Exhibit 7**.

c. The Computer System is for use by Franchisee only in connection with operational and management tasks of the Restaurant. Franchisee may not use the Computer System for email, word processing, spreadsheets, web surfing, or any other personal application or purpose not approved in writing by Franchisor ("**Personal Applications**"). However, Franchisee may run such Personal Applications on a separate personal computer and network provided by Franchisee, but the personal computer and network must run in "stand alone, isolated mode" and Franchisee must not interconnect such computer(s) with the Computer System. Franchisor reserves the right require Franchisee to shut down Personal Applications interfaces if Franchisor determines that such interfaces interfere with the Computer System operations, or the operation of the Restaurant. In addition, Franchisee will only install Franchisor approved Wi-Fi hardware to ensure security and controls are in place to protect and segment networks.

d. Franchisor shall have the right from time to time, and at any time, to retrieve data and information from Franchisee's Computer System, by modem or other means, and use it for any reasonable business purpose both during and after the term of this Agreement. Franchisor may, from time to time, specify in the Manual or otherwise in writing the information that Franchisee shall collect and maintain on the Computer System, and Franchisee shall provide to Franchisor such reports as Franchisor may reasonably request from the data so collected and maintained.

7.10. All of the accounts, books, records and federal, state and local tax returns and reports of Franchisee, so far as they pertain to the business transacted under this Agreement, shall be open to inspection, examination and audit by Franchisor and its authorized representatives at any and all times, and copies thereof may be made by Franchisor and retained for its own use. All of such records shall be maintained and retained by Franchisee for seven (7) years, and following the termination or expiration of this Agreement, the books and records for the preceding seven (7) years shall be maintained and retained by Franchisee for five (5) years. Franchisor may inspect, examine audit and copy any and all books and records of the Franchisee's business. Any such inspection, examination and audit shall be at Franchisee's cost and expense as a result of Franchisee's failure to prepare and deliver its transmittal reports to Franchisor as required herein, or to maintain books and records as hereinabove provided, or unless any such transmittal report is determined to be in error to an extent of two percent (2%) or more for the period audited. Any such cost and expense shall be set forth in a written invoice delivered to Franchisee by Franchisor. Franchisee shall reimburse Franchisor for the invoice amount within seven (7) days after the invoice has been delivered to Franchisee.

7.11. Franchisee shall sell or otherwise issue the stored value cards or gift cards and certificates (together "**Gift Cards**") that have been prepared utilizing the standard form of Gift Card provided or designated by Franchisor, and only in the manner specified by Franchisor in the Manual or otherwise in writing. Franchisee shall fully honor all Gift Cards that are in the form provided or approved by Franchisor regardless of whether a Gift Card was issued by Franchisee or another Restaurant or purchased at any other location including without limitation, retail stores, internet sales or other means of distribution. Franchisee shall sell, issue, and redeem (without any offset against any royalty fees) Gift Cards in accordance with procedures and policies specified by Franchisor in the Manual or otherwise in writing (the "**Gift Card Program**"), including those relating to procedures by which Franchisee shall request reimbursement for Gift Cards issued by other Restaurants and for making timely payment to Franchisor, other operators of Restaurants, or a third-party service provider for Gift Cards issued from the Restaurant that are honored by Franchisee, Franchisor or other Restaurant operators. Franchisee acknowledges and agrees that, in connection with the Gift Card Program, Franchisee may be required to:

- a. Enter into a separate agreement with a third party provider of Gift Card services under the terms and conditions as may reasonably be required by such third party for participation in the Gift Card Program;
- b. Purchase and maintain a sufficient number of Gift Cards, in a form approved by Franchisor, as may reasonably be required for participation in the Gift Card Program;
- c. Purchase or upgrade, as applicable, such hardware, software and equipment as shall be necessary to participate in the Gift Card Program;
- d. Promote and sell the Gift Cards in Franchisee's Restaurants using only marketing methods and materials approved by Franchisor;
- e. Comply in all material respects with all applicable laws, statutes and regulations in performing Franchisee's obligations under this Agreement and otherwise in connection with Franchisee's participation in the Gift Card Program; and
- f. Execute such forms or documents or take such other actions reasonably necessary or requested by Franchisor to effectuate Franchisee's participation in the Gift Card Program.

7.12. Franchisee acknowledges and agrees that Franchisor reserves the right to discontinue or modify the Gift Card Program at any time, as its sole and absolute right. Upon receipt of written notice from Franchisor of its intent to discontinue or modify the Gift Card Program, Franchisee shall, as applicable, immediately cease offering and accepting Gift Cards and/or make such modifications as Franchisor shall require.

7.13. Franchisee shall participate in the Remote Ordering Program, Loyalty Program, Third Party Delivery Program, Self-Order Kiosk Program and Call Center Program (collectively referred to as "**Programs**") Franchisee shall comply with procedures and policies of the Programs specified by Franchisor in the Manual or otherwise in writing including those relating to making timely payment to third-party service providers for such Programs. Franchisee acknowledges and agrees that, in connection with the Programs, Franchisee may be required to:

- a. Enter into a separate agreement with third party service providers of the Programs under the terms and conditions as may reasonably be required by such third parties for participation in the Programs;
- b. Purchase or upgrade, as applicable, such hardware, software and equipment as shall be necessary to participate in the Programs;
- c. Comply in all material respects with all applicable laws, statutes and regulations in performing Franchisee's obligations under this Agreement and otherwise in connection with Franchisee's participation in the Programs; and
- d. Execute such forms or documents or take such other actions reasonably necessary or requested by Franchisor to effectuate Franchisee's participation in the Programs.

7.14. We may discontinue or modify the Programs at any time, and upon receiving notice from us that we intend to do so, you must immediately cease the Programs or make the modifications that we require.

7.15. Franchisee acknowledges and agrees that it is in the best interest of the business conducted at the Restaurant and the System as a whole, to participate in the Payment Card Industry ("**PCI**") Data Security Standard ("**DSS**") Program offered through a third party vendor. This is a set of security requirements that uses current technology and physical security best practices to protect credit cardholder data. The size of Franchisee's business and the number of transactions processed by Franchisee will determine Franchisee's specific requirements for achieving PCI compliance. Currently, the monthly cost of quarterly firewall scans is included with the Micros Platinum

service monthly fees, however such monthly cost may increase as detailed in the El Pollo Loco® IT Support Services Agreement, attached and incorporated herein as **Exhibit 7**. If Franchisee is found to be non-compliant with the PCI/DSS and remediation is required, a third party vendor will work directly with Franchisee to resolve any outstanding issues and Franchisee may have to pay additional fees. All franchisees are required to participate in this program from a third party vendor as to which we, as our sole and absolute right, may require approval. Franchisee further promises that the results of the PCI review of Franchisee's operations, in so far as they pertain to the business transacted under this Agreement, shall be open to inspection, examination and audit by Franchisor and its authorized representatives at any and all times, and copies thereof may be made by Franchisor and retained for its own use. All of such records shall be maintained and retained by Franchisee as required by the PCI DSS. Franchisee understands and agrees that Franchisee is solely responsible for meeting the requirements for the PCI DSS Program. Failure to do so shall be considered grounds for termination of this Agreement as provided in Section 18 hereof.

8. ADVERTISING AND MARKETING

8.1. Recognizing the value of marketing and advertising to the goodwill and public image of the El Pollo Loco® System, Franchisor administers funds for advertising, public relations, marketing research and promotion into which franchisees contribute an "**Advertising Fee**". El Pollo Loco® restaurants owned and operated by Franchisor contribute on the same basis as franchisees within the same DMA.

8.2. The entire Advertising Fee will be deposited into the Advertising Fund to be allocated as Franchisor's sole and absolute right.

8.3. Franchisor shall have the sole and absolute right to determine the expenditures, investments and all aspects of activities funded by the Advertising Fund, including media plans and buying, creative concepts, materials, endorsements and agency relationships. The Advertising Fund may be used to pay for production costs for materials and programs Franchisor chooses, including advertising agency fees, market research, concept development, design development (store prototypes and advertising), product research and development, video, audio, electronic, written advertising materials, media and public relations programs. The Advertising Fund will be accounted for separately from Franchisor's other funds. Although it has been Franchisor's practice to spend all advertising funds in the fiscal year in which they are collected, Franchisor reserves the right to spend such advertising funds in the next fiscal year to the extent Franchisor deems appropriate. Franchisor may spend in any fiscal year an amount greater or less than the aggregate contributions made by El Pollo Loco® restaurants to the Advertising Fund in that year, and the Advertising Fund may borrow from Franchisor or from other lenders to cover deficits in the Advertising Fund or cause the Advertising Fund to invest any surplus for future use by the Advertising Fund. Upon request, but not more frequently than annually, Franchisor will provide Franchisee with a written description of the expenditures made by the Advertising Fund during the fiscal year immediately preceding the request of the advertising fees received from franchisees. The statement of expenditures is not required to be audited.

8.4. If Franchisee is located outside the Los Angeles DMA, as Franchisor's sole and absolute right, a portion of Franchisee's Advertising Fee may be allocated to a Local Advertising Fund ("**LAF**") pertaining to the Restaurant. Franchisee will be required to pay the Advertising Fee to Franchisor at the same time as Franchisee's royalty payments pursuant to the Authorization Agreement for Prearranged Payments (**Exhibit 4** to the Franchise Agreement). Franchisee must use current approved vendors for Franchisee's advertising order, and Franchisor will pay the approved vendor directly upon approval of the order and confirmation of receipt of the order with Franchisee. The LAF monies will also be used to reimburse Franchisee for the cost of implementing local marketing plans developed by Franchisee and approved by Franchisor (up to an amount not to exceed the LAF contributions collected). The LAF monies will be used to reimburse Franchisee for the cost of implementing local marketing plans developed by Franchisee and approved by Franchisor in writing. For these purposes, qualifying LAF expenditures include, but are not limited to: (a) amounts contributed to Advertising Associations (defined below); and (b) amounts spent for advertising media, such as television, radio, newspaper, billboards, posters, direct mail, collateral and promotional items, advertising on vehicles (excluding the cost of any vehicle), and, if not provided by Franchisor, the cost of producing approved materials necessary to participate in such media. Non-qualifying LAF expenditures include amounts spent for items which Franchisor, in its reasonable judgment, deems inappropriate for meeting the minimum advertising requirement, including, but not limited to: permanent on-premises Signs and traditional or digital menu boards, transportation vehicles, marketing personnel salaries, public relations or advertising agency retainer, highway signs or any other signage for directional purposes only, store labor costs associated with the execution of any marketing program, lighting, administrative costs, Yellow Pages advertising, discounts/coupons offers, free offers, employee incentive programs, and any unapproved marketing or advertising materials.

8.5. Franchisee shall not engage in any advertising activities without Franchisor's prior written consent. Should Franchisee submit advertising that is not approved by Franchisor, Franchisee will be required to revise and resubmit such advertising again for written approval, *prior* to use of such advertising. Franchisee shall submit to Franchisor for Franchisor's prior approval, at least thirty (30) days prior to the beginning of each fiscal year, a marketing plan for Franchisee's DMA. This marketing plan may be submitted by all franchisees in Franchisee's DMA through an area advertising association. If Franchisee is using materials not prepared by Franchisor and which vary from Franchisor's standard advertising and promotional materials, such materials must be submitted to Franchisor for approval no less than forty-five (45) days prior to the beginning of such promotion or program. Franchisor will review any materials submitted for Franchisor's approval within ten (10) business days of receipt of such materials. Franchisee shall not use any advertising or promotional materials that Franchisor has disapproved, or that Franchisor has not approved.

8.6. Franchisor shall have the right to establish local and/or regional advertising associations ("**Advertising Associations**") for El Pollo Loco® restaurants in Franchisee's local or regional area, covering the geographic areas Franchisor may designate from time to time. Franchisor has the right to form, change, dissolve or merge the Advertising Associations. If Franchisor has established an Advertising Association in Franchisee's DMA, Franchisee must participate in the Advertising Association and its programs and abide by its by-laws. Each El Pollo Loco® restaurant located within the area governed by the Advertising Association will have one (1) vote. Franchisee must contribute the amounts to the Advertising Association(s) as determined by the Advertising Association members from time to time in accordance with their bylaws. Any El Pollo Loco® Restaurant owned by Franchisor in Franchisee's DMA or regional market area(s) will contribute to the Advertising Association on the same basis as Franchisee contributes for its Restaurant. Contributions to the local and regional Advertising Associations are credited toward the LAF advertising expenditures required pursuant to Section 8.4 above; however, if Franchisor provides Franchisee and Franchisee's Advertising Association ninety (90) days' notice of a special promotion, including, but not limited to, any regional promotions, Franchisee must participate in the promotion and also pay Franchisor any special promotion advertising fees assessed in connection with the program, beginning on the effective date of the notice and continuing until the special promotion is concluded. Any special promotion advertising fees will be in addition to, and not credited towards, the LAF advertising expenditure required pursuant to Section 8.4 above. The Advertising Association Membership Agreement is attached to this Agreement as **Exhibit 5**. Franchisor may administer the Advertising Associations and collect Franchisee's Advertising Association contributions by automatic electronic withdrawal.

8.7. Franchisor shall be under no obligation to use the Advertising Fund to advertise equally for all markets or for all DMAs. All advertising fee contributions from Franchisor-operated restaurants shall be deposited in the Advertising Fund. Franchisor shall be under no obligation to determine the incremental cost of franchise sales advertising and investor relations sections of any internet web sites established by Franchisor and funded in whole or in part by the Advertising Fund.

8.8. In addition to Advertising Fees payable pursuant to Section 6.1 of this Agreement, Franchisee shall expend \$5,000.00 per Restaurant to conduct grand opening advertising and local store marketing and promotion programs for Franchisee's Restaurant, utilizing advertising and promotional materials approved by Franchisor. Such grand opening advertising shall be conducted in accordance with Franchisor's specifications and standards and in accordance with a grand opening plan (which will cover advertising and promotion for the 15 days prior to the Opening Date and 45 days following the Opening Date) which Franchisee prepares and submits to Franchisor for approval at least 30 days prior to the anticipated Opening Date. Franchisee shall submit to Franchisor not later than 15 days following the conclusion of such grand opening promotion, written receipts and other evidence reasonably satisfactory to Franchisor evidencing all amounts spent by Franchisee to conduct the grand opening promotion.

9. INSURANCE AND INDEMNIFICATION

9.1. Throughout the term hereof, Franchisee shall obtain and maintain insurance coverage with insurance carriers acceptable to Franchisor in accordance with Franchisor's current insurance requirements as modified from time to time. The coverage shall commence when the Location is secured by Franchisee by executed deed or lease and shall comply with the requirements of Franchisee's lease, if any, for product liability and broad form contractual liability coverage in the amount of at least two million dollars (\$2,000,000.00) combined single limit and not less than \$1,000,000.00 per occurrence. Franchisee shall also carry property and extended coverage insurance with a maximum deductible of \$10,000.00 and with endorsements for vandalism and malicious mischief, covering the

building, structures, equipment, improvements and the contents thereof in and at the Restaurant, on a full replacement cost basis, insuring against all risks of direct physical loss (except for unusual perils such as nuclear attack, earth movement and war), and business interruption insurance sustained form covering the rental of the Location, previous profit margins, maintenance of competent personnel and other fixed expenses. Franchisee shall also carry such worker's compensation insurance as may be required by applicable law. In connection with and prior to commencing any construction, reimage or remodeling of the Restaurant, Franchisee shall maintain Builder's All Risks Insurance and performance and completion bonds in forms and amounts, and written by a carrier or carriers, acceptable to Franchisor. As proof of such insurance, a certificate of insurance shall be submitted by Franchisee for Franchisor's approval prior to Franchisee's commencement of any activities or services to be performed under this Agreement. Franchisee shall deliver a complete copy of Franchisee's then-prevailing policies of insurance to Franchisor within thirty (30) days following the delivery of the certificate of insurance.

9.2. Franchisor shall be named as an additional insured on all of such policies referenced in Section 9.1 above to the extent of its interests and shall be provided by Franchisee with certificates of insurance evidencing such coverage prior to the Opening Date and promptly following the date any policy of insurance is renewed, modified or replaced during the term of this Agreement. All policies must contain provisions denying to the insurer acquisition of rights of recovery against any named insured by subrogation. All coverages shall be placed with a financially stable insurer with a minimum AM Best Ratings of A-VII. All public liability and property damage policies shall contain a provision that Franchisor, although named as an additional insured, shall nevertheless be entitled to recover under such policies on any loss occasioned to it, its affiliates, officers, agents and employees by reason of the negligence of Franchisor, Franchisee, or their respective principals, contractors, agents or employees. All policies shall extend to and provide indemnity for all obligations assumed by Franchisee hereunder and all other items for which Franchisee is required to indemnify Franchisor under the provisions of this Agreement, whether or not the liability arose from the negligence of Franchisor, its principals, contractors, agents or employees, and shall provide Franchisor with at least thirty (30) days prior written notice of cancellation, termination or material reduction of coverage. Franchisor reserves the right to specify reasonable changes (which may include increases) in the types and amounts of insurance coverage required by this Section 9. Should Franchisee fail or refuse to procure the required insurance coverage from an insurance carrier acceptable to Franchisor or to maintain it throughout the term of this Agreement, Franchisor may as its sole and absolute right, but without any obligation to do so, obtain such coverage for Franchisee, in which event Franchisee shall pay on demand the required premiums and any related fees or costs (such as, but not limited to, broker's fees, taxes or service fees) or reimburse Franchisor therefore. The amount of such premiums and any related fees or costs shall be set forth in a written invoice delivered to Franchisee by Franchisor. Franchisee shall reimburse Franchisor for the invoice amount within seven (7) days after the invoice has been delivered to Franchisee pursuant to Section 23.3 of this Agreement. Failure to maintain the required insurance or to promptly reimburse Franchisor for any premiums and any related fees or costs paid on behalf of Franchisee by Franchisor shall constitute a default hereunder. Should Franchisor elect to obtain such coverage for Franchisee, then Franchisee will assist Franchisor by providing the necessary information and access to enable Franchisor to obtain coverage for Franchisee. In the event of any claim, lawsuit, complaint, cross complaint, arbitration, demand, allegation, or liens and damages (collectively "**Claim**"), Franchisee shall immediately notify Franchisor in writing of the Claim and the facts surrounding such Claim pursuant to Section 23.3 of this Agreement.

9.3. Franchisee shall defend immediately upon tender of defense, at its own cost, Franchisor, its subsidiaries, parent and affiliates, shareholders, directors, officers, employees and agents (collectively referred to, for this Sections 9.3 and 9.4 only, as "**Franchisor**"), from and against any and all claims, lawsuits, complaints, cross complaints, arbitrations, demands, allegations, costs embraced by indemnity, loss, costs, expenses (including attorneys' fees), liens and damages (collectively referred to, for Sections 9.3 and 9.4 only, as "**Losses**"), however caused, and reimburse Franchisor for all costs and expenses (including attorneys' fees) incurred by Franchisor in defense of any Losses, resulting directly or indirectly from or pertaining to or arising out of, or alleged to arise out of, or in connection with the use, operation, maintenance, condition, construction, equipment, decorating, signage (including traditional or digital menu boards), sidewalks, exterior, interior, parking lot, food preparation, sales and service of Franchisee's restaurant, including any labor, any employee related claims whatsoever, including, without limitation any claims made by an employee of Franchisee resulting from the employee's training in a Franchisor operated facility or restaurant, and including Franchisee's failure for any reason to fully inform any third party of Franchisee's lack of authority to bind Franchisor for any purpose. Such Losses shall include, without limitation, those arising from latent or other defects in the restaurant whether or not discoverable by Franchisor, and those arising from the death of or injury to any person or arising from damage to the property of Franchisee or Franchisor, or any third person, firm or corporation, whether or not resulting from any strict liability imposed by fact, law, statute, or ordinance, on Franchisor. Franchisee further agrees that Franchisee's duty to defend Franchisor is separate from, independent of and free-standing of Franchisee's duty to indemnify Franchisor and applies whether the issue of Franchisee's negligence, breach of contract, or other fault or obligation has been determined. Franchisee's duty to defend is regardless of the

outcome of liability even if Franchisee is ultimately found not negligent and not dependent on the ultimate resolution of issues arising out of any claims, lawsuits, complaints, cross complaints, arbitration, demands, allegations, costs embraced by indemnity, loss, costs, expenses (including attorneys' fees), liens or damages.

9.4. Franchisee shall indemnify and hold harmless Franchisor from and against any and all Losses, however caused, resulting directly or indirectly from or pertaining to or arising out of or in connection with the use, operation, maintenance, condition, construction, equipment, decorating, signage (including traditional or digital menu boards), sidewalks, exterior, interior, parking lot, food preparation, sales and service of Franchisee's restaurant, including any labor, any employee related claims whatsoever, including, without limitation any claims made by an employee of Franchisee resulting from the employee's training in a Franchisor operated facility or restaurant, and including Franchisee's failure for any reason to fully inform any third party of Franchisee's lack of authority to bind Franchisor for any purpose. Such Losses shall include, without limitation, those arising from latent or other defects in the restaurant whether or not discoverable by Franchisor, and those arising from the death of or injury to any person or arising from damage to the property of Franchisee or Franchisor, or any third person, firm or corporation, whether or not resulting from any strict liability imposed by fact, law, statute, or ordinance, on Franchisor. Franchisee further shall indemnify and hold harmless Franchisor from all said Losses and shall pay for and be responsible for all said Losses, however caused, whether by any individual, employee, third person or party, vendor, visitor, invitee, trespasser or any firm or corporation whatsoever, whether caused by or contributed to by Franchisor, the combined conduct of Franchisee and Franchisor, or active or passive negligence of Franchisor, but for the sole negligence or willful misconduct of Franchisor.

10. VENDING MACHINES

10.1. Franchisee shall not install a video game machine, juke box, cigarette machine, public telephone or other type of vending machine or device, whether or not coin operated in the Restaurant, or on its premises, without prior written approval of Franchisor, which approval will be granted or denied as Franchisor's sole and absolute right. The revenues received by Franchisee from any approved machines shall be included in Franchisee's Gross Sales.

11. COMPLIANCE WITH MANUAL AND WITH SYSTEM STANDARDS

11.1. Franchisee acknowledges and agrees that strict and continued adherence by Franchisee to Franchisor's standards, policies, procedures and requirements, as set forth in this Section 11, is required and that failure on the part of Franchisee to so perform will be grounds for termination of this Agreement as provided in Section 18 hereof. Franchisee acknowledges that changes, modifications, deletions and additions to the standards, specifications, procedures and menu items comprising the El Pollo Loco® System may be necessary and desirable from time to time. Franchisor may make such modifications, revisions, deletions and additions, including without limitation modifications, revisions, deletions and additions to the Manual and to the menu items required to be offered by Franchisee, which Franchisor, in good faith and exercising its judgment believes to be desirable. Franchisee agrees to comply with any such modification, revision, deletion or addition as of the date that such modification, revision, deletion or addition becomes effective. Franchisee acknowledges that it shall receive one (1) copy of the Manual for the Restaurant on loan from Franchisor and that the Manual shall at all times remain the sole property of Franchisor. Franchisee understands that Franchisor has entered into this Agreement in reliance upon Franchisee's representation that it will strictly comply with all the provisions of the Manual. For purposes of this Agreement, the Manual shall be deemed to include all written directions delivered to Franchisee by Franchisor from time to time setting forth standards, specifications and procedures for the operation of Franchisee's El Pollo Loco® restaurant.

11.2. Franchisee acknowledges and agrees that it is in the best interest of the business conducted at the Restaurant to prepare and serve food in the Restaurant only from ingredients which meet the product specifications as communicated by Franchisor to Franchisee from time to time (the "**Specifications**"), and Franchisee further promises that all products, equipment, goods, inventory and supplies used in connection with the Restaurant will comply with the Specifications. Furthermore, Franchisee shall not offer or sell any product, service or other item at the Restaurant except those prior approved in writing by Franchisor.

a. All menu items shall be made in strict compliance with Franchisor's written recipes and requirements, which Franchisor may change from time to time by amendments to the Manual.

b. Franchisee acknowledges and agrees that all proprietary El Pollo Loco® marinades, marinade mixes and marinated ingredients used in the preparation of the required and approved El Pollo Loco® food products are unique. Their formulae and the process of their manufacture constitute trade secrets. Franchisee shall purchase such marinades, marinade mixes and marinated ingredients exclusively from Franchisor or, as Franchisor's sole and absolute right to determine, from Franchisor's designated distributor. The right to purchase and use such marinades, marinade mixes and marinated ingredients is licensed to Franchisee pursuant to this Agreement, and such right is restricted to use in the franchise business at the Restaurant and solely for the term of this Agreement.

11.3. Throughout the term of this Agreement, Franchisee shall be actively engaged in the management and day-to-day operation of the Restaurant. Franchisee may appoint an Operations Director to supervise all franchise activities. If Franchisee appoints an Operations Director, such appointment is subject to Franchisor's prior written approval and the Operations Director must satisfactorily complete the EPL management training program and have received the ServSafe® certification; and Franchisee must complete either the EPL management training program or the Executive Franchisee Training Program. The Operations Director shall be actively engaged in the management and day to day operations of the restaurant and devote full time and best efforts to the supervision of EPL Restaurant(s) owned by Franchisee. If at any time, for any reason, the Operations Director ceases to perform those duties on behalf of the Restaurant(s), Franchisee shall appoint a new Operations Director within 30 days subject to Franchisor's prior written approval, and the newly appointed Operations Director must satisfactorily complete the EPL management training program within 90 days of appointment and have received the ServSafe® certification at Franchisee's expense; or, Franchisee shall assume the duties of the Operations Director and complete the EPL management training program within 120 days (if not previously completed). Franchisee must also comply with any applicable transfer provisions of this Agreement if the change in Franchisee's Operations Director results in a change in the equity ownership of the Restaurant.

11.4. Franchisee acknowledges that it has received a copy of Franchisor's list of approved brands and distributors (the "**Approved Brands and Distributors List**"). Franchisor has consulted with the distributors set forth on such list and each distributor has agreed to offer products, services, equipment, goods, inventory, supplies or paper products which will comply with Franchisor's Specifications. Such Approved Brands and Distributors List is furnished to Franchisee and Franchisee must purchase only those products, equipment, goods, inventory, supplies and paper products that comply with the Specifications and only those brands, and only from those distributors, that are on the Approved Brands and Distributors List. If Franchisee desires to purchase any brands and/or products from any distributor not named on the Approved Brands and Distributors List (or any brand and/or product not on the Approved Brands and Distributors List from a distributor on that list), Franchisee shall first submit to Franchisor a written request for approval of any such brand, product and/or distributor whichever is applicable, prior to Franchisee's purchase of such product from such distributor. Franchisor shall have the right to require that its representatives be permitted to inspect the distributor's facilities and that samples from the distributor be delivered either to Franchisor or to an independent laboratory designated by Franchisor for testing. Upon completion of Franchisor's inspection or evaluation of the proposed distributor (including samples provided by such distributor), and upon submission of any additional information or data required by Franchisor, Franchisor shall promptly approve or reject such proposed distributor or services and goods. Franchisor reserves the right, at its option, to re-inspect the facilities and products of any such approved distributor or of any distributor on Franchisor's Approved Brands and Distributors List and to revoke its approval upon the distributor's failure to continue to meet any of Franchisor's then-current Specifications and criteria. Nothing in the foregoing shall require Franchisor to approve any distributor. Franchisor agrees to evaluate any item which Franchisee is considering procuring to determine whether such item complies with the Specifications. No charge shall be made by Franchisor for the services of Franchisor's employees in connection with such evaluation; however, Franchisee shall reimburse Franchisor for its reasonable cost and expenses in connection with such evaluation, including any amounts paid to independent laboratories or consultants chosen by Franchisor as its sole and absolute right to assist in such evaluation. All such amounts shall be set forth in a written invoice delivered to Franchisee by Franchisor. Franchisee shall reimburse Franchisor for the invoice amount within seven (7) days after the invoice has been delivered to Franchisee pursuant to Section 23.3 of this Agreement. The Approved Brands and Distributors List and any guide containing such list are proprietary information of El Pollo Loco® and must be kept strictly confidential by Franchisee. Franchisee shall not copy, distribute, release or otherwise provide any third party with all or any part of the information contained in the Approved Brands and Distributors List or guide without first obtaining the prior written approval of Franchisor, which approval may be withheld as Franchisor's sole and absolute right. (Notwithstanding anything in this Agreement to the contrary, Franchisor may designate itself the only approved distributor of some or all of the brands and/or products. Franchisor's proprietary products must be purchased from Franchisor or its designated distributor pursuant to Section 11.2.b.

11.5. As uniformity of appearance and public recognition are important to the financial success of Franchisee and Franchisor hereunder, Franchisee shall:

a. Use only uniforms, Signs, cards, posters, notices, displays, decorations, table tents and other such advertising materials which are identical in appearance and quality to those furnished or approved by Franchisor. Franchisor may make available its menu-stock (pre-printed as to all matters other than menu prices), including specials and featured items, to Franchisee for printing in the event that Franchisee elects to charge prices not provided for in Franchisor's menu codes. Notwithstanding anything in this Agreement to the contrary, Franchisor reserves the right, to the fullest extent allowed by applicable law, to: establish maximum, minimum or other pricing requirements with respect to the prices Franchisee may charge; recommend retail prices; advertise specific retail prices for some or all products sold by Franchisee, which prices Franchisee will be compelled to observe; engage in marketing, promotional and related campaigns, which Franchisee must participate in and which may directly or indirectly impact Franchisee's retail prices; and otherwise mandate, directly or indirectly, the prices which Franchisee may charge.) Franchisee agrees that all specials or featured items designated by Franchisor shall be included as part of the menu and shall be made available on the days and times designated by Franchisor; and

b. Not authorize or permit in the Restaurant, or on behalf of the Restaurant, any advertising, Signs, cards, posters, notices, displays, decorations or table tents other than those described in Section 11.5(a), nor authorize or permit in or around the Restaurant any products or services which are not authorized by Franchisor, without the prior written consent of Franchisor.

c. Franchisee must receive written approval from Franchisor's Marketing Department to employ delivery companies as described in the Manual. Notwithstanding the foregoing, under the System, and as described in Section 7.13 above, Franchisor: has a Remote Ordering Program, a Loyalty Program, and a Third-Party Delivery Program; is developing a Self-Order Kiosk Program that will each operate with Micros; and (iii) may develop a centralized Call Center Program. Franchisee shall be required to participate, offer and conduct such programs.

11.6. Franchisor shall have the right to remove any unauthorized material at Franchisee's expense.

11.7. Franchisee shall submit copies of all government health inspections and food borne illness investigation reports of the Restaurant to Franchisor, or Franchisor's designated agent. Additionally, should Franchisee be subject to Restaurant closure by health officials or receive a "B" or equivalent restaurant rating, Franchisee will immediately notify Franchisor by the fastest means available.

12. RESTAURANT MAINTENANCE AND REPAIR

12.1. Maintenance and repair of the Restaurant are the sole responsibility and shall be done at the expense of Franchisee. For the term of this Agreement, Franchisee, at its sole cost and expense, shall maintain the Restaurant and the Location, including, but not limited to, the Restaurant building, the Location and parking lot, equipment, decor, furnishings, fixtures, wares, utensils, supplies, and inventory, in good working order and condition and in compliance with all laws. Franchisee shall make all repairs within a reasonable time period not to exceed thirty (30) days of the date such repairs are identified as needed to bring the Restaurant into a first-class condition. Franchisee shall replace any of the Restaurant's equipment, furnishings and fixtures and repaint the Restaurant as necessary to satisfy this Section 12. Without limiting the generality of the foregoing, upon notice from Franchisor of any change required or recommended by applicable law, rule or regulation, or if Franchisor discovers any circumstance which is or may result in a danger to public health, Franchisee shall promptly, remove, repair, replace or modify any equipment or fixtures used in the Restaurant necessary to satisfy or rectify the same. All replacement equipment, furnishings and fixtures shall comply with Franchisor's then-current requirements and specifications.

12.2. Franchisee shall not make any addition to or change in the physical appearance, decor, characteristics or style of the Restaurant without the prior written consent of Franchisor which consent may be withheld or granted as Franchisor's sole and absolute right.

12.3. During the term of this Agreement, Franchisor may require Franchisee, at Franchisee's expense, to remodel the Restaurant to then current El Pollo Loco® standards, format, design and image, as designated pursuant to plans and specifications provided by Franchisor; provided, however, Franchisee shall not be required to undertake such remodeling more than once every seven (7) years during the term of this Agreement, except if such remodeling

is required in connection with a transfer of the Restaurant under Section 17.6.c of this Agreement or granting of a successor franchise under Section 20 below.

12.4. All Signs to be used in connection with the Restaurant, both exterior and interior, must conform to Franchisor's Sign criteria as to type, color, design and location and be approved in writing by Franchisor prior to installation or display. Franchisee shall change its Signs to conform with updated or revised requirements of Franchisor when Franchisor commits to implementing such revisions at twenty-five percent (25%) of the Franchisor's then-operated El Pollo Loco® restaurants and at such times as Franchisee is required to perform remodeling work pursuant to Section 12.3.

12.5. Franchisee shall at all times operate its Restaurant as a clean, safe, sanitary, orderly, legal and respectable place of business in accordance with the Manual, the lease or sublease, if any, for the Location and all applicable federal, state or local laws, rules, or regulations. Franchisee shall not cause or allow any part of its Location to be used for any immoral or illegal purpose.

13. HOURS OF OPERATION

13.1. Franchisee shall keep the Restaurant fully operational and open to the public upon such days and during such minimum number of hours as Franchisor shall prescribe from time to time in the Manual. Franchisee shall supply to Franchisor prior to the commencement of the construction or remodeling work of the Restaurant proof that the Restaurant is allowed to be open to the public during such required hours and days by the applicable local governmental authorities and by the landlord under the lease for the Location. In the event that the Restaurant is closed for reasons beyond Franchisee's control, Franchisee will immediately notify Franchisor by the fastest means available of the closing.

14. PERSONNEL STANDARDS

14.1. Franchisee shall hire, train and supervise Restaurant employees in accordance with the applicable provisions of the Manual. Franchisee shall do everything necessary to ensure that all employees are, at all times during employment in the Restaurant, neat, clean and adequately trained and supervised in connection with the performance of their duties.

14.2. Franchisee acknowledges that adequate training and supervision are necessary in order to ensure that the Restaurant personnel provide service to the public in a courteous, efficient and skilled manner and in accordance with the standards set forth in the Manual. Franchisee understands and agrees that Franchisee is solely responsible for the performance of its Operations Manager and all other of its employees and that the acts and omissions of such employees which are inconsistent with the provisions of this Agreement shall be considered grounds for termination of this Agreement as provided in Section 18 hereof.

14.3. Franchisee shall maintain wages, hours, working conditions and other benefits for all of its employees in accordance with all federal, state and local laws and regulations.

14.4. Franchisee shall maintain all employee time, payroll and tax records and to file required reports thereon in accordance with all federal, state and local laws and regulations.

14.5. It is mutually understood and agreed by the parties that Franchisee retains the responsibility and independent authority, notwithstanding any provision of this Agreement, to maintain and enforce personnel policies and procedures, including, but not limited to, hiring, firing and disciplining its employees. Nothing contained in this Agreement shall be construed or interpreted so that any employee of Franchisee becomes or is deemed to be an employee or agent of Franchisor. Franchisee shall be solely responsible for the maintenance and handling of all employee matters and Franchisee shall indemnify and hold Franchisor and its affiliates and subsidiaries harmless from any claims, losses, or liabilities resulting from any failure by Franchisee to act in such a manner.

15. INSPECTIONS

15.1. Franchisor and its authorized representatives shall have the right to inspect the Restaurant and the supplies and inventory of Franchisee. Franchisor's personnel and representatives shall have the right to enter the Restaurant at any reasonable time, and from time to time, with or without notice, for the purposes of examination, conferences with Franchisee and personnel of Franchisee, observation and evaluation of the operations being conducted at the Restaurant, and for all other purposes in connection with a determination that the Restaurant is being operated in accordance with the terms of this Agreement, the Specifications and Manual and other applicable laws and regulations.

15.2. Franchisor may conduct quality control and evaluation programs, as Franchisor shall determine (including a "mystery shopper" program or "accuracy guarantee" program or other similar programs). Franchisee shall allow and participate in such program(s), as required by Franchisor. Franchisor shall have the right to require Franchisee to pay its pro-rata share of the costs incurred in establishing and maintaining such program(s) and Franchisee shall promptly pay such charges. Franchisee acknowledges that Franchisor shall have the right, in any manner Franchisor may deem appropriate, to publish or disclose to other franchisees under the El Pollo Loco® System, or to third parties outside the El Pollo Loco® System on an anonymous basis, any information that is collected, produced or maintained under any program(s) implemented pursuant to this Section 15.2.

15.3. In connection with inspections conducted pursuant to Sections 15.1 and 15.2 above, Franchisor and its authorized representatives may deliver to Franchisee an inspection report in such form(s) as may be adopted by Franchisor from time to time (the "**Inspection Report(s)**"). The Inspection Report(s) shall indicate the principal items inspected, observed and evaluated.

15.4. In the event that any such Inspection Report indicates a deficiency or unsatisfactory condition with respect to any item listed thereon, Franchisee shall promptly commence to correct or repair such deficiency or unsatisfactory condition and thereafter diligently pursue the same to completion. In the event of a failure by Franchisee to comply with the foregoing obligation to correct or repair, Franchisor, in addition to all other available rights and remedies, including the right to terminate this Agreement pursuant to Section 18 below, shall have the sole and absolute right, but not the obligation, to forthwith make or cause to be made such correction or repair, and the expenses thereof, including, without limitation, meals, lodging, wages and transportation for Franchisor's personnel, if so utilized as Franchisor's sole and absolute right to determine, shall be promptly reimbursed by Franchisee. Should any deficiency or unsatisfactory condition be reported more than once within any thirty (30) day period, Franchisor shall have the right, in addition to all other available rights and remedies, to place a Franchisor representative in charge of the Restaurant for a period of up to thirty (30) days in each such instance, and the wages and expenses of meals, lodging and transportation of said representative, which shall be commensurate with that provided for managers of other Franchisor-owned El Pollo Loco® restaurants, shall promptly be reimbursed by Franchisee. All such expenses incurred by Franchisor pursuant to this Section shall be set forth in a written invoice delivered to Franchisee by Franchisor. Franchisee shall reimburse Franchisor for the invoice amount within seven (7) days after the invoice has been delivered to Franchisee upon demand.

15.5. Notwithstanding Section 15.4 above, should the Inspection Report indicate a deficiency or unsatisfactory condition with respect to any item listed thereon, and Franchisor or Franchisor's agent are required to return to the Restaurant to re-inspect the Restaurant, Franchisor will charge Franchisee for each subsequent visit to Franchisee's restaurant after the initial inspection. Franchisee will give Franchisor authorization to pay the re-inspection visit charge as a direct debit from Franchisee's Operating Account. Should there be two (2) consecutive Inspection Reports both indicating a deficiency or unsatisfactory condition with respect to any item listed thereon, and Franchisor or Franchisor's agent are required to return to the Restaurant to provide a Coaching session to Franchisee; or should Franchisor determine in our sole and absolute right that a Coaching session is required at the Restaurant due to certain circumstances, Franchisor will charge Franchisee for each Coaching session at Franchisee's restaurant. Franchisee will give Franchisor authorization to pay each Coaching session visit charge as a direct debit from Franchisee's Operating Account.

16. TRAINING

16.1. Franchisee acknowledges and agrees that it is important to the operation of the Restaurant that Franchisee and its employees receive such training as Franchisor may require from time to time. Therefore:

a. The Restaurant must be managed by not less than four (4) individuals as a General Manager or Assistant Manager who have successfully completed the EPL management training program; or a Shift Leader trained by your General Manager and Assistant Manager at your Restaurant and such Restaurant is certified as a training restaurant prior to any training taking place; and who have received the ServSafe® certification and who will assume responsibility for the day to day management of the operations of the Restaurant, including the preparation of food products, accounting, and the supervision and training of personnel (“**Managers**”) The Managers may consist of a combination of the following: a General Manager or Assistant Manager, each who has successfully completed the EPL management training program or a Shift Leader. The Managers may be required to sign a confidentiality agreement in a form approved by Franchisor. Each and every shift during operating hours must have a Manager in charge that is certified and trained in Franchisor’s initial training program and is ServSafe® certified.

b. If at any time, for any reason, the General Manager ceases to perform those duties on behalf of the Restaurant, Franchisee must promptly designate a substitute General Manager who does meet the above-stated qualifications.

c. If this is Franchisee’s first EPL Restaurant, Franchisee must also attend and satisfactorily complete the EPL management training program provided by Franchisor. If Franchisee appoints an Operations Director to oversee franchise activities, this Operations Director is subject to Franchisor’s prior written approval and must satisfactorily complete the EPL management training program and Franchisee must complete either the EPL management training program or the Executive Franchisee Training Program. Such training shall be completed prior to the opening of the restaurant.

d. Franchisee’s Operations Director shall be actively engaged in the management and day to day operations of the restaurant and devote full time and best efforts to the supervision of EPL Restaurant(s) owned by Franchisee. If at any time, for any reason, the Operations Director ceases to perform those duties on behalf of the Restaurant(s), Franchisee shall appoint a new Operations Director within 30 days, and the newly appointed Operations Director must satisfactorily complete the EPL management training program within 90 days of appointment at Franchisee’s expense; or, Franchisee shall assume the duties of the Operations Director and complete the EPL management training program within 120 days (if not previously completed).

e. Franchisee shall implement a training program for Franchisee’s employees in accordance with training standards and procedures prescribed by Franchisor and shall staff the Restaurant at all times during the term of this Agreement with a sufficient number of trained employees.

f. Franchisor may provide continuing operations training from time to time to reinforce operational standards, and new product roll-outs. The required frequency, duration, subject matter and required attendees shall be as determined by Franchisor from time to time.

g. In addition to the initial management training session described above, Franchisor may, at Franchisor’s sole option (and if the Restaurant is Franchisee’s or its affiliate’s first El Pollo Loco® restaurant, Franchisor shall) assist Franchisee in the initial opening of the Restaurant by sending to the Restaurant a member of Franchisor’s personnel who shall assist in the scheduled opening of the Restaurant.

h. The Restaurant shall not be opened until Franchisor is satisfied that Franchisee and Franchisee’s Managers and other restaurant personnel have been adequately trained in the El Pollo Loco® System.

16.2. Franchisor shall provide training as described in Section 16.1 without additional charge to Franchisee, provided that Franchisee does not request Franchisor to provide the EPL management training program to more than four Managers for the first, second and third Restaurants owned by Franchisee, or more than one Executive Franchisee Training Program, or more than one EPL management training program for franchisee or Operations Director in total. Franchisor shall charge franchisee a training fee of \$2,000 per Manager for the fifth and each subsequent Manager for the first, second and third Restaurants owned by Franchisee and for each Manager trained for the fourth and subsequent Restaurants owned by Franchisee, and up to \$2,000 per Executive Franchisee Training Program beyond one executive in total, or EPL management training program for franchisee or Operations Director beyond one franchisee or Operations Directors in total. Franchisee understands and agrees that Franchisee and any Manager shall be solely responsible for any and all costs incurred by them with respect to such training, including costs for compensation, wages (including compensation of and worker’s compensation insurance), lodging, travel

expenses or any other expenses incurred in connection with any initial training sessions, EPL management training program, Executive Franchisee Training Program, refresher courses or optional or required training program, and any such Manager shall not be considered an employee or agent of Franchisor.

17. ASSIGNMENT

17.1. Assignment by Franchisor. Franchisor shall have the right to assign or transfer any of its rights or delegate any of its obligations under this Agreement in whole or in part to any person, firm or corporation without any consent or approval from Franchisees; provided, however, that with respect to any assignment resulting in the subsequent performance by the assignee of the obligations of Franchisor hereunder:

a. The assignee shall expressly assume and agree to perform such obligations of Franchisor in writing; and

b. From and after the date of any such assignment, Franchisor shall have no further obligation or liability under this Agreement.

17.2. Assignment by Franchisee. The rights and duties created by this Agreement are personal to Franchisee. Franchisee acknowledges that Franchisor has entered into this Agreement in reliance on the individual or collective character, skill, aptitude, business ability, and financial capacity of Franchisee and its owners. Franchisee and each owner of an interest in this Agreement represent, warrant, and agree that all "Interests" in Franchisee are owned in the amount and manner in which Franchisee has disclosed them to Franchisor, as more particularly set forth in **Schedule 1** to this Agreement. (An "**Interest**" means any shares or partnership interests in Franchisee and any other legal or equitable right in any of Franchisee's stock, revenues, profits, rights or assets. When referring to Franchisee's rights or assets, an "**Interest**" also includes this Agreement and Franchisee's rights under and interest in this Agreement, the Restaurant and the revenues, profits or assets of the Restaurant.) Franchisee and each owner also represent, warrant and agree that no change will be made in the ownership of an Interest other than as permitted by this Agreement or as Franchisor may otherwise approve in writing. Franchisee and each owner agree to furnish Franchisor with evidence as Franchisor may request from time to time to assure that the Interests of Franchisee and each owner remain as permitted by this Agreement, including a list of all persons or entities owning any Interest. If Franchisee is a Business Organization, Franchisee shall cause each of the owners of any equity ownership in Franchisee to execute an agreement granting Franchisor an option to purchase each of such owner's Interest in Franchisee upon an Assignment as provided in this Section 17.

17.3. Neither this Agreement nor any Interest herein nor any Interest of Franchisee or any owner may be indirectly or directly, sold, transferred, assigned, conveyed, gifted, pledged, mortgaged, or otherwise encumbered ("**Assignment**") without Franchisor's prior written approval. Any such purported Assignment occurring by operation of law or otherwise without Franchisor's prior written consent shall constitute a default of this Agreement by Franchisee, and shall be null and void. Except in the instance of Franchisee advertising to sell its Restaurant and assigning this Agreement in accordance with the terms thereof, Franchisee shall not, without Franchisor's prior written consent, offer for sale or transfer at public or private auction or advertise publicly for sale or transfer, the furnishings, interior and exterior décor, items, supplies, fixtures, equipment, Franchisee's lease or the real or personal property used in connection with the Restaurant. This Agreement may not be transferred by Franchisee to a publicly-held entity, or to any entity whose direct or indirect parent's securities are publicly traded and no shares of Franchisee or any direct or indirect owner of Franchisee may be offered for sale through the public offering of securities.

17.4. In the event that Franchisee desires to make an Assignment including assigning all or any part of its rights, privileges and interests under this Agreement, Franchisee shall first offer such Assignment to Franchisor by notifying Franchisor in writing of the material terms and conditions, including price and identity of transferee upon which Franchisee would be willing to make such an Assignment. Franchisee shall also concurrently provide Franchisor with the estoppel certificate identified in Section 17.7 below and such other information as determined by Franchisor to enable Franchisor to evaluate the offer. Franchisor shall have the first right to acquire said rights, privileges and interests of Franchisee by accepting the offer in accordance with said terms and conditions or equivalent cash, as determined by Franchisor in its reasonable business judgment.

a. If the Assignment will be in the aggregate more than fifty percent (50%) of any one class of outstanding capital stock, the voting power, membership interests, partnership interest or other Interest in Franchisee occurring within thirty-six (36) months prior to the date of the Assignment, (a "**Majority Interest**"), then Franchisor shall have the option to purchase not only the Majority Interest being transferred, but also the remaining Interest, so that the ownership of Franchisor will be one hundred percent (100%). Any purchase of such remaining Interest shall be valued on a basis proportionate to the price of the Interest initially being offered.

b. If, within thirty (30) days after receipt of Franchisee's notice, Franchisor advises Franchisee of its acceptance of the offer as stated in the notice, Franchisee shall promptly make the Assignment to Franchisor on the stated terms and conditions. Should Franchisor elect to exercise its right of first refusal, Franchisee shall, if requested by Franchisor, cause Franchisee's lease or sublease, if any, with the lessor for the Location to be assigned to Franchisor (or, if the Location is owned by Franchisee, Franchisee shall lease the Location to Franchisor on commercially reasonable terms applicable in that market). Notwithstanding the foregoing, Franchisor shall have at least sixty (60) days from the date of its notice of exercise to Franchisee to close the transaction and Franchisor shall also be entitled to all customary and reasonable representations and warranties from Franchisee regarding the Franchisee's business or any other interest being conveyed.

c. Notwithstanding the provisions of this Section 17.4, Franchisor will waive Franchisor's right of first refusal if the assignee is a revocable family trust for which Franchisee is the controlling trustee and Franchisee's immediate family members are beneficiaries provided such Assignment is not considered a Majority Interest. An immediate family member is defined as a parent; sibling; child by blood, adoption, or marriage; spouse or significant other; grandparent or grandchild.

17.5. If, within thirty (30) days after receipt of Franchisee's notice, Franchisor does not indicate its acceptance of the offer as stated in the notice, Franchisee shall thereafter have the right, subject to the prior written consent of Franchisor, to make the Assignment to the proposed transferee on the same terms and conditions as stated in the notice. Should Franchisor not exercise its right of first refusal and should the contemplated Assignment not be completed within one hundred (120) days from the date of Franchisee's notice, or should the terms and conditions thereof (including the proposed transferee or the ownership therein) be altered in any material way, this right of first refusal shall be reinstated and any such subsequent proposed Assignment or altered terms and conditions of the current transaction must again be offered to Franchisor in accordance with the terms of these Sections 17.4 and 17.5.

17.6. Franchisee shall notify Franchisor in writing of any proposed assignee and shall promptly furnish Franchisor with such other information and documentation as Franchisor may request for the purpose of considering whether to grant its written consent. Franchisee acknowledges and agrees that Franchisor shall be entitled, at its election and without liability to Franchisee, to provide assignee with information relating to the Restaurant, including information in Franchisor's possession relating to operations and sales. Franchisor shall not unreasonably withhold its consent to an Assignment provided that Franchisee and the assignee satisfy such reasonable terms and conditions which may be imposed by Franchisor as a condition to obtaining Franchisor's consent, which may include, without limitation, the following:

a. The assignee (and its partners or the officers, directors, principal shareholders, or members of the assignee, as the case may be) shall be subject to the determination by Franchisor:

i. To have the appropriate business qualifications, restaurant operations experience, reputation, character, and aptitude necessary to operate and maintain the Restaurant;

ii. To have the ability to devote full time and best efforts to operating and maintaining the Restaurant;

iii. To be financially responsible, possess a favorable credit rating, be economically capable of carrying on the Restaurant business and have sufficient net worth as required by Franchisor for new franchisees;

iv. To not have been convicted of criminal misconduct that is relevant to the operation or ownership of the Restaurant or of any felony;

v. Shall neither directly nor indirectly own, operate, control or have any financial interest in any other business which would constitute a "**Competitive Business**" (as such term is defined in Section 21.7 of this Agreement); and

vi. Shall have demonstrated to Franchisor's satisfaction that assignee meets all of Franchisor's then-current requirements for new El Pollo Loco® franchisees, which requirements are subject to change by Franchisor from time to time as its sole and absolute right.

b. The assignee shall expressly assume in writing, via the Consent to and Assignment of Franchise Rights attached hereto as **Exhibit 9** of the Franchise Agreement, all of the obligations and liabilities of and enter into Franchisor's then-current form of Franchise Agreement, which may contain provisions including royalty and advertising fees, materially different from those contained herein; provided, however, that the term of such new agreement shall be equal to the then-remaining term of this Agreement and assignee shall not be required to pay a new initial franchise fee. If the assignee is a partnership, corporation, limited liability company or other legal entity, then all partners, shareholders, and members of assignee that (i) hold at least a ten percent (10%) interest in assignee and/or (ii) upon whose net worth Franchisor is relying in determining that the assignee has met Franchisor's financial minimum requirements for approval must sign the Personal Guarantee and any related documents in their individual capacity, agreeing to guarantee the obligations and liabilities of the assignee under the Franchise Agreement and to be individually bound by the terms of the Franchise Agreement as if they were a party to the Franchise Agreement. If a new partnership, corporation, limited liability company or other legal entity, at any time (including after an assignment), becomes the Franchisee or part of the Franchisee, that partnership, corporation, limited liability company or legal entity, as well as all holders of ten percent (10%) interest or more in assignee, as applicable, shall execute a Personal Guarantee, guaranteeing each of Franchisee's obligations and liabilities under the Franchise Agreement and agreeing to be individually bound by the terms of the Franchise Agreement as if they were a party to the Franchise Agreement. If the assignee is a corporation, partnership or limited liability company, it also shall demonstrate to the reasonable satisfaction of Franchisor that it has established transfer instructions prohibiting the transfer on its records of any equity securities, partnership interests or ownership interests in violation of the requirements set forth in this Section 17 and that each stock, partnership or ownership certificate of Franchisee shall have conspicuously endorsed upon its face a statement in form satisfactory to Franchisor that the assignment or transfer is subject to all of the restrictions imposed upon assignments by this Agreement;

c. The assignee or the assignor agrees to the reimage and/or remodel of the Restaurant to Franchisor's then-current standards, format, design and image, as designated pursuant to plans and specifications provided by Franchisor. Franchisee will have a specified period of time to complete the required reimage and/or remodel of the Restaurant. The required reimage and/or remodel of the Restaurant must be completed to Franchisor's satisfaction. Should the required reimage and/or remodel of the Restaurant not be completed to Franchisor's satisfaction, then Franchisor may terminate the Franchise Agreement under Section 18, entitled Default and Termination;

d. A copy of the Personal Guarantee required to be executed pursuant to this Section 17 is attached hereto as **Exhibit 2**. All other individuals with an ownership interest in the entity (who are not required to execute the Personal Guarantee) will be considered "**Investors**" and will be required to execute the "Investor Covenants Regarding Confidentiality and Non-Competition" which is attached hereto as **Exhibit 3**;

e. The assignee shall represent and warrant to Franchisor in writing that the assignee:

i. Has conducted an independent study of the Restaurant and the business therein;

ii. Has not in any way relied upon statements or representations of Franchisor or its employees or agents except as may be contained in an Disclosure Document or other comparable Disclosure Document which may be required to be delivered to such assignee in accordance with applicable law; and

iii. Acknowledges and understands that the assignee's rights upon assignment are conditioned on full performance of Franchisee's obligations hereunder and are limited to those expressly provided for in this Agreement.

f. As of the date of such assignment, Franchisee shall have fully performed and complied with all of its obligations to Franchisor, whether under this Agreement or any other agreement, arrangement or understanding with Franchisor;

g. Franchisee shall pay and discharge all outstanding obligations to Franchisor and to third parties arising from the existence, operation or maintenance of the Restaurant including, without limitation, amounts owing under this Agreement, the lease, if any, for the Location or to employees, suppliers, taxing authorities, utility companies and others as of the assignment date;

h. Franchisee shall pay to Franchisor a transfer fee to reimburse Franchisor for costs and expenses incurred in connection with such Assignment, including, without limitation, the cost of credit investigations and the preparation of Assignment agreements and Franchise Disclosure Documents which may be required to be delivered to such assignee under applicable federal or state law. If the Assignment is to a new franchisee under the El Pollo Loco® System, the transfer fee shall be forty percent (40%) of the then-current Initial Fee being charged to new franchisees entering the El Pollo Loco® System. If the Assignment is to an existing franchisee under the El Pollo Loco® System, the transfer fee shall be twenty-five percent (25%) of the then-current Initial Fee being charged to new franchisees entering the El Pollo Loco® System. If the assignee is a revocable family trust for which Franchisee is the controlling trustee and Franchisee's immediate family members are beneficiaries, no transfer fee will be payable to Franchisor, although Franchisee must reimburse Franchisor for Franchisor's reasonable expenses in the amount of \$500.00; and

i. In conjunction with granting the consent of Franchisor to any Assignment, Franchisee shall execute a general release, in form and substance satisfactory to Franchisor, of all claims against Franchisor and any affiliates of Franchisor.

17.7. Upon Franchisor's request, Franchisee shall, concurrently with any offer submitted to Franchisor by Franchisee regarding a transfer or purported Assignment or at any other time at Franchisor's request, furnish Franchisor with an estoppel agreement indicating any and all claims, demands and causes of action, if any that Franchisee may have against Franchisor or if none so exist, so stating, and a list of all owners having an interest in this Agreement or in Franchisee, the percentage interest of each owner and a list of all officers, directors, members and/or shareholders in such form as Franchisor may require.

17.8. Any Assignment including any encumbrance, assignment or purported encumbrance or assignment of Franchisee's rights, privileges or interests under this Agreement without Franchisor's written consent shall be null and void, of no force and effect, and shall constitute grounds for termination of this Agreement as provided in Section 18 hereof.

17.9. Any assignment based upon the legal incapacity of Franchisee, whether by operation of law or otherwise, shall be subject to Franchisor's written consent and right of first refusal as provided herein.

17.10. If this Agreement is assigned, Franchisee shall remain liable to Franchisor for the obligations under this Agreement and the obligations of the assignee hereunder and which arise as a result of acts, events or omissions which occur prior to the effective date of the assignment or within the initial term of this Agreement; provided, however, that the foregoing limitation on liability shall not reduce Franchisee's continuing liability to the extent that Franchisee is a partner, shareholder or owner of an interest in the assignee. Franchisor's consent to any transfer hereunder shall not constitute a waiver or release of any claims it may have against Franchisee as of the date of the assignment.

17.11. Any transfer of this Agreement, or any interest in this Agreement, or franchisee by will or intestate succession, or the sale of this franchise, or any interest in Franchisee constituting a Majority Interest by the executor or administrator of Franchisee's or such shareholder's or person's estate, shall be considered to be a transfer requiring compliance with the provisions of this Section 17, including the requirements concerning Franchisor's written approval of the assignee, the assignee's qualifications and training, and the execution of agreements. In the event Franchisor does not approve the qualifications of any heir or beneficiary to operate the Restaurant, the executor or administrator of Franchisee's estate shall have a period of twelve (12) months following written

disapproval to sell the franchise business to an assignee acceptable to Franchisor, during which twelve (12) month period the Restaurant shall be operated in accordance with all the terms and provisions of this Agreement. Such sale shall be subject to Franchisor's right of first refusal pursuant to this Section 17. If such a sale is not concluded within that period, Franchisor may terminate this Agreement.

17.12. If, for convenience of ownership, Franchisee desires to assign this Agreement to a Business Organization to hold its interest in this Agreement, Franchisor will consent to the assignment of this Agreement to a Business Organization, provided that (i) none of the securities of an Business Organization shall be traded on any public exchange or over the counter market; (ii) the certificates or other evidence of ownership held by the owner thereof shall contain a restriction on transfer referencing this Franchise Agreement, in a form required by Franchisor; (iii) the ownership of the assignee Business Organization shall be in the same proportion as the ownership of Franchisee immediately prior to the transfer; and (iv) none of the shares of stock, membership interests, voting power, equity or ownership interests in the assignee Business Organization shall be held by or for the benefit of a business competitor of Franchisor. Franchisee shall pay an administrative fee of Five Hundred Dollars (\$500) per transfer for each transfer to a Business Organization, or for each transfer of ownership amongst existing owners where such transfer is for the convenience of ownership only. At the time of request for a transfer for the convenience of ownership, Franchisee shall submit the following documents to Franchisor and Franchisor shall review, approve and/or disapprove such documents within thirty (30) days thereafter:

a. For an assignment to a corporation, Franchisee shall provide to Franchisor a (i) file stamped copy of the Articles of Incorporation (or comparable organizational document) and By-laws of the proposed assignee corporation, (ii) a sample stock certificate, (iii) a Certificate of Good Standing in the state in which the corporation is authorized to do business and the state in which the corporation will conduct the restaurant business pursuant to this Franchise Agreement, and (iv) a list of directors, shareholders and officers and their percentage ownership of the stock of the corporation. Each share certificate of a corporation shall contain a restriction on transfer in a form designated by Franchisor.

b. For an assignment to a partnership, Franchisee shall provide to Franchisor a (i) file stamped copy of the Certificate of Limited Partnership (if applicable) or the Statement of Partnership, and (ii) a copy of the fully executed Partnership Agreement, containing an exhibit showing the percentage of ownership in the partnership by all partners. The partnership agreement shall contain a restriction on transfer in a form designated by Franchisor.

c. For an assignment to a limited liability company, Franchisee shall provide to Company (i) Certificate of Formation (or comparable organizational document) of Limited Liability Company; (ii) a fully executed copy of the Operating Agreement, containing an exhibit showing the percentage of ownership of all members in the limited liability company; and (iii) the name of the Manager or Managers of the limited liability company. The operating agreement shall contain a restriction on transfer in a form designated by Franchisor.

d. Franchisee acknowledges that the purpose of the restrictions on transfer referenced in Sections 17.12(a) through 17.12(c) above is to protect Franchisor's trademarks, service marks, trade secrets, and operating procedures as well as the Franchisor's general high reputation and image, and is for the mutual benefit of Franchisor, Franchisee and other franchisees of the Franchisor. Franchisor shall not unreasonably restrict the issuance or transfer of stock or interests in a partnership or limited liability company, provided that, in no event, shall any share of stock of such assignee corporation, or an interest in a partnership or limited liability be sold, assigned or transferred to a business of a competitor of Franchisor or anyone of ill repute.

17.13. Where Franchisee desires to add new principals to the Franchisee entity, Franchisee shall pay to Franchisor an additional Two Thousand Five Hundred Dollars (\$2,500) per new principal to cover Franchisor's administrative costs for reviewing the application and suitability of each new principal as participants in the franchise business.

17.14. In connection with a sale by Franchisee of all or substantially all of the assets relating to the Restaurant business, Franchisee may take a security interest in the Restaurant and the purchaser's rights under this Agreement in order to secure any financing that Franchisee provides to the purchaser for the purchase of the Restaurant. In the event of a default under such financing arrangement and the exercise by Franchisee of its rights under such security interest, Franchisee or the individual(s) purchasing the Restaurant out of a foreclosure sale may

become the franchisee under this Agreement, subject to its compliance with each of the requirements set forth in this Section 17.

18. DEFAULT AND TERMINATION

18.1. In addition to all other available rights and remedies, Franchisor shall have the right to terminate this Agreement only for "cause". "**Cause**" is hereby defined as a material breach of this Agreement, including but not limited to any of the facts or circumstances specified in Sections 18.2, 18.3, or 18.4.

18.2. In addition to all other available rights and remedies, Franchisor shall have the right upon the occurrence of any of the following events to immediately terminate this Agreement by giving written notice to Franchisee.

a. Abandonment of the Restaurant by Franchisee by failing to operate the Restaurant business for five (5) consecutive days or any shorter period of time after which Franchisor reasonably determines that Franchisee does not intend to continue to operate the business, unless such failure is due to fire, flood, earthquake or other similar cause beyond Franchisee's control, in which case Franchisee shall comply with each of the requirements set forth in Section 23.17;

b. Franchisee admits to an inability to pay its debts as the same become due, is declared bankrupt or judicially determined to be insolvent, or all or a substantial part of the assets thereof are assigned to or for the benefit of any creditor, or Franchisee admits its inability to pay its debts as they come due;

c. A levy of execution is made upon the Restaurant, the license granted by this Agreement or upon any property used in the Restaurant business, and it is not discharged within five (5) days of such levy;

d. The Restaurant business, equipment or premises are seized, taken over or foreclosed by a creditor, lienholder or lessor, or a final judgment rendered against Franchisee remains unsatisfied for at least thirty (30) days and a supersedeas or other appeal bond has not been filed;

e. The right to occupy or lease the Location is lost or terminated and Franchisee has not relocated the Restaurant, if permitted, pursuant to Section 23.17;

f. Franchisee or any of its partners, officers, directors or principal shareholders is convicted of any criminal misconduct that is relevant to the operation or ownership of the Restaurant or any felony;

g. The failure of Franchisee to reach each milestone and to open and operate the Restaurant in accordance with and by the time set forth in Section 4.1;

h. Any purported Assignment, including the transfer or sublicense of this franchise, or any right hereunder, without the prior written consent of Franchisor;

i. Any material misrepresentation is made by Franchisee in connection with the acquisition of the franchise herein;

j. Franchisee engages in conduct which reflects materially and unfavorably upon the operation, the reputation of the Restaurant business, the El Pollo Loco® System, or the goodwill associated with the El Pollo Loco® Marks;

k. Franchisee on three or more occasions fails to comply with one (1) or more material standards or requirements of this Agreement (or as specified in the Manual), whether or not corrected after notification thereof;

l. A repetition within a one-year period of any default (whether or not that earlier default was corrected after notification thereof) shall justify Franchisor in terminating this Agreement upon written notice to Franchisee without allowance for any curative period;

m. Failure of Franchisee, for a period of ten (10) days after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to the operation and maintenance of the Restaurant, including, but not limited to, public health and safety requirements;

n. Reasonable determination on the part of Franchisor that continued operation of the Restaurant by Franchisee will result in an imminent danger to public health or safety;

o. Except for noncompliance otherwise covered by Section 18.2.k above, failure of Franchisee to correct a deficiency or unsatisfactory condition referred to in an Inspection Report (discussed in Section 15 hereof) which Franchisor reasonably determines may have a material adverse effect on the ownership or operation of the Restaurant after having received a reasonable opportunity to cure such deficiency or unsatisfactory condition, which in no event need be more than thirty (30) days;

p. In the event that Franchisee leases or subleases the Location and/or the leasehold improvements thereon from a third party, the failure of Franchisee to cure any and all defaults under the terms and provisions of any such lease or sublease within the time provided for the curing of any such default(s) in any such lease or sublease;

q. Any misrepresentation by Franchisee or any violation of the Anti-Terrorism Laws by Franchisee or its employees shall constitute grounds for immediate termination of this Agreement and any other agreement Franchisee has entered into with Franchisor or one of Franchisor's Affiliates.

18.3. Except for any default by Franchisee under Section 18.2, or as otherwise expressly provided in this Agreement, Franchisee shall have 10 days (5 days in the case of any default in the timely payment of sums due to Franchisor or its affiliates or to vendors for any products, services or required fees due to such vendors), after Franchisor's written notice of a material default within which to remedy any material default under this Agreement, and to provide evidence of such remedy to Franchisor. If any such default is not cured within that time period, or such longer time period as applicable law may require or as Franchisor may specify in the notice of default, this Agreement and all rights granted by it shall thereupon automatically terminate without further notice or opportunity to cure.

18.4. Franchisee shall be in material default under this Section for any failure to comply with any of the requirements imposed by this Agreement. Such material defaults shall include, but are not limited to, the occurrence of any one or more of the following events:

a. Failure of Franchisee to pay to Franchisor, its affiliates or any third-parties any fees, costs, charges or other amounts due;

b. Failure of Franchisee to pay when due any rent, taxes or other payments required under any sublease with Franchisor for the Location;

c. Failure of Franchisee to cure any default by Franchisee under any loan, note or other obligation which is obtained to assist Franchisee to make any payment due Franchisor hereunder or which is secured by all or any part of Franchisee's interest in the Restaurant, the Location, and/or the improvements or furniture, fixtures or equipment therein;

d. The attachment of any involuntary lien in the sum of One Thousand Dollars (\$1,000.00) or more upon any of the business assets or property of Franchisee, which lien is not removed, or for which Franchisee does not post a bond sufficient to satisfy such lien, within thirty (30) days of the filing of such lien;

e. The failure of Franchisee and/or its affiliates to cure any and all defaults under the terms and provisions of any other agreement with Franchisor, or any third party relating to this franchise or the operation or ownership of the Restaurant, including any other Franchise Agreement, lease or promissory note between Franchisor

or its affiliate and Franchisee within the time provided for the curing of any such defaults in any such other agreement, lease or promissory note;

f. Franchisee's misuse or unauthorized use of the El Pollo Loco® Marks;

g. Failure of Franchisee to comply with any standard or requirement of this Agreement which is not otherwise covered in this Section 18.

18.5. Notwithstanding anything to the contrary contained in this Section 18, in the event any valid, applicable law of a competent governmental authority having jurisdiction over this Agreement and the parties hereto shall limit Franchisor's rights of termination hereunder or shall require longer notice periods than those set forth above, this Agreement shall be deemed amended to conform to the minimum notice periods or restrictions upon termination required by such laws and regulations. Franchisor shall not, however, be precluded from contesting the validity, enforceability or application of such laws or regulations in any action, hearing or dispute relating to this Agreement or the termination thereof.

18.6. Franchisor shall not, and cannot be held in breach of this Agreement until (i) Franchisor has received written notice from Franchisee describing in detail any alleged breach; and (ii) Franchisor has failed to remedy the breach within a reasonable period of time after such notice, which period shall not be less than 60 days plus such additional time as reasonably required by Franchisor if because of the nature of the alleged breach it cannot reasonably be cured within said 60 days, provided Franchisor promptly commences and continues diligently to cure such alleged breach. Except for breach hereof by Franchisor (subject to the preceding sentence) or as permitted under Section 23.17 hereof, Franchisee shall have no right to terminate this Agreement.

19. RIGHTS AND OBLIGATIONS UPON TERMINATION

19.1. In the event of expiration or earlier termination of this Agreement:

a. Franchisee shall promptly cease to use, in any manner and for any purpose, directly or indirectly, the El Pollo Loco® Marks, the El Pollo Loco® System, Franchisor's trade secrets, proprietary information, policies, procedures, techniques, methods and materials used by Franchisee in connection with the franchise relationship and shall immediately return to Franchisor, or certify as destroyed any and all (including electronic) copies of any of the foregoing, including, but not limited to:

i. Specifications, recipes and descriptions of food products;

ii. The Manual, memoranda, bulletins, forms, reports, instructions and supplements thereto;

iii. Training methods and materials provided by Franchisor hereunder;

iv. Brochures, posters and other advertising materials; and

v. All items bearing or containing the El Pollo Loco® Marks, including without limitation, all trademarks, trade names, service marks, logotypes, designs and other identifying symbols and names pertaining thereto.

b. Franchisee shall immediately remove, obliterate or destroy all Signs and advertisements identifiable in any way with Franchisor's name and perform such reasonable redecoration and remodeling of the Restaurant and the Location as may be necessary, in Franchisor's judgment, to distinguish it from an El Pollo Loco® restaurant. To the extent that Franchisor is required under applicable law to repurchase certain goods from Franchisee, Franchisee hereby grants to Franchisor the option to purchase all paper goods, containers and all other items containing Franchisor's name or the El Pollo Loco® Marks which are in re-saleable or reusable condition at the lower of their cost or fair market value at the time of termination;

c. Franchisor may retain all fees paid pursuant to this Agreement;

d. On any termination or expiration of this Agreement, whether due to a default of Franchisee or otherwise, Franchisor shall have the right, at its option, for thirty (30) days after such termination or expiration to elect to purchase Franchisee's interest in the leasehold improvements and furniture, fixtures, equipment, and any or all of the other tangible Restaurant assets (collectively, "**Assets**") at a purchase price equal to the lesser of Franchisee's cost or the fair market value of such Assets, and to purchase Franchisee's inventory at Franchisee's cost thereof. If the parties hereto cannot agree on the fair market value for the Assets within forty-five (45) days of any such date of termination or expiration, Franchisor shall designate an independent appraiser whose determination shall be binding. If Franchisor elects to exercise any option to purchase as herein provided, it shall have the right to set off all amounts due from Franchisee and the costs of the appraisal, if any, against any payment therefor;

e. Should Franchisee fail to perform any of these tasks, the Franchisor's personnel and representative shall have the right to enter the Restaurant at any time, with or without notice, for the purposes of removing all trademarks, trade names, service marks, logotypes, designs and other identifying symbols and names pertaining to El Pollo Loco brand and to remove, obliterate or destroy all Signs and advertisements identifiable in any way with Franchisor's name and perform such reasonable redecoration and remodeling of the Restaurant and the Location as may be necessary, in Franchisor's judgment, to distinguish it from an El Pollo Loco® restaurant. The cost of performing this will be billed to Franchisee and payable within five (5) days of receipt of invoice; and

f. Franchisee shall comply with the covenants set forth in Section 21.7 of this Agreement.

19.2. Upon the expiration or termination of this Agreement, Franchisee shall promptly pay all sums owing to Franchisor and its subsidiaries and affiliates. In the event of termination by reason of any default of Franchisee, such sums shall include all damages (including, but not limited to, any lost future royalties and advertising fees), costs and expenses, including reasonable attorneys' fees, incurred by Franchisor as a result of the default, which obligation to pay all such sums shall give rise to and remain, until paid in full, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, Signs, fixtures, and inventory owned by Franchisee located in the Restaurant operated hereunder at the time of any such default. Franchisee shall pay interest to Franchisor on any amounts which may become due to Franchisor from Franchisee, if such are not paid when due, at the rate of fifteen percent (15%) per annum or the maximum interest rate permitted by law, whichever is less.

19.3. The expiration or termination of this Agreement shall be without prejudice to the rights and remedies of Franchisor against Franchisee. Furthermore, such expiration or termination shall neither release Franchisee or any of its obligations and liabilities to Franchisor existing at the time thereof nor terminate those obligations and liabilities of Franchisee which, by their nature, survive the expiration or termination of this Agreement.

19.4. Upon expiration or termination of this Agreement, Franchisor may remove all references to the Franchise and/or to the Restaurant from its website(s).

19.5. Franchisee expressly agrees that the existence of any claims it may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of any of the provisions of this Section 19, including the covenants in Section 21.7. Franchisee agrees to pay all costs and expenses (including reasonable attorneys' fees) incurred by Franchisor in connection with the enforcement of this Section 19.

20. RIGHTS TO A SUCCESSOR FRANCHISE

20.1. Franchisee shall have the right, subject to the conditions contained in this Section 20.1, to acquire a successor franchise for the Restaurant on the terms and conditions of Franchisor's then-current form of Franchise Agreement and for a term of ten (10) years (a "**Successor Term**") commencing on the expiration of the term of this Agreement. The then-current form of franchise agreement may have different terms and conditions such as a different protected area, higher royalty and/or advertising fees, no additional successor or renewal term upon expiration and other modifications to reflect that the then-current form of franchise agreement relates to the grant of a renewal. Franchisee's right to a successor franchise shall be conditioned upon the satisfaction of each of the following conditions prior to the expiration of the term of this Agreement: (a) Franchisee is in compliance with this

Agreement in all respects including financial and operational compliance and has been in substantial compliance with this Agreement throughout the term; (b) Franchisee meets Franchisor's then-current criteria for renewing franchisees, which includes but is not limited to financial and operational standards; (c) Franchisor has not notified Franchisee of its decision that any federal or applicable state legislation, regulation or rule which is enacted, promulgated or amended after the date hereof may have an adverse effect on Franchisor's rights, remedies or discretion in franchising El Pollo Loco® restaurants; (d) Franchisee maintains the right to possession of the Location for the term of the successor Franchise Agreement; (e) Franchisee shall have paid the renewal fee described in the final sentence of this Section 20.1; and (f) Franchisee satisfies each of the conditions and executes and delivers the agreement described in Sections 20.2, 20.3 and 20.4 below. At the time of exercise, Franchisee will be obligated to pay a renewal fee equal to 50% of Franchisor's then-current standard initial franchise fee if Franchisee elects a Successor Term. Solely as Franchisor's sole and absolute right to determine, Franchisee may be offered a successor franchise for a term different than the standard ten (10) years to run concurrent with the remaining term of the (sub)lease for where the Restaurant is located. This pro-rated term successor Franchise Agreement ("**Pro-rated Successor Franchise Agreement**") will use the then-current form of Franchise Agreement (modified as described above). In order to qualify for the Pro-rated Successor Franchise Agreement, Franchisee must meet the same conditions listed above from (a) to (f) and Franchisee will be obligated to pay a renewal fee equal to 50% of Franchisor's then-current standard initial franchise fee pro-rated to the remaining (sub)lease term.

20.2. Franchisee must give Franchisor written notice of Franchisee's desire to acquire a successor franchise at least three hundred sixty (360) days prior to the expiration of this Agreement. Franchisor will give Franchisee notice, not later than sixty (60) days after receipt of notice, of Franchisor's decision as to whether or not Franchisee has the right to acquire a successor franchise pursuant to Section 20.1. Notwithstanding notice of Franchisor's decision that Franchisee has the right to acquire a successor franchise for the Restaurant, Franchisee's right to acquire a successor franchise will be subject to Franchisee's continued compliance with all of the terms of this Agreement up to the date of its expiration.

20.3. If Franchisee exercises the right to acquire a successor franchise in accordance with Section 20.2 above, Franchisee shall enter into an agreement with Franchisor within sixty (60) days following delivery of the written notice pursuant to Section 20.2, agreeing to remodel the Restaurant, add or replace improvements, fixtures, furnishings, equipment and Signs, and otherwise modify to upgrade the Restaurant to the specifications, image and standards then applicable for new El Pollo Loco® restaurants. All such remodelings, additions and replacements must be completed prior to the effective date of such successor Franchise Agreement.

20.4. If Franchisee has the right to acquire a successor franchise in accordance with Section 20.1 and exercises that right in accordance with Section 20.2, the parties must execute the form of Franchise Agreement (which may contain provisions, including royalty and advertising fees, materially different from those contained herein) and all ancillary agreements which Franchisor then customarily uses in granting renewal franchises for the operation of El Pollo Loco® restaurants, and Franchisee must execute general releases, in form and substance satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, officers, directors, employees, agents, successors and assigns. Failure by Franchisee to sign such agreements and releases within thirty (30) days after delivery thereof to Franchisee shall be deemed an election by Franchisee not to acquire a successor franchise.

21. PROPRIETARY RIGHTS AND UNFAIR COMPETITION

21.1. In the event of any claim of or challenge to Franchisee's use of the El Pollo Loco® Marks licensed under this Agreement, Franchisee shall immediately notify Franchisor in writing of the facts of such claim or challenge.

a. Franchisor shall protect and defend Franchisee against any claims or challenges arising out of Franchisee's proper use of the El Pollo Loco® Marks licensed hereunder.

b. Franchisor shall reimburse Franchisee for all damages for which it is held liable in any such proceeding; however, the foregoing obligations of Franchisor to protect, defend and reimburse Franchisee will exist only if Franchisee has used the name or mark which is the subject of the controversy in strict accordance with the provisions of this Agreement and the rules, regulations, procedures, requirements and instructions of Franchisor and has notified Franchisor of the challenge as set forth above.

c. Any action to be taken in the event of a claim or challenge to any of the El Pollo Loco® Marks shall be solely and absolutely within Franchisor's right to determine. Franchisor shall have the sole and absolute right to control any legal actions or proceedings resulting therefrom. Any actions taken to protect the El Pollo Loco® Marks shall also be within the sole and absolute right to determine and control of Franchisor. Franchisee shall cooperate fully with Franchisor in the prosecution or defense of any claim or challenge concerning any of the El Pollo Loco® Marks.

21.2. If it becomes advisable at any time, as the sole and absolute right of Franchisor, to modify or discontinue the use of any one or more of the El Pollo Loco® Marks or to use one or more additional or substitute names, marks or copyrights, Franchisee shall immediately comply with the instructions of Franchisor in that regard. In such event, the sole obligation of Franchisor will be to reimburse Franchisee for the actual costs, such as replacing sign faces, of physically complying with this obligation.

21.3. Franchisee acknowledges and agrees that at all times and in all respects, the El Pollo Loco® Marks are the sole property of Franchisor and that Franchisee has only a license to use such rights and marks according to the provisions hereof. Franchisee shall make no application for registration of any identifying name or mark licensed herein or similar thereto without the prior written consent of, and upon terms and conditions satisfactory to, Franchisor. Franchisee shall not register any of the El Pollo Loco® Marks, part thereof, or anything confusingly similar thereto, as a domain name, or use, or permit the usage of, any of the same in connection with any Internet web site or web page. Franchisee shall indicate the required trademark, service mark or copyright notices in the form specified by Franchisor in connection with its use of the El Pollo Loco® Marks. Franchisee shall take no action which will interfere with any of Franchisor's rights in and to the El Pollo Loco® Marks. Franchisee shall not, without Franchisor's prior written consent, sell, dispense or otherwise provide Franchisor's products or any El Pollo Loco products bearing the El Pollo Loco® Marks, except by means of retail sales in, or delivered from, the Restaurant.

21.4. Intranet.

a. Franchisor may, at its option, establish and maintain an Intranet through which franchisees of Franchisor may communicate with each other, and through which Franchisor and Franchisee may communicate with each other and through which Franchisor may disseminate the Manuals, updates thereto and other confidential information. Franchisor shall have sole and absolute right to determine and control all aspects of the Intranet, including the content and functionality thereof. Franchisor will have no obligation to maintain the Intranet indefinitely, and may dismantle it at any time without Franchisor having any liability to Franchisee. (As used herein, the term "**Intranet**" shall mean an intranet, extranet or other communication network between and among Franchisor and Franchisee that is accessed by the Internet. As used herein, the term "**Internet**" shall mean collectively the myriad of computer and telecommunications facilities, including equipment and software, which comprise the interconnected worldwide network of networks that employ the TCP/IP [Transmission Control Protocol/Internet Protocol], or any predecessor or successor protocols to such protocol, to communicate information of all kinds by fiber optics, wire, radio or other methods of electronic communication.)

b. If Franchisor establishes an Intranet, Franchisee shall have the privilege to use the Intranet, subject to Franchisee's strict compliance with the standards and specifications, protocols and restrictions that Franchisor may establish from time to time. Such standards and specifications, protocols and restrictions may relate to, among other things, (i) use of abusive, slanderous or otherwise offensive language in electronic communications; (ii) confidential treatment of materials that Franchisor transmits via the Intranet; (iii) password protocols and other security precautions; (iv) grounds and procedures for Franchisor's suspending or revoking a franchisee's access to the Intranet; and (v) a privacy policy governing Franchisor's access to and use of electronic communications that franchisees post to the Intranet. Franchisee acknowledges that, as administrator of the Intranet, Franchisor can technically access and view any communication that any person posts on the Intranet. Franchisee further acknowledges that the Intranet facility and all communications that are posted to it will become Franchisor's property, free of any claims of privacy or privilege that Franchisee or any other person may assert.

c. Upon receipt of notice from Franchisor that Franchisor has established the Intranet, Franchisee shall establish and continually maintain (during all times that the Intranet shall be established and until the termination of this Agreement) an electronic connection (the specifications of which shall be specified in the Manuals) with the Intranet that allows Franchisor to send messages to and receive messages from Franchisee, subject to the standards and specifications.

d. Franchisee shall contribute a reasonable amount, not to exceed \$1,000.00 per year (which maximum amount shall increase at a rate of 3% per calendar year during the term of this Agreement, toward the cost of the Intranet's maintenance. Such contribution shall be established by Franchisor by not later than March 1 of each calendar year and shall be payable thirty (30) days thereafter.

e. If Franchisee shall breach this Agreement or any other agreement with Franchisor or its Affiliates, Franchisor may disable or terminate Franchisee's access to the Intranet without Franchisor having any liability to Franchisee, and in which case Franchisor shall only be required to provide Franchisee a paper copy of the Manuals and any updates thereto, if none have been previously provided to Franchisee, unless not otherwise entitled to the Manuals.

21.5. Franchisor has established a Website. As used herein, the term "**Website**" shall mean one or more Internet websites that may, among other things, provide marketing development operations and training materials, facilitate catering, take-out and delivery orders, provide information about the System and the products and services which are offered on such Website and at restaurants operated under the El Pollo Loco® Marks.

a. Franchisor may, as its sole and absolute right to determine, from time to time, without prior notice to Franchisee: (i) change, revise, or eliminate the design, content and functionality of the Website; (ii) make operational changes to the Website; (iii) change or modify the URL and/or domain name of the Website; (iv) substitute, modify, or rearrange the Website, at Franchisor's sole option, including in any manner that Franchisor considers necessary or desirable to, among other things, (1) comply with applicable laws, (2) respond to changes in market conditions or technology, and (3) respond to any other circumstances; (v) limit or restrict end-users access (in whole or in part) to the Website; and (vi) disable or terminate the Website without Franchisor having any liability to Franchisee.

b. The Website may include one or more interior pages that identifies restaurants operated under the El Pollo Loco® Marks, including the Restaurant, by among other things, geographic region, address, telephone number(s), and menu items. The Website may also include one or more interior pages dedicated to franchise sales by Franchisor and/or relations with Franchisor's investors.

c. Franchisor may, from time to time, establish a Franchisee Page. As used herein, the term "**Franchisee Page**" shall mean one or more interior pages of the Website dedicated in whole or in part to Franchisee's Restaurant. Franchisor may permit Franchisee to customize or post certain information to the Franchisee Page, subject to Franchisee's execution of Franchisor's then-current participation agreement, and Franchisee's compliance with the procedures, policies, standards and specifications that Franchisor may establish from time to time. Such participation agreement may require Franchisee to pay a reasonable fee (not to exceed \$1,000.00 per year, which maximum shall increase at a rate of 3% per year for the term of this Agreement) for the privilege of having a Franchisee Page, and may include, without limitation, specifications and limitations for the data or information to be posted to the Franchisee Page, customization specifications, the basic template for design of the Franchisee Page, parameters and deadlines specified by Franchisor, disclaimers, and such other standards and specifications and rights and obligations of the parties as Franchisor may establish from time to time. Any modifications (including customizations, alterations, submissions or updates) to the Content made by Franchisor for any purpose will be deemed to be a "work made for hire" under the copyright laws, and therefore, Franchisor shall own the intellectual property rights in and to such modifications. To the extent any modification does not qualify as a work made for hire as outlined above, Franchisee hereby assigns those modifications to Franchisor for no additional consideration and with no further action required and shall execute such further assignment(s) as Franchisor may request.

d. Without limiting Franchisor's general unrestricted right to permit, deny and regulate Franchisee's participation on the Website as Franchisor's sole and absolute right to determine, if Franchisee shall breach this Agreement, or any other agreement with Franchisor or its Affiliates, Franchisor may disable or terminate the Franchisee Page and remove all references to the Restaurant on the Website until said breach is cured.

21.6. Franchisee acknowledges that, in connection with the operation of the franchise business, Franchisor will be disclosing confidential information and trade secrets to Franchisee. Franchisee further acknowledges that its knowledge of, and access to, Franchisor's formulae, recipes, processes, products, techniques, know-how and other proprietary information, including without limitation the Manual and the El Pollo Loco® System (collectively referred to

as the "**Confidential Information**"), are derived entirely from the material disclosed to Franchisee by Franchisor. Franchisee acknowledges and agrees that at all times and in all respects, the Confidential Information is a trade secret of Franchisor and that Franchisee has only a license to use the Confidential Information according to the provisions of this Agreement.

a. Franchisee, and each officer, director, shareholder, member, manager, partner, and other equity owner, as applicable, of Franchisee, if Franchisee is a Business Organization, shall maintain fully and strictly the secrecy of all the Confidential Information and to exercise the highest degree of diligence in safeguarding the Confidential Information during and after the term of this Agreement. Franchisee shall divulge the Confidential Information only to Franchisee's employees and only to the extent necessary to permit the efficient operation of the Restaurant during the effective term of this Agreement. After the expiration or termination of this Agreement, Franchisee shall not divulge the Confidential Information to any person or entity, nor shall Franchisee use the Confidential Information in any manner.

b. It is expressly agreed that the ownership of all of the El Pollo Loco® Marks and the Confidential Information is and shall remain vested solely in Franchisor. Nothing contained in this Agreement shall be construed to require Franchisor to divulge to Franchisee any secret processes, formulae, ingredients or other information, except the material contained in Franchisor's Manual and training materials.

c. Franchisee shall fully and promptly disclose to Franchisor, all ideas, concepts, formulas, recipes, methods, techniques, and other possible improvements (each an "**Improvement**") relating to the development or operation of a quick service flame-grilled food product and/or related service, conceived or developed by Franchisee or Franchisee's employees during the Term. Any and all such Improvements will automatically be deemed to be Franchisor's sole and exclusive property and works made-for-hire; provided, however, for any such improvements that do not qualify as work made-for-hire for Franchisor, Franchisee hereby assigns ownership of that or those Improvements to Franchisor and covenants to execute whatever assignment or other documentation Franchisor requests in order to evidence such assignment and to assist Franchisor in securing intellectual property rights in the Improvement. Franchisee may not test, offer, or sell any new products without Franchisor's prior written consent, which may be withheld as Franchisor's sole and absolute right.

21.7. To further protect the El Pollo Loco® System while this Agreement is in effect, Franchisee and each officer, director, shareholder, member, manager, partner, and other equity owner, as applicable, of Franchisee, if Franchisee is a Business Organization, shall neither directly nor indirectly, for itself, himself or herself, or through or on behalf of, or in conjunction with any person, partnership, corporation or other entity, consult, work for, be employed by, own any equity interest in, own, operate, control, engage in, provide assistance to, or have any interest (financial or otherwise) in any other business which would constitute a "**Competitive Business**" (as hereinafter defined) without the prior written consent of Franchisor; provided further, that Franchisor may, as its sole and absolute right, consent to Franchisee's continued operation of any business already in existence and operating at the time of execution of this Agreement. In addition, Franchisee covenants that, except as otherwise approved in writing by Franchisor, Franchisee shall not, for a continuous, uninterrupted period commencing upon the expiration, termination or assignment of this Agreement, regardless of the cause for termination, and continuing for two (2) years thereafter, either directly or indirectly, for itself, or through or on behalf of, or in conjunction with any person, partnership, corporation or other entity, consult, work for, be employed by, own equity interest in, own, operate, control, engage in, provide assistance to, or have any interest (financial or otherwise) in any Competitive Business which is located or has outlets or restaurant units within a radius of five (5) miles of the location of the Restaurant. The foregoing shall not apply to operation of an El Pollo Loco® restaurant by Franchisee pursuant to another Franchise Agreement with Franchisor or the ownership by Franchisee of less than five percent (5%) of the issued or outstanding stock of any company whose shares are listed for trading on any public exchange or on the over-the-counter market, provided that Franchisee does not control or become involved in the operations of any such company. For purposes of this Section 21.7, a Competitive Business shall mean a quick-service restaurant or fast-food business which sells chicken and/or Mexican food products, which products individually or collectively represent more than twenty percent (20%) of the revenues from such quick-service restaurant or fast-food business operated at any one location during any calendar quarter. A "**Competitive Business**" shall not include a full-service restaurant.

21.8. In the event that any provision of this Section 21 shall be determined by a court of competent jurisdiction to be invalid or unenforceable, this Agreement shall not be void, but such provision shall be limited to the extent necessary to make it valid and enforceable.

21.9. Franchisee understands and acknowledges that Franchisor shall have the right to reduce the scope of any obligation imposed on Franchisee by Section 21.7, without Franchisee's consent, and that such modified provision shall be effective upon Franchisee's receipt of written notice thereof.

21.10. Franchisee acknowledges that violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Franchisor for which no adequate remedy at law will be available. Accordingly, Franchisee hereby consents to the entry of a preliminary and permanent injunction prohibiting any conduct by Franchisee in violation of the terms of those covenants not to compete set forth in this Agreement. Franchisee expressly agrees that it may conclusively be presumed that any violation of the terms of said covenants not to compete was accomplished by and through Franchisee's unlawful utilization of Franchisor's Confidential Information, know-how, methods and procedures.

22. DISPUTE RESOLUTION

22.1. Initial Meeting and Mediation – Except as otherwise provided in this Agreement, before any legal action involving any claim or controversy between Franchisor and Franchisee (including its affiliates) relating to (a) this Agreement, (b) the parties' business activities conducted as a result of this Agreement, or (c) the parties' relationship or business dealings with each other generally is filed, the following procedures shall be complied with:

a. The party wishing to resolve a dispute shall initiate negotiation proceedings by first requesting in writing a meeting. Within forty-five (45) days of receipt of the initial request for such a meeting, the parties shall meet, discuss and negotiate toward a resolution of the controversy at a location within the county in which Franchisor is then located.

b. If negotiation efforts do not succeed, the parties shall engage in mandatory but non-binding mediation by a mediator jointly chosen by the parties or if the parties cannot agree upon a mediator, appointed by, and in accordance with the procedures of, JAMS or, if JAMS is no longer in existence, an organization of similar quality.

c. A mediation meeting will be held at a place and at a time mutually agreeable to the parties and the mediator. The Mediator will determine and control the format and procedural aspects of the mediation meeting which will be designed to ensure that both the mediator and the parties have an opportunity to present and hear an oral presentation of each party's views regarding the matter in controversy. The parties will act in good faith to resolve the controversy in mediation.

d. The mediation will be held as soon as practicable after the negotiation meeting is held.

e. The mediator will be free to meet and communicate separately with each party either before, during or after the mediation meeting within 60 days of demand by either party.

22.2. At the election of Franchisor, the provisions of this Section 22 shall not apply to controversies relating to any fee due Franchisor by Franchisee or its affiliates, any promissory note payments due Franchisor by Franchisee, or any trade payables due Franchisor by Franchisee as a result of the purchase of equipment, goods or supplies. The provisions of this Section 22 shall also not apply to any controversies relating to the use and protection of the El Pollo Loco Marks, the Manual or the El Pollo Loco System, including without limitation, Franchisor's right to apply to any court of competent jurisdiction for appropriate injunctive relief for the infringement of the El Pollo Loco Marks or the El Pollo Loco System.

23. MISCELLANEOUS PROVISIONS

23.1. In the event that Franchisee is comprised of more than one person, firm, corporation or other entity, Franchisee's rights, privileges, interests, obligations and liabilities under this Agreement shall be joint and several with respect to such persons, firms, corporations or other entities.

23.2. If Franchisee is a Business Organization, Franchisor will require, as a condition to the effectiveness hereof, the written guarantee and assumption of Franchisee's obligations hereunder by any or all of the shareholders, members, partners, other equity owners, as applicable, of a Business Organization and/or some other natural persons associated with Franchisee, the form of which is attached hereto as **Exhibit 2**. Franchisor may also require that Franchisee maintain transfer instructions restricting a transfer on its records of any securities, partnership interests or other ownership interests in violation of the restrictions set forth in Section 17 and that each stock, partnership or other ownership certificate of Franchisee shall have conspicuously endorsed upon its face a statement in form satisfactory to Franchisor that further assignment or transfer thereof is subject to each of the restrictions imposed upon assignments by this Agreement.

23.3. All notices required under this Agreement shall be in writing and shall be either (i) served personally; (ii) sent by certified or registered United States mail to the party to be charged with receipt thereof; (iii) by reputable overnight delivery service or (iv) sent via facsimile. Notices served personally are effective immediately on delivery, and those served by mail shall be deemed given forty-eight (48) hours after deposit of such notice in a United States post office with postage prepaid and duly addressed to the party to whom such notice or communication is directed. Notices served by overnight delivery shall be deemed to have been given the day after deposit of such notice with such service. Notices served via facsimile shall be deemed to have been given the day of faxing such notice. The address for Franchisor shall be: Attention: Director of Legal Services, El Pollo Loco, Inc., 3535 Harbor Blvd, Suite 100, Costa Mesa, California 92626, and the address and facsimile number for Franchisee shall be the address and facsimile number listed on the cover page of this Agreement. Franchisor or Franchisee may from time to time change its address for notice pursuant to this Section by giving a written notice of such change to the other party in the manner provided herein. Notwithstanding anything to the contrary contained herein, Franchisor may deliver bulletins and updates to the Manual by electronic means, such as by the internet (e-mail) or an intranet, if any, established by Franchisor.

23.4. Notwithstanding the above, Franchisor may elect to utilize email or similar communications to Franchisee for the purpose of communicating System modifications, operations, marketing and other bulletins, menu changes, product or equipment safety or recall alerts, or any other message Franchisor determines, and Franchisee hereby acknowledges that such communications will constitute actionable communication under this Agreement and shall ensure that Franchisee's communications system includes the capability, and is set or programmed, to receive such communications from Franchisor on a continual basis throughout the Term. Franchisee must never opt out or refuse to accept any of such Franchisor communications at any time during the Term.

23.5. The receipt and acceptance by either party of any delinquent payment due hereunder shall not constitute a waiver of any other default. No delay or omission in the exercise of any right or remedy of either party upon any default by the other hereunder shall impair such right or remedy or be construed as a waiver of any term, covenant or condition of this Agreement to be performed by the other party. To be effective, any waiver of any other default must be in writing and shall not constitute a waiver of any other default concerning the same or any other term, covenant or condition of this Agreement.

23.6. Franchisor's consent to or approval of any act or conduct of Franchisee requiring such consent or approval shall not be deemed to waive or render unnecessary Franchisor's consent to or approval of any subsequent act or conduct hereunder.

23.7. The provisions of this Agreement are intended by the parties to be a complete and exclusive expression of their agreement. No other agreements, representations, promises, commitments or the like, of any nature, exist between the parties except as set forth or referenced herein. Notwithstanding the foregoing, nothing in this Agreement shall disclaim or require Franchisee to waive reliance on any representation that Franchisor made in the most recent disclosure document (including its exhibits and amendments) that Franchisor delivered to Franchisee or its representative, subject to any agreed-upon changes to the contract terms and conditions described in that disclosure document and reflected in this Agreement (including any riders or addenda signed at the same time as this Agreement). The provisions of this Agreement may not be contradicted by any other statement concerning the subject matter herein. Furthermore, this Agreement may not be amended or modified except by a written agreement signed by the parties hereto.

23.8. In the event of the bringing of any action by either party against the other arising out of or in connection with this Agreement or the enforcement thereof, or by reason of the breach of any term, covenant or condition of this Agreement on the part of either party, the party in whose favor final judgment is entered shall be entitled to have and

recover from the other party reasonable attorneys' fees plus costs and expenses reasonably incurred to be fixed by the court rendering such judgment.

23.9. This Agreement shall be governed by and construed in accordance with the laws of the state in which Franchisor's then-current headquarters is located (i.e., currently, the State of California); provided however that: (i) the provisions in Section 21.7 covering competition following the expiration, termination or assignment of this Agreement shall be governed by the laws of the state in which the breach occurs; (ii) the provisions of any law of a state regarding franchises (including registration, disclosure or relationship issues, and the regulations promulgated thereunder) shall not apply unless such state's jurisdictional, definitional and other requirements are met independently of, and without reference to, this Section; and (iii) if any matter related to this Agreement would be unenforceable under the laws of the state where Franchisor's then-current headquarters is located, but would be enforceable under the laws of the state in which the Franchisee is based, then the laws of the state in which the Franchisee is based shall apply to such matter. **ANY ACTION BROUGHT BY EITHER PARTY AGAINST THE OTHER IN ANY COURT, WHETHER FEDERAL OR STATE, SHALL BE BROUGHT WITHIN THE STATE IN WHICH FRANCHISOR'S HEADQUARTERS (CURRENTLY THE STATE OF CALIFORNIA) IS THEN LOCATED. THE ACTION SHALL BE BROUGHT IN FEDERAL COURT IF FEDERAL COURT JURISDICTION IS AVAILABLE AND, IF NOT, IN STATE COURT. THE PARTIES HEREBY WAIVE ANY RIGHT TO DEMAND OR HAVE TRIAL BY JURY IN ANY ACTION RELATING TO THIS AGREEMENT IN WHICH FRANCHISOR IS A PARTY. THE PARTIES CONSENT TO THE EXERCISE OF PERSONAL JURISDICTION OVER THEM BY SUCH COURTS IN CALIFORNIA AND TO THE PROPRIETY OF VENUE OF SUCH COURTS FOR THE PURPOSE OF CARRYING OUT THIS PROVISION, AND EACH PARTY WAIVES ANY OBJECTION THAT IT WOULD OTHERWISE HAVE TO THE SAME. ANY ACTION BETWEEN FRANCHISEE AND FRANCHISOR SHALL INVOLVE ONLY THE INDIVIDUAL CLAIMS OF FRANCHISEE AND SHALL NOT INVOLVE ANY CLASS, GROUP, JOINT, CONSOLIDATED, REPRESENTATIVE OR ASSOCIATIONAL ACTION.**

23.10. Except with respect to Franchisee's obligation to indemnify Franchisor pursuant to Sections 9.3 and 9.4 of this Agreement, the parties waive to the fullest extent permitted by the law any right to or claim for any punitive or exemplary damages against the other and agree that, in the event of a dispute between them, the party making a claim shall be limited to recovery of any actual damages it sustains and injunctive relief. Any and all claims and actions arising out of or relating to this Agreement, the relationship of Franchisee and Franchisor, or Franchisee's operation of the Restaurant, brought by either party hereto against the other, whether in mediation, or a legal action, shall be commenced within one (1) year from the occurrence of the facts giving rise to such claim or action, or such claim or action shall be barred.

23.11. Any provision of this Agreement which may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of the prohibition or unenforceability without invalidating the remaining provisions of this Agreement. Any prohibition against or unenforceability of any provision of this Agreement in any jurisdiction, including the state whose law governs this Agreement, shall not invalidate the provision or render it unenforceable in any other jurisdiction. To the extent permitted by applicable law, Franchisee waives any provision of law which renders any provision of this Agreement prohibited or unenforceable in any respect.

23.12. Franchisee recognizes the unique value and secondary meaning attached to the El Pollo Loco® System, the El Pollo Loco® Marks, the Confidential Information and the associated standards of operation and trade practices, and Franchisee agrees that any noncompliance with the terms of this agreement or any unauthorized or improper use will cause irreparable damage to Franchisor and its franchisees. Franchisee therefore agrees that if it should engage in any such unauthorized or improper use, during or after the term of this Agreement, Franchisor shall be entitled to both permanent and temporary injunctive relief from any court of competent jurisdiction in addition to any other remedies prescribed by law. Franchisee agrees and acknowledges that in such event, Franchisee may be required to post a bond while Franchisor shall not be required to post a bond.

23.13. Franchisee shall grant no security interest in the franchise or in any of the tangible assets of the business including the furniture, fixtures and equipment located in the Restaurants, unless the secured party agrees that in the event of any default by Franchisee and exercise of its right to take and sell such assets under any documents relating to such security interests, Franchisor shall have the right and option to exercise a right of first refusal to purchase such assets on the same terms and conditions offered by the secured party. If, within thirty (30) days after receipt of the offer, which would include information and documentation as Franchisor may need or require for the purpose of considering whether to exercise its right of first refusal to purchase such assets, Franchisor does

not indicate its acceptance of the offer as stated in the notice, secured party shall thereafter have the right to make the sale to the proposed transferee on the same terms and conditions as stated in the notice. Should Franchisor not exercise its right of first refusal and should the contemplated sale not be completed within one hundred (120) days from the date of the notice, or should the terms and conditions thereof (including the proposed transferee or the ownership therein) be altered in any material way, this right of first refusal shall be reinstated and any such subsequent proposed sale or altered terms and conditions of the current transaction must again be offered to Franchisor in accordance with the terms listed above.

23.14. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their permitted heirs, successors and assigns.

23.15. This Agreement shall not be binding upon Franchisor unless and until it shall have been accepted and signed by authorized officers of Franchisor. This Agreement may be executed in one or more counterparts, each of which will constitute an original, but all of which together will constitute but a single document. A signature on this Agreement transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

23.16. The parties intend to confer no benefit or right on any person or entity not a party to this Agreement, and no third party shall have the right to claim the benefit of any provision hereof as a third party beneficiary of any such provision.

23.17. If following commencement of business at the Restaurant, the Restaurant is damaged or destroyed to the extent that Franchisor determines that the Restaurant must be closed for repairs for more than sixty (60) days, or if the Location is taken by condemnation proceedings or Franchisee's lease is terminated through no act or failure to act on its part (except the failure to utilize any available options to extend such lease, or Franchisee's willful truncation of such lease), then at Franchisor's option, Franchisor may elect to:

a. terminate this Agreement, require Franchisee to relocate the Restaurant, or in the case of a casualty, require Franchisee to rebuild the Restaurant.

b. require Franchisee to rebuild the Restaurant, Franchisee shall, at its own expense, repair or reconstruct the Restaurant, and such construction shall be completed and the Restaurant shall reopen for business not later than twelve (12) months following the date the triggering event occurred. The minimum acceptable appearance for the reconstructed Restaurant will be that which existed just prior to the casualty; however, every effort shall be made to have the reconstructed Restaurant reflect the then-current image, design and specifications of new El Pollo Loco® restaurants.

c. require Franchisee to relocate the Restaurant, Franchisee must execute Franchisor's then-current form of Development Agreement within thirty (30) days of the date Franchisor notifies Franchisee of Franchisor's election. Franchisee must follow the site selection and approval procedures associated with the Development Agreement; provided, however, that no development fee shall be required to be paid. Upon approval by Franchisor of a new site, Franchisee must execute Franchisor's then-current form of Franchise Agreement; provided, however, that the term of such new agreement shall be equal to the remaining term of this Agreement and Franchisee shall not be required to pay a new initial franchise fee. Franchisee will submit a replacement site for the new Restaurant, in accordance with the time frames indicated in the then-current form of Development Agreement, and which replacement site shall be located in an area defined as a radius surrounding the existing site of the Restaurant, the exact dimensions of which shall be reasonably negotiated between Franchisee and Franchisor taking into consideration the rights of other then-existing and potential franchisees. If Franchisor approves the new site, Franchisee shall either acquire or lease the site and design, construct and furnish the Restaurant in conformance with the design and construction requirements imposed by Franchisor for new El Pollo Loco® restaurants. The new Restaurant must be open for business not later than twelve (12) months following the date of the casualty or loss of possession of the original Location.

d. terminate the Franchise Agreement, Franchisee shall promptly comply with the requirements set forth at Sections 19.1 and 19.2.

24. EFFECTIVE DATE

24.1. This Agreement shall be effective as of the date it is executed by Franchisor.

25. ACKNOWLEDGMENTS

25.1. Franchisee acknowledges that Franchisee has received a complete copy of the El Pollo Loco® Disclosure Document, together with all exhibits, issuance date March 26, 2019 (Control Number 032619), at least 14 calendar days prior to the date on which this Agreement was executed by Franchisee or payment of any monies to Franchisor.

25.2. Franchisee acknowledges that it has read and understands this Agreement, the attachments thereto and the agreements relating thereto, if any, contained in the Disclosure Document received by Franchisee on _____, and that Franchisor has accorded Franchisee ample opportunity and has encouraged Franchisee to consult with advisors of Franchisee's own choosing about the potential benefits and risks of entering into this Agreement.

25.3. The execution of this Agreement by Franchisee will not constitute or violate any other agreement or commitment to which Franchisee is a party.

25.4. Each individual executing this Agreement on behalf of Franchisee is duly authorized to do so, and this Agreement constitutes a valid and binding obligation of Franchisee.

25.5. Franchisee has entered into this Agreement in reliance on information in this Agreement, the Disclosure Document, and its own investigations, and did not rely on any promise, representation, statement, or undertaking made by Franchisor or Franchisor's representatives that is not included in this Agreement or the Disclosure Document or that is in conflict with any statement or representation in this Agreement or the Disclosure Document; in particular, Franchisee has not received or relied on any data, representation, projection, forecast, estimate, warranty, assurance, or other communication, expressed or implied, as to actual or potential sales volume, profit, or success of the Restaurant.

25.6. Franchisee understands and acknowledges the value to the System and to the uniform and ethical standards of quality, consistency, appearance, and service described in and required by the Operations Manual and the necessity of operating the franchised business under the standards set forth in the Operations Manual; and, Franchisee has the capabilities, professionally, financially and otherwise, to comply with the standards of Franchisor.

25.7. Franchisee has carefully read this Agreement and all other related documents to be executed by Franchisee concurrently or in conjunction with the execution hereof, has obtained, or had the opportunity to obtain, the advice of legal, financial, and business advisors in connection with the execution and delivery of this Agreement, understands the nature of this Agreement and the considerable effort to be expended on the part of Franchisee in order to satisfactorily perform their respective obligations hereunder, and Franchisee intends to comply herewith and be bound thereby.

25.8. Franchisee acknowledges and fully appreciates that the business contemplated by this Agreement involves significant risks and that any particular results depend largely on Franchisee's business abilities and efforts as well as external economic forces outside Franchisor's control; and, Franchisee acknowledges and fully appreciates that neither Franchisor nor any other person can assure any particular results.

25.9. Incorporated herein by this reference is all of the additional information provided by Franchisee to Franchisor as part of the application process pertinent to the grant of franchise evidenced by this Agreement. Franchisee acknowledges that Franchisor has relied on each item of such information in granting this franchise.

26. ANTI-TERRORISM LAW

26.1. Franchisee certifies that neither Franchisee or its employees, or anyone associated with Franchisee is listed in the Annex to Executive Order 13224. Franchisee promises not to hire or have any dealings with a person

listed in the Annex. Franchisee certifies that it has no knowledge or information that, if generally known, would result in Franchisee, its employees, or anyone associated with Franchisee being listed in the Annex to Executive Order 13224. Franchisee promises to comply with and assist Franchisor to the fullest extent possible in Franchisor's efforts to comply with the Anti-Terrorism Laws (as defined below). In connection with such compliance, Franchisee certifies, represents, and warrants that none of its property or interests is subject to being "blocked" under any of the Anti-Terrorism Laws, and that Franchisee are not otherwise in violation of any of the Anti-Terrorism Laws. Franchisee is solely responsible for ascertaining what actions must be taken by Franchisee to comply with all such Anti-Terrorism Laws. Franchisee specifically acknowledges and agrees that Franchisee's indemnification responsibilities as provided in this Agreement pertain to Franchisee's obligations under this Section. Any misrepresentation by Franchisee under this Section or any violation of the Anti-Terrorism Laws by Franchisee or its employees shall constitute grounds for immediate termination of this Agreement and any other agreement Franchisee has entered into with Franchisor or one of Franchisor's Affiliates. "**Anti-Terrorism Laws**" means Executive Order 13224 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations) the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies, lists and any other requirements of any Governmental Authority (including the United States Department of Treasury Office of Foreign Assets Control) addressing or in any way relating to terrorist acts and acts of war.

27. SIGNATURES

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto as of the date(s) first set forth below.

FRANCHISOR:

EL POLLO LOCO, INC., a Delaware Corporation

By: _____
Name: _____
Title: _____
Date: _____

FRANCHISEE:

_____, an individual

By: _____
Name: _____
Title: An individual
Date: _____

EXHIBIT 1: MEMORANDUM OF OPENING DATE

On or about _____, 20__ **EL POLLO LOCO, INC.**, a Delaware corporation ("**Franchisor**"), and _____, a _____ ("**Franchisee**"), entered into a Franchise Agreement (the "**Franchise Agreement**") for an "El Pollo Loco" Restaurant Unit No. _____ located at _____ (the "**Location**").

The parties hereby agree that the Opening Date of the Restaurant at the Location was _____, 20__.

The term of the Franchise Agreement shall expire on _____, 20__, unless sooner terminated as provided in the Franchise Agreement.

This Memorandum of Opening Date may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute a single instrument. A signature on this Memorandum of Opening Date transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Memorandum of Opening Date to be executed as of the date(s) below.

FRANCHISOR:

EL POLLO LOCO, INC., a Delaware Corporation

By: _____
Name: _____
Title: _____

FRANCHISEE:

_____, an individual

By: _____
Name: _____
Title: An individual

Date: _____

Date: _____

EXHIBIT 2: PERSONAL GUARANTEE OF FRANCHISE AGREEMENT

The undersigned hereby unconditionally guarantees, absolutely and irrevocably the performance and payment by Franchisee (as defined below) of, and expressly agrees to adopt and be individually bound by as if the undersigned were a party to each and all of the terms, covenants and conditions of that certain Franchise Agreement dated _____, 20____ (the "**Agreement**") between **EL POLLO LOCO, INC.**, a Delaware corporation ("**Franchisor**") whose address is 3535 Harbor Blvd, Suite 100, Costa Mesa, CA 92626 and _____, a _____ ("**Franchisee**") whose address is _____. The undersigned further agrees as follows:

1. This guarantee will continue unchanged by any bankruptcy, reorganization or insolvency of Franchisee or by any disaffirmance or abandonment by a trustee of Franchisee.
2. This covenant and agreement on the part of the undersigned shall continue in favor of Franchisor notwithstanding any extension, modification or alteration of the Agreement entered into by and between the parties thereto, or their successors or assigns, and no extension, modification, alteration or assignment of the Agreement shall in any manner release or discharge the undersigned and the undersigned does hereby consent thereto.
3. The liability of the undersigned under this guarantee shall be primary and in any right of action which shall accrue to Franchisor under the Agreement, Franchisor may, at its option, proceed against the undersigned without having commenced any action or having obtained any judgment against Franchisee.
4. The undersigned shall pay Franchisor's reasonable attorneys' fees and all costs and other expenses incurred in any collection or attempted collection or in any negotiations relative to the obligations hereby guaranteed or enforcing this guarantee against the undersigned, individually and jointly only if final judgment is entered in favor of Franchisor.
5. The undersigned hereby waives notice of any demand by Franchisor as well as any notice of default in the payment of any and all amounts contained or reserved in the Agreement.
6. All sums due under this guarantee shall bear interest from the date due until the date paid at the maximum contract rate permitted by law. The obligations under this guarantee include, without limitation, payment when due of any and all sums due under the Agreement and all damages to which Franchisor is or may be entitled whether under applicable law, indemnification payments and payment of any and all legal fees, courts costs and litigation expenses incurred by Franchisor in endeavoring to collect or enforce any of the foregoing against Franchisee, the undersigned, or in connection with any property securing any or all of the foregoing or this guarantee.
7. The undersigned agrees that one or more successive or concurrent actions may be brought on this guarantee, in the same action in which Franchisee may be sued or in separate actions, as often as deemed advisable by Franchisor. The obligations under this guarantee are joint and several, and independent of the obligations of Franchisee.
8. No election in one form of action or proceeding, or against any party, or on any obligation, shall constitute a waiver of Franchisor's right to proceed in any other form of action or proceeding or against any other party. The failure of Franchisor to enforce any of the provisions of this guarantee at any time or for a period of time shall not be construed to be a waiver of any such provision or the right thereafter to enforce the same. All remedies under this guarantee shall be cumulative and shall be in addition to all rights, powers and remedies given to Franchisor by law or under any other instrument or agreement.
9. All rights, benefits and privileges under this guarantee shall inure to the benefit of and be enforceable by Franchisor and its successors and assigns and shall be binding upon the undersigned and his heirs, representatives, successors and assigns. Neither the death of the undersigned nor notice thereof to Franchisor shall terminate this guarantee as to his estate, and, notwithstanding the death of the undersigned or notice thereof to Franchisor, this guarantee shall continue in full force and effect. The provisions of this guarantee may not be waived or amended except in writing executed by the undersigned and a duly authorized representative of Franchisor.

10. The undersigned represents and warrants that (i) it is in the undersigned's direct interest to assist Franchisee in procuring the Agreement, because Franchisee has a direct or indirect corporate or business relationship with the undersigned, (ii) this guarantee has been duly and validly authorized executed and delivered and constitutes the binding obligation of the undersigned, enforceable in accordance with its terms, and (iii) the execution and delivery of this guarantee does not violate (with or without the giving of notice, the passage of time, or both) any order, judgment, decree, instrument or agreement to which the undersigned is a party or by which it or its assets are affected or bound.

11. If any provision of this guarantee or the application thereof to any party or circumstance is held invalid, void, inoperative, or unenforceable, the remainder of this guarantee and the application of such provision to other parties or circumstances shall not be affected thereby, the provisions of this guarantee being severable in any such instance. This guarantee is the entire and only agreement between the undersigned and Franchisor respecting the guarantee of the Agreement, and all representations, warranties, agreements, or undertakings heretofore or contemporaneously made, which are not set forth in this guarantee, are superseded.

12. Any notice which a party shall be requested or shall desire to give to the other under this guarantee shall be given by personal delivery or by depositing the same in the United States mail, first class postage pre-paid, addressed to Franchisor at its address set forth above and to the undersigned at its address set forth above, and such notices shall be deemed duly given on the date of personal delivery or three (3) days after the date of mailing as aforesaid. Either party may change their address for purposes of receiving notices under this guarantee by giving written notice thereof to the other party in accordance with this section.

13. This guarantee is governed by and construed according to the laws of the State of California applicable to contracts made and to be performed in such state. In order to induce Franchisor to accept this guarantee, and as a material part of the consideration therefore, the undersigned (i) agrees that all actions or proceedings relating directly or indirectly to this guarantee shall, at the option of the Franchisor, be litigated in courts located within the State of California, and (ii) consents to the jurisdiction of any such court and consents to the service of process in any such action or proceeding by personal delivery or any other method permitted by law.

The undersigned waives and relinquishes any rights it may have under California Civil Code 2845, 2849 and 2850 or otherwise to require Franchisor to (a) proceed against Franchisee or any other guarantor, pledgor or person liable under the Agreement; (b) proceed against or exhaust any security for the Franchisee or this guarantee; or (c) pursue any other remedy in Franchisor's power whatsoever. In other words, Franchisor may proceed against the undersigned for the obligations guaranteed without first taking any action against Franchisee or any other guarantor, pledgor or person liable under the Agreement and without proceeding against any security. The undersigned shall not have, and hereby waives (a) any right of subrogation, contribution, indemnity and any similar right that the undersigned may otherwise have, (b) any right to any remedy which Franchisor now has or may hereafter have against Franchisee, and (c) any benefit of any security now or hereafter held by Franchisor. The undersigned waives (a) all presentments, demands for performance, notices of non-performance, protests, notices of protests and notices of dishonor; (b) all other notices and demands to which the undersigned might be entitled, including without limitation notice of all the following: the acceptance hereof; any adverse change in Franchisee's financial position; any other fact which might increase the undersigned's risk; any default, partial payment or non-payment under the Franchisee and any changes, modifications, or extensions thereof; and any revocation, modification or release of any guarantee of any or all of the Agreement by any person (including without limitation any other person signing this guarantee); (c) any defense arising by reason of any failure of Franchisor to obtain, perfect, maintain or keep in force any security interest in any property of Franchisee or any other person; (d) any defense based upon or arising out of any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against Franchisee or any other guarantor or any person liable under the Agreement.

Without limiting the generality of the foregoing or any other provision of this guarantee, the undersigned expressly waives any and all benefits which might otherwise be available to it under California Civil Code 2839 (which provides that a surety is exonerated by the performance or the offer of performance of the principal obligation), 2899 (which provides for the order of resort to different funds held by the creditor) and 3433 (which provides for the right of a creditor to require that another creditor entitled to resort to several sources of payments first resort to sources not available to the first creditor). The undersigned waives the rights and benefits under California Civil Code 2819 and agrees that by doing so its liability shall continue even if Franchisor alters any obligations under the Agreement in any respect or Franchisor's rights or remedies against Franchisee are in any way impaired or suspended without the undersigned's consent. Franchisor may without notice assign this guarantee in whole or in part.

14. The undersigned has had the opportunity to review this guarantee with its counsel and such counsel has explained to it the meaning and significance of the provisions of this guarantee, including but not limited to the waivers and consents contained in this guarantee, and answered any questions that it had regarding the meaning, significance and effect of the provisions of this guarantee.

15. This guarantee of the Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute a single instrument. A signature on this guarantee of the Agreement transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

The use of the singular herein shall include the plural. The obligations of two or more parties shall be joint and several. The terms and provisions of this guarantee of the Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties herein named.

IN WITNESS WHEREOF, the undersigned executed this guarantee on the date(s) set forth below.

FRANCHISEE:

_____, an individual

By: _____

Name: _____

Title: An individual _____

Date: _____

i.

EXHIBIT 3: INVESTOR COVENANTS REGARDING CONFIDENTIALITY AND NON-COMPETITION

In conjunction with your investment in _____ a _____ ("**Franchisee**") you (Investor" or "you"), acknowledge and agree as follows:

1) Franchisee owns and operates, or is developing, pursuant to a Franchise Agreement dated _____ ("**Franchise Agreement**") with El Pollo Loco, Inc. ("**EPL**"), which Franchise Agreement requires persons with legal or beneficial ownership interests in Franchisee under certain circumstances to be personally bound by the confidentiality and non-competition covenants contained in the Franchise Agreement. All capitalized terms contained herein shall have the same meaning set forth in the Franchise Agreement.

2) You own or intend to own a * % legal or beneficial ownership interest in Franchisee and acknowledge and agree that your execution of this Agreement is a condition to such ownership interest and that you have received good and valuable consideration for executing this Agreement. EPL may enforce this Agreement directly against you and your Owners (as defined below).

3) If you are a corporation, partnership, limited liability company or other entity, all persons who have a legal or beneficial interest in you ("**Owners**") must also execute this Agreement.

4) You and your Owners, if any, may gain access to parts of EPL's Confidential Information as a result of investing in Franchisee. The Confidential Information is proprietary and includes EPL's trade secrets. You and your Owners hereby agree that while you and they have a legal or beneficial ownership interest in franchise and thereafter you and they: (a) will not use the Confidential Information in any other business or capacity (such use being an unfair method of competition); (b) will exert best efforts to maintain the confidentiality of the Confidential Information; and (c) will not make unauthorized copies of any portion of the Confidential Information disclosed in written, electronic or other form. If you or your Owners cease to have an interest in franchisee, you and our Owners, if any, must deliver to EPL any such Confidential Information in your or their possession.

5) During the term of the Franchise Agreement and during such time as you and your Owners, if any, have any legal or beneficial ownership interest in Franchisee, you and your Owners, if any, agree that you and they will not, without EPL's consent (which consent may be withheld as EPL's sole and absolute right) directly or indirectly (such as through an Affiliate or through your or their Immediate Families) own any legal or beneficial interest in, or render services or give advice in connection with: (a) any Competitive Business located anywhere, or (b) any entity located anywhere that grants franchises or licenses interest to others to operate any Competitive Business.

6) For a period of two (2) years, starting on the earlier to occur of the date you or your Owners cease to have any legal or beneficial ownership interest in Franchisee and the effective date of termination or expiration of the Franchise Agreement, neither you nor any of your Owners directly or indirectly (such as through an Affiliate or through your or their Immediate Families) shall own a legal or beneficial interest in, or render services or give advice to: (a) any Competitive Business operating at or within a radius of five (5) miles of the Restaurant and/or any El Pollo Loco Restaurant then in operation or under construction; or (b) any entity that grants franchises or license other interest to others to operate any Competitive Business. If you or any of your Owners fail to or refuse to abide by any of the foregoing covenants and EPL obtains enforcement in a judicial or arbitration proceeding, the obligations under the

breached covenant will continue in effect for a period of time ending two (2) years after the date such person commences compliance with the order enforcing the covenant.

7) You and each of your Owners expressly acknowledge the possession of skills and abilities of a general nature and the opportunity to exploit such skills in other ways, so that enforcement of the covenants contained in Sections 5 and 6 will not deprive any of you of your personal goodwill or ability to earn a living. If any covenant herein, which restricts competitive activity, is deemed unenforceable by virtue of its scope or in terms of geographic area, type of business activity prohibited and/or length of time, but could be rendered enforceable by reducing any part of all of it, you and we agree that it will be enforce to the fullest extent permissible under applicable law and public policy. EPL may obtain in any court of competent jurisdiction any injunctive relief, including temporary restraining orders and preliminary injunctions, against conduct or threatened conduct for which no adequate remedy at law may be available or which may cause it irreparable harm. You and each of your Owners acknowledges that any violation of Section 4, 5, or 6 hereof would result in irreparable injury for which no adequate remedy at law may be available. If EPL files a claim to enforce this Agreement and prevails in such proceeding, you agree to reimburse EPL for all its cost and expense, including reasonable attorneys' fees.

8) This Investor Covenants regarding Confidentiality and Non-Competition Agreement ("**Investor Agreement**") may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute a single instrument. A signature on this Investor Agreement transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

***Statement of Ownership of Franchisee:**

Franchisee Owner – _____%

Franchisee Owner – _____%

Franchisee Owner – _____%

IN WITNESS WHEREOF, the undersigned have executed and delivered this Agreement on the date(s) set forth below.

INVESTOR:

If an Individual:

_____, an individual

By: _____
Name: _____
Title: An individual
Date: _____

If a corporation, partnership, limited liability company or other legal entity:

_____, a _____

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

OWNERS:

By: _____
Name: _____
Title: An individual
Date: _____

By: _____
Name: _____
Title: An individual
Date: _____

EXHIBIT 4: AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS (ACH)

On _____, _____ and going forth, the undersigned depositor (“**Depositor**”) hereby authorizes El Pollo Loco, Inc. (“**El Pollo Loco**”) to initiate debit entries and/or credit correction entries to the Depositor’s checking and/or savings account(s) indicated below and the depository (“**Depository**”) to debit such account pursuant to El Pollo Loco’s instructions (“**Authorization**”).

Depository:

Branch:

Street Address, City, State, Zip Code:

Bank Transit/ABA Number:

Account Number:

This authority is to remain in full force and effect until Depository has received joint written notification from El Pollo Loco® and Depositor of the Depositor’s termination of such authority in such time and in such manner as to afford Depository a reasonable opportunity to act on it. Notwithstanding the foregoing, Depository shall provide El Pollo Loco® and Depositor with thirty (30) days’ prior written notice of the termination of this authority. If an erroneous debit entry is initiated to Depositor’s account, Depositor shall have the right to have the amount of such entry credited to such account by Depository, if within fifteen (15) calendar days following the date on which Depository sent to Depositor a statement of account or a written notice pertaining to such entry or forty five (45) days after posting, whichever occurs first, Depositor shall have sent to Depository a written notice identifying such entry, stating that such entry was in error and requesting Depository to credit the amount thereof to such account. These rights are in addition to any rights Depositor may have under federal and state banking laws.

This Authorization may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute a single instrument. A signature on this Authorization transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

Depositor: _____, a _____

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

ATTACH VOID CHECK

EXHIBIT 5: ADVERTISING ASSOCIATION DOCUMENTS

ADVERTISING ASSOCIATION MEMBERSHIP AGREEMENT

THE [NAME OF AREA] EL POLLO LOCO® RESTAURANT ADVERTISING ASSOCIATION

MEMBERSHIP AGREEMENT

THIS [NAME OF AREA] EL POLLO LOCO® RESTAURANT ADVERTISING ASSOCIATION MEMBERSHIP AGREEMENT is effective as of _____, 20____, by and between the [NAME OF AREA] EL POLLO LOCO® RESTAURANT ADVERTISING ASSOCIATION, INC. a _____ Nonprofit Corporation [the “**Association**”] and _____, a _____ (the “**Member**”).

BACKGROUND INFORMATION:

EL POLLO LOCO, INC. (the “**Franchisor**”) owns, operates and franchises quick service restaurants which specialize in the sale of retail marinated _____ grilled chicken and Mexican food items related to the El Pollo Loco® concept (“**Restaurants**”). The Member owns and operates one or more Restaurants within the _____ [described geographic area] _____ (the “**Association Area**”).

The Association was organized by the Franchisor and its franchisees that own Restaurants in the Association Area in order to pool advertising funds.

OPERATIVE TERMS:

1. **Bylaws.** The Association has adopted Bylaws and may amend, modify or replace them from time to time in accordance with its governing documents, subject to the written consent of the Franchisor (the "**Bylaws**"). Unless the context requires otherwise, terms used in this Agreement will have the meanings as defined in the Bylaws.

2. **Membership.** By signing this Agreement:

(a) The Member agrees to become a member of the Association and agrees to be bound by and adhere to the Bylaws, and to observe any administrative rules, regulations and policy statements adopted by the Association in accordance with the Bylaws; and

(b) The Association accepts and enrolls the Member as a member in good standing with full rights and Benefits of membership.

3. **Scope.** This Agreement is applicable to all of the Member's Restaurants located in the Association Area, whether currently existing, or opened or acquired after the signing of this Agreement.

4. **Contributions.**

(a) **Obligation to Pay:** The Member agrees to make such contributions to the Association, and at such time and in such manner, as are determined by the Association from time to time in accordance with the Bylaws. Contributions are non-refundable.

(b) **Reports:** Each contribution must be accompanied by a report containing such information as the Association may determine from time to time, showing the amount of the contribution the Member is required to pay with respect to the Member's Restaurants located in the Association Area. The Member authorizes and instructs the Franchisor to furnish to the Association, on request, copies of the Member's reports and records in Franchisor's possession for the purpose of verifying contributions due. The Association may review reports and other information available to the Franchisor to verify that the proper amount of contributions have been made by the Member.

(c) **Collection by Franchisor:** The Member acknowledges and agrees that the Association may authorize Franchisor to receive and collect contributions and related reports on behalf of the Association. In such case, the Member shall make contributions to Franchisor, and shall report to Franchisor, at such times and in such manner as Franchisor may determine to be appropriate from time to time.

5. **Benefits.** The Association agrees that it will operate on a not-for-profit basis in accordance with governing documents and that all contribution will be spent solely for the purposes permitted in its Articles of Incorporation and Bylaws.

6. **Effective Date and Term.** The Agreement becomes effective on the date signed by both Parties and will continue until the earlier of:

(a) The Association discontinues operations or is dissolved; or

(b) Until the Member no longer owns and operates a Restaurant located in the Association Area under a valid Franchise Agreement with Franchisor, or until the Member no longer owns or operates a Restaurant located in the Association Area, if the Member is the Franchisor or an affiliate of Franchisor.

In the event this Agreement terminates pursuant to Section 6(b), the Member's voting and other membership rights in the Association automatically terminate on the effective date of termination of the Franchise Agreement (or closure of the Restaurant, if the Franchisor or its affiliate is the Member), provided however, if the Member owes contributions at the time of such termination (or closure), then it will still be obligated and responsible for all contributions that accrued prior to the date of such termination (or closure).

7. **Franchise Transfers.** The parties recognize that the timing of payment of contributions may not always coincide with the consummation of the sale of a Restaurant. Accordingly, the parties agree as follows:

(a) **Timing:** The Member will remain responsible to the Association for all contributions due through the date of the consummation of any sale of an El Pollo Loco® restaurant owned by the Member that is subject to this Agreement.

(b) **Credit Balances:** If the Member sells or closes an El Pollo Loco® restaurant subject to this Agreement at a time when the Member has a credit balance with the Association, the credit balance will not be refunded, but will be: (i) retained for the benefit of other members of the Association, if the transaction involves a closing of the Member's El Pollo Loco® restaurant or the termination or expiration of the Member's Franchise Agreement; or (ii) credited to the Restaurants of the purchaser that are subject to this Agreement, if a sale, transfer or assignment is involved; or (iii) credited to the Member's other Restaurants that are still subject to this Agreement.

8. **Delinquencies.** The Member agrees to abide by all rules and regulations regarding delinquent contributions, including the payment of interest and late payment fees, adopted by the Association from time to time. The Member acknowledges and agrees that delinquent contributions (a) constitute a breach of the Franchise Agreement; (b) may result in loss of voting rights and other privileges with the Association; and/or (c) may result in cancellation of membership with the Association.

9. **Entity Participation.** If the Member is a corporation, limited liability company, partnership or other business entity, the Member will duly authorize one (1) person to represent its interests at Association meetings (the "**Representative**"). The Representative must be a: (i) shareholder, partner, member (in case of an LLC), director or officer of the Member; or (ii) the Member's Operating Partner, as defined in the Member's Franchise Agreement; or (iii) in the event the Member is Franchisor or one of its affiliates, an officer or other designated representative of the Franchisor or its affiliate. The Association shall be entitled to rely on any written authorization appointing the Representative that the Association in good faith believes to be valid unless and until the Association shall have received an authorization for a successor Representative's decisions, votes and consents to bind the Member at any such meeting without any further inquiry. The same person can be a Representative for more than one (1) Member.

10. **Program Participation.** The Member will not be required, as a condition of membership in this Association or otherwise, to participate in any advertising or promotion that contains a specified retail price, or a minimum retail price, for any product or service furnished by Restaurant in the Association Area. However, the Member's obligation to pay contributions pursuant to this Agreement will not be affected in any way by the Member's decision not to participate.

11. **Miscellaneous.**

(a) **Severability:** If any part of this Agreement is held invalid for any reason, the remainder of this Agreement will not be affected and will remain in full force and effect in accordance with its terms.

(b) **Costs of Collection:** Member agrees to reimburse the Association (or, if applicable, Franchisor) for all costs and expenses, including attorneys' fees and expenses, incurred in connection with collecting delinquent contributions. Reimbursement is due within thirty (30) days of written notice.

(c) **Waivers:** No waiver of any provision of this Agreement will be valid unless in writing and signed by the person signed by the person against whom it is sought to be enforced. The failure by either party to insist upon strict performance of any provision will not be construed as a waiver or relinquishment of the right to insist upon strict performance of the same provision at any other time or to insist on strict performance of any other provision of this Agreement.

(d) **Liabilities and Beneficiaries:** Neither party will be liable to any other person who is not Party to this not a Party to this not a party to this Agreement by virtue of their relationship to each other. No other person has any rights because of this Agreement, except for the parties. However, notwithstanding the foregoing, although the Franchisor may not be a party to this Agreement, and is not bound by it, Franchisor is a third-party intended beneficiary.

(e) **Entire Agreement:** This Agreement reflects the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior oral or written agreements, communications or understandings with respect to the matters provided for herein.

[NAME OF AREA] EL POLLO LOCO® RESTAURANT

By:____
Name:____
Title:____
Date:____

ADVERTISING ASSOCIATION, INC.
[Name of Member]

By:____

Name:___

Title:___

Date:___

BYLAWS OF _____ [NAME OF AREA] _____ EL POLLO LOCO® RESTAURANT ADVERTISING ASSOCIATION,
INC.

Adopted as of _____, 20__

27.2.

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i.

BYLAWS OF _____ [NAME OF AREA] _____ EL POLLO LOCO® RESTAURANT ADVERTISING ASSOCIATION, INC.

ARTICLE 1 - Officers

Section 1.1 - Registered and Principal Office. The initial registered office of the _____ [NAME OF AREA] El Pollo Loco® restaurant Advertising Association, Inc. (the "Corporation") will be located at _____ . The initial principal office of the Corporation will be located at _____ .

Section 1.2 - Other Offices. The Corporation may have offices at such other place or places within or without the State of Delaware as the Board of Directors may from time to time establish.

Section 1.3 - Registered Agent for Service of Process. The Corporation's Board of Directors will have the right to designate a registered agent for service of process, who may be an individual or a corporation. The registered agent so designated will serve until a successor is elected by the Board of Directors.

ARTICLE 2 - Powers and Purposes

Section 2.1 - Powers. The Corporation will have all of the powers accorded nonprofit corporations under the Missouri Nonprofit Corporation Act (the "Act"). The Corporation will utilize such powers to engage in any lawful activity which is consistent with its purposes as set forth in the Articles of Incorporation.

Section 2.2 - Purposes. The purposes for which the Corporation is formed are to establish, maintain, administer and operate a promotional and advertising fund (the "Fund") for the benefit of the El Pollo Loco® restaurants ("EPL's") of its members located in _____ [describe geographic area] _____ (the "Association Area") and to further any and all purposes consistent with the objectives of the Corporation.

Section 2.3 - Use of Trademarks. The Corporation recognizes that its activities will necessarily involve advertising and promotional programs that contain the intellectual property rights, including copyrights, trademarks, service marks, logos, and designs derived from El Pollo Loco, Inc. (the "Franchisor"). As such, the Corporation has entered into, or will enter into, the [NAME OF AREA] _____ El Pollo Loco® restaurant Advertising Association Authorization Agreement.

ARTICLE 3 - Members

Section 3.1 - Members. The members will consist of (a) owners of franchised Restaurants located in the Association Area operating under valid and effective Franchise Agreements with Franchisor; and (b) the Franchisor or any of its affiliates, to the extent that it or any of its affiliates owns or operates any Restaurants located within the Association Area.

Any Franchisee who ceases to be a party to any valid and effective Franchise Agreement with the Franchisor for a El Pollo Loco® restaurant located in the Association Area, whether due to transfer, expiration or termination, will automatically cease to be a member of the Corporation, but will continue to remain liable to the Corporation for past due unpaid contributions or other amounts payable to the Corporation at the time membership ceases. However, if a Franchisee operates under multiple Franchise Agreements and ceases to be bound by one or more Franchise Agreements, whether due to transfer, expiration or termination, but continues to be bound by other Franchise Agreements for Restaurants located in the Association Area, the Franchisee shall continue to be a member, but its voting rights shall be reduced to reflect the number of remaining Restaurants that the Franchisee owns in the Association Area. Likewise, to the extent the Franchisor or an affiliate of Franchisor owns or operates one or more Bakery Cafes in the Association Area and has been a member of the Corporation, and ceases to own or operate any such Restaurants in the Association Area, then its membership with respect to such Restaurants will automatically terminate.

In accordance with the terms of the _____ [NAME OF AREA] _____ El Pollo Loco® restaurant Advertising Association Authorization Agreement, a representative of Franchisor shall be entitled to notice of all regular and special meetings of the Members of the corporation and shall have the right to attend all meetings, either in person or

in any other manner of attendance authorized in these Bylaws. However, unless the Franchisor is a Member of the Corporation by virtue to vote at a meeting of the Members in accordance with Section 3.12 of these Bylaws.

Section 3.2 – Enrollment. Notwithstanding any of the foregoing, no person will be enrolled as a Member of the Corporation nor will it have any rights as a Member unless and until it has signed a Membership Agreement with the Corporation. Notwithstanding the foregoing, Members shall be required to make contributions as required by their Franchise Agreements, regardless of whether they have signed Membership Agreements.

Section 3.3 - Entity Membership. For all membership purposes, any business entity (corporation, partnership, limited liability company, etc.), together with its owners, is deemed a single Member.

Section 3.4 - Members in Good Standing. A Member will be in good standing as long as: (a) the Member is not delinquent in the payment of any contribution or other monetary obligation to the Corporation; and (b) Member shall not have received a notice of default from Franchisor with respect to one or more Restaurants located in the Association Area which default remains uncured to the satisfaction of Franchisor. Loss of good standing will not relieve the Member of the obligation to make contributions, when due.

Section 3.5 - Annual and Quarterly Meetings of the Members. The annual meeting of the Members shall be held for the election of directors, consideration and approval of the succeeding year's advertising budget and the transaction of such other business as may properly come before the meeting. The annual meeting will be held at such time within the first quarter of the Corporation's fiscal year as the Board of Directors may determine. Quarterly meetings of the Members shall be held for consideration and approval of advertising and promotional programs and the transaction of such other business as may properly come before the meeting. In addition, at the final quarterly meeting of the fiscal year, the Members shall consider and approve the level(s) of Member contributions for the succeeding fiscal year. Quarterly meetings will be held at times within the second, third and fourth quarters of the Corporation's fiscal year as the Board of Directors may determine.

The notice of annual or quarterly meetings of Members, except as otherwise required by law, need not state the matters to be considered at such meetings.

Section 3.6 - Special Meetings. Special meetings of the Members, for any purpose or purposes, unless otherwise prescribed by applicable law, may be called on the written request of (i) a majority of the Board of Directors, or (ii) Members constituting 25% of the voting rights of the Members in good standing, or (iii) Franchisor. Requests for a special meeting must state the purpose or purposes of the proposed meeting. The notice of any special meeting of the Members must state the purpose or purposes for which the meeting is called.

Section 3.7 - Place of Meeting. All meetings of the Members will be at such places as will be determined from time to time by the Board of Directors of the Corporation.

Section 3.8 - Notice of Meetings. Written notice of each meeting of the Members stating the Place, day and hour thereof, must be delivered to each Member of record entitled to vote at such meeting, personally or by telephone, telegram, cablegram, e-mail, first class mail, confirmed facsimile transmission or any other means of personal delivery providing evidence of actual delivery; and if mailed, the notice shall be deemed to be given when deposited in the United States mail addressed to the Members at the Members' addresses, as they appear in the records of the Corporation, with postage thereon prepaid. Notice must be given by or under the direction of the Secretary, or the officer or persons calling the meeting not more than sixty (60) not less than ten (10) days before the date of the meeting; provided that oral notice to the Member may be given in lieu of written notice so long as the party giving the notice to the Member files with the Corporation a written statement of the date, time, place and manner of the oral notice. No notice need be given of the time and place of reconvening of any adjourned meeting, if the time and place to which the meeting is adjourned are announced at the adjourned meeting.

Section 3.9 - Waiver of Notice. A written waiver of notice signed by any Member, whether before or after any meeting, shall be equivalent to the giving of timely notice to said Member. Attendance of a Member at a meeting shall constitute a waiver of notice of such meeting and waiver of any and all objections to the place of the meeting, the time of the meeting, or the manner in which it has been called or convened, except when a Member attends a meeting for the express purpose, as stated at the beginning of the meeting, of objecting to the transaction of business because

the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the Member need be specified in any written waiver of notice.

Section 3.10 - Closure of Books and Fixing of Record Date. For the purpose of determining Members entitled to notice of, or to vote at, any meeting of the Members or any adjournment thereof, the Board of Directors may provide that the books will be closed for a period of not less than three (3) and not more than thirty (30) days immediately preceding such meeting. If the books are not closed and no record date is fixed by the Board of Directors, the date on which notice of the meeting is mailed will be the record date for the determination of Members entitled to notice and to vote.

Section 3.11 – Quorum. Except as otherwise required by the Act, the Articles of Incorporation or these Bylaws, the presence of Members holding a majority of the votes will constitute a quorum at all meetings of the Members. In case a quorum is not present at any meeting, a majority of the Members present will have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting of the time and place to which the meeting is adjourned, until a quorum is present. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed; but only those Members entitled to vote at the meeting as originally noticed will be entitled to vote at any adjournment or adjournments thereof.

Section 3.12 – Voting. Each Member will be entitled at each Members' meeting and upon each matter presented at such meeting to one vote for each El Pollo Loco® restaurant located in the Association Area that the Member owns, or, in the case of Franchisor, owns or operates. Notwithstanding the fixing of the record date in Section 3.10, Members may only participate in and vote at meetings subject to being in good standing, in accordance with the Bylaws, both on the record date and at the time of the meeting. Furthermore, in the event that a meeting is postponed or continue, a Member must be in good standing at the time the meeting is reconvened in order to participate and vote at the meeting.

Any Member who is not in good standing pursuant to Section 3.4(a) hereof shall have all rights and privileges of membership (including the right to vote and participate as a Member, director or officer in any meeting) suspended. Any Member who is not in good standing pursuant to Section 3.4(b) hereof shall have its right to vote (but not its right to participate) suspended at any meeting of the members or the board of directors of the Corporation. Any dispute regarding the good standing of a Member and its right to vote at a membership meeting will be determined conclusively by the Chairman of the meeting, in conjunction with the representative of the Franchisor present at the meeting, which determination will be final and binding. Any such suspension shall continue until the Member is in good standing again.

The list of Members must be produced at any Member's meeting upon the request of any Member. Upon the demand of any Member, the vote upon any question before the meeting must be by written ballot. Except as otherwise provided by these bylaws, by the Act, or by the Articles of Incorporation, all matters will be decided by a majority of the votes of Members present at the meeting. There is no cumulative voting for directors or on any other matter.

Section 3.13 – Representatives. If a Member is a corporation, limited liability company, partnership or other business entity, the Member will duly authorize one (1) person to represent its interests at Association meetings (the "**Representative**"). The Representative must be a: (i) shareholder, partner, member (in case of an LLC), director or officer of the Member; or (ii) the Member's Operating Partner, as defined in the Member's Franchise Agreement; or (iii) in the event the Member is Franchisor or one of its affiliates, an officer or other designated representative of Franchisor or its affiliate. The Corporation shall be entitled to rely on any written authorization appointing the Representative that the Corporation in good faith believes to be valid unless and until the Corporation shall have received an authorization for a successor Representative that the Corporation in good faith believes to be valid. The Corporation shall be entitled to rely on the Representative's decisions, votes and consents to bind the Member at any such meeting without any further inquiry. The same person can be a Representative for more than one (1) Member.

Section 3.14 - Action Without Meeting. Any action of the Members of the Corporation may be taken without a meeting, without prior notice and without a vote, if one or more consents in writing, setting forth the action so taken, are signed by the Members having not less than two-thirds (2/3) of the votes that would be necessary to authorize or take such action at a meeting at which all Members entitled to vote thereon were present and voted. Such consents must be delivered to the Corporation in the manner required by the Act. Neither the Articles of Incorporation nor these

Bylaws will be construed, interpreted or deemed to have, in any way, limited or prevented the utilization of the ability to take written action in lieu of formal meetings as may be permitted by the Act.

Section 3.15 – Organization. Meeting of the Members must be presided over by the President, or if he is not present, by the Vice President, if a Vice President has been elected, or if neither the President nor the Vice President is present, then by a chairman to be chosen by a majority of the Members entitled to vote who are present in person at the meeting. The Secretary of the Corporation, or in his absence, the Assistant Secretary, will act as secretary of every meeting, but if neither is present, the Members entitled to vote who are present in person may choose any person present to act as secretary of the meeting.

At all meetings of the Members the order of business will be as follows:

- (1) Calling meeting to order.
- (2) Proof of notice of meeting and determination of quorum.
- (3) Reading and disposing of minutes of previous meeting.
- (4) Announcement of purposes for the meeting.
- (5) Reports of officers.
- (6) Unfinished business.
- (7) New business, including election of directors if an annual meeting.
- (8) Adjournment.

Section 3.16 - Member Meetings by Telephone. Any Member may participate in a Members' meeting, or may conduct a Members' meeting through the use of, any means of communication enabling all persons participating in the meeting to hear each other at the same time during the meeting. Participating by such means will constitute presence in person at a meeting.

ARTICLE 4 - Directors

Section 4.1 – Number. There will be at least three (3) directors on the Board. From time to time, the exact number of directors may be determined by vote of the Members at any time, but never less than three (3) and never an amount less than as otherwise required by the Act.

Section 4.2 – Vacancies. Whenever a vacancy occurs on the Board of Directors, including a vacancy resulting from an increase in the number of directors or the removal of one (1) or more directors, it may be filled by the affirmative vote of a majority of the remaining directors even if the remaining directors constitute less than a quorum.

Section 4.3 - Removal of Directors. Any director may be removed with or without cause by vote of a majority of the Members at a membership meeting, or by written action in lieu of meeting signed by the Members having not less than two-thirds (2/3) of the votes that would be necessary to authorize or take such action at a meeting at which all Members entitled to vote thereon were present and voted.

Section 4.4 – Qualification. Each director must be either a Member (if the Member is an individual) or the Member's Representative. If there are less than three (3) Members at any time, then the franchisor, through Franchisor's representative designated as its "**Member's Representative**", shall have the right to designate two (2) directors one of which shall be the Member's Representative and the other shall be an officer of Franchisor. However, any director serving on the Board of Directors will be automatically suspended at any time during which he or she, or the business organization for which he or she is the Representative, is not in good standing. In addition, directors will be automatically removed as directors if, at any time, the Member with which they are associated is expelled from membership or is no longer a franchise of the Franchisor either because the Franchise Agreement has expired or it has been terminated or transferred.

Section 4.5 – Terms. Directors will hold office until their respective successors are duly elected and qualified or until there is a decrease in the number of directors.

Section 4.6 – Resignation. Any director may resign at any time. Such resignation will be made in writing and will take effect upon its delivery to the President or the Board of Directors or its Chairman.

Section 4.7 – Powers. Except for those rights reserved to the Members under these bylaws, the business of the Corporation will be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not prohibited by the Act, by the Articles of Incorporation or by these Bylaws. The Board of Directors will determine the compensation, if any, to be paid to each officer and director of the Corporation, including those officers who may also be directors.

Section 4.8 – Meetings. The Board of Directors of the Corporation may hold meetings, whether annual or special, either within or without the State of Missouri, The annual meeting of the Board of Directors for the purpose of electing officers and transacting such other business as may be brought before the meeting will be held at such time and place as the Board of Directors may determine. The Board of Directors may by resolution provide for the time and place of other regular meetings, and no notice of such regular meetings need to be given.

All other meetings of the Board may be called on the written request of (i) any director or (ii) Members with 25% of the voting rights of Members in good standing, at such time and place as may be stated in such request.

In accordance with the terms of the ___[NAME OF AREA]_ El Pollo Loco® restaurant Advertising Association Authorization Agreement, a representative of Franchisor shall be entitled to notice of all regular an special meetings of the Board of Directors of the Corporation and shall have the right to attend all meetings, either in person or in any other manner of attendance authorized in these Bylaws. However, unless the Franchisor is a Director of the Corporation, the Franchisor representative shall have no right to participate in any action of the Board of Directors in accordance with Sections 4.10 and 4.11 of these Bylaws.

Section 4.9 - Notice of Special Meetings. Written notice of the place, day and hour of any special meeting of the Board of Directors must be given by or under direction of the Secretary, to each director at least two (2) days before the meeting; provided, however, that oral notice may be given to directors in lieu of written notice so long as the party giving the notice to the directors files with the Corporation a written statement of the date, time, place and manner of the oral notices. Neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors, need be stated in the notice or waiver of notice of such meeting.

Section 4.10 - Action Without a Meeting. Any action required to be taken, or which may be taken, at a meeting of the Board of Directors may be taken without a meeting, if a consent in writing, setting forth the action so to be taken, is signed by all of the directors entitled to vote. Such consent will have the same effect as a unanimous vote.

Section 4.11 - Quorum and Voting. At all meetings of the Board, a majority of the directors then in office will constitute a quorum for the transaction of business. The act of a majority of directors present at a meeting where a quorum is present will be the act of the Board of Directors, except as may be otherwise specifically provided by law, the Articles of Incorporation or these Bylaws. If at any meeting of the Board of Directors there is less than a quorum present, a majority of those present may adjourn the meeting, without further notice, from time to time and place to place until a quorum will have been obtained.

Section 4.12 – Organization. The President of the Corporation will act as Chairman and the Secretary will act as Secretary at all meetings of the Board.

Section 4.13 – Compensation. Directors must not receive any stated salary for their services as directors or as members of committees, but by resolution of the Board a fixed fee and /or expenses of attendance may be allowed for attendance at each meeting.

Section 4.14 - Attendance by Telephone. Any member or members of the Board of Directors will be deemed present and voting at a meeting of the Board if said member or members participate in the meeting by means of a conference telephone or other communications equipment enabling all persons participating in the meeting to hear other at the same time. Participation by such means will constitute presence in person at a meeting.

ARTICLE 5 - Officers

Section 5.1 – Officers. The officers of this Corporation will consist of a President, a Secretary and a Treasurer, and may consist of such other officers, including but not limited to one (1) or more Vice Presidents, Assistant Secretaries and Assistant Treasurers with such titles, powers and duties as may be prescribed from time to time by the Board of Directors. They will be elected by the Board of Directors at its annual meeting.

Section 5.2 - Term of Office; Vacancies. Each officer shall hold office for one (1) year and until such officer's successor is duly elected and qualified. A vacancy in any office arising from any cause may be filled for the unexpired portion of the term by the Board of Directors.

Section 5.3 - Removal of Officers. Any officer may be removed at any time with or without cause by action of the Board of Directors by the affirmative vote of a majority of the directors then in office. Election or appointment of an officer will not of itself create contract rights.

Section 5.4 – Resignations. An officer may resign at any time by delivering notice to the Corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date. If a resignation is made effective at a later date and the Corporation accepts the future effective date, the Board of Directors may fill the pending vacancy before the effective date if the Board of Directors provides that the successor does not take office until the effective date of the pending vacancy.

Section 5.5 – Compensation. No compensation will be paid to any officer of the Corporation, except the Board of Directors may determine a fixed fee or other reimbursement for expenses.

Section 5.6 - Refund of Payment. In the event that the Internal Revenue Service disallows, in whole or in part, the deduction by the Corporation as an ordinary and necessary business expense of any payment made to an officer of the Corporation, whether as salary, commission, bonus or other form of compensation or as interest, rent or reimbursement of expenses incurred by such officer, such officer must reimburse the Corporation to the full extent of such disallowance. The Board of Directors of the Corporation will have the duty to require each such officer to make such reimbursement, and it will be the legal duty of each such officer thus to reimburse the Corporation.

Section 5.7 - Powers and Duties.

A. In General. The officers of the Corporation will have such powers and duties as generally pertain to their respective offices, including the powers and duties provided by these Bylaws, as well as such powers and duties as from time to time may be conferred by the Board of Directors.

B. President. The President will:

- (1) preside at all meetings of the Board of Directors in the absence of the Chairman of the Board, if any;
- (2) present at each annual meeting of the directors a report of the condition of the business of the Corporation;
- (3) cause to be called regular and special meetings of the directors in accordance with these Bylaws;
- (4) jointly with the Treasurer, sign and make contracts and agreements in the name of the Corporation;
- (5) see that the books, reports, statements and certificates required by statute are properly kept and filed according to law;
- (6) jointly with the Treasurer, sign notes, drafts or bills of exchange, warrants or other orders for the payment of money duly drawn on behalf of the Corporation;
- (7) supervise all employees of the Corporation including the hiring and firing of such employees as he or she deems advisable;
- (8) jointly with the Treasurer, purchase on behalf of the Corporation, tangible or intangible assets; and
- (9) have general charge of and control over the affairs of the Corporation and perform the entire duties incident to such position and office, the enforcement of these Bylaws and all other things which the President is required to do by law.

C. Vice President. The Vice President, if any will;

- (1) in the absence or disability of the President, perform the duties and exercise the powers of the President;
- (2) perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

D. Secretary. The Secretary will:

- (1) prepare the minutes of the meetings of the Board of Directors and keep the minutes in appropriate permanent books of record;

- (2) give and serve all notices of the Corporation;
- (3) be the custodian of the records and of the seal, and affix the latter when required, and authenticate records of the Corporation when required; and
- (4) attend to all correspondence and perform all the duties incident to the office of the Secretary.

E. Treasurer. The Treasurer will:

- (1) keep accounts of and have the care and custody of and responsible for all the funds and securities of the Corporation;
- (2) deposit all such funds in the name of the Corporation in such bank or banks, trust company or trust companies, or safe deposit vaults as the Board of Directors may designate;
- (3) exhibit, at times required by law or these Bylaws, the corporate financial books and accounts to any director upon application at the office of the Corporation during business hours;
- (4) render a statement of the condition of the finances of the Corporation (at each regular meeting of the Board of Directors, and at such other times as it will be required of the Treasurer) and a full financial report at the annual meeting of the directors;
- (5) keep at the office of the Corporation current books of account of all its business transactions and such other books of account that the Board of Directors may require;
- (6) jointly with the President, sign and make contracts and agreements in the name of the Corporation;
- (7) jointly with the President, sign notes, drafts or bills of exchange, warrants or other orders for the payment of money duly drawn on behalf of the Corporation;
- (8) jointly with the President, purchase on behalf of the corporation, tangible or intangible assets, and
- (9) do and perform all other duties pertaining to the office of the Treasurer.

F. Assistant Secretary and Assistant Treasurer. The Assistant Secretary or Assistant Secretaries and the Assistant Treasurer will, in the absence or disability of the Secretary, or Treasurer, respectively, perform the duties of such officer and generally assist, in the case of an Assistant Secretary, the Secretary, or an Assistant Treasurer, the Treasurer.

Section 5.8 - Delegation of Duties. In the case of the absence or disability of any officer of the Corporation or for any other reason deemed sufficient by a majority of the Board, the Board of Directors may delegate such officer's respective powers or duties to any other officer or to any director or agent of the Corporation for a specified period or until said delegation is revoked by the Board of Directors, provided that such delegation is otherwise permitted by law and by the Articles of Incorporation and these Bylaws.

ARTICLE 6 - Contributions

Section 6.1 – Contributions. The Members will determine at the final quarterly Member meeting of the fiscal year the amount of contributions to be paid to the Corporation by its Members during the succeeding fiscal year. The amount of the contributions will generally be a percentage of Gross Sales, as defined in the most recent Disclosure Document issued by the Franchisors, uniform among Members on a per El Pollo Loco® restaurant basis. The Members may, subject to Franchisor's approval, vary the level of benefits and/or contributions for any El Pollo Loco® restaurant that is located in a geographical area in which broadcast coverage is less than eighty-five percent (85%), according to the most recent A.C. Nielsen or Arbitron coverage study, in order to achieve approximate equivalence in contributions and benefits of Members. If any Restaurants of a Member are located in geographical areas covered, according to the most recent A.C. Nielsen or Arbitron coverage study, by more than one regional advertising association, the variation in benefits and/or contribution may be coordinated with such other regional advertising association.

Section 6.2 Payment of Contributions

Subject to the terms of the _____/[NAME OF AREA] El Pollo Loco® restaurant Advertising Association Authorization Agreement, the Board of Directors will set the dates and method of payment for contributions. However, Members will not have to pay their contributions for new Restaurants until after their El Pollo Loco® restaurant have opened for business.

Section 6.3 - Default in Payments. The Board of Directors will establish policies and procedures for dealing with situations in which Members have not timely paid contributions. The Board of Directors may set interest rates and fees to offset administrative expenses, collection costs, etc. for delinquent payments.

ARTICLE 7- Notices

Section 7.1 – Recording. Whenever these Bylaws require notice to be given to Members, directors, or committee members, proof of such notice whether given by mail, e-mail, telecopy, telephone, telegraph, cablegram or by personal contact will be recorded and filed by the Secretary in the minute book and incorporated into the minutes for the meeting to which such notice pertains.

Section 7.2 – Waiver. Whenever any notice of a meeting is required to be given under the provisions of the Act, of the Articles of Incorporation, or of these bylaws, a waiver thereof in writing, signed by the person or persons entitled to such notice either before, at, or after the meeting, will be deemed equivalent to such required notice. Attendance of a person entitled to notice at a meeting will also constitute a waiver of notice of such meeting; provided, however, that such attendance will not constitute such a waiver if said person attends said meeting solely for the purpose of, and limits his participation at the meeting to, objecting to the transaction of any business because the meeting is not lawfully called or convened and states such objection at the beginning of the meeting.

ARTICLE 8 - Designated Financial Agents, Signatures and Seal

Section 8.1 - Designated Financial Agents. All funds of the Corporation will be deposited in the name of the Corporation in such bank or other financial institutions as the Board of Directors may from time to time designate and will be drawn out on checks, drafts or other order signed on behalf of the Corporation by such person or persons as the Board of Directors may from time to time designate.

Section 8.2 - Other Agreements. Except as otherwise specifically provided by these Bylaws, all contracts, agreements, deeds, bonds, mortgages and other obligations and instruments must be signed on behalf of the Corporation by the President and Treasurer or by such other officers or agents as the Board of Directors may from time to time by resolution provide.

ARTICLE 9 - Amendments of Bylaws

The Bylaws may be altered, amended or repealed only by the Members at a meeting of Members, provided that the notice of the meeting contains a written proposal to amend these Bylaws along with the text of the amendments, and subject to the prior written approval of Franchisor in accordance with the _____/[NAME OF AREA]_____ El Pollo Loco® restaurant Advertising Association Authorization Agreement. Nevertheless, the amendment of any Bylaw or replacement of these Bylaws will not be effective unless it has been approved by a voting requirement that is in excess of the voting requirement that it is replacing. In other words, voting requirement specifying approval by two-thirds (2/3) can only be changed by a vote of at least that number.

ARTICLE 10 - Indemnification

Section 10.1 - Indemnification in Proceedings Other Than Actions by, or in the Right of, the Corporation. The Corporation will indemnify any person who was or is a party to any proceedings (other than an action by, or in the right of, the Corporation), by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, committee member, officer, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if the indemnitee acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 10.2 - Indemnification of Persons Parties to a Proceeding by or in the Right of the Corporation. The Corporation will indemnify any person who was or is a party to any proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as the director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses and amounts paid in settlement not exceeding, in the judgment of the Board of Directors, the estimated expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification may be authorized if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation. Provided, however, that no indemnification may be made hereunder in respect of any claim, issue, or matter as to which such person has been adjudged to be liable, unless, and only to the extent that, the court in which such proceeding was brought, or any other court of competent jurisdiction, determines upon application that, despite the

adjudication of liability, but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court deems proper.

Section 10.3 - Mandatory Indemnification. To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any proceeding referred to in Sections 10.0 and 10.2 above, or in defense of any claim, issue or matter therein, he or she must be indemnified against expenses actually and reasonably incurred by him or her in connection therewith.

Section 10.4 - Authorized of Indemnification is Required. Any indemnification under Sections 10.1 and 10.2, unless pursuant to a determination by a court, may be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 10.1 or 10.2. Such determination must be made pursuant to any procedures outlined by the Act, if any.

Section 10.5 - Additional Conditions to Indemnification. The Board, by a majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding to which the indemnification relates, may impose such additional conditions upon any form of indemnification as the Board may deem appropriate, including, but not limited to, the right to assume the defense in appropriate circumstances, the right to select the attorney representing the indemnified person and the right to settle.

Section 10.6 - Prepayment of Expenses. Expenses (including attorneys' fees and expenses) incurred in defending a civil or criminal action, suit or proceeding must be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon a preliminary determination following the procedures set forth in Section 10.04 that such indemnified person meets the applicable standard of conduct referred to therein and subject to any conditions imposed by the Board pursuant to this Article and the prior receipt by the Corporation of an undertaking satisfactory in form and substance to the Corporation that such person will promptly repay such amount unless it is ultimately determined that the person is entitled to be indemnified by the Corporation as authorized in this Article 10.

Section 10.7 - Indemnification Disallowed in Certain Circumstances. The indemnification provided pursuant to this article may not be made to or on behalf of any director, officer, employee, or agent if a judgment or other final adjudication establishes that his or her actions, or omissions to act, were material to the cause of action so adjudicated and constitute:

- A. a violation of the criminal law, unless the director, officer, employee or agent had reasonable cause to believe his or her conduct was lawful or had no reasonable cause to believe his or her conduct was unlawful;
- B. a transaction from which the director, officer, employee or agent directly or indirectly derived an improper personal benefit;
- C. in the case of a director, a circumstance under which the director would be liable to the Corporation under the Act; or
- D. willful misconduct or a conscious disregard for the best interests of the Corporation in a proceeding by or in the right of the Corporation to procure a judgment in its favor.

Section 10.8 – Nonexclusively. The Corporation has the power to make any other or further indemnification of any of its directors, officers, members of any committee, or any other person that the Corporation has the power by law to indemnify, including without limitation, employees or agents of the Corporation, under any bylaw, agreement, vote of disinterested directors, or otherwise, both as to action in any official capacity and as to action in another capacity while holding such office, except an indemnification against gross negligence or willful misconduct. The indemnification as provided in this Article will continue as to any person who has ceased to be a director, officer, or agent and will insure to the benefit of such person's heirs and personal representatives.

ARTICLE 11 - General Provisions

Section 11.1 - Fiscal Year. The fiscal year of the Corporation shall be either fifty-two (52) or fifty-three (53) weeks and end on the last Saturday in December of each year.

Section 11.2 - Gender and Number. Whenever the context requires, the gender of all words used herein includes the masculine, feminine and neuter, and the number of all words includes the singular and plural thereof.

Section 11.3 - Articles and Other Headings. The Articles and other headings contained in these Bylaws are for reference purposes only and will not affect the meaning or interpretation of these Bylaws.

Section 11.4 - Minutes, Books and Records of Account. The Corporation will keep correct and complete books and records of account and will keep minutes of the proceedings of its Board of Directors and other records as required by the Act.

Section 11.5 - Statutory Cites. Any reference in these Bylaws to the Act will include all revisions and amendments to the Act.

EXHIBIT 6: EL POLLO LOCO® FINANCIAL REPORTING FORM

You will be required to submit quarterly and year-end financial statements electronically in the following format. The financials should be comparative showing the prior year amounts for the same periods. There should be columns for both the recently completed quarter and a Year-to-date column, if applicable. Do not include officer's salary, auto expenses, or any other above restaurant expenses should not be included.

	<u>Amount</u>	<u>%</u>
Gross Sales	\$ 0	
Net Sales	0	100.0%
Food Cost	0	0.0%
Paper Cost	0	0.0%
Total Food & Paper	<hr/> 0	<hr/> 0.0%
Gross Profit	0	0.0%
Hourly and Manager labor	0	0.0%
Fringe Benefits (a)	0	0.0%
Total Labor	<hr/> 0	<hr/> 0.0%
Utilities	0	0.0%
Repair and Maintenance	0	0.0%
Cash Over/Short	0	0.0%
Controllable Costs (b)	0	0.0%
Restaurant Controllable Profit	<hr/> 0	<hr/> 0.0%
Advertising	0	0.0%
Royalties	0	0.0%
Indirect Costs (c)	0	0.0%
Occupancy Costs (d)	<hr/> 0	<hr/> 0.0%
Restaurant Operating Profit	\$ _____	_____ %

(a) To include payroll taxes, health benefits, vacation, and workers compensation expense

(b) To include trash, store security, uniforms, laundry, cleaning/janitorial, operating supplies, music and plant service, landscape, and other misc. restaurant costs not captured elsewhere.

- (c) To include credit card fees, bank charges, licenses, permits, fees, and pre-opening costs
- (d) To include minimum and percentage rent, property taxes and insurance.

EXHIBIT 7: IT SUPPORT SERVICES AGREEMENT

Customer:	
Franchise Store Number(s) Covered:	
Customer Site(s):	
Date of Franchise Agreement(s):	
Effective Date:	
Customer's Authorized Representative(s)/Contacts:	
Invoices to Customer to be sent to:	
Notices, if to Customer, to be sent to:	
El Pollo Loco IT:	
Notices, if to El Pollo Loco IT, to be sent to:	
Term Commencement Date:	
Term Expiration Date:	Upon expiration of the Franchise Agreement(s), unless sooner terminated as provided by the Franchise Agreement(s)
Service Level Description	See Attached EPL IT Standard Platinum Service Description
Annual Fees:	See Attached Franchise Support Options
Special Terms:	See Website

The authorized representatives of Customer and El Pollo Loco, intending to be legally bound, agree to the terms and conditions of this IT Support Services Agreement ("Agreement"), including without limitation documents incorporated by reference, as of the Effective Date.

El Pollo Loco IT:
 El Pollo Loco, Inc., a Delaware corporation
 By: _____
 Name: _____
 Title: _____
 Date: _____

Customer: _____, a _____
 By: _____
 Name: _____
 Title: _____
 Date: _____

TERMS AND CONDITIONS

1. **Performance.** El Pollo Loco Informational Technology ("**EPL IT**") shall make available to Customer certain operations support services for the Service Level designated on the first page of this Agreement ("**Services**") based on EPL IT's standard description of services for such Service Level in accordance with the terms and conditions of this Agreement. The Services are limited to the standard EPL franchise store configuration unless

otherwise agreed upon in writing by EPL IT (“**Standard Store Configuration**”). The Services are limited to those listed in the Services Descriptions in this Agreement and will be performed for the stated pricing. EPL IT shall perform additional services as detailed and mutually agreed to by the Parties upon additional payment by Customer. Services will be performed during EPL IT’s normal business hours as listed in the Services Descriptions. EPL IT reserves the right to restrict access to the Services during periods of routine back-up, maintenance, scheduled downtime and other activities outside such normal business hours. Information relevant to Services may be posted on the EPL internal Customer website (“**Website**”). Information in the Website or other EPL documents, may be changed or updated without notice. EPL may also make improvements and/or changes in the Services or pricing at any time without notice.

2. Customer Obligations. As a condition precedent to EPL IT performing its obligations hereunder, and in addition to Customer’s other obligations as set forth in EPL IT’s standard description of services for the applicable Service Level, Customer shall timely provide the following at no charge to EPL IT: (a) access to and use of reasonable working space, facilities and utilities, (b) any information, software, equipment, data and/or documentation (collectively, “**Data**”) that EPL IT reasonably requests from Customer that is necessary for EPL IT to properly perform its obligations hereunder; and (c) all components in the Standard Store Configuration and all updates, enhancements, upgrades and replacements thereto recommended or otherwise identified in writing by EPL IT. Customer represents to EPL IT that it has the right to grant EPL IT access to such facilities and Data for the performance of the Services. Such Data shall be kept confidential by EPL IT in accordance with Section 4. In the event that there are any delays by Customer in the timely providing of facilities, access, Data, or the Standard Store Configuration or there are errors or inaccuracies in the Data or the Standard Store Configuration provided, and such delays, errors or inaccuracies require additions, corrections or modifications related to EPL IT’s performance hereunder, then any costs associated therewith shall be the responsibility of Customer, and EPL IT shall be entitled to appropriate adjustments. Customer shall designate two points of contact who shall be the only people to make inquiries to EPL IT under this Agreement, as set forth on the first page of this Agreement. Each Customer contact must possess, or at Customer’s expense acquire the necessary familiarity, expertise and training on the Standard Store Configuration with direction by EPL IT. Prior to requesting support, Customer will comply with all published operating and troubleshooting procedures for the components of the Standard Store Configuration and, if such efforts are unsuccessful in eliminating the malfunction, Customer shall promptly notify EPL IT of any problems discovered in the operation of the Standard Store Configuration. Customer must identify the Franchise Store Number when accessing the Services. Customer must cooperate with EPL IT to maintain a site activity log. Customer will perform routine preventive maintenance and cleaning of the Standard Store Configuration. Customer shall be solely responsible for the accuracy of all Data collected and submitted to third party suppliers for credit card processing. Customer shall comply with such reasonable policies, procedures and rules relating to the Services as EPL IT may from time to time publish on its Website or designate in writing to Customer. Customer shall educate and train their restaurant managers in how to run their point of sales. Customer will ensure that all third parties, including its employees or contractors, using the Services or any components of Customer’s Standard Store Configuration abide by Customer’s obligations under this Agreement in their use thereof. Any act or omission of any third party related to Customer’s obligations hereunder or the use of any Services, Reports or Standard Store Configuration shall be deemed to be the act or omission of Customer for all purposes whether or not Customer had knowledge of or had authorized such act or omission.

3. Price and Payment Terms. In consideration for the Services performed pursuant to this Agreement, Customer shall pay EPL IT based upon the fees specified on the first page of this Agreement (“**Fees**”) and any Other Fees as defined below. EPL IT reserves the right to increase the Fees at any time, which would take effect upon the first day of the following month by providing Customer with thirty (30) days prior written notice setting forth the adjustment to the Fees. EPL IT shall automatically debit Fees from Customer’s account via ACH funds transfer in accordance with the terms indicated on the first page of this Agreement. The first installment is due and payable on the first day of this Agreement. Subsequent payments or account ACH funds transfers will be made according to the schedule specified under the terms indicated on the first page of this Agreement. Customer shall reimburse EPL IT the following fees collectively defined as (“**Other Fees**”) should they be incurred by Customer: (a) any reasonable and properly documented out-of-pocket travel and living expenses incurred by EPL IT personnel during their performance of the Services; (b) any reasonable and properly documented services and/or equipment, which EPL IT, or their designated representative, determines, as its sole and absolute right, to be outside the scope of the Services including, but is not limited to, (i) software license fees, (ii) software updates, (iii) hardware updates associated with software updates, (iv) onsite services, (v) consulting services, (vi) equipment and any associated shipping and handling charges incurred by EPL IT; and (c) the Professional service rates described under Complete I.T. Operations Support plus materials charges incurred in the performance of such services or if an outside designated representative is used, at the rate they charge plus materials charges incurred in the performance of such services. Invoices for Other Fees shall be submitted to Customer by EPL IT on a per incident basis. Customer may not withhold or set off any amounts due. EPL IT shall automatically direct debit Other Fees from Customer’s account via ACH funds transfer upon advance written notice via electronic mail to Customer. All sums payable to EPL IT shall be made in United States dollars and due ten (10) days from the date of EPL IT’s invoice should EPL IT be unable to direct debit Fees from Customer’s account via ACH funds transfer. All amounts past due shall accrue interest from their due dates at the rate of one and one-half percent (1.5%) per month or the maximum percentage allowable by law (whichever is less). All amounts due (including the Fees) do not include any federal, state or local sales, use or excise taxes or other charges assessed against or payable by EPL IT in connection with this Agreement, and Customer shall pay to EPL IT the amount of any such taxes that EPL IT may be required to pay on account of its performance under this Agreement except for any franchise tax or tax based upon EPL IT’s net income or personal property. EPL IT reserves the right to cease performance and assert appropriate liens if all amounts are not paid in full when due.

4. Confidential & Proprietary Information. Each party shall maintain in strict confidence, and not disclose or distribute to any third person any Confidential Information of the other party for a period of three (3) years from the date of disclosure (except with respect to trade secrets, which shall be kept confidential until no longer qualifying as a trade secret). "**Confidential Information**" shall mean the information disclosed by either party pursuant to this Agreement that is (a) stamped or otherwise marked as being confidential by the disclosing party, (b) if disclosed in oral form, identified as confidential at the time of oral disclosure and is summarized by the disclosing party in a written memorandum marked as confidential and delivered within ten (10) business days after such disclosure, or (c) of such a nature as to put a reasonable party on notice as to the confidentiality of the information disclosed. Confidential Information does not include any information that: (i) entered the public domain through no fault of the receiving party; (ii) is rightfully received by the receiving party from a third party without similar non-disclosure obligations; (iii) is already known to the receiving party prior to disclosure by the disclosing party; (iv) is independently developed by the receiving party without reference to the Confidential Information of the disclosing party, or (v) is required to be disclosed by law, provided that the party intending to make such required disclosure shall promptly notify the other party of such intended disclosure in order to allow such party to seek a protective order or other remedy. The obligations set forth above in this Section shall not affect EPL IT's ownership of Inventions (as defined in Section 5) and all intellectual property rights therein, or EPL IT's full exercise of those Inventions and intellectual property rights, so long as EPL IT does not disclose Customer's Confidential Information. All Inventions shall constitute EPL IT's Confidential Information.

5. Proprietary Rights. EPL IT or its subcontractors or suppliers, as applicable, retain sole ownership of all designs, engineering details, data, methodologies, ideas, concepts, discoveries, inventions, improvements, works of authorship, technology or information, and all enhancements, modifications and derivative works thereof (collectively, "**Inventions**"), and all intellectual property rights therein, used or created by EPL IT or such subcontractors in the performance of the Services, and shall have the exclusive right to determine how to protect the Inventions. Reports or other work product delivered by EPL IT to Customer under this Agreement are provided to Customer with Limited Rights. "**Reports**" means the written reports or work product specifically produced by EPL IT in performing the Services and specified to be an item delivered to Customer. "**Limited Rights**" means the right of Customer to use the Reports in operating Customer's Standard Store Configuration for Customer's own internal business purposes only, but in no event the right to make copies, modifications, enhancements or derivative works thereof or resell, distribute, exploit or sublicense such Reports or any portion thereof. EPL IT retains for itself, its parent company, affiliates and subsidiaries, the right to retain and make copies of the Reports and to make use of the contents thereof for its and their business use and, as to any portion of such contents that is not Customer's Confidential Information, to make use thereof for any purpose, whether internal or otherwise.

6. Limited Warranty. EPL IT warrants to Customer only that: (i) for a period of thirty (30) days from the date of completion of its performance of a particular task under the Services, the particular task will be performed in a good and workmanlike manner consistent with standard industry practices employed by persons knowledgeable in the field of computers and within the limits of the technology embodied in the Standard Store Configuration; and (ii) for a period of thirty (30) days from the date of delivery of a particular Report, that Report will be free from material defects in workmanship and materials, and will conform in all material respects to the applicable descriptions or specifications provided by EPL IT to Customer. In the event of a breach by EPL IT of the foregoing warranty of which Customer notifies EPL IT in writing during the warranty period, EPL IT's sole obligation and Customer's exclusive remedy shall be for EPL IT to use commercially reasonable efforts to re-perform the task or to correct the portion of the Report that does not conform to such warranty. In the event EPL IT is unable to re-perform such task or to make such corrections, as applicable, the sole remedy of Customer and EPL IT's sole obligation shall be to recover the compensation actually paid to EPL IT for the Service or the Report giving rise to such warranty failure. This limited warranty with respect to any Services or Reports shall be voided in the event Customer: (i) makes additions to, alters, modifies, enhances, changes, repairs or disassembles or reverse engineers the Standard Store Configuration, or fails to maintain the Standard Store Configuration (or any component thereof or any equipment or facilities upon which such component depends) in good working order or the environmental conditions within the operating range specified by the manufacturer of the components in the Standard Software Configuration or EPL IT; (ii) uses the Standard Store Configuration or any Report in a manner for which it was not designed, or in an incompatible operating environment; or (iii) mishandles, abuses, misuses or damages the Standard Store Configuration. THE LIMITED WARRANTY STATED IN THIS SECTION AND THE REMEDIES FOR A FAILURE OR BREACH OF SUCH LIMITED WARRANTY ARE EXCLUSIVE. THEY ARE GIVEN TO CUSTOMER IN LIEU OF ALL OTHER WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE, ACCURACY, QUIET ENJOYMENT, NON-INFRINGEMENT, OR COURSE OF PERFORMANCE OR DEALING, WHICH EPL IT SPECIFICALLY DISCLAIMS.

7. Limitation of Damages. IN NO EVENT SHALL EPL IT (OR ITS SUPPLIERS) BE LIABLE TO CUSTOMER FOR LOST PROFITS, LOSS OR INTERRUPTION OF BUSINESS, LOSS OF DATA OR ANY SPECIAL, INCIDENTAL, EXEMPLARY, PUNITIVE, CONSEQUENTIAL OR OTHER DAMAGES, HOWEVER CAUSED, AND WHETHER BASED IN CONTRACT, TORT (INCLUDING NEGLIGENCE) OR ANY OTHER THEORY OF LIABILITY. THE FOREGOING LIMITATION SHALL APPLY EVEN IF EPL IT (OR ITS SUPPLIERS) KNOW OR HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE AND NOTWITHSTANDING ANY FAILURE OR ESSENTIAL PURPOSE OF ANY LIMITED REMEDY PROVIDED FOR HEREIN. EXCEPT IN RESPECT OF INJURY TO OR DEATH OF ANY PERSON RESULTING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF EPL IT, ITS EMPLOYEES, AGENTS OR SUBCONTRACTORS (FOR WHICH NO LIMIT APPLIES), IN NO EVENT WILL EPL IT'S ENTIRE LIABILITY UNDER THIS AGREEMENT EXCEED THE GREATER OF (A) THE FEES PAID TO EPL IT FOR THE AFFECTED SERVICE OR REPORT UNDER THIS AGREEMENT OR (B) \$5,000.00. IN NO

EVENT SHALL EPL IT HAVE ANY LIABILITY FOR ANY COMPONENT OF THE STANDARD STORE CONFIGURATION (AS DESCRIBED IN THE EPL IT STANDARD SERVICES DESCRIPTION). IN ADDITION, EPL IT SHALL NOT BE LIABLE UNDER ANY CLAIM BROUGHT UNDER ANY THEORY OF LAW THAT AROSE MORE THAN ONE (1) YEAR PRIOR TO THE INSTITUTION OF SUIT THEREON. EPL IT SHALL NOT BE LIABLE FOR ANY LOSS OR DAMAGE CAUSED BY DELAY IN FURNISHING ANY COMPONENT OF THE STANDARD NETWORK OPERATING ENVIRONMENT, ANY REPORTS, ANY SERVICES, OR ANY OTHER PERFORMANCE UNDER OR PURSUANT TO THIS AGREEMENT. EACH PARTY ACKNOWLEDGES AND AGREES THAT THE FOREGOING LIMITATIONS ON LIABILITY ARE ESSENTIAL ELEMENTS OF THE BASIS OF THE BARGAIN BETWEEN THE PARTIES AND THAT IN THE ABSENCE OF SUCH LIMITATIONS, THE MATERIAL AND ECONOMIC TERMS OF THIS AGREEMENT WOULD BE SUBSTANTIALLY DIFFERENT.

8. Term & Termination. This Agreement shall commence on the term commencement date set forth above and continue in effect through the expiration of the Franchise Agreement(s) or the earlier termination of the Franchise Agreement(s) listed on **Exhibit "A"** attached hereto and incorporated herein by reference.

9. Default. If any material breach of this Agreement continues uncorrected for more than thirty (30) days after written notice from the aggrieved party describing the breach, the aggrieved party shall be entitled to declare a default, suspend performance, terminate this Agreement, and pursue any and all other remedies available at law or equity, except as specifically limited elsewhere in this Agreement.

10. Notices. Notices, authorizations and other official communications under this Agreement shall be transmitted in writing by prepaid United States certified mail, return receipt requested, or overnight receipted courier, to EPL IT, at the address and attention of the person set forth on the first page of this Agreement for EPL IT and to Customer, to the billing address and attention of the person set forth on the first page of this Agreement for Customer. Any notice given pursuant to this Section shall be deemed to have been received, in the case of certified mail, on the date of receipt as evidenced by the U.S. Postal Service return receipt card, and, in the case of overnight courier, on the next business day after sending, unless documented otherwise by recipient. All notices must be in the English language.

11. Assignment. Neither this Agreement nor any of the rights or obligations hereunder may be assigned by either party, in whole or in part, without the prior written consent of the other party, such consent not to be unreasonably withheld. Notwithstanding the preceding sentence, either party may assign this Agreement to its parent company or another affiliated company without the consent of the other party but upon written notice to the other party; provided that the successor unconditionally agrees in writing to be bound by the terms and conditions of this Agreement.

12. Subcontracting. EPL IT reserves the right to subcontract such portions of the Services to subcontractors of EPL IT's choice as it deems appropriate, provided that no such subcontract shall relieve EPL IT of primary responsibility for performance of such Services.

13. Reserved Rights. EPL IT's service offerings are continually evolving. Accordingly, EPL IT reserves the right to make service substitutions and modifications and to modify or amend its standard description of services for each Service Level at any time by publication including posting on its Website or written notice to Customer. All Services will be delivered in English. EPL IT reserves the rights to charge Customer if dispatch is required, or if the restaurant support center receives excessive training calls as described under Franchise Support Options – Fee Schedule.

14. Indemnification. Each party shall indemnify, defend and hold harmless the other with respect to any third party claim alleging bodily injury, including death, or damage to tangible property, to the extent such injury or damage is caused by the gross negligence or willful misconduct of the indemnifying party. Customer shall indemnify, defend and hold harmless EPL IT, at Customer's expense, from and against any action brought against EPL IT by a third party, to the extent that such action is based on a claim relating to Customer's Standard Store Configuration, Data or the performance of Services hereunder. A condition precedent to any obligation of a party to indemnify shall be for the other party to promptly advise in writing the indemnifying party of the claim and turn over its defense. The party being indemnified must cooperate in the defense or settlement of the claim, but the indemnifying party shall have sole control over the defense or settlement. If the defense is properly and timely tendered to the indemnifying party, then the indemnifying party must pay all litigation costs, reasonable attorney's fees, settlement payments agreed to by the indemnifying party and any damages finally awarded by a court; provided, however, that this shall not be construed to require the indemnifying party to reimburse attorney's fees or related costs that the indemnified party incurs either to fulfill its obligation to cooperate, or to monitor litigation being defended by the indemnifying party.

15. Independent Contractor. Nothing in this Agreement shall be interpreted or construed so as to create any relationship between the parties other than that of independent contracting entities. Neither party shall be authorized to obligate, bind or act in the name of the other party, except to the extent EPL IT is expressly authorized to do so in this Agreement.

16. Non-Solicitation. Customer shall not solicit or otherwise seek, directly or indirectly, to induce any of EPL IT's employees or contractors to work for Customer for a period of one (1) year after the employee or contractor ceases to be employed or otherwise utilized by EPL IT or one (1) year after the termination of this Agreement,

whichever is greater. Prohibited solicitation includes, but is not limited to, the direct solicitation of any individual or contracting with a third party to intentionally solicit an individual covered by this Section.

17. Similar Services. Customer acknowledges that EPL IT is free to offer services or work product similar to the Services or Reports to other EPL IT customers or third parties without restriction or royalty to Customer.

18. Applicable Law. The rights and obligations of the parties and all interpretations and performance of this Agreement shall be governed in all respects by the laws of the State of California except for its rules with respect to the conflict of laws.

19. Force Majeure. In no event shall either party have any liability for failure to comply with this Agreement if such failure results from the occurrence of any contingency beyond the reasonable control of the party and which delays, interrupts or prevents such party from performing its obligations under this Agreement, including, without limitation, strike or other labor disturbance or shortage, riot, theft, flood, lightning, storm, any act of God, power failure, war, delays or failure of third party equipment, software or service suppliers, national emergency, interference by any government or governmental agency, embargo or seizure. The party affected by a force majeure event shall give notice thereof to the other party within ten days following the occurrence thereof and shall apprise the other party of the probable extent to which the affected party will be unable to perform or will be delayed in performing its obligations hereunder. The affected party shall exercise due diligence to eliminate or remedy the force majeure cause and shall give the other party prompt notice when that has been accomplished. Except as provided herein, if performance of this Agreement by either party is delayed, interrupted or prevented by reason of any event of force majeure, both parties shall be excused from performing hereunder while and to the extent that the force majeure condition exists after which the parties' performance shall be resumed.

20. Waiver. Failure by either party to require performance by the other party or to claim a breach of any provision of this Agreement will not be construed as a waiver of any right accruing hereunder or of any subsequent breach, and will not affect the effectiveness of this Agreement or any part hereof, or prejudice either party regarding any subsequent action.

21. Invalidity. If any provision of this Agreement is held invalid, the remaining provisions shall continue in full force and effect and the parties shall substitute for the invalid provision a valid provision which most closely approximates the economic effect and intent of the invalid provision.

22. Attorneys' Fees. In any dispute or litigation between the parties, the prevailing party shall be entitled to reasonable attorneys' fees and all costs of proceedings incurred in enforcing this Agreement.

23. Entire Agreement. This Agreement constitutes the entire agreement between EPL IT and Customer with respect to the subject matter hereof and supersedes all previous negotiations, proposals, commitments, writings, advertisements, publications and understandings of any nature and in any manner whatsoever relating thereto, but does not amend or supersede any Franchise Agreement between EPL and Customer. No agent, employee or representative of EPL IT has any authority to bind EPL IT to any affirmation, representation, or warranty concerning the Services and unless such affirmation, representation or warranty is specifically included within this Agreement, it shall not be enforceable by Customer or any assignee or sublicensee of Customer. Any terms and conditions on any Customer purchase order form or other document issued by Customer to implement this Agreement that are in addition to or in conflict with the terms and conditions of this Agreement shall be null and void, even if acknowledged in writing by EPL IT. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument, and facsimile or electronic signature shall be treated as originals.

EPL IT STANDARD SERVICES DESCRIPTIONS

(Date: March 26, 2019)

For a current/updated EPL IT Standard Services Descriptions, click on:

http://www.myepi.net/no_auth/FranchiseHelpdeskAgreement.jsp

Platinum Service Descriptions

Unlimited number of calls per month per store

Standard Store Configuration includes:

- Back of house system
- Two front counter POS terminals with receipt printers
- Two drive thru POS terminals with receipt printer
- Four KDS systems (four monitors and four controllers)
- BROADBAND Wide Area Network connection, router and firewall
- All local area network components including equipment rack, UPS, patch panel, patch cords, cabling infrastructure and data jacks
- Normal Business Hours are 8:00 A.M. to 5:00 P.M., Pacific Time Monday through Friday excluding EPL IT's normal published holidays and schedule downtimes for maintenance and support*
- Backup internet

- WIFI (Consumer/Guest and Internal)
- Android Tablet (e.g., Samsung Galaxy Tab A)
- Optional - Three (3) digital menu boards (three (3) panels and three (3) controllers)

COMPLETE I.T. OPERATIONS SUPPORT

Hardware Service and Support:

Restaurant POS Equipment: Helpdesk will initiate advance depot repair and/or replacement for all POS hardware, including back of house server, KDS system, front of house terminals and cash drawers, receipt printers, network switch, UPS, (digital menu boards and controllers if requested by Customer) and line conditioners will be supported through an approved depot partner. Customer may enroll in the depot warranty program offered. Customer must notify EPL IT in writing at least 30 days prior to any changes in hardware support agreements Customer has established. Equipment replaced via our current approved depot partner "Washburn" is covered against breakage for 90 days after replacement depot processing. Customer is responsible for all costs associated with depot or any other hardware provider. All depot payments are processed directly to Customer accounts setup with the depot company directly. Customer may opt to maintain hardware support agreements with Micros or any other hardware provider at their own discretion. The EPL helpdesk will support full dispatch and implementation management of Customer that opt into the Washburn depot program. The EPL helpdesk will NOT support any hardware related issues for Customers that are not using an approved depot partner.

Software Service and Support includes:

- Micros Enterprise Management, currently version 5.7
- Patching of installed MyEpl.Net Web Based Portal
- Patching of critical security updates for installed operating system, currently version Windows 10 Professional
- Current updates on antivirus software
- Current updates on anti-malware software
- Endpoint DLP (data loss protection) which includes white listing
- Software disaster recovery tool
- Proactive monitoring via EPL Alerts program
- LMS (EDUonGO learning management solution)
- WIFI Cloud Management / Consumer WIFI
- Digital Menu Board management / price integration

Credit Card Processing includes:

- Acceptance of Visa, MasterCard, American Express and Discover
- Secure high speed credit card authorization as primary
- Secure low speed credit card authorization as backup
- NFC Payments (Apple Pay/Android Pay/Samsung Pay)
- Gift card Processing

Payment Card Industry ("PCI") Program includes:

- Educating EPL Franchisees about cardholder data security, the Payment Card Industry ("PCI") Data Security Standard ("DSS") and PCI DSS compliance
- Providing Automated Quarterly Network Scanning of stores for potential security issues.
- Executing a compliance strategy that helps to:
 - o Eliminate the storage of prohibited data
 - o Protect stored data
 - o Secure the merchant network environment via compliance with the PCI DSS
 - o Identify the payment applications used and ensures merchants use or switch to Payment Application ("PA") that comply with the PA-DSS
- Tracking and reporting on the program's progress each month

Firewall Service and Support includes:

- Repair and/or replacement cost of firewall
- Software maintenance on firewall
- Remote monitoring of up/down state
- Latest security updates to prevent unauthorized intrusion attacks
- Quarterly PCI Scanning
- WIFI Firewall / SSID Configuration

Broadband WAN Service and Support includes:

- High speed access to all credit card processing
- High speed access to MyEpl.net Portal
- Does not include unrestricted Internet access
- 24x7 active monitoring and alerting

Helpdesk includes:

- 7:00 am to 12:00 am** Helpdesk via a toll free number 1-888-POLLO-IT
- Single point of contact for hardware and cabling dispatch
- Menu changes***
- Pricing adjustments***
- Full portal support
- WAN troubleshooting and support
- Support on all IT and POS issues

MyEpl.Net Portal Service and Support includes:

- Access to standard corporate reporting
- Near real time sales performance data for all stores

Professional Service includes:

- Any service outside of the scope of this Agreement will be billed at the following rates:
- Helpdesk rate \$60 per hour
- Networking rate \$120 per hour
- Development rate \$120 per hour

* Business hours are subject to change

** Helpdesk hours are subject to change

*** Does not include Tax changes. Customer acknowledges and agrees that the data entered by EPL IT is on behalf of Customer. Customer acknowledges and agrees that it is their responsibility to verify the accuracy of the data inputted by EPL IT and also to maintain and update the data as needed. Any maintenance and/or updates Customer wishes EPL IT to perform must be communicated to EPL IT in writing in order for EPL IT to perform the maintenance and/or updates.

Franchise Support Options – Fee Schedule*

Service Description	Annual Cost*	Monthly Cost*	Platinum Support Option	Payable to:
Quarterly PCI Scanning	\$300**	\$25**	Yes	EPL
Unlimited Number of Calls for Helpdesk Support including Credit Card Support	\$2,004	\$167	Yes	EPL
MyEpl.Net	\$600	\$50	Yes	EPL
Backup Internet (3G or LTE)	\$300	\$25	Yes	EPL
Network Management Fee	\$300	\$25	Yes	EPL
Mobile Device Management (Per Tablet)	\$36	\$3	Yes	EPL
WIFI Controller (2 Access Points)	\$135	\$11.25	Yes	EPL
Learning Management Platform	\$228	\$19	Yes	EPL
Monthly Cost per Store ¹		\$325.25		
Broadband WAN ²	\$1,188	\$99	Yes	EPL
Digital Menu Board ³	\$672	\$56	Yes	EPL
Kiosk Software ⁴	\$1,920	\$160	Yes	EPL
Beyond Software ⁵	\$720	\$60	Yes	EPL
Oracle Micros POS Software Support ⁶	Up to \$1,000	n/a	n/a	EPL

NOTE: Mixed services not allowed. All service levels must be the same for all stores per Franchisee.

*All fees listed in this Fee Schedule may change depending on vendor price changes.

**The Annual Cost/Monthly Cost listed for Complete Firewall Service and Support and Quarterly PCI Scanning. However, this fee may range up to \$20 depending on vendor price increases. There may be additional

charges if any remediation is required.

¹ Monthly rate based on standard store configuration. Support cost for non-standard configuration subject to change, based on actual hardware deployed.

² BROADBAND service cost is approximate and subject to increase if 2Mx1M Broadband is not available. Services subject to additional costs are wireless broadband, business class cable, and Fractional or full T1. These costs are pass-through costs from the EPL approved broadband provider. The costs may actually be different than the amount shown due to price changes by vendor.

³ Optional Digital Menu Board fees are determined by the count of digital menu panels. Each digital menu/preview board carries a vendor fee of \$14 per panel. The costs may actually be different than the amount shown due to price changes by vendor and depending on the number of panels used.

⁴ Optional Kiosk Software fees are \$160 per month per restaurant location for application hosting and a \$400 one time setup fee per restaurant location. The costs may actually be different than the amount shown due to price changes by vendor and price tiers based on the total count of system wide installations.

⁵ Beyond Software fees are \$60 per month per restaurant location for application hosting and support. The fees will increase to \$75 per month on the third anniversary of the commencement of the contract between EPL and Peachworks ("**Contract**"); \$90 per month on the fourth anniversary of the commencement of the Contract and \$110 per month on the fifth anniversary of the commencement of the Contract. Peachworks offers inventory, ordering, temperature line checks, log scheduling, and reports. The costs may actually be different than the amount shown due to price changes by vendor.

⁶ This annual fee of up to \$1,000.00 is for Oracle Micros POS Software Support which is required to be able to receive Micros software updates.

EXHIBIT 8: GENERAL RELEASE

This General Release ("**General Release**") is made effective _____, 20__, by the undersigned, _____, a _____ (referred herein after as the "**Franchisee**").

In consideration of El Pollo Loco, Inc., a Delaware corporation ("**Franchisor**"); _____; and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, Franchisee hereby waives, releases, and forever discharges Franchisor, and all Franchisor's affiliates, and all the respective directors, officers, employees, attorneys, representatives and agents of said corporations, as well as parent corporations, subsidiaries, affiliates and any other legal entities which it owns or controls, individually or jointly, from any and all obligations, liabilities, claims, demands, actions and causes of action in law or in equity of whatsoever kind or nature arising prior to and including the date hereof, which Franchisee now has or may hereafter have by reason of any act, omission, event, deed or course of action having taken place, or which should have taken place, or on account of or arising out of any claimed violation of the Franchise Agreement, any claim for breach of any other express or implied agreement, claim for breach of any implied violation of the covenant of good faith and fair dealing or any other claims which relate or refer in any way to the relationship between Franchisor and Franchisee which arises on or before the date hereof insofar as said claims relate to the Franchise Agreement or any other agreement between Franchisee and Franchisor, any claim arising under or alleged violation of the California Franchise Relations Act, any Federal antitrust law or State antitrust law except as prohibited by law.

This General Release extends to claims arising from representations made by the Franchisor in the Franchise Disclosure Document except as prohibited by law. Furthermore, it is expressly acknowledged by each of the undersigned that any and all rights granted under Section 1542 of the California Civil Code are hereby expressly waived. Such statute reads as follows:

"Section 1542.

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release which if known by him must have materially affected the settlement with the debtor."

Releasers voluntarily waive all benefits and protections of Civil Code Section 1542, and any comparable law, and intend the release above to apply to known and unknown claims alike.

This General Release may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute a single instrument. A signature on this General Release transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

IN WITNESS WHEREOF each of the parties either personally or through its duly authorized signatory, as applicable, has executed this General Release effective as of the date(s) written below.

FRANCHISEE:

If an entity:

_____, a _____

By: _____

Name: _____

Title: _____

Date: _____

If an individual:

_____, an Individual

By: _____

Name: _____

Title: An Individual

Date: _____

EXHIBIT 9: CONSENT TO AND ASSIGNMENT OF FRANCHISE RIGHTS

A: To be Used for a Change of Ownership Interests in Franchisee

This Consent to and Assignment of Franchise Rights (the "**Consent Agreement**") is made as of this day of _____, 20__ by and between **EL POLLO LOCO, INC.**, a Delaware corporation ("**Franchisor**"), _____, a _____ (the "**Assignor**") and _____, a _____ (the "**Assignee**").

RECITALS

A. Franchisor and Assignor are parties to that certain Franchise Agreement dated _____ (the "**Franchise Agreement**") pertaining to the operation of the El Pollo Loco restaurant located at _____ (the "**Restaurant**").

B. Assignor desires to assign all of his title, rights, privileges and interests and obligations under the Franchise Agreement to Assignee and to sell, transfer, and convey all of his title, rights, privileges, and interests to the Assets of the Restaurant to Assignee, all in accordance with the assignment provisions of the Franchise Agreement.

C. The Franchise Agreement requires that Assignor first obtain written consent of Franchisor before undertaking any assignment of the Franchise Agreement or sale of the assets of the Restaurant.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. Recitals A through C above are incorporated herein and by this reference made a part of this Consent Agreement.

2. Subject to the terms and conditions set forth herein, and upon the payment to Franchisor of a transfer fee of _____ **Dollars (\$_____,000.00)**, Franchisor does hereby consent to the assignment by Assignor to Assignee of all of Assignor's rights, privileges, interests, and obligations under the Franchise Agreement.

3. Assignee shall execute the current form of Franchise Agreement (the "**Current Franchise Agreement**") for a term which coincides with the initial term of the Franchise Agreement and for which there shall be no initial franchise fee; and Assignee covenants, warrants and agrees that, as of the date hereof, all of the obligations, liabilities and provisions of the Current Franchise Agreement shall be fully performed and complied with by Assignee in its capacity as "Franchisee" under the Current Franchise Agreement, including, but not limited to, payment in full of all obligations to Franchisor and to third parties arising from the existence, operation, or maintenance of the Restaurant.

4. ***If there are remodel requirements the following language will be used:*** "Assignee covenants, warrants and agree that the required reimage and/or remodel requirements, will be completed to the satisfaction of Franchisor no later than **ninety (90) days after the date of transfer of the Restaurant operation from Assignor to Assignee ("Changeover Date")**. Assignee agrees that such required reimage and/or remodel requirements will not be considered complete until Franchisor has agreed to the final completion in writing. Should the required reimage and/or remodel of the Restaurant not be completed to Franchisor's satisfaction, then Franchisor may terminate the Current Franchise Agreement under Section 18, entitled Default and Termination". ***If there are no remodel requirements the above language will be replaced with:*** "Franchisor acknowledges and agrees that as of the date of this Consent Agreement there are no remodel requirements to be completed prior to the transfer of the Restaurant from Assignor to Assignee."

5. Assignee acknowledges and warrants:

a. that the Current Franchise Agreement and any related franchise disclosure documents, manuals, lists, forms and other documents previously transmitted to Assignee have been fully read and understood;

b. that Assignee is knowledgeable and experienced in regard to the operation of an El Pollo Loco restaurant and the Franchisor operating system;

c. that Assignee agrees to undertake, in accordance with the terms of the Current Franchise Agreement, such training as Franchisor may deem appropriate in connection with the operation and maintenance of the Restaurant;

d. that Assignee is fully aware that the initial term of the Current Franchise Agreement will expire on _____, and has no renewal option periods and the Current Franchise Agreement does not grant Assignee any territorial right or licenses, exclusive or otherwise; and

e. that as of the date of this Consent Agreement, the ownership interest in Assignee is divided as follows:

(i) _____ - _____%

(ii) _____ - _____%

f. that Assignee has conducted an independent study of the Restaurant, including consideration of any sales, profits or earnings figures that may have been made available to Assignee by or on behalf of Assignor, and in entering into this Agreement, Assignee relies solely upon such independent knowledge and in no respect has Assignee relied upon any representation, statement, endorsement or promise, either oral or written, by or on behalf of Franchisor.

6. Release.

a. In consideration of the consent by Franchisor granted herein, Assignor and Assignee (collectively "**Releasors**") do each hereby waive, release and forever discharge Franchisor, and all of Franchisor's affiliates, and all the respective directors, officers, employees, attorneys, representatives, and agents of said corporations, as well as parent corporations, subsidiaries, affiliates and any other legal entities which it owns or controls, individually or jointly, from any and all obligations, liabilities, claims, demands, actions and causes of action in law or in equity of whatsoever kind or nature arising prior to and including the date hereof, which Releasors now have or may hereafter have by reason of any act, omission, event, deed or course of action having taken place, or which should have taken place, or on account of or arising out of any claimed violation of the Franchise Agreement or the Current Franchise Agreement, any claim for breach of any other express or implied agreement, claim for breach of any implied violation of the covenant of good faith and fair dealing or any other claims which relate or refer in any way to the relationship between Franchisor and Assignee or Franchisor and Assignor or Assignor and Assignee which arises on or before

the date hereof insofar as said claims relate to the Franchise Agreement, or the Current Franchise Agreement, or the Consent Agreement, and to the extent allowed by law, any claim for breach of the assignment of Assignor's title, rights, privileges, interests, and obligations under the Franchise Agreement as contemplated in this Consent Agreement, or any other agreement between Releasors (or any of them) and Franchisor, any claim arising under or alleged violation of the California Franchise Relations Act, any Federal antitrust law or State antitrust law except as prohibited by law.

b. This general release does not extend to claims arising from representations made by the Franchisor in the Franchise Disclosure Document. Furthermore, it is expressly acknowledged by each of the undersigned that any and all rights granted under Section 1542 of the California Civil Code are hereby expressly waived. Such statute reads as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

c. Releasors voluntarily waive all benefits and protections of Civil Code Section 1542, and any comparable law, and intend the release above to apply to known and unknown claims alike.

7. Assignor and Assignee understand and agree that Assignor shall remain secondarily liable in the event of any default by the Assignee under the Current Franchise Agreement, and that by entering into this Consent Agreement, Assignor and Assignee fully and unconditionally guarantee the Assignee's performance and compliance in all respects with the obligations, liabilities and provisions thereunder; provided, however, that this guarantee shall not extend to any default of non-compliance with the obligations, liabilities, and provisions of the Current Franchise Agreement by Assignee during any extension of the initial term of the Current Franchise Agreement. Assignor further understands and agrees that, to the extent principals of Assignor have personally guaranteed the performance of Assignor under the terms and conditions of the Current Franchise Agreement, such personal guarantee shall NOT be modified by this Consent Agreement and any such guarantors shall not be released from liability of any kind or nature by the terms of this Consent Agreement. Franchisor agrees that a copy of any notice of default given to Assignee by Franchisor shall also be concurrently given to Assignor.

8. Unless Assignee is currently the franchisee of another El Pollo Loco restaurant, Assignor shall train, at Assignor's expense, Assignee and up to two (2) of Assignee's managers prior to Assignee's takeover of the operation of the Restaurant from Assignor, in order to train Assignee in the Franchisor operating system. Such training must be completed to Franchisor's satisfaction prior to turning over the running of the Restaurant to Assignee. In the event that Assignor wishes Franchisor to train Assignee's personnel in the Franchisor operating system, Assignor shall reimburse Franchisor for the cost of such training.

9. Assignor agrees to grant permission to Assignee for Assignee to access the historical sales and transactional information belonging to Assignor as stored in Assignor's Point of Sale system ("**POS**") prior to the effective date of this Consent Agreement.

10. Franchisor's consent to the assignment of Assignor's rights and obligations under the Franchise Agreement and the assets of the Restaurant is expressly contingent upon Assignor paying and discharging all obligations incurred in Assignor's operation of the Restaurant prior to the Changeover Date including, but not limited to, the following:

a. Any unpaid amounts owed Franchisor under monthly franchise billing statements for periods up to the Changeover Date which, through _____, 20____ are estimated to be _____ **Dollars (\$_____)** and shall be payable through escrow, by cashier's check or by direct debit (ACH) to Franchisor. If the Changeover Date is not _____, 20____, the estimate should be adjusted by _____ **Dollars (\$_____)** per diem;

b. Taxes due or accrued and unpaid, including, but not limited to, the sales tax on food and consumables sold in the Restaurant;

c. Any federal, state or local taxes required to be withheld from employees' salaries and wages; and

d. Any and all amounts due suppliers and vendors to the Restaurant.

11. Within thirty (30) days following the Changeover Date, Franchisor shall prepare and submit to Assignor a final accounting for sums due together with a check for any sums due Assignor or a statement for any sums due Franchisor. In connection with such accounting, Franchisor shall have the right, without the obligation, to pay any bills incurred by Assignor prior to the Changeover Date and to add amounts so paid to amounts charged Assignor in such accounting. As of the Changeover Date, Assignee shall assume total responsibility for the operation of, and shall be solely responsible for, any obligations incurred in connection with the Restaurant prior to the Changeover Date in the event that such obligations have not been satisfied by Assignor.

12. This Consent Agreement shall inure to the benefit of the successors and assigns of Franchisor, and to any and all of its affiliates, parents and subsidiaries, and shall be binding upon the heirs, representatives, successors and assigns of Assignor and Assignee.

13. Except as modified herein, all the terms and conditions of the Franchise Agreement shall be unaffected and remain in full force and effect.

14. The parties hereto acknowledge that they have read and fully understand the provisions of this Consent Agreement and that said provisions constitute a complete and exclusive expression of its terms and conditions.

15. The parties executing this Consent Agreement on behalf of Assignee or Assignor hereby represent and warrant that: (a) they have the full power, right and authority to enter into and execute this Consent Agreement; and (b) those persons whose signatures are hereinafter evidenced on this Consent Agreement on behalf of Assignee or Assignors are duly authorized signatories of Assignee or Assignors, fully empowered to commit and bind Assignee or Assignors to those certain terms, covenants and conditions set forth herein.

16. If either party is a business organization, the party is duly organized and qualified to do business in the state and any other applicable jurisdiction within which the Restaurant is located.

17. This Consent Agreement shall not be binding upon Franchisor unless and until it shall have been accepted and signed by an authorized officer of Franchisor.

18. This Consent Agreement may be executed in one or more counterparts, each of which will constitute an original, but all of which together will constitute but a single document. It shall not be necessary for Franchisor, Assignors and Assignee to execute the same counterpart(s) of this Consent Agreement for this Consent Agreement to become effective. A signature on this Consent Agreement transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Consent Agreement as of the date(s) written below.

FRANCHISOR:
EL POLLO LOCO, INC., a Delaware Corporation
By: _____
Name: _____
Title: _____
Date: _____

ASSIGNOR:
_____, an individual
By: _____
Name: _____
Title: An individual
Date: _____

ASSIGNEE:
_____, a _____
By: _____
Name: _____
Title: _____
Date: _____

B: To be Used for an Entity Change by Franchisee

This Consent to and Assignment of Franchise Rights (the "**Consent Agreement**") is made as of this day of _____, 20__ by and between **EL POLLO LOCO, INC.**, a Delaware corporation ("**Franchisor**"), _____, a _____ (the "**Assignor**") and _____, a _____ (the "**Assignee**").

RECITALS

A. Franchisor and Assignor are parties to that certain Franchise Agreement dated _____ (the "**Franchise Agreement**") pertaining to the operation of the El Pollo Loco restaurant located at _____ (the "**Restaurant**").

B. Assignor desires to assign all of his title, rights, privileges and interests and obligations under the Franchise Agreement to Assignee and to sell, transfer, and convey all of his title, rights, privileges, and interests to the Assets of the Restaurant to Assignee, all in accordance with the assignment provisions of the Franchise Agreement.

C. The Franchise Agreement requires that Assignor first obtain written consent of Franchisor before undertaking any assignment of the Franchise Agreement or sale of the assets of the Restaurant.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. Recitals A through C above are incorporated herein and by this reference made a part of this Consent Agreement.

2. Subject to the terms and conditions set forth herein, and upon the payment to Franchisor of an entity fee of **Five Hundred Dollars (\$500.00)** [~~delete fee reference if this is Franchisee's initial entity transfer~~], Franchisor does hereby consent to the assignment by Assignor to Assignee of all of Assignor's rights, privileges, interests, and obligations under the Franchise Agreement.

3. Assignee covenants, warrants and agrees that, as of the date hereof, all of the obligations, liabilities and provisions of the Franchise Agreement shall be fully performed and complied with by Assignee in its capacity as "Franchisee" under the Franchise Agreement, including, but not limited to, payment in full of all obligations to Franchisor and to third parties arising from the existence, operation, or maintenance of the Restaurant.

4. Assignee acknowledges and warrants:

a. that the Franchise Agreement and any related franchise disclosure documents, manuals, lists, forms and other documents previously transmitted to Assignee have been fully read and understood;

b. that Assignee is knowledgeable and experienced in regard to the operation of an El Pollo Loco restaurant and the Franchisor operating system;

c. that Assignee is fully aware that the initial term of the Franchise Agreement will expire on _____, and has no renewal option periods and the Franchise Agreement does not grant Assignee any territorial right or licenses, exclusive or otherwise; and

d. that as of the date of this Consent Agreement, the ownership interest in Assignee is divided as follows:

(i) _____ - ____%

(ii) _____ - ____%

5. Release.

a. In consideration of the consent by Franchisor granted herein, Assignor and Assignee (collectively "**Releasors**") do each hereby waive, release and forever discharge Franchisor, and all of Franchisor's affiliates, and all the respective directors, officers, employees, attorneys, representatives, and agents of said corporations, as well as parent corporations, subsidiaries, affiliates and any other legal entities which it owns or controls, individually or jointly, from any and all obligations, liabilities, claims, demands, actions and causes of action in law or in equity of whatsoever kind or nature arising prior to and including the date hereof, which Releasors now have or may hereafter have by reason of any act, omission, event, deed or course of action having taken place, or which should have taken place, or on account of or arising out of any claimed violation of the Franchise Agreement or the Current Franchise Agreement, any claim for breach of any other express or implied agreement, claim for breach of any implied violation

of the covenant of good faith and fair dealing or any other claims which relate or refer in any way to the relationship between Franchisor and Assignee or Franchisor and Assignor or Assignor and Assignee which arises on or before the date hereof insofar as said claims relate to the Franchise Agreement, or the Current Franchise Agreement, or the Consent Agreement, and to the extent allowed by law, any claim for breach of the assignment of Assignor's title, rights, privileges, interests, and obligations under the Franchise Agreement as contemplated in this Consent Agreement, or any other agreement between Releasors (or any of them) and Franchisor, any claim arising under or alleged violation of the California Franchise Relations Act, any Federal antitrust law or State antitrust law except as prohibited by law.

b. This general release does not extend to claims arising from representations made by the Franchisor in the Franchise Disclosure Document. Furthermore, it is expressly acknowledged by each of the undersigned that any and all rights granted under Section 1542 of the California Civil Code are hereby expressly waived. Such statute reads as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

c. Releasors voluntarily waive all benefits and protections of Civil Code Section 1542, and any comparable law, and intend the release above to apply to known and unknown claims alike.

6. Assignor and Assignee understand and agree that Assignor shall remain secondarily liable in the event of any default by the Assignee under the Franchise Agreement, and that by entering into this Consent Agreement, Assignor and Assignee fully and unconditionally guarantee the Assignee's performance and compliance in all respects with the obligations, liabilities and provisions thereunder; provided, however, that this guarantee shall not extend to any default of non-compliance with the obligations, liabilities, and provisions of the Franchise Agreement by Assignee during any extension of the initial term of the Franchise Agreement. Assignor further understands and agrees that, to the extent principals of Assignor have personally guaranteed the performance of Assignor under the terms and conditions of the Franchise Agreement, such personal guarantee shall NOT be modified by this Consent Agreement and any such guarantors shall not be released from liability of any kind or nature by the terms of this Consent Agreement. Franchisor agrees that a copy of any notice of default given to Assignee by Franchisor shall also be concurrently given to Assignor.

7. Assignor agrees to grant permission to Assignee for Assignee to access the historical sales and transactional information belonging to Assignor as stored in Assignor's Point of Sale system ("**POS**") prior to the effective date of this Consent Agreement.

8. Franchisor's consent to the assignment of Assignor's rights and obligations under the Franchise Agreement and the assets of the Restaurant to Assignee is expressly contingent upon: (i) Assignor paying and discharging all obligations incurred in Assignor's operation of the Restaurant prior to the date of transfer of the Restaurant operation from Assignor to Assignee ("**Changeover Date**"); and (ii) Assignee shall assume total responsibility for the operation of, and shall be solely responsible for, any obligations incurred in connection with the Restaurant prior to the Changeover Date in the event that such obligations have not been satisfied by Assignor.

9. This Consent Agreement shall inure to the benefit of the successors and assigns of Franchisor, and to any and all of its affiliates, parents and subsidiaries, and shall be binding upon the heirs, representatives, successors and assigns of Assignor and Assignee.

10. Except as modified herein, all the terms and conditions of the Franchise Agreement shall be unaffected and remain in full force and effect.

11. The parties hereto acknowledge that they have read and fully understand the provisions of this Consent Agreement and that said provisions constitute a complete and exclusive expression of its terms and conditions.

12. The parties executing this Consent Agreement on behalf of Assignee or Assignor hereby represent and warrant that: (a) they have the full power, right and authority to enter into and execute this Consent Agreement; and (b) those persons whose signatures are hereinafter evidenced on this Consent Agreement on behalf of Assignee or Assignors are duly authorized signatories of Assignee or Assignors, fully empowered to commit and bind Assignee or Assignors to those certain terms, covenants and conditions set forth herein.

13. If either party is a business organization, the party is duly organized and qualified to do business in the state and any other applicable jurisdiction within which the Restaurant is located.

14. This Consent Agreement shall not be binding upon Franchisor unless and until it shall have been accepted and signed by authorized officers of Franchisor.

15. This Consent Agreement may be executed in one or more counterparts, each of which will constitute an original, but all of which together will constitute but a single document. It shall not be necessary for Franchisor, Assignors and Assignee to execute the same counterpart(s) of this Consent Agreement for this Consent Agreement to become effective. A signature on this Consent Agreement transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Consent Agreement as of the date(s) written below.

FRANCHISOR:

EL POLLO LOCO, INC., a Delaware Corporation

By: _____
Name: _____
Title: _____
Date: _____

ASSIGNOR:

_____, an individual

By: _____
Name: _____
Title: An individual
Date: _____

ASSIGNEE:

_____, a _____

By: _____
Name: _____
Title: _____
Date: _____

EXHIBIT 10: AMENDMENT TO FRANCHISE AGREEMENT TO APPLY DEVELOPMENT FEE

This Amendment to the Franchise Agreement to Apply Development Fee ("**Amendment**") is made on _____, _____ by and among **EL POLLO LOCO, INC.**, a Delaware corporation ("**Franchisor**") and _____, an individual ("**Franchisee**").

RECITALS:

A. Franchisor and Franchisee are simultaneously entering into this Amendment to Franchise Agreement and a Franchise Agreement ("**Franchise Agreement**") for an El Pollo Loco® restaurant located at _____ ("**Restaurant**").

B. Franchisor and _____ ("**Developer**") entered into Franchise Development Agreement (# _____) dated _____ ("**Development Agreement**") for the Territory as set forth on **Exhibit A** to be developed as set forth in the Development Schedule as set forth on **Exhibit B** of the Development Agreement. Developer is an affiliate of Franchisee.

C. Franchisor and Franchisee wish to modify the terms of the Franchise Agreement as described in this Amendment.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual promises and covenants of the parties hereto, the parties agree as follows:

1. **Recitals.** Franchisor and Franchisee acknowledge and agree with all of the above listed recitals which are incorporated herein to this Amendment.

2. **Application of Development Fee towards the Initial Franchise Fee for the Franchise Agreement for the Restaurant.** Per the Development Agreement, Developer paid Twenty Thousand Dollars (\$20,000) in Development Fees to be applied towards the Initial Franchise Fee for the Franchise Agreement for the Restaurant developed under the Development Agreement. This payment has been applied to the Initial Franchise Fee for this Franchise Agreement. Franchisee will pay the balance of _____ Thousand Dollars (\$ _____) in full within thirty (30) days of delivery of execution copies of this Agreement to Franchisee.

3. **Entire Agreement.** This Amendment and the Franchise Agreement embody the entire understanding between Franchisor and Franchisee with respect to the modifications set forth above, and can be changed only by a writing signed by Franchisor and Franchisee. Except as modified herein, all the terms and conditions of the Franchise Agreement shall be unaffected and remain in full force and effect. In the event of any inconsistency between the terms of this Amendment and the terms of the Franchise Agreement, the terms of this Amendment shall control.

4. **Miscellaneous.** All capitalized terms not otherwise defined in this Amendment shall have the meanings given them in the Franchise Agreement. Titles and captions are for convenience only and shall not constitute a portion of this Amendment. The parties hereto acknowledge that they have read and fully understand the provisions of this Amendment and that said provisions constitute a complete and exclusive expression of its terms and conditions. The parties executing this Amendment on behalf of Franchisor and Franchisee are duly authorized to do so. This Amendment shall not be binding upon Franchisor unless and until it shall have been accepted and signed by an authorized officer of Franchisor. This Amendment may be executed in one or more counterparts, each of which will constitute an original, but all of which together will constitute but a single document. A signature on this Amendment transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

IN WITNESS WHEREOF, this Amendment to the Franchise Agreement has been executed by the parties hereto as of the dates set forth below.

FRANCHISOR:

EL POLLO LOCO, INC., a Delaware Corporation

By: _____
Name: _____
Title: _____
Date: _____

FRANCHISEE:

_____, an individual
By: _____
Name: _____
Title: An individual
Date: _____

EXHIBIT 11: AMENDMENT TO SUCCESSOR FRANCHISE AGREEMENT

This Amendment to the Successor Franchise Agreement ("**Amendment**") is made on _____, _____ by and among **EL POLLO LOCO, INC.**, a Delaware corporation ("**Franchisor**") and _____, an individual ("**Franchisee**").

RECITALS:

A. Franchisor and Franchisee are simultaneously entering into this Amendment to Successor Franchise Agreement and a Successor Franchise Agreement ("**Successor Franchise Agreement**") for an El Pollo Loco® restaurant located at _____ ("**Restaurant**").

B. Franchisor and _____ entered into that certain Franchise Agreement dated _____, _____ ("**Original Franchise Agreement**"). The Original Franchise Agreement will expire on _____, _____.

C. Franchisee and _____ ("**Landlord**"), entered into that certain Lease dated _____, _____ ("**Lease**"). The Lease expires on _____, _____ and has _____ option(s) to extend the term of the Lease for a period of _____ years (each).

D. Per the terms of the Original Franchise Agreement, Franchisee has requested a new El Pollo Loco® franchise agreement for a term of _____ (____) years for the Restaurant ("**Successor Franchise Agreement**").

E. Franchisor and Franchisee wish to modify the terms of the Successor Franchise Agreement as described in this Amendment.

F. The effectiveness of the Successor Franchise Agreement and this Amendment are contingent upon Franchisee being in good standing as of the date first written above.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual promises and covenants of the parties hereto, the parties agree as follows:

1. **Recitals.** Franchisor and Franchisee acknowledges and agrees with all of the above listed recitals which are incorporated herein to this Amendment.

2. **Commencement Date and Expiration Date of Successor Franchise Agreement.** Paragraph 3.1 of the Successor Franchise Agreement is hereby deleted in its entirety and replaced with the following: "The term of this Successor Franchise Agreement shall **commence on** _____, _____ **and shall expire on** _____, _____ ("**Term**"), unless sooner terminated as provided herein. Should Franchisee lease the site of the Restaurant, the lease or sublease must be for a term which with renewal options is not less than the Term of the Successor Franchise Agreement, and contain the following terms and conditions set forth below and in a form approved by Franchisor:

- (a) The tenant entity on the lease must match the franchise entity on the successor franchise agreement; and
- (b) The term (with renewal options) of the lease must match at least the initial term of the successor franchise agreement; and
- (c) The landlord consents to your use of the premises as an El Pollo Loco® restaurant which will be open during the required days and hours set out in the Operations Manual.

Should Franchisee be unable to lease the site of the Restaurant for a term equal to the Term, then as our sole and absolute right to determine, the Term of the Successor Franchise Agreement may be reduced to match the term of the lease or sublease and the renewal franchise fee will be appropriately pro-rated. Upon the expiration or earlier termination of this Successor Franchise Agreement, Franchisee shall have no right or option to extend the term of this Successor Franchise Agreement."

3. **Amendment (Site Development, Improvements, Fixtures and Equipment, and Grand Opening Advertising).** Sections 4.1, 5.8 and 8.8 of the Successor Franchise Agreement are hereby deleted in their entirety; provided however, that Sections 4.1, 5.8 and 8.8 shall be reinstated in the event that Franchisor grants Franchisee the right to relocate the Restaurant under Section 23.17.a, 23.17.b and 23.17.c of the Successor Franchise Agreement.

4. **Successor Franchise Fee.** The first sentence of Section 6.1.a of the Successor Franchise Agreement is hereby deleted and replaced with the following: "Per the renewal fee described in the Original Franchise Agreement, Franchisee will pay in full a renewal franchise fee of _____ Dollars (\$ _____) ("**Renewal Franchise Fee**"). The Renewal Franchise Fee will be paid within thirty (30) days of delivery of execution copies of this Amendment and Successor Franchise Agreement to Franchisee; provided, however, if the Restaurant is a Turnkey Restaurant the Renewal Franchise Fee shall be payable upon execution of this Successor Franchise Agreement."

5. **Restaurant Remodel.** The following language will be added to Section 12.3 of the Successor Franchise Agreement regarding remodeling the Restaurant: Notwithstanding the above, Franchisee covenants, warrants and agrees that the required remodel requirements will be completed to the satisfaction of Franchisor no later than _____, _____. Franchisee agrees that such required remodel requirements will not be considered complete until Franchisor has agreed to the final completion in writing. Should the required remodel of the Restaurant not be completed to Franchisor's satisfaction, then Franchisor may terminate the Successor Franchise Agreement under Section 18, entitled Default and Termination.

6. **Rights to a Successor Franchise.** Section 20 of the Successor Franchise Agreement is hereby deleted and replaced with the following: "Franchisee shall have no right or option to extend the Successor Term of this Successor Franchise Agreement. In order for Franchisee to operate beyond the Successor Term, Franchisee must meet the then-current criteria to become an El Pollo Loco franchisee and enter into a then current form of Franchise Agreement and ancillary agreements, the terms of which may vary substantially from this Amendment and Successor Franchise Agreement."

7. **Entire Agreement.** This Amendment and the Successor Franchise Agreement embodies the entire understanding between Franchisor and Franchisee with respect to the modifications set forth above, and can be changed only by a writing signed by Franchisor and Franchisee. Except as modified herein, all the terms and conditions of the Successor Franchise Agreement shall be unaffected and remain in full force and effect. In the event of any inconsistency between the terms of this Amendment and the terms of the Successor Franchise Agreement, the terms of this Amendment shall control.

8. **Miscellaneous.** All capitalized terms not otherwise defined in this Amendment shall have the meanings given them in the Successor Franchise Agreement. Titles and captions are for convenience only and shall not constitute a portion of this Amendment. The parties hereto acknowledge that they have read and fully understand the provisions of this Amendment and that said provisions constitute a complete and exclusive expression of its terms and conditions. The parties executing this Amendment on behalf of Franchisor and Franchisee are duly authorized to do so. This Amendment shall not be binding upon Franchisor unless and until it shall have been accepted and signed by an authorized officer of Franchisor. This Amendment may be executed in one or more counterparts, each of which will constitute an original, but all of which together will constitute but a single document. A signature on this Amendment transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

IN WITNESS WHEREOF, this Amendment to the Successor Franchise Agreement has been executed by the parties hereto as of the date(s) set forth below.

FRANCHISOR:
EL POLLO LOCO, INC., a Delaware Corporation
By: _____
Name: _____
Title: _____
Date: _____

FRANCHISEE:
_____, an individual
By: _____
Name: _____
Title: An individual
Date: _____

EXHIBIT 12: REMODEL SCHEDULE PARTICIPATION AGREEMENT

THIS REMODEL SCHEDULE PARTICIPATION AGREEMENT (“Remodel Agreement”) is made and entered into as of _____, _____ (“**Effective Date**”), by and between **EL POLLO LOCO, INC.**, a Delaware corporation (the “**Franchisor**”) and _____, a _____ (“**Franchisee**”).

RECITALS:

A. Franchisor and Franchisee are parties to the El Pollo Loco Franchise Agreements referenced hereto and incorporated herein as **Exhibit A**. The Franchise Agreements listed on **Exhibit A** shall be referred to collectively herein as “**Franchise Agreements**” and individually as “**Franchise Agreement**”. The Restaurants listed on **Exhibit A** shall be referred to collectively herein as “**Restaurants**” and individually as “**Restaurant**”.

B. Franchisor and Franchisee desire to set forth the terms and conditions whereby Franchisee will remodel all the Restaurants as set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Remodel Agreement the parties agree as follows:

AGREEMENT:

1. The Recitals listed above are incorporated herein and by this reference made a part of this Remodel Agreement.

2. Franchisee, at Franchisee’s expense, will remodel all Restaurants as described in **Exhibit A** to then current El Pollo Loco® standards, format, design and image, as designated pursuant to plans and specifications provided by Franchisor (“**Remodel Requirements**”). All signs to be used in connection with the Restaurant, both exterior and interior, must conform to Franchisor’s sign criteria as to type, color, design and location and be approved in writing by Franchisor prior to installation or display.

3. Franchisee covenants, warrants and agrees that the required Remodel Requirements will be completed in each of Franchisee’s Restaurants, to the satisfaction of Franchisor no later than the dates listed on **Exhibit A**. Franchisee agrees that such required Remodel Requirements will not be considered complete until Franchisor has agreed to the final completion in writing. **Should the required Remodel Requirements of any or all Restaurants not be completed to Franchisor’s satisfaction, then such violation of this Remodel Agreement and/or the Franchise Agreements is deemed to be a material breach and Franchisor hereby reserves all rights and remedies available under this Remodel Agreement and the operative Franchise Agreement.** In addition, Franchisee acknowledges and agrees that Franchisor will inspect the first Restaurant to ensure the Remodel Requirements have been complied with. Only after Franchisor’s approval of the remodel of the first Restaurant, then Franchisee may remodel any or all of the remaining Restaurants, more than one at a time. Should Franchisor not approve the remodel of the first Restaurant, Franchisee will have to finalize the remodel of that

Restaurant and seek Franchisor's re-inspection and approval of that Restaurant before continuing onto the remodel of any or all of the remaining Restaurants.

4. In consideration of Franchisor's consent to Franchisee's participation in the remodel deadlines granted herein, Franchisee hereby waives, releases and forever discharges Franchisor, all Franchisor's affiliates, and all the respective directors, officers, employees, attorneys, representatives, and agents of said entities, from all obligations, liabilities, claims, actions and causes of action of whatever kind or nature, including, but not limited to, any alleged violation of the California Franchise Relations Act or any other similar state statute or regulation, any Federal or State antitrust claims, any claimed violation of the Franchise Agreement, any claim for breach of any implied covenant of good faith and fair dealing or any other claims which relate or refer in any way to the relationship between Franchisor and Franchisee which arose on or before the date hereof, it is understood and agreed that any and all rights granted to Franchisee under Section 1542 of the California Civil Code are hereby expressly waived. Such statute reads as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

5. Franchisee hereby agrees to indemnify and defend the Franchisor, its officers, directors, shareholders, employees, agents and affiliates against and hold them harmless from any loss, liability, claim, damage, award, settlement, cost or expense (including reasonable legal fees and expenses) incurred in connection with any suit or claim of action brought against any such indemnified party in connection with Franchisee's participation in the remodel and/or the services or goods provided by Franchisor in connection therewith, including but not limited to, any breach by Franchisee of this Remodel Agreement.

6. This Remodel Agreement embodies the entire understanding between Franchisor and Franchisee with respect to the matters set forth herein, and can be changed only by a writing signed by Franchisor and Franchisee. Except as otherwise modified by this Remodel Agreement, the terms and conditions of the Franchise Agreements shall remain unchanged and in full force and effect. In the event of any inconsistency between the terms of this Remodel Agreement and the terms of the Franchise Agreement, the terms of this Remodel Agreement shall control.

7. The parties executing this Remodel Agreement on behalf of Franchisor and Franchisee are duly authorized to do so. This Remodel Agreement shall not be binding upon Franchisor unless and until it shall have been accepted and signed by an authorized officer of Franchisor. This Remodel Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Remodel Agreement. A signature on this Remodel Agreement transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

8. Should any party hereto institute any action or proceeding at law or in equity, or in connection with an arbitration, to enforce any provision of this Remodel Agreement, including an action for declaratory relief, or for damages by reason of an alleged breach of any provision of this Remodel Agreement, or otherwise in connection with this Remodel Agreement, or any provision thereof, the prevailing party shall be entitled to recover from the losing party or parties reasonable attorneys' fees and costs for services rendered to the prevailing party in such action or proceeding or in connection with the collection of any judgment thereby obtained.

9. Nothing contained herein shall be construed so as to require the commission of any act contrary to law, and wherever there is any conflict between any provisions contained herein and any present or future statute, law, ordinance or regulation, the latter shall prevail; but the provision of this Remodel Agreement which is affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law. In the event any portion of this Remodel Agreement is determined to be invalid or unenforceable, the balance of all other provisions shall remain in full force and effect.

10. All of the terms and provisions contained herein shall inure to the benefit of and shall be binding upon the parties hereto and their respective heirs, legal representatives, successors and assigns.

IN WITNESS WHEREOF, Franchisor and Franchisee have duly executed this Remodel Agreement as of the date(s) set forth below.

FRANCHISOR:
EL POLLO LOCO, INC., a Delaware Corporation
By: _____
Name: _____
Title: _____
Date: _____

FRANCHISEE:
_____, a _____
By: _____
Name: _____
Title: _____
Date: _____

**EXHIBIT A
FRANCHISE AGREEMENTS & REMODEL DEADLINES**

Location No	Address	City	State	ZIP	Agreement Signed	Next Remodel Due

EL POLLO LOCO® FRANCHISE AGREEMENT SCHEDULE 1: PROTECTED AREA

The Protected Area for Franchisee’s El Pollo Loco® Restaurant shall be the lesser of (a) two (2) miles radiating out from the Franchisee’s El Pollo Loco® Restaurant; or (b) the area within a ring radiating out from Franchisee’s El Pollo Loco® Restaurant which contains at least 30,000 people, measured by the most recent U.S. Government Bureau of Census survey as of:

- a. (for a newly franchised El Pollo Loco® Restaurant) the date Franchisee’s El Pollo Loco® Restaurant is approved by Franchisor’s Real Estate Site Approval Committee (“RESAC”);
- b. (for a Successor Term of an existing franchised El Pollo Loco® Restaurant) the date of signing of the Successor Franchise Agreement; or
- c. (for a change of ownership of any existing El Pollo Loco® Restaurant (whether it was company-owned or franchised)) the date the change of ownership agreement is signed.

EL POLLO LOCO® FRANCHISE AGREEMENT SCHEDULE 2: STATEMENT OF OWNERSHIP OF FRANCHISEE

Name of Party to Franchisee Entity - _____ %

Name of Party to Franchisee Entity - _____ %



EL POLLO LOCO® FRANCHISE DEVELOPMENT AGREEMENT

Dated: _____

Territory:
Developer:

(Disclosure Document Control No. 032619)

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**EL POLLO LOCO® FRANCHISE DEVELOPMENT AGREEMENT
(Non-exclusive/Exclusive)**

THIS FRANCHISE DEVELOPMENT AGREEMENT ("**Agreement**") dated for identification purposes only as of _____, is made and entered into by and between **EL POLLO LOCO, INC.**, a Delaware corporation, with its principal place of business at 3535 Harbor Blvd, Suite 100, Costa Mesa, California 92626 (referred to herein as "**El Pollo Loco**" or "**Franchisor**") and _____ an individual, with its principal place of business at _____ ("**Developer**").

Recitals.

A. Franchisor owns certain proprietary and other property rights and interests in and to the "El Pollo Loco®" trademark and service mark, and such other trademarks, service marks, logo types, insignias, trade dress designs and commercial symbols as Franchisor may from time to time authorize or direct Developer to use in connection with the operation of a(n) "El Pollo Loco®" restaurant (the "**El Pollo Loco® Marks**"). Franchisor has a distinctive plan for the operation of retail outlets for the sale of fire-grilled food items and related products, which plan includes but is not limited to the El Pollo Loco® Marks and the Operations Manual (the "**Manual**"), policies, standards, procedures, employee uniforms, signs, menu boards and related items, and the reputation and goodwill of the El Pollo Loco® chain of restaurants (collectively, the "**El Pollo Loco® System**").

B. Developer represents that it is experienced in and has independent knowledge of the nature and specifics of the restaurant business. Developer represents that in entering into this Agreement it has relied solely on its personal knowledge and has not relied on any representations of Franchisor or any of its officers, directors, employees or agents, except those representations contained in any legally required Franchise Disclosure Document delivered to Developer.

C. Developer desires to obtain development rights for multiple restaurants under the El Pollo Loco® System (each, an "El Pollo Loco® Restaurant") from Franchisor within a specified geographical (the "**Territory**") specified in **Exhibit "A"** attached hereto and made a part hereof (***or if single unit, replace with "Developer desires to obtain development rights for a single restaurant under the El Pollo Loco® System (each, an "El Pollo Loco® Restaurant") from Franchisor within a specified address (the "Territory") specified in Exhibit "A" attached hereto and made a part hereof."***)

D. Franchisor is willing to grant the (non-exclusive/exclusive) right to develop and open El Pollo Loco® Restaurant(s) within the Territory referenced in **Exhibit "A."**

NOW, THEREFORE, in consideration of the mutual covenants and obligations herein contained, the parties hereto agree as follows:

1. Development Rights in Territory.

1.1. Franchisor hereby grants to Developer, subject to the terms and conditions of this Agreement (***if Section 2.20 is applicable add ", and specifically Section 2.20 hereof,"***) and as long as Developer shall not be in default of this Agreement or any other development, franchise or other agreement between Developer and Franchisor, (non-exclusive/exclusive) development rights to establish and operate ____ franchised restaurant(s), and to use the El Pollo Loco® System solely in connection therewith, at specific locations to be designated in separate Franchise Agreement(s) (the "**Franchise Agreements**"). (***If exclusive agreement, add "Developer expressly acknowledges that the exclusive rights granted herein apply only to the right to develop new restaurants in the Territory, and no exclusive territory or radius protection for the term of any Franchise Agreement is granted herein and any such protection shall be set forth in the particular Franchise Agreement to be signed."***) The Franchise Agreements (and all ancillary documents attached as Exhibits to the Franchise Agreement, including the Personal Guarantee) executed in accordance with this Agreement shall be in the form currently in use by Franchisor at the time of execution of the Franchise Agreement and shall be executed individually by each person, partner, member or shareholder.

1.2. (Only applies if exclusive Agreement. Delete if non-exclusive Agreement.) Except as otherwise provided in this Agreement and subject to the terms and conditions of Section 2.20 hereof, after the date of this Agreement and during the term of this Agreement, and so long as Developer is in compliance with its obligations under this Agreement, Franchisor shall neither, without Developer's prior written consent: (i) grant development rights to anyone else with respect to the Territory or any part of the Territory; nor (ii) establish or franchise any person to establish an El Pollo Loco restaurant under the Marks and System at any location within the Territory. Franchisor

expressly retains all other rights and may, among other things, on any terms and conditions Franchisor deems advisable, and without granting Developer any rights therein:

- a. Establish and operate or franchise others to establish and operate an El Pollo Loco restaurant located outside of the Territory;
- b. Sell the same or similar products (whether or not using the Marks), as will be sold by Developer in a developed El Pollo Loco restaurant, to customers at any retail location (whether within or outside of the Territory), through any method or channel of distribution, including, without limitation, at retail locations such as grocery or convenience stores and via the Internet, telemarketing and direct marketing means, through other non-El Pollo Loco restaurants having the same or similar menu items, or through any other distribution channel;
- c. Establish and operate or franchise others to establish and operate restaurants (not using the Marks) having the same or similar menu items whether within or outside of the Territory; and
- d. Any continued operation by Franchisor, or the allowance of any continued operation by a franchisee of Franchisor, of an El Pollo Loco restaurant within the Territory which was opened on or before the date of this Agreement shall not be considered to constitute a breach of this Agreement.

1.3. (Only applies to multi-unit Development Agreement – delete if single-unit Development Agreement). Prior to or concurrent with the execution of this Agreement, Developer shall meet with Franchisor's development representatives and prepare a market development plan for the units to be constructed and opened by Developer in the Territory (identifying specific key areas, key intersections and trade areas in the Territory) and all development pursuant to this Agreement shall be in accordance with this plan (the "**Market Plan**"). The Market Plan shall include proposed areas where sites may be located, ranking and prioritization of site locations and other information customarily used by market planners in the restaurant industry. Developer and Franchisor shall jointly approve the Market Plan.

2. Limitation on Development Rights.

2.1. Developer must submit one or more site(s) for approval, enter into binding leases or purchase agreements and open to the public the number of El Pollo Loco® Restaurant(s) on such approved sites each calendar year as required on the Development Schedule, all as set forth on **Exhibit "B"** attached hereto and made a part hereof.

2.2. For purposes of the Development Schedule in **Exhibit "B"**, no credit will be given for the development of El Pollo Loco® Restaurant(s) outside the Territory, regardless of the fact that Developer may, upon proper application, obtain from Franchisor an El Pollo Loco® Franchise Agreement ("**Franchise Agreement**") for any such development.

2.3. Although this Agreement affords the Developer the right to develop and open El Pollo Loco® restaurant(s) within the Territory, as set forth on **Exhibit "A"**, all Restaurant(s) developed under this Agreement must be duly licensed through individual Franchise Agreement(s). Developer will execute El Pollo Loco's then standard Franchise Agreement in use at the time of execution for each restaurant developed under this Agreement, and agrees to pay Franchisor the current fees, royalties and other required payments in accordance with the Franchise Agreement and Franchise Disclosure Document then in effect. Execution of the appropriate Franchise Agreement and payment of the initial franchise fee and/or any other required fees must be accomplished prior to the commencement of construction at any site.

2.4. Developer must satisfy all Franchisor's financial and operational criteria then in effect and in addition, if Developer is also a Franchisee of one or more El Pollo Loco Restaurants, Franchisee must also be in good standing with Franchisor and satisfy all Franchisor's financial and operational criteria then in effect prior to El Pollo Loco's execution of each standard Franchise Agreement issued pursuant to this Agreement. Developer shall provide Franchisor with current information pertaining to Developer's financial condition and the financial condition of the majority and managing members/partners/shareholders of Developer at any time upon El Pollo Loco's request and in no event less than once annually. Developer acknowledges that, among other things, it will be required to submit annual financial statements of Developer and personal financial statements of each of its principal owners and Managing Members to be eligible for financial approval by El Pollo Loco. In the event any of the majority owners of Developer shall also be the Managing Members and/or majority owners of any other entity which is a franchisee of El Pollo Loco, then each such franchisee entity must be operationally and financially approved by Franchisor before approval for expansion will be granted to any one franchisee entity. "Managing Members" shall be any individuals who are designated as the primary decision makers or general managers of the franchisee entity and those individuals who (individually or collectively) own at least 51% interest in the franchisee entity.

2.5. Developer shall use its best efforts to retain qualified real estate professionals (including licensed brokers) to locate proposed sites for the El Pollo Loco® Restaurant(s). Developer shall submit proposed sites for each El Pollo Loco® Restaurant unit to be developed under this Agreement for acceptance by Franchisor's Real Estate Site Approval Committee ("**RESAC**"), together with such site information as may be reasonably required by Franchisor to evaluate the proposed site, no later than the dates set forth in **Exhibit "B"** as RESAC Submittal Dates, the first of which shall be approximately ninety (90) days after execution of this Agreement. Should the site be accepted by RESAC, it will be referred to as the "**Approved Site**". Such acceptance will expire one (1) year from the RESAC approval date. Franchisor may require, as a condition to its approval of a site, a "**Market Study**", which shall include a site description and analysis, traffic and other demographic information and an analysis of the impact of the proposed site on other company owned and franchised El Pollo Loco restaurants surrounding or within the vicinity of such proposed site all in such format as the Franchisor may require. All such analyses, information and studies shall be prepared at the sole cost and expense of Developer.

2.6. Franchisor shall send representatives to evaluate proposed site(s) for each El Pollo Loco® Restaurant to be developed under this Agreement, and Franchisor will do so at its own expense for the first two (2) proposed sites for each El Pollo Loco® Restaurant. If Developer proposes, and Franchisor evaluates, more than two (2) sites for each El Pollo Loco® Restaurant, then Developer shall reimburse Franchisor for the reasonable costs and expenses incurred by Franchisor's representatives in connection with the evaluation of such additional proposed site(s), including, without limitation, the costs of lodging, travel, meals and wages.

2.7. Provided there exists no default by Developer under this Agreement or any other development, franchise or other agreement between Franchisor and Developer, Franchisor shall evaluate each site proposed for which Developer has provided all necessary evaluation information, and shall promptly after receipt of Developer's proposal, send to Developer written notice of acceptance or non-acceptance of the sit

2.8. If RESAC determines through its evaluation of the proposed site that the proposed site may impact sales at any company-owned El Pollo Loco® Restaurant, Franchisor has the sole and absolute right to accept or reject the proposed site, without any obligation to discuss a possible resolution with Developer. However, Franchisor may elect to discuss with Developer a possible resolution with regard to the proposed site; however, if such an agreement cannot be reached, Franchisor has the sole and absolute right to reject the proposed site. If RESAC determines through its evaluation of the proposed site that the proposed site may potentially impact sales at any existing El Pollo Loco® franchisee's restaurant, Franchisor shall notify Developer of the existing El Pollo Loco® franchisees' location(s) and contact information. If nevertheless Developer wishes to try to proceed with that site, Developer must obtain a written waiver from those existing El Pollo Loco® franchisees of any claims they might have against Developer and Franchisor with respect to the proposed new El Pollo Loco® Restaurant. Such waiver, if obtained, must be submitted along with the evaluation information required pursuant to this Section.

2.9. No later than the Site Commitment Dates set forth in **Exhibit "B"**, Developer shall submit for the Approved Site to Franchisor for its review and approval of:

a. A fully negotiated but unexecuted lease, which may only subject to obtaining necessary governmental permits. The unexecuted form of the lease must be submitted to Franchisor to review for the required terms and conditions listed in Sections 2.9, 2.10, 2.11 and 2.12 below **prior** to full execution of the lease. Franchisor will promptly notify Developer upon their approval of the inclusion of such required terms and conditions. Developer will promptly then provide a final executed copy of the lease to Franchisor; or

b. A purchase agreement. Should Developer purchase the site using another entity other than the franchise entity, Developer must then enter into a lease with the Franchise entity as the lessee and the purchasing entity as the lessor and must comply with all the requirements of this Sections 2.9, 2.10, 2.11 and 2.12 below).

2.10. Any lease to be entered into by Developer shall include the terms and conditions set forth below and in a form approved by Franchisor:

a. The tenant entity on the lease must match the franchise entity on the franchise agreement; and

b. The term (with renewal options) of the lease must match at least the initial term of the franchise agreement; and

c. The landlord consents to your use of the premises as an El Pollo Loco® restaurant which will be open during the required days and hours set out in the Operations Manual.

2.11. Franchisor shall have no liability under any lease or purchase agreement for any El Pollo Loco® Restaurant location developed under this Agreement and shall not guarantee Developer's obligations thereunder. Upon approval by Franchisor of the form of Developer's lease and execution of a lease for a site by Developer, Developer shall furnish to Franchisor a fully executed copy of such lease and any amendments thereto within fifteen (15) calendar days of such execution. Franchisor shall have no obligation to assist Developer to negotiate its leases.

2.12. The lease or deed may not contain a non-competition covenant which restricts Franchisor or any franchisee or licensee of Franchisor, from operating an El Pollo Loco® Restaurant or any other retail restaurant, unless such covenant is approved by Franchisor in writing prior to the execution by Developer of the lease.

2.13. Each subsequent site to be developed pursuant to the Development Schedule shall be submitted for approval by RESAC by the date set forth in **Exhibit "B"**. Similarly, each fully executed lease (executed upon prior review and approval by Franchisor) or purchase agreement (with all contingencies to Developer's obligations waived or satisfied, except permitting contingencies) relating to each subsequent Approved Site shall: (1) be delivered to Franchisor on or before the Site Commitment Date for each respective El Pollo Loco® Restaurant as set forth in **Exhibit "B"** and (2) prior to the execution of your Franchise Agreements (3) prior to the payment of your initial Franchise Fees for each site and (4) prior to the commencement of construction of the El Pollo Loco® Restaurant.

2.14. RESAC site approval does not assure that a Franchise Agreement will be executed. Execution of the Franchise Agreement is contingent upon Developer completing the purchase or lease of the proposed site within sixty (60) days after approval of the site by the Franchisor or no later than the dates set forth in **Exhibit "B"** as Site Commitment Dates.

2.15. Developer acknowledges that time is of the essence in this Agreement. If Developer has not obtained approval and entered into a binding lease or purchase agreement for each site for El Pollo Loco® Restaurant(s) to be developed under this Agreement by the applicable Site Commitment Date, Developer shall be in default of its obligations under the Development Schedule and Franchisor shall be entitled to exercise its rights and remedies under this Agreement, up to and including termination of this Agreement.

2.16. Developer also acknowledges that it is required pursuant to this Agreement to open El Pollo Loco® Restaurants in the future pursuant to dates set forth in the Development Schedule attached as **Exhibit "B"**. If Developer fails to meet the opening date for any El Pollo Loco® Restaurant to be developed under this Agreement, Developer shall be in default and Franchisor shall be entitled to exercise all rights and remedies available to Franchisor set forth in Section 11. Developer acknowledges that if Developer fails to open El Pollo Loco® Restaurants in a timely manner pursuant to the Development Schedule, Franchisor will suffer lost revenues, including royalties and other fees which would be difficult to calculate and which Franchisor would have received had Developer met the agreed schedule or had Franchisor had the right to grant development rights to others in the Territory.

2.17. Developer acknowledges that the estimated initial investment and estimated expenses set forth in Items 6 and 7 of our Franchise Disclosure Document are subject to and likely to increase over time, and that future El Pollo Loco® Restaurants will likely involve a greater initial investment and operating capital requirements than those stated in the Franchise Disclosure Document provided to you prior to your execution of this Agreement.

2.18. Developer understands and acknowledges that in accepting Developer's proposed site or by granting a franchise for each approved site, Franchisor does not in any way, endorse, warrant or guarantee either directly or indirectly the suitability of such site or the success of the franchise business to be operated by Developer at such site. The suitability of the site and the success of the franchise business depend upon a number of factors outside of Franchisor's control, including, but not limited to, the Developer's operational abilities, site location, consumer trends and such other factors that are within the direct control of the Developer.

2.19. The purpose of this Agreement is to promote orderly incremental growth within the El Pollo Loco® System. The acquisition of existing El Pollo Loco® restaurants by Developer does not represent incremental growth and, therefore, does not satisfy the terms of this Agreement pertaining to development.

2.20. *(To be added where there are existing restaurants in the Territory) Developer acknowledges that Franchisor (i) is operating or has franchised another to operate, one (1) or more restaurants in the Territory or (ii) has granted franchise rights to another in the Territory or (iii) approved a new site for development for those locations identified in **Exhibit "C"** attached hereto and incorporated herein by this reference. Developer further acknowledges that Franchisor retains the sole and absolute right to approve or disapprove any proposed location for development under this Agreement if, in Franchisor's reasonable judgment: (i) such proposed location is not suitable for an El Pollo Loco® Restaurant or (ii) such proposed location will have a material adverse effect on the profitability of another existing El Pollo Loco® location (or approved site) in the*

Territory. Developer covenants to use its reasonable best efforts to avoid selecting proposed locations that would adversely impact pre-existing locations in the Territory.

3. Development Fee.

3.1. Developer shall pay to Franchisor upon execution of this Agreement a non-refundable Development Fee (the "**Development Fee**") equal to Twenty Thousand Dollars (\$20,000) in immediately available funds, for each El Pollo Loco® Restaurant to be developed under this Agreement. The Development Fee is consideration for this Agreement. The Development Fee is not consideration for any Franchise Agreement and is non-refundable. The \$20,000 Development Fee for each El Pollo Loco® Restaurant shall be applied against the initial franchise fee payable upon the execution of the Franchise Agreement applicable to such El Pollo Loco® Restaurant. As a benefit of signing the Development Agreement, the Initial Fee for the second and each subsequent restaurant developed under the same Development Agreement will be reduced by us to \$30,000. As an example, the Initial Fee for the first restaurant developed under a Development Agreement would be \$40,000 to which \$20,000 (from the Development Fee) will be credited. The Initial Fee for the second and remaining restaurants developed under the same Development Agreement would be \$30,000, to which \$20,000 from the Development Fee will be credited. If this Agreement is terminated pursuant to Sections 10 or 11 below, Developer will lose its right to develop and Development Fee.

4. Term of Development Agreement.

4.1. This Agreement shall commence on the date specified in **Exhibit "B"**. Unless terminated pursuant to Section 10 or 11 below, it shall expire upon the earlier of the date specified in **Exhibit "B"** or upon the opening of the last El Pollo Loco® Restaurant listed in the Development Schedule.

5. Territory Conflicts.

5.1. The rights granted Developer in this Agreement are subject to any prior territorial rights of other franchisees which may now exist in the Territory, whether or not those rights are currently being enforced. In the event of a conflict in territorial rights, whether under a Franchise Agreement or separate territorial or development agreement, Developer shall be free to negotiate with any person, corporation or other entity, which claims territorial rights adverse to the rights granted under this Agreement, for the assignment of those prior territorial rights. For this purpose, Franchisor agrees to approve any such assignment not in conflict with the other terms of this Agreement, subject to the condition of any Franchise Agreements involved, and current policies pertaining to assignments, including, but not limited to, satisfaction of all past due debts owed to Franchisor and the execution of a General Release.

5.2. In the event of third party claims of the right to develop the Territory, it is the sole responsibility of El Pollo Loco, where the right granted herein is exclusive, to protect and maintain Developer's right to the development of the Territory. However, if it appears to El Pollo Loco, as its sole and absolute right to determine, that protection of the Territory by legal action is not advisable, whether due to the anticipation of, or the actual protracted nature of the action, the costs involved, the uncertainty of outcome, or otherwise, Franchisor has the right to terminate this Agreement, provided that it refunds to Developer the balance, if any, of the Development Fee made pursuant to Section 3, which has not been applied against the initial franchise fees for Franchise Agreement(s) to be acquired under this Agreement.

6. Proprietary Rights of El Pollo Loco.

6.1. Developer expressly acknowledges El Pollo Loco's exclusive right, title, and interest in and to the trade name, service mark and trademark "El Pollo Loco", and such other trade names, service marks, and trademarks which are designated as part of the El Pollo Loco® System (the "**Marks**"), and Developer agrees not to represent in any manner that Developer has any ownership in El Pollo Loco® Marks. This Agreement is not a Franchise Agreement. Developer may not open an El Pollo Loco® Restaurant or use the El Pollo Loco® Marks at a particular site until it executes a Franchise Agreement for that site. Developer's use of the El Pollo Loco® Marks shall be limited to those rights granted under each individual Franchise Agreement. Notwithstanding the foregoing, El Pollo Loco® may authorize Developer in writing to use the Marks in connection with advertising and marketing activities in connection with this Agreement. Developer expressly agrees that such usage is limited to those specific activities or promotional materials approved by El Pollo Loco's marketing department in advance. Developer further agrees that its use of the Marks shall not create in its favor any right, title, or interest in or to El Pollo Loco® Marks, but that all of such use shall inure to the benefit of El Pollo Loco, and Developer has no rights to the Marks except to the degree specifically granted by the individual Franchise Agreement(s). Building designs and specifications, color schemes and combinations, sign design specifications, and interior building layouts (including equipment, equipment specification,

equipment layouts, and interior color schemes and combinations) are acknowledged by Developer to comprise part of the El Pollo Loco® System. Developer shall have no right to license or franchise others to use the Marks by virtue of this Agreement.

6.2. Developer acknowledges that, in connection with its execution of this Agreement, it may receive confidential and proprietary information regarding the El Pollo Loco® System, including but not limited to the El Pollo Loco Operational Manual. Developer recognizes the unique value and secondary meaning attached to the El Pollo Loco® Marks and the El Pollo Loco® System, and Developer agrees that any noncompliance with the terms of this Agreement or any unauthorized or improper use will cause irreparable damage to Franchisor and its franchisees. Developer, therefore, agrees that if it should engage in any such unauthorized or improper use during, or after, the term of this Agreement, Franchisor shall be entitled to both seek temporary and permanent injunctive relief from any court of competent jurisdiction in addition to any other remedies prescribed by law.

6.3. Developer acknowledges that it will receive one (1) copy of the Operations Manual on loan from Franchisor and that the Operations Manual shall at all times remain the sole property of the Franchisor.

7. Insurance and Indemnification.

7.1. Throughout the term of this Agreement, Developer shall obtain and maintain insurance coverage for public liability, including products liability, in the amount of at least One Million Dollars (\$1,000,000) combined single limit. Developer also shall carry such worker's compensation insurance as may be required by applicable law.

7.2. Franchisor shall be named as an additional insured on all such insurance policies and shall be provided with certificates of insurance evidencing such coverage. All public liability and property damage policies shall contain a provision that El Pollo Loco, although named as an insured, shall nevertheless be entitled to recover under such policies on any loss incurred by El Pollo Loco, its affiliates, agents and/or employees, by reason of the negligence of Developer, its principals, contractors, agents and/or employees. All policies shall provide Franchisor with at least thirty (30) days' notice of cancellation or termination of coverage.

7.3. Franchisor reserves the right to specify reasonable changes in the types and amounts of insurance coverage required by this Section 7. In the event that Developer fails or refuses to obtain or maintain the required insurance coverage from an insurance carrier acceptable to El Pollo Loco, Franchisor may, as its sole and absolute right and without any obligations to do so, procure such coverage for Developer. In such event, Developer shall pay the required premiums or reimburse such premiums to Franchisor upon written demand.

7.4. Developer shall defend immediately upon tender of defense, at its own cost, the Franchisor, its subsidiaries, parent and affiliates, shareholders, directors, officers, employees and agents (collectively for this section only known as "**Franchisor**"), from and against any and all claims, lawsuits, complaints, cross complaints, arbitrations, demands, allegations, costs embraced by indemnity, loss, costs, expenses (including attorneys' fees), liens and damages (collectively for this section only known as "**Losses**"), however caused, and reimburse Franchisor for all costs and expenses (including attorneys' fees) incurred by the Franchisor in defense of any Losses, resulting directly or indirectly from or pertaining to or arising out of, or alleged to arise out of, or in connection with Developer's activities under the Development Agreement, including any labor, any employee related claims whatsoever, including, without limitation any claims made by an employee of Developer resulting from the employee's training in a Franchisor operated facility or restaurant, and including Developer's failure for any reason to fully inform any third party of Developer's lack of authority to bind the Franchisor for any purpose. Such Losses shall include, without limitation, those arising from the death of or injury to any person or arising from damage to the property of Developer or the Franchisor, or any third person, firm or corporation, whether or not resulting from any strict liability imposed by fact, law, statute, or ordinance, on the Franchisor. Developer further agrees that Developer's duty to defend the Franchisor is separate from, independent of and free-standing of Developer's duty to indemnify the Franchisor and applies whether the issue of Developer's negligence, breach of contract, or other fault or obligation has been determined. Developer's duty to defend is regardless of the outcome of liability even if Developer is ultimately found not negligent and not dependent on the ultimate resolution of issues arising out of any claims, lawsuits, complaints, cross complaints, arbitration, demands, allegations, costs embraced by indemnity, loss, costs, expenses (including attorneys' fees), liens or damages.

7.5. Developer shall indemnify and hold harmless the Franchisor (as defined above) from and against any and all Losses (as defined above), however caused, resulting directly or indirectly from or pertaining to or arising out of or in connection with Developer's activities under the Development Agreement, including any labor, any employee related claims whatsoever, including, without limitation any claims made by an employee of Developer resulting from the employee's training in a Franchisor operated facility or restaurant, and including Developer's failure for any reason to fully inform any third party of Developer's lack of authority to bind the Franchisor for any purpose. Such Losses shall include, without limitation, those arising from latent or other defects in the restaurant whether or not

discoverable by Franchisor, and those arising from the death of or injury to any person or arising from damage to the property of Developer or the Franchisor, or any third person, firm or corporation, whether or not resulting from any strict liability imposed by fact, law, statute, or ordinance, on the Franchisor. Developer further agrees to indemnify and hold harmless Franchisor from all said Losses and shall pay for and be responsible for all said Losses, however caused, whether by any individual, employee, third person or party, vendor, visitor, invitee, trespasser or any firm or corporation whatsoever, whether caused by or contributed to by Franchisor, the combined conduct of Developer and Franchisor, or active or passive negligence of Franchisor, but for the sole negligence or willful misconduct of Franchisor.

7.6. The provisions of this Section 7 shall expire as to each El Pollo Loco® Restaurant to be developed under this Agreement upon execution of a Franchise Agreement for such El Pollo Loco® Restaurant. The provision of the Franchise Agreement, in particular, Section 9 thereof (insurance and Indemnification) shall supersede this Section 7 and govern the rights and obligations of the parties prospectively.

8. Transfer of Rights.

8.1. This Agreement shall inure to the benefit of Franchisor and its successors and assigns, and is fully assignable by El Pollo Loco.

8.2. The parties acknowledge and agree that this Agreement is personal in nature with respect to Developer, being entered into by Franchisor in reliance upon and in consideration of the personal skills, qualifications and trust and confidence reposed in Developer and Developer's present partners, managing members or officers if Developer is a partnership, a limited liability company or a corporation. Therefore, the rights, privileges and interests of Developer under this Agreement shall not be assigned, sold, transferred, leased, divided or encumbered, voluntarily or involuntarily, in whole or in part, by operation of law or otherwise without the prior written consent of El Pollo Loco, which consent may be given or withheld as El Pollo Loco's sole and absolute right. For purposes of this Section, a sale of stock, or any membership or partnership interest in Developer, or a merger or other combination of Developer shall be considered a transfer of Developer's interest prohibited hereunder. Notwithstanding the foregoing, Developer shall be permitted to assign business organizations to serve as Franchisee after Developer individually executes the Franchise Agreements, provided the ownership mirrors that of Developer (e.g., Developer consists of persons A (50%), B (25%) and C (25%). Franchisee also must be owned and controlled by the same three (3) persons with each retaining the same percentage of ownership). All other entity structures shall require the prior written approval of Franchisor. Developer shall pay an administrative fee of Five Hundred Dollars (\$500) per transfer for each permitted transfer to an Entity where such transfer is for the convenience of ownership only and does not involve a change of principals of the business. Where Developer desires to add new principals to the Developer or any Franchisee entity, Developer shall pay to Franchisor an additional Two Thousand Five Hundred Dollars (\$2,500) per new principal to cover Franchisor's administrative costs for reviewing the application and suitability of each new principal as participants in the franchise business.

9. Acknowledgment of Selected Terms and Provisions of the Franchise Agreement.

9.1. Developer represents that it has read each of the terms and provisions of the current form of Franchise Agreement and acknowledges and is willing to agree to each and every obligation of Franchisee thereunder (as they may be modified in then-current forms of Franchise Agreement) including, but not limited to:

a. The obligation to deliver execute Personal Guarantees or Investor Covenants Regarding Confidentiality and Non-Competition in connection with the execution of each franchise agreement for El Pollo Loco® Restaurants to be developed under this Agreement;

b. The obligation to obtain the consent of Franchisor to any security interests to be granted by Developer in the assets or business of the El Pollo Loco® Restaurant to lenders or other financing sources in advance of any agreement to provide those security interests to such third parties;

c. All in-term and post-term restrictive covenants; and

d. All territorial rights, options and rights of first refusal retained by Franchisor under the franchise agreement.

10. Termination by Developer; Expiration Date.

10.1. This Agreement shall terminate immediately upon El Pollo Loco's receipt of Developer's notice to terminate. In such event, the Development Fee shall be forfeited to Franchisor in consideration of the rights granted in the Territory up to the time of termination. Notwithstanding any provision to the contrary contained herein, unless

earlier terminated by either party, this Agreement shall expire on _____, 20____, and all rights of Developer herein shall cease and all unapplied or unused Development Fees paid pursuant to Section 3 hereof shall be forfeited to Franchisor.

11. Events of Default.

11.1. The following events shall constitute a default by Developer, which shall result in El Pollo Loco's right to declare the immediate termination of this Agreement.

a. Failure by Developer to meet the requirements of the Development Schedule within the time periods specified therein, including failure by Developer to meet the Site Commitment Date or Opening Date for each site for an El Pollo Loco® Restaurant in a timely manner as set forth in **Exhibit "B"** and Section 2 above.

b. Any assignment, transfer or sublicense of this Agreement by Developer without the prior written consent of El Pollo Loco.

c. Any violation by Developer of any covenant, term, or condition of any note or other agreement (including any El Pollo Loco® Franchise Agreement) between Developer and Franchisor (or an affiliate of El Pollo Loco), the effect of which is to allow Franchisor to terminate (or accelerate the maturity of) such agreement before its stated termination (or maturity) date.

d. Developer's assignment for the benefit of creditors or admission in writing of its inability to pay its debts generally as they become due.

e. Any order, judgment, or decree entered adjudicating Developer bankrupt or insolvent.

f. Any petition, or application, by Developer to any tribunal for the appointment of a trustee, receiver, or liquidator of Developer (or a substantial part of Developer's assets), or commencement by Developer of any proceedings relating to Developer under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution, or liquidation law of any jurisdiction, whether now or hereinafter in effect.

g. Any filing of a petition or application against Developer, or the commencement of such proceedings, in which Developer, in any way, indicates its approval thereof, consent thereto, or acquiescence therein; or the entry of any order, judgment, or decree appointing any trustee, receiver, or liquidator, or approving the petition in any such proceedings, where the order, judgment, or decree remains unstayed and in effect for more than thirty (30) days.

h. Any entry in any proceeding against the Developer of any order, judgment, or decree, which requires the dissolution of Developer, where such order, judgment, or decree remains unstayed and in effect for more than thirty (30) days.

i. Developer's voluntary abandonment of any of Developer's restaurants.

11.2. The following events shall constitute a default by Developer, which shall result in El Pollo Loco's right to declare the termination of this Agreement, if such default is not cured within thirty (30) days after written notice by Franchisor to Developer:

a. Developer's default in the performance or observance of any covenant, term, or condition contained in this Agreement not otherwise specified in Section 11.1 above.

b. The creation, incurrence, assumption, or sufferance to exist of any lien, encumbrance, or option whatsoever upon any of Developer's property or assets, whether now owned or hereafter acquired, the effect of which substantially impairs Developer's ability to perform or observe any covenant, term, or condition of this Agreement.

c. Refusal by Developer or Developer's partners, members, or shareholders to enter individually into the then-current form of Franchise Agreements and Personal Guarantee as provided in Section 1 above.

d. Any change, transfer or conveyance ("**Transfer**") in the ownership of Developer, which Transfer has not been approved in advance by Franchisor. Franchisor reserves the right to approve or disapprove any Transfer as its sole and absolute right.

11.3. If Franchisor is entitled to terminate this Agreement in accordance with Sections 11.1 or 11.2 above, Franchisor shall have the right to undertake the following action instead of terminating this Agreement:

a. Franchisor may terminate or modify any rights that Developer may have with respect to protected exclusive rights in the Territory, as granted under Section 1.1 above, effective ten (10) days after delivery of written notice thereof to Developer.

11.4. If any of such rights are terminated or modified in accordance with this Section 11.3, such action shall be without prejudice to Franchisor's right to terminate this Agreement in accordance with Sections 11.1 or 11.2 above, and/or to terminate any other rights, options or arrangements under this Agreement at any time thereafter for the same default or as a result of any additional defaults of the terms of this Agreement.

12. Effect of Termination.

12.1. Immediately upon termination or expiration of this Agreement, for any reason, all of Developer's development rights granted pursuant to this Agreement shall revert to El Pollo Loco. At the time of termination, only restaurants operating or to be operated under the El Pollo Loco® System by virtue of a fully executed Franchise Agreement shall be unaffected by the termination of this Agreement. Franchisor shall have no duty to execute any Franchise Agreement with Developer after the termination of this Agreement. The foregoing remedies are nonexclusive, and nothing stated in this Section 12 shall prevent El Pollo Loco's pursuit of any other remedies available to Franchisor in law or at equity due to the termination of this Agreement.

12.2. Developer understands and agrees that upon the expiration or termination of this Agreement (or in the event of an exclusive development agreement, the failure of Developer to meet the Development Schedule and the resulting loss of exclusive development rights), Franchisor or its subsidiaries or affiliates, as their sole and absolute right, may open and/or operate restaurants in the Territory, or may authorize or franchise others to do the same, whether it is in competition with or in any other way affects the sales of Developer at the restaurants.

13. Non-Waiver.

13.1. El Pollo Loco's consent to or approval of any act or conduct of Developer requiring such consent or approval shall not be deemed to waive or render unnecessary El Pollo Loco's consent to or approval of any subsequent act or conduct hereunder.

14. Independent Contractor and Indemnification.

14.1. This Agreement does not constitute Developer an agent, legal representative, joint venturer, partner, employee or servant of Franchisor for any purpose whatsoever, and it is understood between the parties hereto that Developer shall be an independent contractor and is in no way authorized to make any contract, agreement, warranty or representation on behalf of El Pollo Loco. The parties agree that this Agreement does not create a fiduciary relationship between them.

14.2. Under no circumstances shall Franchisor be liable for any act, omission, contract, debt, or any other obligation of Developer. Developer shall indemnify and save Franchisor harmless against any such claim and the cost of defending it arising directly or indirectly from or as a result of, or in connection with, Developer's actions pursuant to this Agreement.

15. Entire Agreement.

15.1. This Agreement, including **Exhibits "A", "B" and "C"** attached hereto, constitutes the entire full and complete agreement between Franchisor and Developer concerning the subject matter hereof and supersedes any and all prior written agreements. No other representations have induced Developer to execute this Agreement, and there are no representations, inducements, promises, or agreements, oral or otherwise, between the parties, not embodied herein, which are of any force or effect with reference to this Agreement or otherwise. Notwithstanding the foregoing, nothing in this Agreement shall disclaim or require Developer to waive reliance on any representation that Franchisor made in the most recent disclosure document (including its exhibits and amendments) that Franchisor delivered to Developer or its representative, subject to any agreed-upon changes to the contract terms and conditions described in that disclosure document and reflected in this Agreement (including any riders or addenda signed at the same time as this Agreement). The provisions of this Agreement may not be contradicted by any other statement concerning the subject matter herein. No amendment or modification of this Agreement shall be binding on either party unless written and fully executed.

16. Dispute Resolution

16.1. Initial Meeting and Mediation - Except as otherwise provided in this Agreement, before any legal action is filed involving any claim or controversy between Franchisor and Developer (including its affiliates, investors, and Owners) relating to (a) this Agreement, (b) the parties business activities conducted as a result of this Agreement, or (c) the parties' relationship or business dealings with each other generally, the following procedure shall be complied with:

a. The party wishing to resolve a dispute shall initiate negotiation proceedings by first requesting in writing a meeting with the other party or parties. Within forty-five (45) days of receipt of the initial request for a meeting, the parties shall meet within the county in which Developer is then located, to discuss and negotiate toward a resolution of the controversy.

b. If negotiation efforts do not succeed, the parties shall engage in mandatory but non-binding mediation by a mediator jointly chosen by the parties or if the parties cannot agree upon a mediator, appointed by, and in accordance with the procedures of, JAMS or, if JAMS is no longer in existence, an organization of similar quality

c. A mediation meeting will be held at a place and at a time mutually agreeable to the parties and the mediator. The Mediator will determine and control the format and procedural aspects of the mediation meeting which will be designed to ensure that both the mediator and the parties have an opportunity to present and hear an oral presentation of each party's views regarding the matter in controversy. The parties act in good faith to resolve the controversy in mediation.

d. The mediation will be held as soon as practicable after the negotiation meeting is held. The mediator will be free to meet and communicate separately with each party either before, during or after the mediation meeting within 60 days of demand by either party.

16.2. At the election of the Franchisor, the provisions of this Section 16 shall not apply to controversies relating to any fee due the Franchisor by Developer or its affiliates, any promissory note payments due the Franchisor by Developer, or any trade payables due the Franchisor by Developer as a result of the purchase of equipment, goods or supplies. The provisions of this Section 16 shall also not apply to any controversies relating to the use and protection of the El Pollo Loco Marks, the Manual or the El Pollo Loco System, including without limitation, the Franchisor's right to apply to any court of competent jurisdiction for appropriate injunctive relief for the infringement of the El Pollo Loco Marks or the El Pollo Loco System.

17. Severability.

17.1. Each section, part, term and/or provision of this Agreement shall be considered severable, and if, for any reason, any section, part, term and/or provision herein is determined to be invalid, contrary to, or in conflict with, any existing or future law or regulation, by any court or agency having valid jurisdiction, then such shall be deemed not to be a part of this Agreement, but such shall not impair the operation of, or affect the remaining portions, sections, parts, terms and/or provisions of this Agreement, which will continue to be given full force and effect and bind the parties hereto.

18. Applicable Law; Choice of Forum; Waiver of Jury Trial.

18.1. This Agreement, after review by Developer and El Pollo Loco, was accepted in the state in which Franchisor's then-current headquarters (currently the State of California) is located and shall be governed by and construed in accordance with the laws of such state, except that the provisions in Section 20.1 covering competition following the expiration, termination or assignment of this Agreement shall be governed by the laws of the state in which the breach occurs. **THE PARTIES AGREE THAT ANY ACTION BROUGHT BY EITHER PARTY AGAINST EACH OTHER IN ANY COURT, WHETHER FEDERAL OR STATE, WILL BE BROUGHT WITHIN THE STATE IN WHICH FRANCHISOR'S HEADQUARTERS (CURRENTLY THE STATE OF CALIFORNIA) IS THEN LOCATED. THE PARTIES HEREBY WAIVE ANY RIGHT TO DEMAND OR HAVE TRIAL BY JURY IN ANY ACTION RELATING TO THIS AGREEMENT IN WHICH THE FRANCHISOR IS A PARTY. THE PARTIES CONSENT TO THE EXERCISE OF PERSONAL JURISDICTION OVER THEM BY SUCH COURTS AND TO THE PROPRIETY OF VENUE OF SUCH COURTS FOR THE PURPOSE OF CARRYING OUT THE PROVISION, AND THEY WAIVE ANY OBJECTION THAT THEY WOULD OTHERWISE HAVE TO THE SAME. ANY ACTION BETWEEN DEVELOPER AND FRANCHISOR SHALL INVOLVE ONLY THE INDIVIDUAL CLAIMS OF DEVELOPER AND SHALL NOT INVOLVE ANY CLASS, GROUP, CONSOLIDATED, REPRESENTATIVE OR ASSOCIATIONAL ACTION. NOTHING IN THIS SECTION 18.1 IS INTENDED BY THE PARTIES TO SUBJECT THIS AGREEMENT TO ANY FRANCHISE**

19. Document Interpretation.

19.1. All terms and words used in this Agreement, regardless of the number and gender in which they are used, shall be deemed and construed to include the singular or plural tense, and any gender, whether masculine, feminine or neuter, as the context or sense of this Agreement or any paragraph or clause may require, the same as if such words had been fully and properly written in the appropriate number or gender. In the event of a conflict in the language, terms, or conditions between this Agreement and any Franchise Agreement issued pursuant to this Agreement, the Franchise Agreement shall control.

20. Covenant Not to Compete.

20.1. To further protect the El Pollo Loco® System while this Agreement is in effect, Developer and each officer, director, shareholder, member, manager, partner and other equity owner, as applicable, of Developer, if Developer is an entity, shall neither directly nor indirectly own, operate, control or any financial interest in any other business which would constitute a **“Competitive Business”** (as hereinafter defined) without the prior written consent of Franchisor; provided further, that Franchisor may, as its sole and absolute right, consent to the Developer's continued operation of any business already in existence and operating at the time of execution of this Agreement. In addition, Developer covenants that, except as otherwise approved in writing by the Franchisor, Developer shall not, for a continuous, uninterrupted period commencing upon the expiration, termination or assignment of this Agreement, regardless of the cause for termination, and continuing for two (2) years thereafter, either directly or indirectly, for itself, or through or on behalf of, or in conjunction with any person, partnership, corporation or other entity, own, operate, control or have any financial interest in any Competitive Business which is located or has outlets or restaurant units within the Territory. The foregoing shall not apply to operation of an El Pollo Loco® restaurant by Developer pursuant to a Franchise Agreement with Franchisor or the ownership by Developer of less than five percent (5%) of the issued or outstanding stock of any company whose shares are listed for trading on any public exchange or on the over-the-counter market, provided that Developer does not control or become involved in the operations of any such company. For purposes of this Section 20.1, a Competitive Business shall mean a self-service restaurant or fast-food business which sells chicken and/or Mexican food products, which products individually or collectively represent more than twenty percent (20%) of the revenues from such self-service restaurant or fast-food business operated at any one location during any calendar quarter. A **“Competitive Business”** shall not include a full-service restaurant.

20.2. In the event that any provision of Section 20.1 above shall be determined by a court of competent jurisdiction to be invalid or unenforceable, this Agreement shall not be void, but such provision shall be limited to the extent necessary to make it valid and enforceable.

20.3. Developer understands and acknowledges that Franchisor shall have the right to reduce the scope of any obligation imposed on Developer by Section 20.1, without Developer's consent, and that such modified provision shall be effective upon Developer's receipt of written notice thereof.

20.4. Developer acknowledges that violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Franchisor for which no adequate remedy at law will be available. Accordingly, Developer hereby consents to the entry of a preliminary and permanent injunction prohibiting any conduct by Developer in violation of the terms of those covenants not to compete set forth in this Agreement. Developer expressly agrees that it may conclusively be presumed that any violation of the terms of said covenants not to compete was accomplished by and through Developer's unlawful utilization of Franchisor's Confidential Information, know-how, methods and procedures

21. Notices.

21.1. For the purpose of this Agreement, all notices shall be in writing and shall be sent to the party to be charged with receipt thereof either (i) served personally, or (ii) sent by certified or registered United States mail, or (iii) sent by reputable overnight delivery service, or (iv) sent by facsimile. Notices served personally are effective immediately on delivery, and those served by mail shall be deemed given forty-eight (48) hours after deposit of such notice in a United States post office with postage prepaid and duly addressed to the party to whom such notice or communication is directed. Notices served by overnight delivery shall be deemed to have been given the day after deposit of such notice with such service. Notices served via facsimile shall be deemed to have been given the day of faxing such notice. All notices to El Pollo Loco® shall be addressed as follows:

Attn: Legal Department
3535 Harbor Blvd, Suite 100
Costa Mesa, CA 92626
(714) 599-5503 (fax)

21.2. All notices to Developer shall be faxed and mailed or sent via overnight service to the Developer's number and address shown on **Exhibit "B"**. Either party may from time to time change its address for the purposes of this Section by giving written notice of such change to the other party in the manner provided in this Section. Notwithstanding anything to the contrary contained herein, the Franchisor may deliver bulletins and updates to the Developer by electronic means, such as by the internet (e-mail) or an intranet, if any, established by Franchisor.

22. Section Headings.

22.1. The section headings appearing in this Agreement are for reference purposes only and shall not affect, in any way, the meaning or interpretation of this Agreement.

23. Acknowledgments.

23.1. Developer acknowledges that it has received a complete copy of the El Pollo Loco® Franchise Disclosure Document, issuance date March 26, 2019 (Control No. 032619) at least fourteen (14) calendar days prior to the date on which this Agreement was executed by Developer or payment of any monies to the Franchisor.

23.2. Developer acknowledges that it has read and understands this Agreement, the Franchise Agreement, the attachments thereto and the agreements relating thereto contained in the Franchise Disclosure Document received by Developer on _____, 20____, and that Franchisor has accorded Developer ample opportunity and has encouraged Developer to consult with advisors of Developer's own choosing about the potential benefits and risks of entering into this Agreement.

24. Counterparts.

24.1. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute a single instrument. A signature on this Agreement transmitted via facsimile or electronic mail shall be considered an original for all purposes hereunder.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Agreement in duplicate original as of the dates set forth below.

FRANCHISOR:
EL POLLO LOCO, INC., a Delaware Corporation
By: _____
Name: _____
Title: _____
Date: _____

DEVELOPER:
_____, an individual
By: _____
Name: _____
Title: An individual
Date: _____

25. EXHIBIT "A" TO DEVELOPMENT AGREEMENT - TERRITORY

EXHIBIT "B" TO DEVELOPMENT AGREEMENT - DEVELOPMENT SCHEDULE

DEVELOPER NAME:
PRINCIPALS:
NOTICE ADDRESS:
FAX NUMBER:
EMAIL:
COMMENCEMENT DATE:
EXPIRATION DATE:
DEVELOPMENT FEE (SECTION 3):

DEVELOPMENT SCHEDULE:

	INITIAL FRANCHISEE AMOUNT	RESAC SUBMITTAL DATES	SITE COMMITMENT DATES (Date for delivery of signed leases or purchase agreements)	OPENING DATE OF RESTAURANT
Restaurant # 1	\$40,000.00			
Restaurant # 2	\$30,000.00			
Restaurant # 3	\$30,000.00			

EXHIBIT "C" TO DEVELOPMENT AGREEMENT - EXISTING EL POLLO LOCO® RESTAURANTS IN THE TERRITORY

EL POLLO LOCO HOLDINGS, INC.
2018 OMNIBUS EQUITY INCENTIVE PLAN
RESTRICTED SHARE AGREEMENT
EMPLOYEE

This Restricted Share Award Agreement (this “**Restricted Share Agreement**”), dated as of _____, 2020 (the “**Date of Grant**”), is made by and between El Pollo Loco Holdings, Inc., a Delaware corporation (the “**Company**”) and _____ (the “**Employee**”). Capitalized terms not defined herein shall have the meaning ascribed to them in the El Pollo Loco Holdings, Inc. 2018 Omnibus Equity Incentive Plan (as amended from time to time, the “**Plan**”). Where the context permits, references to the Company shall include any successor to the Company.

1. Grant of Restricted Shares. The Company hereby grants to the Employee _____ Shares (such shares, the “**Restricted Shares**”), subject to all of the terms and conditions of this Restricted Share Agreement and the Plan.

2. Lapse of Restrictions.

(a) Vesting. Except as otherwise set forth in this Section 2(a), the restrictions on Transfer (as defined in Section 6(a)) set forth in Section 2(b) shall lapse with respect to 1/4 of the Restricted Shares on each of the first four anniversaries of the Date of Grant (each anniversary of the Date of Grant, a “**Vesting Date**”), subject to the continued employment of the Employee with the Company from the date hereof through the applicable Vesting Date, and provided that the Employee has not given notice of resignation as of such Vesting Date.

(b) Restrictions. Until the restrictions on Transfer of the Restricted Shares lapse as provided in Section 2(a), or as otherwise provided in the Plan, no Transfer of the Restricted Shares or any of the Employee’s rights with respect to the Restricted Shares, whether voluntary or involuntary, by operation of law or otherwise, shall be permitted. Unless the Administrator determines otherwise, upon any attempt to Transfer Restricted Shares or any rights in respect of Restricted Shares, before the lapse of such restrictions, such Restricted Shares, and all of the rights related thereto, shall be immediately canceled and forfeited.

(c) Termination of Service. Upon termination of the Employee’s service with the Company and its Affiliates for any reason (including the death or Disability of the Employee), any Restricted Shares in respect of which the restrictions on Transfer described in this Section 2 shall not already have lapsed shall be immediately canceled and forfeited and neither the Employee nor any of the Employee’s successors, heirs, assigns, or personal representatives shall thereafter have any further rights or interests in such Restricted Shares.

3. Adjustments. Pursuant to Section 5 of the Plan, in the event of a Change in Capitalization, the Administrator shall make such equitable changes or adjustments to the number and kind of securities or other property (including cash) issued or issuable in respect of outstanding Restricted Shares as it determines to be necessary in its sole discretion.

4. Certain Changes. The Administrator may accelerate the date on which the restrictions on transfer set forth in Section 2(a) shall lapse or otherwise adjust any of the terms of the Restricted Shares; provided that, subject to Section 5 of the Plan, no action under this Section shall adversely affect the Employee’s rights hereunder.

5. Notices. All notices and other communications under this Restricted Share Agreement shall be in writing and shall be given by facsimile or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three days after mailing or 24 hours after transmission by facsimile to the respective parties, as follows: (i) if to the Company, addressed to the Company in care of its Vice President, Legal at the principal executive office of the Company and (ii) if to the Employee, using the contact information on file with the Company. Either party hereto may change such party’s address for notices by notice duly given pursuant hereto.

6. Transferability.

(a) Until such time as the Restricted Shares are fully vested in accordance with Section 2(a), no purported sale, assignment, mortgage, hypothecation, transfer, charge, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or

creation of a security interest in or lien on, any of the Restricted Shares or any agreement or commitment to do any of the foregoing (each a “**Transfer**”) by any holder thereof in violation of the provisions of this Restricted Share Agreement will be valid, except with the prior written consent of the Administrator (such consent shall be granted or withheld in the sole discretion of the Administrator).

(b) In addition to Section 2(b), any purported Transfer of Restricted Shares or any economic benefit or interest therein in violation of this Restricted Share Agreement shall be null and void *ab initio*, and shall not create any obligation or liability of the Company, and any person purportedly acquiring any Restricted Shares or any economic benefit or interest therein transferred in violation of this Restricted Share Agreement shall not be entitled to be recognized as a holder of such Shares.

7. Withholding Taxes. The Company shall be entitled to require a cash payment by or on behalf of the Employee and/or to deduct from any compensation payable to the Employee the amount of any sums required by federal, state or local tax law to be withheld with respect to the Restricted Shares, up to the maximum statutory tax rates in the Employee’s jurisdiction, as determined by the Company.

8. Section 83(b) Election. If the Employee makes an election under Section 83(b) of the Code, or any successor section thereto, to be taxed with respect to the Restricted Shares as of the Date of Grant, the Employee shall deliver a copy of such election to the Company immediately after filing such election with the Internal Revenue Service, together with any required tax withholding. The Employee hereby acknowledges that it is the Employee’s sole responsibility, and not the Company’s, to file timely the election under Section 83(b) of the Code. A form of such election is attached hereto as Exhibit A.

THE EMPLOYEE ACKNOWLEDGES THAT IT IS THE EMPLOYEE’S SOLE RESPONSIBILITY AND NOT THE COMPANY’S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF THE EMPLOYEE REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON THE EMPLOYEE’S BEHALF.

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

10. Incorporation of Plan. The Plan is hereby incorporated by reference and made a part hereof, and the Restricted Shares and this Restricted Share Agreement shall be subject to all terms and conditions of the Plan and this Restricted Share Agreement.

11. Amendments; Construction. The Administrator may amend the terms of this Restricted Share Agreement prospectively or retroactively at any time, but no such amendment shall impair the rights of the Employee hereunder without his or her consent. Headings to Sections of this Restricted Share Agreement are intended for convenience of reference only, are not part of this Restricted Share Agreement and shall have no effect on the interpretation hereof.

12. Survival of Terms. This Restricted Share Agreement shall apply to and bind the Employee and the Company and their respective permitted assignees and transferees, heirs, legatees, executors, administrators and legal successors.

13. Rights as a Shareholder. During the period until the restrictions on Transfer of the Restricted Shares lapse as provided in Section 2(a), the Employee shall have all the rights of a shareholder with respect to the Restricted Shares save only the right to Transfer the Restricted Shares. Accordingly, the Employee shall have the right to vote the Restricted Shares and to receive any ordinary dividends paid to or made with respect to the Restricted Shares.

14. Agreement Not a Contract for Services. Neither the Plan, the granting of the Restricted Shares, this Restricted Share Agreement nor any other action taken pursuant to the Plan shall constitute or be evidence of any agreement or understanding, express or implied, that the Employee has a right to continue to be employed as an officer, director, employee, consultant or advisor of the Company or any Subsidiary or Affiliate for any period of time or at any specific rate of compensation.

15. Authority of the Administrator; Disputes. The Administrator shall have full authority to interpret and construe the terms of the Plan and this Restricted Share Agreement. The determination of the Administrator as to any such matter of interpretation or construction shall be final, binding and conclusive.

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

17. Severability. Should any provision of this Restricted Share Agreement be held by a court of competent jurisdiction to be unenforceable, or enforceable only if modified, such holding shall not affect the validity of the remainder of this Restricted Share Agreement, the balance of which shall continue to be binding upon the parties hereto with any such modification (if any) to become a part hereof and treated as though contained in this Restricted Share Agreement.

18. Acceptance. The Employee hereby acknowledges receipt of a copy of the Plan and this Restricted Share Agreement. The Employee has read and understands the terms and provisions of the Plan and this Restricted Share Agreement, and accepts the Restricted Shares subject to all the terms and conditions of the Plan and this Restricted Share Agreement. The Employee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under this Restricted Share Agreement.

19. Clawback. The Restricted Shares are subject to such recoupment policies of the Company as may be in effect from time to time pursuant to Section 28 the Plan.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Restricted Share Agreement on the day and year first above written.

EL POLLO LOCO HOLDINGS, INC.

By ___
Name ___
Title ___

EMPLOYEE

EXHIBIT A
ELECTION UNDER SECTION 83(b)

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income for the current taxable year the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below:

1. The name address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME OF TAXPAYER: _____

NAME OF SPOUSE: _____

ADDRESS: _____

IDENTIFICATION NO. OF TAXPAYER: _____

IDENTIFICATION NUMBER OF SPOUSE: _____

TAXABLE YEAR: _____

2. The property with respect to which the election is made is described as follows: _____ shares of Common Stock, par value \$0.01 per share, of El Pollo Loco Holdings, Inc., a Delaware corporation (the "**Company**").

3. The date on which the property was transferred is: _____, 20__.

4. The property is subject to the following restrictions: The property may not be transferred and is subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain conditions in such agreement.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: \$ _____.

6. The amount (if any) paid for such property is: \$ _____.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: _____, 20__ — Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: _____, 20__ — Spouse of Taxpayer

EL POLLO LOCO HOLDINGS, INC.
2018 OMNIBUS EQUITY INCENTIVE PLAN
RESTRICTED SHARE AGREEMENT

NON-OFFICER DIRECTOR

This Restricted Share Award Agreement (this “**Restricted Share Agreement**”), dated as of _____, _____ (the “**Date of Grant**”), is made by and between El Pollo Loco Holdings, Inc., a Delaware corporation (the “**Company**”) and _____ (the “**Non-Officer Director**”). Capitalized terms not defined herein shall have the meaning ascribed to them in the El Pollo Loco Holdings, Inc. 2018 Omnibus Equity Incentive Plan (as amended from time to time, the “**Plan**”). Where the context permits, references to the Company shall include any successor to the Company.

1. Grant of Restricted Shares. The Company hereby grants to the Non-Officer Director _____ Shares (such shares, the “**Restricted Shares**”), subject to all of the terms and conditions of this Restricted Share Agreement and the Plan.

2. Lapse of Restrictions.

(a) General. Except as otherwise set forth in this Section 2, the restrictions on Transfer (as defined in Section 6(a)) set forth in Section 2 shall lapse with respect to 1/3 of the Restricted Shares on each of the first three anniversaries of the Date of Grant (each anniversary of the Date of Grant, a “**Vesting Date**”), subject to the continued service of the Non-Officer Director for the Company from the date hereof through the applicable Vesting Date, and provided that the Non-Officer Director has not given notice of resignation as of such Vesting Date.

(b) Following Certain Terminations of Service. Subject to the next sentence, upon termination of the Non-Officer Director’s service with the Company and its Affiliates for any reason (including the death or Disability of the Non-Officer Director), any Restricted Shares in respect of which the restrictions on Transfer described in this Section 2 shall not already have lapsed shall be canceled and immediately forfeited and neither the Non-Officer Director nor any of the Non-Officer Director’s successors, heirs, assigns, or personal representatives shall thereafter have any further rights or interests in such Restricted Shares. Notwithstanding the foregoing:

(x) in the event that the Non-Officer Director’s service with the Company is terminated without Cause, then 100% of the Restricted Shares that are not vested as of the date of such termination shall immediately vest on the date of such termination of service, and the restrictions on Transfer of such Restricted Shares set out in this Section 2 shall lapse; provided that if such termination occurs prior to a Change in Control, then such vesting will be subject to the Non-Officer Director’s execution of a separation agreement prepared by the Company (or any Subsidiary of Affiliate) which includes, *inter alia*, a general release of claims; and

(y) in the event that the Non-Officer Director's service with the Company is terminated as a result of the death or Disability of the Non-Officer Director, then 100% of the Restricted Shares that are not vested as of the date of such termination shall immediately vest, and the restrictions on Transfer of such Restricted Shares set out in this Section 2 shall lapse.

(c) Restrictions. Until the restrictions on Transfer of the Restricted Shares lapse as provided in this Section 2, or as otherwise provided in the Plan, no Transfer of the Restricted Shares or any of the Non-Officer Director's rights with respect to the Restricted Shares, whether voluntary or involuntary, by operation of law or otherwise, shall be permitted. Unless the Administrator determines otherwise, upon any attempt to Transfer Restricted Shares or any rights in respect of Restricted Shares, before the lapse of such restrictions, such Restricted Shares, and all of the rights related thereto, shall be immediately canceled and forfeited.

3. Adjustments. Pursuant to Section 5 of the Plan, in the event of a Change in Capitalization, the Administrator shall make such equitable changes or adjustments to the number and kind of securities or other property (including cash) issued or issuable in respect of outstanding Restricted Shares as it determines to be necessary in its sole discretion.

4. Certain Changes. The Administrator may accelerate the date on which the restrictions on transfer set forth in Section 2 shall lapse or otherwise adjust any of the terms of the Restricted Shares; provided that, subject to Section 5 of the Plan, no action under this Section shall adversely affect the Non-Officer Director's rights hereunder.

5. Notices. All notices and other communications under this Restricted Share Agreement shall be in writing and shall be given by facsimile or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three days after mailing or 24 hours after transmission by facsimile to the respective parties, as follows: (i) if to the Company, addressed to the Company in care of its Vice President, Legal at the principal executive office of the Company and (ii) if to the Non-Officer Director, using the contact information on file with the Company. Either party hereto may change such party's address for notices by notice duly given pursuant hereto.

6. Protections Against Violations of Agreement.

(a) Until such time as the Restricted Shares are fully vested in accordance with Section 2, no purported sale, assignment, mortgage, hypothecation, transfer, charge, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or creation of a security interest in or lien on, any of the Restricted Shares or any agreement or commitment to do any of the foregoing (each a "**Transfer**") by any holder thereof in violation of the provisions of this Restricted Share Agreement will be valid, except with the prior written consent of the Administrator (such consent shall be granted or withheld in the sole discretion of the Administrator).

(b) In addition to Section 2, any purported Transfer of Restricted Shares or any economic benefit or interest therein in violation of this Restricted Share Agreement shall

be null and void *ab initio*, and shall not create any obligation or liability of the Company, and any person purportedly acquiring any Restricted Shares or any economic benefit or interest therein transferred in violation of this Restricted Share Agreement shall not be entitled to be recognized as a holder of such Shares.

7. Taxes.

(a) The Non-Officer Director understands that he or she (and not the Company) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Restricted Share Agreement. The Company shall not be required to withhold any amounts in respect of any such taxes.

(b) The Non-Officer Director shall promptly notify the Company of any election made pursuant to Section 83(b) of the Code. A form of such election is attached hereto as Exhibit A.

THE NON-OFFICER DIRECTOR ACKNOWLEDGES THAT IT IS THE NON-OFFICER DIRECTOR'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF THE NON-OFFICER DIRECTOR REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON THE NON-OFFICER DIRECTOR'S BEHALF.

(c) The Non-Officer Director acknowledges that the tax laws and regulations applicable to the Restricted Shares and the disposition of the Restricted Shares following vesting are complex and subject to change, and it is the sole responsibility of the Non-Officer Director to obtain his or her own advice as to the tax treatment of the terms of this Restricted Share Agreement.

BY SIGNING THIS RESTRICTED SHARE AGREEMENT, THE NON-OFFICER DIRECTOR REPRESENTS THAT HE OR SHE HAS REVIEWED WITH HIS OR HER OWN TAX ADVISORS THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS CONTEMPLATED BY THIS RESTRICTED SHARE AGREEMENT AND THAT HE OR SHE IS RELYING SOLELY ON SUCH ADVISORS AND NOT ON ANY STATEMENTS OR REPRESENTATIONS OF THE COMPANY OR ANY OF ITS AGENTS. THE NON-OFFICER DIRECTOR UNDERSTANDS AND AGREES THAT HE OR SHE (AND NOT THE COMPANY) SHALL BE RESPONSIBLE FOR ANY TAX LIABILITY THAT MAY ARISE AS A RESULT OF THE TRANSACTIONS CONTEMPLATED BY THIS RESTRICTED SHARE AGREEMENT.

8. Failure to Enforce Not a Waiver. The failure of the Company to enforce at any time any provision of this Restricted Share Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

9. Confidentiality.

(a) The Non-Officer Director acknowledges that during the period of the Non-Officer Director's service with the Company the Non-Officer Director shall have access to the Company's Confidential Information (as defined below). All books of account, records, systems, correspondence, documents, and any and all other data, in whatever form, concerning or containing any reference to the works and business of the Company or its affiliated companies shall belong to the Company and shall be given up to the Company whenever the Company requires the Non-Officer Director to do so. The Non-Officer Director agrees that the Non-Officer Director shall not at any time during the term of the Non-Officer Director's service or thereafter, without the Company's prior written consent, disclose to any person (individual or entity) any information or any trade secrets, plans or other information or data, in whatever form, (including, without limitation, (i) any financing strategies and practices, pricing information and methods, training and operational procedures, advertising, marketing, and sales information or methodologies or financial information and (ii) any Proprietary Information (as defined below)), concerning the Company's or any of its affiliated companies' or customers' practices, businesses, procedures, systems, plans or policies (collectively, "**Confidential Information**"), nor shall the Non-Officer Director utilize any such Confidential Information in any way or communicate with or contact any such customer other than in connection with the Non-Officer Director's service by the Company. The Non-Officer Director hereby confirms that all Confidential Information constitutes the Company's exclusive property, and that all of the restrictions on the Non-Officer Director's activities contained in this Restricted Share Agreement and such other nondisclosure policies of the Company are required for the Company's reasonable protection. Confidential Information shall not include any information that has otherwise been disclosed to the public not in violation of this Restricted Share Agreement. This confidentiality provision shall survive the termination of this Restricted Share Agreement and shall not be limited by any other confidentiality agreements entered into with the Company or any of its affiliates.

(b) With respect to any Confidential Information that constitutes a "trade secret" pursuant to applicable law, the restrictions described above shall remain in force for so long as the particular information remains a trade secret or for the two-year period immediately following termination of the Non-Officer Director's service for any reason, whichever is longer. With respect to any Confidential Information that does not constitute a "trade secret" pursuant to applicable law, the restrictions described above shall remain in force during the Non-Officer Director's service and for the two-year period immediately following termination of Non-Officer Director's service for any reason.

(c) The Non-Officer Director agrees that the Non-Officer Director shall promptly disclose to the Company in writing all information and inventions generated, conceived or first reduced to practice by the Non-Officer Director alone or in conjunction with others, during or after working hours, while in the employ of the Company (all of which is collectively

referred to in this Restricted Share Agreement as “**Proprietary Information**”); provided, however, that such Proprietary Information shall not include (i) any information that has otherwise been disclosed to the public not in violation of this Restricted Share Agreement and (ii) general business knowledge and work skills of the Non-Officer Director, even if developed or improved by the Non-Officer Director while in the employ of the Company. All such Proprietary Information shall be the exclusive property of the Company and is hereby assigned by the Non-Officer Director to the Company. The Non-Officer Director’s obligation relative to the disclosure to the Company of such Proprietary Information anticipated in this Section shall continue beyond the Non-Officer Director’s termination of service and the Non-Officer Director shall, at the Company’s expense, give the Company all assistance it reasonably requires to perfect, protect and use its right to the Proprietary Information.

(d) Defend Trade Secrets Act. Pursuant to Section 1833(b) of the Defend Trade Secrets Act of 2016, the Non-Officer Director acknowledges that the Non-Officer Director shall not have criminal or civil liability under any federal or State trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Nothing in this Restricted Share Agreement is intended to conflict with Section 1833(b) of the Defend Trade Secrets Act of 2016 or create liability for disclosures of trade secrets that are expressly allowed by such Section. Notwithstanding anything set forth in this Restricted Share Agreement to the contrary, the Non-Officer Director shall not be prohibited from reporting possible violations of federal or state law or regulation to any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of federal or state law or regulation, nor is the Non-Officer Director required to notify the Company regarding any such reporting, disclosure or cooperation with the government.

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

11. Incorporation of Plan. The Plan is hereby incorporated by reference and made a part hereof, and the Restricted Shares and this Restricted Share Agreement shall be subject to all terms and conditions of the Plan and this Restricted Share Agreement.

12. Amendments; Construction. The Administrator may amend the terms of this Restricted Share Agreement prospectively or retroactively at any time, but no such amendment shall impair the rights of the Non-Officer Director hereunder without his or her consent. To the extent the terms of Section 9 conflict with any prior agreement between the parties related to such subject matter, the terms of Section 9 shall supersede such conflicting terms and control. Headings to Sections of this Restricted Share Agreement are intended for convenience of reference only, are not part of this Restricted Share Agreement and shall have no effect on the interpretation hereof.

13. Survival of Terms. This Restricted Share Agreement shall apply to and bind the Non-Officer Director and the Company and their respective permitted assignees and transferees, heirs, legatees, executors, administrators and legal successors.

14. Rights as a Shareholder. During the period until the restrictions on Transfer of the Restricted Shares lapse as provided in Section 2, the Non-Officer Director shall have all the rights of a shareholder with respect to the Restricted Shares save only the right to Transfer the Restricted Shares. Accordingly, the Non-Officer Director shall have the right to vote the Restricted Shares and to receive any ordinary dividends paid to or made with respect to the Restricted Shares.

15. Agreement Not a Contract for Services. Neither the Plan, the granting of the Restricted Shares, this Restricted Share Agreement nor any other action taken pursuant to the Plan shall constitute or be evidence of any agreement or understanding, express or implied, that the Non-Officer Director has a right to continue to provide services as an officer, director, employee, consultant or advisor of the Company or any Subsidiary or Affiliate for any period of time or at any specific rate of compensation.

16. Authority of the Administrator; Disputes. The Administrator shall have full authority to interpret and construe the terms of the Plan and this Restricted Share Agreement. The determination of the Administrator as to any such matter of interpretation or construction shall be final, binding and conclusive.

17. Severability. Should any provision of this Restricted Share Agreement be held by a court of competent jurisdiction to be unenforceable, or enforceable only if modified, such holding shall not affect the validity of the remainder of this Restricted Share Agreement, the balance of which shall continue to be binding upon the parties hereto with any such modification (if any) to become a part hereof and treated as though contained in this Restricted Share Agreement.

18. Acceptance. The Non-Officer Director hereby acknowledges receipt of a copy of the Plan and this Restricted Share Agreement. The Non-Officer Director has read and understands the terms and provisions of the Plan and this Restricted Share Agreement, and accepts the Restricted Shares subject to all the terms and conditions of the Plan and this Restricted Share Agreement. The Non-Officer Director hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under this Restricted Share Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Restricted Share Agreement on the day and year first above written.

EL POLLO LOCO HOLDINGS, INC.

By ___
Name ___
Title ___

NON-OFFICER DIRECTOR

EXHIBIT A
ELECTION UNDER SECTION 83(b)

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income for the current taxable year the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below:

1. The name address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME OF TAXPAYER: _____

NAME OF SPOUSE: _____

ADDRESS: _____

IDENTIFICATION NO. OF TAXPAYER: _____

IDENTIFICATION NUMBER OF SPOUSE: _____

TAXABLE YEAR: _____

2. The property with respect to which the election is made is described as follows: _____ shares of Common Stock, par value \$0.01 per share, of El Pollo Loco Holdings, Inc., a Delaware corporation (the “**Company**”).

3. The date on which the property was transferred is: _____, 20__.

4. The property is subject to the following restrictions: The property may not be transferred and is subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain conditions in such agreement.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: \$ _____.

6. The amount (if any) paid for such property is: \$ _____.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned’s receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: _____, 20__ — Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: _____, 20__ — Spouse of Taxpayer

EL POLLO LOCO HOLDINGS, INC.
RESTRICTED SHARE UNIT AWARD AGREEMENT

You (the "*Participant*") are hereby awarded restricted share units (the "*RSUs*"), pursuant to the El Pollo Loco Holdings, Inc. (the "*Company*") 2018 Omnibus Equity Incentive Plan (the "*Plan*"), on the terms and conditions in this Restricted Share Unit Award Agreement (this "*Award Agreement* ") and on the terms and conditions in the Plan that are incorporated herein by reference.

RECITALS:

WHEREAS, pursuant to that certain Employment Agreement by and between the Company and the Participant, dated as of _____ (the "*Employment Agreement* "), the Company has agreed to make this grant to the Participant;

WHEREAS, capitalized terms used but not otherwise defined herein shall have the meanings set forth in the Plan.

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

1. **Specific Terms**. The RSUs shall have the following terms:

Name of Participant:

Number of RSUs:

Award Date:

Vesting The RSUs shall vest in four (4) equal installments on each of the first four (4) anniversaries of the Award Date, subject to the terms and conditions of the Plan.

Settlement Each RSU shall be settled by the delivery of one (1) share of Common Stock to the Participant within thirty (30) calendar days following the date on which such RSU becomes vested in accordance with this Award Agreement.

2. **Termination of Employment**. If the Participant's employment with the Company is terminated for any reason, the RSUs shall, to the extent not then vested, be forfeited upon such termination of employment for no consideration.

3. **Delivery of Shares of Common Stock**. The shares of Common Stock deliverable upon the settlement of the RSUs may be either previously authorized but unissued shares of Common Stock or issued shares of Common Stock that have then been reacquired by the Company. Such shares of Common Stock shall be fully paid and nonassessable.

4. **No Right to Continued Employment.** The granting of the RSUs evidenced hereby and this Award Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of the Participant.
5. **Legend on Certificates.** The certificates, if any, or book entries representing the shares of Common Stock deliverable pursuant to this Award Agreement shall be subject to such stop transfer orders and other restrictions as the Administrator or its delegate reasonably deems advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such shares of Common Stock are listed, and any applicable Federal or state laws, and the Administrator or such other party may cause a legend or legends to be put on any such certificates or to be notated on the stock register to make appropriate reference to such restrictions.
6. **Transferability.**
 - (a) The RSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance in contravention of the foregoing shall be void and unenforceable against the Company or any Affiliate; provided, that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the RSUs to heirs or legatees of the Participant shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.
 - (b) The RSUs shall not be liable for the debts, contracts or engagements of the Participant or the Participant's successors in interest and shall not be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law or by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by Section 6(a) hereof.
7. **Withholding.** The Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the RSUs or from any compensation (including base salary) or other amount owing to the Participant the amount (in cash, shares of Common Stock, other securities or other property) of any applicable withholding taxes in respect of the RSUs, or any payment or transfer under or with respect to the RSUs and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

8. **Securities Laws.** The issuance of any shares of Common Stock hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator or any officer of the Company may reasonably request in order to comply with applicable securities laws and government regulations.
9. **Notices.** Any notice necessary under this Award Agreement shall be addressed to the Company in care of its Vice President, Legal at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.
10. **Governing Law/Jurisdiction.** This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed therein. Any suit, action or proceeding with respect to this Award Agreement, or any judgment entered by any court in respect of any thereof, shall be brought in any court of competent jurisdiction in the State of Delaware, and the Company and the Participant hereby submit to the exclusive jurisdiction of such courts (and their appellate courts, whether or not located in the State of Delaware) for the purpose of any such suit, action, proceeding or judgment. The Participant and the Company hereby irrevocably waive (i) any objections which it may now or hereafter have to the laying of the venue of any suit, action or proceeding arising out of or relating to this Award Agreement brought in any court of competent jurisdiction in the State of Delaware, (ii) any claim that any such suit, action or proceeding brought in any such court has been brought in any inconvenient forum and (iii) any right to a jury trial.
11. **Incorporation of the Terms of the Plan.** By entering into this Award Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan as set forth on Exhibit A hereto. The RSUs are subject to the Plan, as may be amended from time to time, and the terms and provisions of the plan are incorporated herein by reference. In the event of any inconsistency between the Plan and this Award Agreement, the terms of the Plan shall control.
12. **Section 409A.** The intent of the parties is that payments and benefits under this Award Agreement comply with Section 409A of Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Award Agreement shall be interpreted and be administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, the Participant shall not be considered to have separated from service with the Company for purposes of this Award Agreement and no payment shall be due to the Participant under this Award Agreement on account of a separation from service until the Participant would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A of the Code. Any payments described in this Award Agreement that are due within the "short-term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable law requires otherwise. Notwithstanding anything to the contrary

in this Award Agreement, to the extent that any RSUs are payable upon a separation from service and such payment would result in the imposition of any individual income tax and late interest charges imposed under Section 409A of the Code, the settlement and payment of such awards shall instead be made on the first business day after the date that is six (6) months following such separation from service (or death, if earlier). The Company makes no representation that any or all of the payments described in this Award Agreement will be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to any such payment. The Participant shall be solely responsible for the payment of any taxes and penalties incurred under Section 409A.

13. **Signature in Counterparts.** This Award Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.
14. **Amendment and Termination.** To the extent permitted by terms of the Plan, this Award Agreement may be wholly or partially amended, altered or terminated at any time or from time to time by the Administrator or the Board, but no amendment, alteration or termination shall be made that would materially impair the rights of the Participant under the RSUs without the Participant's consent.
15. **Entire Agreement.** This Award Agreement (including all exhibits hereto, if any) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof.
16. **Electronic Signature; Electronic Delivery and Acceptance.** The Participant's electronic signature of this Award Agreement shall have the same validity and effect as a signature affixed by hand. The Company may, in its sole discretion, decide to deliver any documents related to the RSUs by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the administration of the RSUs through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
17. **Waiver.** The Participant acknowledges that a waiver by the Company of a breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement, or of any subsequent breach by the Participant.
18. **Severability.** The provisions of this Award Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

[Signature Page Follows]

BY YOUR SIGNATURE BELOW, along with the signature of the Company's representative, you and the Company agree that the RSUs are hereby awarded under the terms and conditions of this Award Agreement and under the terms and conditions of the Plan.

EL POLLO LOCO HOLDINGS, INC.

By: _____

Name:

Its:

PARTICIPANT

By: _____

Name:

EL POLLO LOCO HOLDINGS, INC.
2018 OMNIBUS EQUITY INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

THIS AWARD AGREEMENT (this “**Option Agreement**”), is made effective as of _____, _____ (the “**Date of Grant**”), by and between El Pollo Loco Holdings, Inc., a Delaware corporation (the “**Company**”), and _____ (the “**Participant**”):

RECITALS:

WHEREAS, the Company has adopted the El Pollo Loco Holdings, Inc. 2018 Omnibus Equity Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Option Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

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

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

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

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

3. Exercise of Option.

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

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

(ii) ninety (90) days following the date of the Participant’s termination of employment with the Company and its Affiliates for any reason other than for Cause or due to the Participant’s death or Disability; or

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

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

(b) Method of Exercise.

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

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

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

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

4. Termination of Employment.

(a) General. If the Participant's employment with the Company and its Affiliates is terminated for any reason, the Option shall, to the extent not then vested,

terminate upon such termination of employment and the Vested Portion of the Option shall remain exercisable for the period set forth in Section 3(a) and shall thereafter terminate.

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

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

6. Adjustments. Pursuant to Section 5 of the Plan, in the event of a Change in Capitalization, the Administrator shall make such equitable changes or adjustments to the number and kind of securities or other property (including cash) issued or issuable in respect of the Option as it determines to be necessary in its sole discretion.

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

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

9. Transferability.

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

(b) The Option shall not be liable for the debts, contracts or engagements of the Participant or the Participant's successors in interest or shall not be subject to

disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) unless and until the Option has been exercised, and any attempted disposition thereof prior to exercise shall be null and void and of no effect, except to the extent that such disposition is permitted by Section 9(a).

10. Withholding. Subject to Section 3(b)(ii), the Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Option or under the Plan or from any compensation or other amount owing to the Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes, calculated up to the maximum statutory tax rates in the Participant's jurisdiction, as determined by the Company.

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

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

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

14. Option Subject to Plan. By entering into this Option Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan, as may be amended from time to time, and the terms and

provisions of the Plan are hereby incorporated herein by reference. In the event of any inconsistency between the Plan and this Option Agreement, the terms of the Plan shall control.

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

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

17. Amendments and Termination. To the extent permitted by the Plan, this Option Agreement may be wholly or partially amended, altered or terminated at any time or from time to time by the Administrator or the Board, but no amendment, alteration or termination shall be made that would materially impair the rights of the Participant under the Option without such Participant's consent.

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

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

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

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

22. Clawback. The Option is subject to such recoupment policies of the Company as may be in effect from time to time pursuant to Section 28 the Plan.

[Signature Page Follows]

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

EL POLLO LOCO HOLDINGS, INC.

Name:
Title:

PARTICIPANT

23.

**EMPLOYMENT AGREEMENT
HECTOR MUNOZ**

EMPLOYMENT AGREEMENT (the “Agreement”) dated as of October __, 2018 by and between El Pollo Loco, Inc. (the “Company”) and Hector Munoz (the “Executive”).

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

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

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

1. Term of Employment; Executive Representation.

- (a) Employment Term. Subject to the terms and conditions set forth in this Agreement, the term of Executive's employment under this Agreement shall commence on December 1, 2018 (the “Effective Date”) and end on the 18th month anniversary of the Effective Date (the “Initial Employment Term”) and on such date and on each subsequent anniversary of such date, the term shall, without further action by Executive or Company, be extended by an additional one-year period (each such one year term, the “Renewal Employment Term”) subject to earlier termination as provided in this Agreement; provided, however, that either Company or Executive may, by written notice to the other given not less than 60 days prior to the scheduled expiration of the Initial Employment Term or Renewal Employment Term (a “Non-Renewal Notice”), as applicable, cause the term not to extend (the period during which Executive is employed under the terms of this Agreement, including the Initial Employment Term and all Renewal Employment Terms, is referred to herein as the “Employment Term”). The Employment Term shall also terminate earlier upon termination of Executive's employment as set forth in Section 7.
- (b) Executive Representation. Executive hereby represents to the Company that the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement or other agreement or policy to which Executive is a party or otherwise bound.

2. Position.

- (a) During the Employment Term, Executive shall serve as the Company's Chief Marketing Officer and shall principally perform Executive's duties to the Company and its affiliates from the Company's offices in the Orange County, California metropolitan area, subject to normal and customary travel requirements

in the conduct of the Company's business. Executive shall have such authorities, duties and responsibilities as the Chief Executive Officer may from time to time assign to him and reasonably consistent with those customarily performed by a chief marketing officer of a company having a similar size and nature of the Company, and the Executive shall report directly to the Chief Executive Officer.

- (b) During the Employment Term, Executive will devote Executive's full business time and best efforts to the performance of Executive's duties hereunder and will not engage in any other business, profession or occupation (including in an advisory capacity, consulting capacity, or otherwise) for compensation or otherwise which would conflict with the rendition of such services either directly or indirectly, without the prior written consent of the Board of Directors of the Company (the "Board").

3. Compensation.

- (a) During the Employment Term, the Company shall pay Executive a base salary (the "Base Salary") at the annual rate of \$375,000 (less applicable withholding taxes), payable in regular installments in accordance with the Company's usual payment practices. Executive shall be entitled to such increases in Executive's Base Salary, if any, as may be determined from time to time in the sole discretion of the Board.
- (b) With respect to each full calendar year during the Employment Term, Executive shall be eligible to earn an annual bonus award (an "Annual Bonus") based on the achievement of specified performance goals, which shall be determined by the Board in its sole discretion within ninety (90) days following the commencement of each calendar year, with a targeted bonus equal to seventy-five percent (75%) of Executive's then current Base Salary (the "Target Bonus"). The Annual Bonus, if any, will be paid between January 1 and March 15 of the year following the year to which it relates.
- (c) At the discretion of the Board, during the Employment Term, starting in 2020, Executive will be eligible to receive an annual discretionary equity grant, with the amount and terms thereof determined by the Board.

4. Sign on Awards

- (a) Equity in 2018. As soon as reasonably practical following the Effective Date (but before the close of the scheduled open trading window of the Company), Executive will receive the following equity grants (together, the "2018 Equity Grant") with aggregate grant-date value targeted at approximately \$250,000. The 2018 Equity Grant will consist of the following:
 - (i) Approximately \$250,000 worth of time-vested restricted stock units (or restricted shares) that will vest 25%/year, and

- (b) Equity in 2019. Executive will receive the following equity grants during the Company's annual equity grant window in 2019, typically in May (together, the "2019 Equity Grant") with the aggregate grant-date value targeted at approximately \$600,000. The 2019 Equity Grant will consist of the following:
- (i) Approximately \$250,000 worth of time-vested 10-year options that will vest 25%/year;
 - (ii) Approximately \$350,000 worth of time-vested restricted stock units (or restricted shares) that will vest 25%/year; and

All the other terms of the 2018 Equity Grant and 2019 Equity Grant will be consistent with the Company's standard equity award practices and shall be determined in good faith by the Board.

- (c) Relocation. To assist the Executive with Executive's relocation expenses, the Company will pay Executive cash payments totaling \$150,000, consisting of the following:
- (i) A lump sum payment in the amount of \$25,000 paid no later than the date of Executive's initial paycheck issued by the Company; and
 - (ii) A lump sum payment in the amount of \$125,000 on January 2, 2019.

These cash lump sum payments shall be considered conditional payments until Executive has completed 18 months of employment. In the event Executive's employment is terminated by the Company for Cause or by Executive without Good Reason (each as defined below) before 18 months of service, Executive will be responsible for 100% repayment of the relocation amount within six (6) months thereafter.

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

5. Employee Benefits. During the Employment Term, Executive shall be provided, in accordance with the terms of the Company's employee benefit plans as in effect from time to time, health insurance, retirement benefits and fringe benefits (collectively "Employee Benefits") on the same basis as those benefits are generally made available to other senior executives of the Company. Company will also reimburse Executive for COBRA payments to cover the period of time until Executive becomes eligible for medical insurance in accordance with the terms of the Company's health insurance plan. Executive shall be provided with annual vacation of four (4) weeks per each twelve (12) month period and additional weeks on a basis consistent with Company policy. During the Employment Term, the Company shall provide Executive with an automobile

allowance substantially similar to the allowance provided by the Company to other similarly situated senior executives of the Company.

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

7. **Termination.** The Employment Term and Executive's employment hereunder may be terminated early by either party at any time and for any reason; provided that Executive will be required to give the Company at least ninety (90) days advance written notice of any resignation of Executive's employment. Notwithstanding any other provision of this Agreement, the provisions of this Section 7 shall exclusively govern Executive's rights upon termination of employment with the Company and its affiliates prior to expiration of the Employment Term.
 - (a) **By the Company For Cause, By Executive's Resignation without Good Reason or upon Non-Renewal of the Employment Term.**
 - (i) The Employment Term and Executive's employment hereunder may be terminated by the Company for Cause (as defined below) or by Executive's resignation without Good Reason (as defined below).

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

 - (iii) If Executive's employment is terminated by the Company for Cause, if Executive resigns without Good Reason or if the Employment Term expires as a result of the Company delivering to the Executive the Non-Renewal Notice (such event, the "**Company Non-Renewal**"), Executive shall be entitled to receive:
 - (A) the Base Salary through the date of termination;

- (B) except in the case of termination for Cause, any Annual Bonus earned but unpaid as of the date of termination for any previously completed calendar year;
- (C) reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy prior to the date of Executive's termination; and
- (D) such Employee Benefits, if any, as to which Executive may be entitled under the employee benefit plans of the Company;
- (E) any additional amounts or benefits due under any applicable plan, program, agreement or arrangement of the Company or its affiliates or pursuant to applicable law (the amounts described in clauses (A) through (E) hereof being referred to as the "Accrued Rights"). The Accrued Rights under this Section 7 shall in all events be paid in accordance with the Company's normal payroll procedures, expense reimbursement procedures or plan terms, as applicable.

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

(b) Disability or Death.

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

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

of Disability made in writing to the Company and Executive shall be final and conclusive for all purposes of the Agreement.

- (ii) Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive:
 - (A) the Accrued Rights; and
 - (B) the Annual Bonus, if any, that the Executive would have been entitled to receive pursuant to Section 3(b) hereof in respect of the year in which such termination occurs based upon the actual achievement of the performance goals, multiplied by a fraction the numerator of which is the number of days Executive is employed by the Company in such year and the denominator of which is the total number of days in such year, payable when such Annual Bonus would have otherwise been payable in accordance with Section 3(b) had the Executive's employment not terminated (the "Pro-Rata Bonus").

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

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

- (i) The Employment Term and Executive's employment hereunder may be terminated by the Company without Cause or by Executive with Good Reason.
- (ii) For purposes of this Agreement, "Good Reason" shall mean:
 - (A) Executive's relocation, without his consent and other than for a temporary work assignment, by the Company outside Orange County, California;
 - (B) a material diminution of Executive's authority, duties, title or responsibilities as set forth in Section 2(a) hereof;
 - (C) a reduction of Executive's Base Salary (as increased from time to time) as set forth in Section 3(a) hereof;
 - (D) the material failure of the Company to provide or cause to be provided to Executive any of the Employee Benefits described in Section 5 hereof; or

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

- (iii) If Executive's employment is terminated by the Company without Cause (other than by reason of death or Disability), by Executive with Good Reason, Executive shall be entitled to receive:
 - (A) the Accrued Rights;

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

 - (C) subject to Executive's execution of a Release, the expiration of the applicable revocation period with respect to such Release within sixty (60) days following the date of termination and Executive's continued compliance with the provisions of Section 8 and 9, continued payment of the Base Salary in accordance with the Company's normal payroll practices for a period of twelve (12) months following the date of such termination, which shall commence on the sixtieth (60th) day following such termination (with the first payment equal to the cumulative amount that would have been paid in such initial sixty (60) day period); and

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

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

facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated.

8. Non-Interference/Non-Solicitation. Executive acknowledges and recognizes that in the course of performing services for the Company, Executive will have access to certain confidential and proprietary information of the Company and its affiliates that is extremely valuable to the Company and its affiliates and is not known to the general public. Accordingly, Executive agrees as follows:
- (a) Executive agrees that during the term of employment and until the first anniversary of the date of termination of Executive's employment with the Company or any subsidiary of the Company, as the case may be (the "Restricted Period"), the Executive will not directly or indirectly, use any Company Confidential Information (as defined in Section 9) to interfere with business relationships (whether formed before or after the date of this Agreement) between the Company or any of its affiliates and customers, suppliers, partners, members or investors of the Company or its affiliates.
 - (b) Executive further agrees that during the Restricted Period, Executive will not, directly or indirectly, (i) solicit or encourage any employee of the Company or its affiliates to leave the employment of the Company or its affiliates, or (ii) solicit or encourage to cease to work with the Company or its affiliates any consultant then under contract with the Company or its affiliates; provided, however, that general advertising not directed specifically at employees of the Company or any affiliate shall not be deemed to violate this Section 8(b).
 - (c) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 8 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that any restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.
9. Confidentiality and Cooperation. Executive will not at any time (whether during or after Executive's employment with the Company) disclose or use for Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Company and any of its subsidiaries or affiliates, any trade secrets, information, data, or other confidential information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans, or the business and affairs of

the Company generally, or of any subsidiary or affiliate of the Company (“Company Confidential Information”); provided that the foregoing shall not apply to information which is not unique to the Company or which is generally known to the industry or the public other than as a result of Executive's breach of this covenant; provided further that the foregoing shall not apply when Executive is required to divulge, disclose or make accessible such information by a court of competent jurisdiction or an individual duly appointed thereby, by any administrative body or legislative body (including a committee thereof) having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information. Executive agrees that upon termination of Executive's employment with the Company for any reason, he will return to the Company immediately all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company and its affiliates and/or containing any Company Confidential Information, except that he may retain personal notes, notebooks and diaries that do not contain Company Confidential Information of the type described in the preceding sentence. Executive further agrees that he will not retain or use for Executive's account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of the Company or its affiliates. Except to the extent that it could reasonably be expected to materially and unreasonably interfere with the Executive's professional and personal responsibilities and commitments, upon reasonable notice from the Company to the Executive, Executive agrees to cooperate, both during and after the Employment Term, at the Company's sole cost and expense (including reasonable, necessary and documented legal fees to the extent not otherwise paid by insurance), with respect to matters of which Executive has knowledge.

10. DEFEND TRADE SECRETS ACT.

- (a) Notwithstanding anything set forth in this Agreement to the contrary, Executive shall not be prohibited from reporting possible violations of federal or state law or regulation to any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of federal or state law or regulation, nor is Executive required to notify the Company regarding any such reporting, disclosure or cooperation with the government.
- (b) Pursuant to Section 1833(b) of the Defend Trade Secrets Act of 2016, Executive acknowledges that he shall not have criminal or civil liability under any federal or State trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Nothing in this Agreement is intended to conflict with Section 1833(b) of the Defend Trade Secrets Act of 2016 or create liability for disclosures of trade secrets that are expressly allowed by such section.

11. Specific Performance. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 8 or Section 9 would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.
12. Miscellaneous.
- (a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to conflicts of laws principles thereof.
 - (b) Entire Agreement/Amendments. This Agreement contains the entire understanding of the parties with respect to the employment of Executive by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto.
 - (c) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
 - (d) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.
 - (e) Assignment. This Agreement shall not be assignable by Executive. This Agreement may be assigned by the Company to a company which is a successor in interest to substantially all of the business operations of the Company. Such assignment shall become effective when the Company notifies the Executive of such assignment or at such later date as may be specified in such notice. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such successor company, provided that any assignee expressly assumes the obligations, rights and privileges of this Agreement.

- (f) Successors Binding Agreement. This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributes, devisees and legatees.
- (g) Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to the Company:

El Pollo Loco, Inc.
3535 Harbor Boulevard, Suite 100
Costa Mesa, CA 92626
Attn: President and Chief Executive Officer
Attn: Vice President, Legal.

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

- (h) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.
- (i) Section 409A. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to the extent subject thereto, and accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, Executive shall not be considered to have terminated employment with the Company for purposes of any payments under this Agreement which are subject to Section 409A of the Code until the Executive has incurred a "separation from service" from the Company within the meaning of Section 409A of the Code. Each amount to be paid or benefit to be provided under this Agreement shall be construed as a separate identified payment for purposes of Section 409A of the Code. Without limiting the foregoing and notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to this Agreement during the six-month period immediately following an Executive's separation from service shall instead be paid on the first business day after the date that is six months following the Executive's separation

from service (or, if earlier, the Executive's date of death). To the extent required to avoid an accelerated or additional tax under Section 409A of the Code, amounts reimbursable to Executive under this Agreement shall be paid to Executive on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in kind benefits provided to Executive) during one year may not affect amounts reimbursable or provided in any subsequent year. The Company makes no representation that any or all of the payments described in this Agreement will be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to any such payment.

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

[signature page follows]

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

Hector Munoz

EL POLLO LOCO, INC.

By: _____

Name:

Title:

Consent of Independent Registered Public Accounting Firm

El Pollo Loco Holdings, Inc.
Costa Mesa, California

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-197698) of El Pollo Loco Holdings, Inc. of our reports dated March 6, 2020, relating to the consolidated financial statements, and the effectiveness of El Pollo Loco Holdings, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

Costa Mesa, California
March 6, 2020

CERTIFICATIONS

I, Bernard Acoca, certify that:

1. I have reviewed this annual report on Form 10-K of El Pollo Loco Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ Bernard Acoca

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

CERTIFICATIONS

I, Laurance Roberts, certify that:

1. I have reviewed this annual report on Form 10-K of El Pollo Loco Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

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

Date: March 6, 2020

/s/ Bernard Acoca

Bernard Acoca
President and Chief Executive Officer

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer