EL POLLO LOCO HOLDINGS, INC.

FORM 10-K
(Annual Report)

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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 30, 2015

or

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

For the transition period from to

Commission file number 001-36556

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

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

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

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

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

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

N/A
(Title of class)

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

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

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

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

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

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

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

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

As of July 1, 2015, 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 $440 million deeming purely for purposes of this calculation all directors and executive officers, and Trimaran Pollo Partners, L.L.C. to be affiliates.

As of February 29, 2016, there were 38,284,435 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 2016 annual meeting of stockholders to be filed not later than 120 days after the end of the registrant's 2015 fiscal year.

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FORWARD-LOOKING STATEMENTS

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

- the adverse impact of economic conditions on our (i) operating results and financial condition, (ii) ability to comply with the terms and covenants of our debt agreements, and (iii) ability to pay or refinance our existing debt or to obtain additional financing,
- vulnerability to changes in consumer preferences and economic conditions,
- vulnerability to conditions in the greater Los Angeles area,
- ability to open new restaurants in new and existing markets, including difficulty in finding sites and in negotiating acceptable leases,
- delayed or cancelled future restaurant openings,
- restaurant closures, due to financial performance or otherwise,
- increases in chicken and other input costs,
- negative publicity, whether or not valid,
- concerns about food safety and quality and about food-borne illness, particularly avian flu,
- dependence on frequent and timely deliveries of food and supplies,
- problems with our primary distributor,
- our history of net losses, including the possibility of future net losses,
- our ability to service our level of indebtedness,
- our ability to compete successfully with other quick-service and fast casual restaurants,
- underperformance of new menu items, advertising campaigns, and restaurant designs and remodelings,
- our reliance on our franchisees, who may incur financial hardships, lose access to credit, close restaurants, or declare bankruptcy,
- our limited control over our franchisees,
- potential liability for franchisee acts,
- ability to protect our name and logo and other proprietary intellectual property,
- loss of the abilities, experience, and knowledge of current directors and officers,
- matters relating to employment and labor laws,
- impact from litigation such as wage and hour class action lawsuits,
- labor shortages and increased labor costs,
- our ability and the ability of our franchisees to renew leases at the ends of their terms,
- impact from federal, state, and local regulations relating to preparation and sale of food, zoning and building codes, and employee, environmental, and other matters,
- impact from our income tax receivable agreement (the “TRA”),
- conflicts of interest with our largest stockholders,
- that we are not yet subject to all of the corporate governance rules of the NASDAQ Global Select market (the “NASDAQ”).
- that El Pollo Loco Holdings, Inc., is a holding company with no operations that relies on its operating subsidiaries to provide it with funds,

- timing of our emerging growth company eligibility under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"),
- the impact of any security breaches of confidential guest information in connection with our electronic process of credit and debit card transactions.
- The impact of any failure of our information technology system or any breach of our network security.
- changes in accounting standards, and
- other risks described under Risk Factors.

PAR T I

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

ITEM 1. BUSINESS

Our Company

El Pollo Loco is a differentiated and growing restaurant concept that specializes in fire-grilling citrus-marinated chicken and operates in the limited service restaurant ("LSR") segment. We believe that we offer the quality of food and dining experience typical of fast casual restaurants while providing the speed, convenience, and value typical of traditional quick-service restaurants ("QSRs"), a combination that we call "QSR+" and that provides a value-oriented fast casual dining experience. Our distinctive menu features our signature product—citrus-marinated fire-grilled chicken—and a variety of Mexican-inspired entrees that we create from our chicken. Every day in every restaurant, we marinate and fire-grill our chicken over open flames, and hand-slice whole tomatoes, avocados, serrano peppers, and cilantro to make our salsas, guacamole, and cilantro dressings from scratch. The design of our kitchens reveals our Mexican-inspired cooking process and allows our customers to watch our grill masters and team members fire-grill and hand-cut our signature chicken, as well as make burritos, salads, tostadas, bowls, stuffed quesadillas, and chicken entrees.

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

El Pollo Loco is Spanish for "The Crazy Chicken." We opened our first location on Alvarado Street in Los Angeles, California, in 1980, and have grown our restaurant system to 433 restaurants, comprised of 186 company-operated and 247 franchised restaurants as of December 30, 2015. Our restaurants are located in California, Arizona, Nevada, Texas, and Utah. Our typical restaurant is a free-standing building with drive-thru service that ranges in size from 2,200 to 3,000 square feet with seating for approximately 70 people.

Our Industry

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

We operate within the broader LSR segment, and we believe that we offer the food and dining experience of a fast casual restaurant and the speed, value, and convenience of a QSR. We believe that our value-oriented fast casual positioning best aligns with fast casual restaurants because we believe that we offer the method of preparation, quality of food, and dining experience typical of fast casual restaurants. We believe that our differentiated menu, colorful, bright, and contemporary restaurant environments, and convenient locations position us to compete successfully against other fast casual and QSR concepts, providing us with a large addressable market.

We believe that we are also well-positioned to benefit from a number of culinary and demographic trends in the United States. We expect that the trend towards healthier eating will attract and increase consumer demand for fresh and hand-prepared dishes, leading to a positive impact on our sales. Furthermore, as indicated by recent high growth in the Mexican restaurant segment, we expect to benefit from increased acceptance of Mexican food in the United States in the general market. Finally, we also anticipate benefits from the continued growth of the Hispanic population in the United States, which, according to the U.S. Census Bureau, has grown from 50.5 million people in 2009 to an estimated 56.8 million people in 2015, and is projected to reach 77.5 million in 2030. The growth of the Hispanic population is expected to outpace overall population growth, and the Hispanic population as a percentage of the total U.S. population is expected to increase from 17.7% in 2015 to 21.6% by 2030.

Our Competitive Strengths

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

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

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

Our strategic approach to menu design has resulted in a balanced menu with broad appeal, as demonstrated by our balanced day-part mix. Our bone-in chicken meals and Mexican-inspired entrees accounted for 47% and 53% of our company-operated restaurant sales, respectively, in fiscal 2015. Our individual and family-sized chicken meals appeal to customers looking to dine at the restaurant or take out during dinner time, while our more-portable Mexican-inspired entrees draw traffic from customers at lunch time or for an afternoon snack, enabling us to generate sales almost equally between lunch and dinner. We believe that our family-sized chicken meals provide a healthier and convenient alternative for mothers and families looking to solve the "dinnertime dilemma" of providing their families with high-quality meals without investing significant time or money. In fiscal 2015 and 2014, approximately 28% of our company-operated sales were generated from family-sized meals.

Inviting Experience That Welcomes Our Customers . We believe that our Hacienda restaurant design creates an inviting restaurant environment. The exteriors of our restaurants feature a signature grill architectural element that reinforces our core brand, and our interiors feature large, open kitchens that allow customers to watch our grill masters prepare our fire-grilled chicken. Our restaurants also feature complimentary self-serve salsa bars that are located at the fronts of our restaurants for added convenience. The salsa bars invite customers to customize their meals with several salsas prepared fresh every day. Our colorful and contemporary dining rooms include comfortable booths and chairs, while large windows and soft lighting fill our restaurants with light and warmth. Our customers are responding positively to our Hacienda design, as comparable restaurant sales have increased on average an additional 3% to 4% at remodeled locations. As of the end of fiscal 2015, over 70% of our restaurant system is new or remodeled and we expect to have completed the remodeling program by 2018.

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

Well-Developed Operations Infrastructure that Allows for Real-time Control, Fast Feedback, and Innovation . We believe that satisfying our customers' dining needs is the foundation for our business, and we have a well-developed operations platform that allows us to measure our performance in meeting and exceeding those needs. We utilize a state-of-the-art operations dashboard that aggregates real-time, restaurant-level information for nearly every aspect 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. To put the metrics into perspective, we are able to measure current performance against benchmarks derived from a broad selection of fast casual and QSR brands. At the restaurant level, we use sophisticated technology to constantly monitor key o perational data regarding sales performance, speed-of-service metrics, and food and labor cost controls. The intelligence provided by our operations infrastructure allows both our company-operated and our franchised restaurant managers to make rapid and ob jective decisions to maintain our standards for food and service.

Developing High Average Unit Volumes ("AUVs") and Strong Unit Economics One Chicken at a Time. We believe that our differentiated QSR+ positioning 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 fiscal 2015, our company-operated restaurants generated average annual sales per restaurant of approximately $1.9 million and restaurant-level contribution margins of 21.7%.

Experienced Leadership . Our senior management team has extensive operating experience, with an average of over 20 years of experience each in the restaurant industry. We are led by our Chief Executive Officer, Steve Sather, who joined us in 2006 and was named CEO in January 2011. Other members of the senior leadership team include Larry Roberts as our Chief Financial Officer, Ed Valle as our Chief Marketing Officer, and Kay Bogeajis as our Chief Operating Officer.

Our Growth Strategy

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

Expand Our Restaurant Base . As of December 30, 2015, we had 433 locations in five states. In fiscal 2015, we opened 14 new company-operated and five new franchised restaurants, and in 2016 we intend to open 18-22 new company-operated and 10-15 new franchised restaurants. Over the long term, we plan to grow the number of El Pollo Loco restaurants by 8% to 10% annually. There is no guarantee that we will be able to increase the number of our restaurants. We may be unsuccessful in expanding within our existing or into new markets for a variety of reasons, as detailed in Item 1A, "Risk Factors," including competition for customers, sites, franchisees, employees, licenses, and financing.

We believe that our restaurant model is designed to generate strong cash flow, attractive restaurant-level financial results, and high returns on invested capital. Our current investment model targets an average new unit cash investment of $1.4-$1.5 million, net of tenant allowances, an AUV of approximately $1.9 million, and a cash-on-cash return in excess of 25% in a restaurant's third full year of operations, although there is no guarantee that these targets will be met.

While most of our growth in 2015 was derived from the expansion of our company-operated restaurant base, we will continue to strategically develop our franchisee relationships and grow our franchised portfolio within existing and new markets. For example, in May of 2015, we entered into exclusive franchise development agreements with Chicken Time Holdings, LP, an affiliate of Henry Investment Group, a Dallas based Family Office (together, "HIG"), for seven restaurants in the greater Dallas area. We view our franchise program as an important tool for expanding our brand, allowing us to increase our restaurant penetration. HIG should open their first El Pollo Loco restaurant in 2016.

Increase Our Comparable Restaurant Sales . Our system has experienced 18 straight quarters of comparable restaurant sales growth through our fiscal quarter ended December 30, 2015. We aim to build on this momentum by increasing customer frequency, attracting new customers, and improving per-person spend. Furthermore, we are well positioned to benefit from shifting culinary and demographic trends in the United States.

Menu Strategy and Evolution . We will continue to adapt our menu to create entrees that complement our signature fire-grilled chicken and that reinforce our differentiated QSR+ positioning. We believe that we have opportunities for menu innovation as we look to provide customers more choices through customization and limited time alternative proteins, such as Baja Shrimp. In addition, we will continue to tap in to the need for healthier offerings by building on the success of our popular "Under 500 Calorie" menu and other "better for you" products. Our marketing and operations teams collaborate to ensure that the items developed in our test kitchen can be executed to our high standards in our restaurants with the speed and value that our customers have come to expect.

Increase Brand Awareness and Consumer Engagement . We engage consumers through our 9-module product calendar which features seasonal favorites from our "Under 500 Calorie" low calorie menu for New Year's resolutions to Double Chicken Salads in Spring, and Stuffed Quesadillas for the winter holiday season. Our key points of differentiation are communicated through our advertising campaign which highlights the lengths we go through to deliver real food cooked on real grills, with real fire. We tailor our message from television and direct mail, which garners broad exposure, to our cost effective e-mail marketing program My Loco Rewards and social media platform where we engage in one-on-one conversations to solicit new ideas and deepen the relationship between our customers and our brand. Within our restaurants we continue to engage our custo mers at various points along their path to purchase to further drive our differentiation.

Hacienda Remodel Program . In 2011, we launched our new Hacienda remodeling program, which on average has resulted in an additional 3% to 4% of comparable restaurant sales for remodeled restaurants. The redesigned Hacienda restaurants highlight our roots, while offering a more modern feel and upscale dining experience. Over 70% of our restaurant system is new or remodeled as of the end of fiscal 2015 and we expect to have completed the remodeling program by 2018.

Enhance Restaurant Operations and Leverage Our Infrastructure. Since 2011, we have increased our restaurant contribution margin by 300 basis points, to 21.7% in fiscal 2015. We believe that we can further improve our margins by maintaining fiscal discipline, increasing fixed-cost leverage, and enhancing our purchasing efforts. We currently have an infrastructure that allows us and our franchisee partners to grow and manage the productivity of each restaurant on a real-time basis. Additionally, we believe that as our restaurant base matures and AUVs increase we will be able to leverage corporate costs and improve margins.

In fiscal 2015, we implemented several initiatives intended to improve speed of service and the overall customer experience in our restaurants. These included system-wide implementations of a more efficient center-line layout, simplified product builds, streamlined point-of-sale entry, and introduction of guest pagers in all company-owned restaurants.

Site Selection and Expansion

New Restaurant Development

We believe that we are in the early stages of our growth story and 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 expansion. In fiscal 2015, we opened 14 new company-operated restaurants, including seven in Houston, Texas, and five new franchised restaurants. In fiscal 2016, we intend to open 18 to 22 new company-operated and 10 to 15 new franchised restaurants. There is no guarantee that we will be able to open new company-operated or franchised restaurants, or to increase the overall number of our restaurants. We may be unsuccessful in expanding within existing or into new markets for a variety of reasons described in Item 1A, "Risk Factors," including competition for customers, sites, franchisees, employees, licenses, and financing. Over the long term, we plan to grow the number of El Pollo Loco restaurants by 8% to 10% annually.

Our strategy for entering new markets is to lead with company development while recruiting and developing franchisees to open new restaurants along with us. This strategy will enable us to establish a development, operations, and marketing infrastructure to help ensure that we maximize our consumer proposition and support franchisees as they enter the market. We anticipate that entering new markets with both company-operated and franchised development is the best way to establish our brand, by enabling rapid scaling, thereby driving operational and marketing efficiencies.

Our expansion strategy is initially focused on the southwestern region of the United States. We believe that this market provides an attractive opportunity to leverage our brand awareness and infrastructure. After thoroughly researching this region, we selected Houston, Texas, as our next new market and since 2014 have opened nine restaurants there. In furtherance of our strategy, in August 2014, we entered into an exclusive franchise development agreement with AA Pollo for 12 restaurants in the Houston area. Driven by the growth in Houston, we announced our continued Texas expansion into the Dallas Market with company and franchise restaurants planned for 2016. In Dallas, we entered into a seven unit, exclusive franchise development agreement with Chicken Time Holdings, LP.

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 over 100 years of combined experience building such brands as Taco Bell, McDonald's, Starbucks, Jack-in-the-Box, and Wendy's. We use a combination of our in-house development team and outside real estate consultants to locate, evaluate, and negotiate new sites using various criteria, including demographic characteristics, daytime population thresholds, and traffic patterns, along with the potential visibility of, and accessibility to, the restaurant. The process for selecting locations incorporates management's experience and expertise and includes extensive data collection and analysis. Additionally, we use information and intelligence gathered from managers and other restaurant personnel that live in or near the neighborhoods that we are considering.

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

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

Restaurant Design

After identifying a lease site, we commence our restaurant build-out. Our typical restaurant is a free-standing building with drive-thru service that ranges in size from 2,200 to 3,000 square feet. Our Hacienda restaurant design creates a colorful, bright, and contemporary restaurant environment. The exteriors of our remodeled restaurants feature a signature grill architectural element that reinforces the core brand, and our interiors feature large exhibition kitchens that allow customers to watch our grill masters prepare our fire-grilled chicken. Our colorful and contemporary dining rooms, with seating for approximately 70 people, include comfortable booths and chairs, while large windows and soft lighting fill our restaurants with light and warmth.

Our new restaurants are either ground-up prototypes or conversions. We estimate that each ground-up build-out of a restaurant requires an average total cash investment of approximately \$1.4 to \$1.5 million, net of tenant allowances. We estimate that each conversion requires a total cash investment of approximately \$0.8 to \$1.1 million. On average, it takes approximately 12 to 18 months from specific site identification to restaurant opening. In order to maintain consistency of food and customer service, as well as our colorful, bright, and contemporary restaurant environment, we have set processes and timelines to follow for all restaurant openings.

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

Restaurant Management and Operations

Service

We are extremely focused on customer service. We aim to provide fast, friendly service on a solid foundation of dedicated, driven team members and managers. Our cashiers are trained on the menu items that we offer, and offer customers thoughtful suggestions to enhance the ordering process. Our team members and managers are responsible for our dining room environment, personally visiting tables to ensure every customer's satisfaction and monitoring the fresh salsa bar and beverage station for cleanliness and an ample supply of products.

Operations

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

In fiscal 2015 we implemented several initiatives intended to improve speed of service and the overall customer experience in our restaurants. These included system-wide implementations of a more efficient center-line layout, simplified product builds, streamlined point-of-sale entry, and the introduction of guest pagers in all company-owned restaurants.

We measure the execution of our system standards within each restaurant through our commitment to our Restaurant Assessment Program ("RAP"). RAP audits are conducted in each restaurant twice annually, or may be more frequent based upon restaurant performance. Additionally, 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 employ third-party auditors that perform our RAP and food safety restaurant audits.

Managers and Team Members

Each of our restaurants typically has a general manager, an assistant manager, two to three shift leaders, and two team leaders. There are between 15 and 35 team members who prepare our food fresh daily and provide customer service. To lead our restaurant management teams, we have area leaders, each of whom is responsible for eight to 12 restaurants. Overseeing the area leaders are three directors of operations. The vice president of operations leads our company-operated restaurants, managing sales, profitability, and customer service targets.

We are selective in our hiring processes, aiming to staff our restaurants with team members who are friendly, customer-focused, and driven to provid e high-quality products. Our team members are cross-trained in several disciplines to maximize depth of competency and efficiency in critical restaurant functions. Our focus on hiring the best possible employees has enabled us to develop a culture that br eeds loyalty throughout our employee base. Many team members and managers have been employed by us for longer than 15 years, and it is not rare to identify team members with more than 20 years of seniority.

Training

We believe that we have created a culture of constant learning. On the first day of employment, team members are introduced to our brand with a comprehensive training program developed to lead team members through the training process in easy to use, function-based, educational card modules. In 2016, we plan to introduce video training and e-learning with a new Learning Management System.

The vast majority of our restaurant management staff is comprised of former team members who have advanced along the El Pollo Loco five-tier career path. Skilled team members who display leadership qualities are encouraged to enter the team leader training program. Successive steps along the management path add increasing levels of duty and responsibility. Each stage in the management path requires increased training periods, culminating in the general manager training process, which is comprised of seven weeks of intensive classroom and hands-on training in a certified training restaurant.

Grill Masters

Our reputation is built on our signature product—fired-grilled chicken marinated in citrus and garlic—which is grilled and hand-cut to order by our Grill Masters. Accordingly, we staff each of our restaurants with three to four highly-trained Grill Masters who share our commitment to high-quality food. We provide each Grill Master with intensive grilling training, and place them in our open kitchens, where our customers can watch them create our signature products.

Franchise Program

Overview

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 30, 2015, there were a total of 247 franchised restaurants. Franchisees range in size from single-restaurant operators to the largest franchisee, which owned 63 restaurants as of December 30, 2015. Our existing franchise base consists of many successful, longstanding, multi-unit restaurant operators. As of December 30, 2015, approximately 72% 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 seek franchisees of successful, non-competitive brands operating in our expansion markets. Through strategic networking and participation in select franchise conferences, we aim to identify highly-qualified prospects. Additionally, we market our franchise opportunities with printed brochures and a website franchising section.

Franchise Owner Support

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.

We have a mandatory training program that was designed to ensure that our franchise owners and their managers are equipped with the knowledge and skills necessary for success. The program consists of hands-on training in the operation and management of an El Pollo Loco restaurant. Training is conducted by a general training manager who has been certified by us for training. Instructional materials for the initial training program include our operations manual, the SPECS crew-training system, wall charts, job aids, recipe books, product build cards, management training materials, a ServSafe food safety book, videos, and other materials that we may create from time to time. Training must be successfully completed before a trainee can be assigned to a restaurant as a manager.

We also provide numerous opportunities for communication and shared feedback between us and franchise owners. Currently, we hold a franchise business update for all franchisees each month, which includes multi-functional Company representat ion and executive attendance. Quarterly, we meet with our Franchise Leadership Team and Marketing Advisory Committee to share ideas and resolve issues. Annually, we hold a conference for our franchisees, vendors, and company leaders, to celebrate our share d successes, discuss best practices, and set the course for the following year.

Marketing and Advertising

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

We use multiple marketing channels, including television, digital, and print, to broadly drive brand awareness and purchases of our featured products. We advertise on local broadcast and cable television. We complement these methods with direct mail and with our My Loco Rewards e-mail marketing program, which allows us to reach more than 300,000 members. My Loco Rewards is our e-club program. The program offers every member who joins a complimentary order of our handmade guacamole and chips. We engage members via e-mails featuring news of promotional offers, member rewards, and product previews. Members are offered complimentary two-piece meals or tostada salads during their birthday months. My Loco Rewards also allows members to voice their opinions through surveys that provide us with information that helps us define future product concepts. In addition, we use our database to survey and solicit new product ideas.

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

We created El Pollo Loco Charities, a non-profit charity, to support the communities surrounding our restaurants. El Pollo Loco Charities has provided over 10,000 meals per year to underprivileged families, through organizations like South County Food Outreach, Habitat for Humanity, Children's Institute, and Court Appointed Special Advocates ("CASA").

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 that performs comprehensive supplier audits on a frequency schedule based on the potential food safety risk for each product. We contract with MBM Corporation (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 distributor relationship with our primary distributor has been in place since 1997. Our restaurants in Texas and Utah utilize regional distributors. Our franchisees are required to use our primary distributor or an approved regional distributor, and franchisees must purchase food and supplies from approved suppliers. In our normal course of business, we evaluate bids from multiple suppliers for various products. Poultry is our largest product cost item and represented approximately 40% of our total food and paper costs for fiscal 2015. Fluctuations in supply and in price can significantly impact our restaurant service and profit performance. We actively manage cost volatility for poultry by negotiating with multiple suppliers and entering into what we believe are the most favorable contract terms given existing market conditions. In the past, we have entered into contracts ranging from two months to three years, depending on current and expected market conditions. We currently source poultry from six suppliers, with two accounting for approximately 75% of our planned purchases for fiscal 2016. We have fixed prices for 100% of our poultry supply through the end of 2016.

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. Our current brand campaign, Crazy You Can Taste™, has also been approved for registration with the PTO. In addition, the El Pollo Loco logo, website name and address, and Facebook, Twitter, Instagram and YouTube accounts are our intellectual property. Our policy is to pursue and maintain registration of service marks and trademarks in those countries where business strategy requires us to do so, and to oppose vigorously any infringement or dilution of the service marks or trademarks in those countries. We maintain the recipe for our chicken marinade, as well as certain proprietary standards, specifications, and operating procedures, as trade secrets or as confidential proprietary information.

Competition

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

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

Environmental Matters

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

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

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

Regulation and Compliance

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

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

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

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

Management Information Systems

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

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

Employees

As of December 30, 2015, we had approximately 5,171 employees, of whom approximately 5,021 were hourly restaurant employees comprised of 4,262 crewmembers, 191 general managers, 205 assistant managers, 311 shift leaders, and 52 employees in limited-time roles as acting managers or as managers in training. The remaining 150 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 and the timing of holidays cause our revenue to fluctuate from quarter to quarter. Our revenue per restaurant is typically lower in the first and fourth quarters due to reduced January and December traffic and higher in the second and third quarters. As a result of seasonality, our quarterly and annual results of operations and key performance indicators such as company restaurant revenue and comparable restaurant sales may fluctuate.

Available Information

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

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

ITEM 1A. RI SK FACTORS

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

Risks Related to Our Business and Industry

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

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

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

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

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 79% of our revenue in fiscal 2015 and approximately 80% in fiscal 2014. 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 traffic 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.

Furthermore, prolonged or severe inclement weather could affect our sales at restaurants in locations that experience such conditions, which could materially and adversely affect our business, financial condition, and results of operations. Weather conditions could impact our business more than other businesses in our industry because of our significant concentration of restaurants in the greater Los Angeles area. We may also suffer unexpected losses resulting from natural disasters or other catastrophic events affecting our areas of operation, such as earthquakes, fires, droughts, local strikes, terrorist attacks, increases in energy prices, explosions, or other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable, and our losses from catastrophes could be substantial.

Our growth strategy depends in part on opening new re staurants 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 will be through opening new restaurants and operating those restaurants on a profitable basis. We opened 14 new company-operated restaurants in fiscal 2015 and plan to open an estimated 18 to 22 in fiscal 2016. Our franchisees opened five new restaurants in fiscal 2015 and plan to open 10 to 15 in fiscal 2016. The ability to open new restaurants is dependent upon a number of factors, many of which are beyond our control, including our and our franchisees' abilities to:

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

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

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

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

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

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

Our profitability depends in part on our ability to anticipate and react to changes in food and supply costs. We are susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal economic fluctuations, weather conditions, global demand, food safety concerns, infectious diseases, fluctuations in the U.S. dollar, product recalls, and government regulations. The costs of many basic foods for humans and animals, including corn, wheat, corn flour and other flour, rice, and cooking oil, have increased markedly in recent years, resulting in upward pricing pressures on almost all of our raw ingredients, including chic ken, and increasing our food costs. Food prices for a number of our key ingredients escalated markedly at various points in fiscal 2015 and 2014 . Weather-related issues, such as freezes and drought, may also lead to temporary spikes in the prices of some i ngredients, such as produce and meat. 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 affect our operating results. Alternatively, in the event of cost increases with respect to one or more of our raw ingredients, we might choose to temporarily suspend serving menu items, such as guacamole or one or more of our salsas, rather than pay the increased cost. Any such changes to our available menu could n egatively impact our restaurant traffic, business, and comparable restaurant sales during the shortage and thereafter.

Our principal food product is chicken. In fiscal 2015, 2014, and 2013, the cost of chicken included in our product cost was approximately 13.4%, 12.6%, and 13.0%, respectively, of our revenue from company-operated restaurants. Material increases in the cost of chicken could materially and adversely affect our business, operating results, and financial condition. Changes in the cost of chicken can result from a number of factors, including seasonality, increases in the cost of grain, disease, and other factors that affect domestic and international supply of and demand for chicken products. A major driver of the price of corn, which is the primary feed source for chicken, has been the increasing demand for corn by the ethanol industry as an alternative fuel source, as most ethanol plants in the United States primarily use corn to make ethanol. This increased demand on the nation's corn crop has had and may continue to have an unfavorable impact on chicken prices. We occasionally ask our suppliers to use futures 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 traffic 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. The risk of negative publicity is particularly great with respect to our franchised restaurants, because we are limited in the manner in which we can regulate them, especially on a real-time basis. A similar risk exists with respect to food service businesses unrelated to us, if customers mistakenly associate those unrelated businesses with our operations. Employee claims against us or our franchisees based on, among other things, wage and hour violations, discrimination, harassment, or wrongful termination may also create not only legal and financial liability but negative publicity that could adversely affect us and divert our financial and management resources that could otherwise be used to benefit the future performance of our operations. These types of employee claims could also be asserted against us, on a co-employer theory, by employees of our franchisees. A significant increase in the number of these claims, or an increase in the number of successful claims, could materially and adversely affect our business, financial condition, results of operations, and cash flows.

Food safety and quality concerns may negatively impact our business and profitability, our internal operational controls and standards may not always be met, and our employees may not always act professionally, responsibly, and in our and our customers' best interests. Any possible instances of food-borne illness could reduce our restaurant sales.

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

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

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

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

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

Before fiscal 2014, we incurred net losses in each of the preceding seven fiscal years. We may incur net losses in the future, and we cannot guarantee that we will sustain profitability.

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

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

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

We have substantial debt service obligations. At December 30, 2015, our total debt was approximately $123.6 million (including capital lease obligations), and we had $69.8 million of credit available under our secured revolving credit facility, which was reduced by approximately $7.2 million from outstanding letters of credit.

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

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

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

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

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

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

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

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

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

We rely in part on our franchisees and the manner in which they operate their locations to develop and promote our business. As of December 30, 2015, our top 10 franchisees operated over 67% of our franchised restaurants and two franchisees (the “Significant Franchisees”) operated over 35% of our franchised restaurants. Due to the continuing challenging economic environment, it is possible that some franchisees could file for bankruptcy or become delinquent in their payments to us, which could have significant adverse impacts on our business, due to loss or delay in payments of (i) royalties, (ii) information technology (“IT”) support service fees, (iii) contributions to our advertising funds, and (iv) other fees. Bankruptcies by our franchisees could (i) prevent us from terminating their franchise agreements, so that we could offer their territories to other franchisees, (ii) negatively impact our market share and operating results, as we might have fewer well-performing restaurants, and (iii) adversely impact our ability to attract new franchisees.

As of December 30, 2015, we had executed development agreements that represent commitments to open 61 franchised restaurants at various dates through 2019. 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 restaur ants 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 affec t 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 February 2011, one franchisee filed a petition for relief under Chapter 11 of the Bankruptcy Code in the Central District of California. The resulting reorganization was completed in March 2013 and involved the sale of seven of the franchisee's 13 restaurants located in the Central Valley of California to new owners. All 13 restaurants continued to conduct business throughout the reorganization. The franchisee retained ownership of six of the 13 restaurants owned by it prior to the bankruptcy, but closed one of those restaurants in August 2013, due to its inability to renew the lease. The franchisee has the option to relocate that restaurant to a new site within a two-mile radius of the closed location or to continue to pay monthly royalties pursuant to the terms of a settlement agreement entered into as part of the reorganization.

Another franchisee with two restaurants was placed into receivership in March 2013. One restaurant owned by that franchisee prior to being placed into receivership was purchased by one of our largest franchisees in January 2014, and the second restaurant was sold to a new owner in July 2014. Both of the restaurants remained open during this process.

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.

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under the franchise agreement. Disagreement may lead to disputes with our franchisees, and we expect such disputes to occur from time to time in the future as we continue to offer franchises. To the extent that we have such disputes, the attention, time, and financial resources of our management and our franchisees will be diverted from our restaurants, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

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

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

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

We rely on our computer systems and network infrastructure across our operations, including point-of-sale processing at our restaurants. Our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure, and other catastrophic events, as well as from internal and external security breaches, viruses, and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us to litigation or to actions by regulatory authorities.

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

We accept electronic payment cards from our guests in our restaurants. For the fiscal year ended December 30, 2015, approximately 50% of our sales were attributable to credit/debit card transactions, and credit/debit card usage could continue to increase. A number of restaurant operators and retailers have experienced actual or potential security breaches in which credit/debit card information may have been stolen. While we have taken reasonable steps to prevent the occurrence of security breaches in this respect, we may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit/debit card information, and we may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit/debit card information may be brought by payment card providers, banks, and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit), and federal and state regulators. Any such proceedings could distract our management team members from running our business and cause us to incur significant unplanned losses and expenses.

We also receive and maintain certain personal information about our guests 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 guests' credit/debit card information as well as other personal information. Privacy and information security laws and regulations change over time, and compliance with those changes may result in cost increases due to necessary system and process changes.

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

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

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

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

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

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

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

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

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

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

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

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

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

Labor is a primary component in the cost of operating our company-operated and franchised restaurants. If we or our franchisees face labor shortages or increased labor costs, because of increased competition for employees, 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. Since January 1, 2016, the State of California (where most of our restaurants are located) has had a minimum wage of $10.00 per hour. From January 1, 2008, to June 30, 2014, it had been $8.00 per hour and from July 1 ,2014 to December 31, 2015, it had been $9.00 per hour. The federal minimum wage has been $7.25 per hour since July 24, 2009.

On June 10, 2015, the Council of the City of Los Angeles passed an ordinance, which on June 13, 2015, was approved by the mayor, raising the minimum wage on the following schedule: (i) from July 1, 2016, $10.50, (ii) from July 1, 2017, $12.00, (iii) from July 1, 2018, $13.25, (iv) from July 1, 2019, $14.25, (v) from July 1, 2020, $15.00, and (vi) from July 1, 2022, indexed to inflation. On September 29, 2015, the Board of Supervisors of the County of Los Angeles adopted an ordinance establishing a countywide minimum wage covering unincorporated areas of the county following the same schedule. Other cities in the County of Los Angeles have followed and may continue to follow. For example, on January 19, 2016, the City Council of the City of Long Beach approved a plan to raise the minimum wage on the following schedule: (i) from January 1, 2017, $10.50, (ii) from January 1, 2018, $12.00, and (iii) from January 1, 2019, $13.00. Thereafter, pursuant to further study, the minimum wage for the City of Long Beach could rise to $14.00 in 2020 and $15.00 in 2021.

In 2015, approximately 80% of our revenue came from company-operated and franchised restaurants in the greater Los Angeles area, including 12% from the City of Los Angeles, 43% from other incorporated cities in the County of Los Angeles, and 1% from unincorporated areas of the County of Los Angeles. Those restaurants that are not directly covered by these ordinances may be covered by future ordinances, may face competitive or political pressures to match these wage levels, or may suffer from any regional economic distress caused by these ordinances.

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

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

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

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

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

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

The Patient Protection and Affordable Care Act of 2010 (th e "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. Changes in government-mandated health care benefits under the PPAC A are anticipated to modestly increase our costs and the costs of our franchisees. Our compliance with the PPACA may result in modest modifications to our employment and benefits policies and practices. In 2015, we experienced a marginal enrollment increa se in our health plans with newly eligible employees. Because participation in the health plans by new, full-time employees was marginal, the cost increases did not result in modifications to our business practices. However, future cost increases may be ma terial and any future modifications to our business practices 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.

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.

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

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

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

We cannot make any assurances regarding our ability to effectivel y 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 eff ect on our results of operations and financial position, as well as on the restaurant industry in general.

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

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

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

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

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

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

Our payments under the TRA may be material. As of December 30, 2015, we had an accrued payable related to this agreement of approximately $41.5 million.

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

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

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

Risks Related to Ownership of Our Common Stock

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

Trimaran Pollo Partners, L.L.C. ("LLC"), owns approximately 43.7% 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 main tains 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.

This concentration of ownership may delay, deter, or prevent acts that would be favored by our other stockholders. 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. 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. Trimaran and Freeman Spogli also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, Trimaran and Freeman Spogli may have an interest in pursuing acquisitions, divestitures, and other transactions that, in their judgment, could enhance their investment in us, even though those transactions might involve risks to you, such as debt-financed acquisitions.

We are not yet subject to all of the corporate governance rules of the NASDAQ.

At the time of our initial public offering, we were majority-owned by LLC, classifying us as a controlled company under NASDAQ rules. NASDAQ rules exempt controlled companies from rules that require (i) the majority of the members of their boards of directors to be independent and (ii) compensation committees, and nominating and corporate governance committees, to be comprised entirely of independent directors.

On May 19, 2015, LLC sold enough stock to drop below 50% but remain above 40% ownership of our common stock. Accordingly, we are no longer a controlled company under NASDAQ rules. A company that has ceased to be a controlled company is permitted to phase in its independent nomination and compensation committees and majority independent board on the same schedule as if the company were newly listed in conjunction with its initial public offering. Accordingly, (i) at the time of the sale, one member of each committee was required to be independent, (ii) within 90 days of the sale (i.e., by August 17, 2015), a majority of each committee was required to be independent, (iii) within one year of the sale (i.e., by May 19, 2016), all committee members must be independent, and (iv) within one year of the sale, a majority of our board must be independent.

Our controlled company status did not modify the independence requirements for our audit commit tee, and we comply with the requirements of the Sarbanes–Oxley Act of 2002 and the NASDAQ by having an audit committee comprised entirely of independent directors.

Currently, three of our directors are independent. All audit committee members are independent. Two of three compensation committee members are independent. Two of three nominating and corporate governance committee members are independent.

During our phase-in period, we may not have the majority-independent board and the fully independent committees contemplated by the NASDAQ rules. Accordingly, you may not receive the benefits to corporate governance that these would bestow.

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

We are a holding company with no material direct operations. Our principal assets are the equity interests that we indirectly hold in our operating subsidiary, 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. Alth ough 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 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 the TRA, and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5 million in other restricted payments per year, and (d) make other restricted payments, provided that such payments would not cause, in each case, on a pro forma basis, (x) its lease-adjusted consolidated leverage ratio to equal or exceed 4.25 times and (y) its consolidated fixed charge coverage ratio to be less than 1.75 times.

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

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

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

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

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

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

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

In addition, Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

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

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

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

In addition, failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business and stock price.

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

Prior to our IPO, there was no public market for our common stock. 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 $9.58. An active, liquid, and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock or cause it to be highly volatile or subject to wide fluctuations. The market price of our common stock has fluctuated and may continue to fluctuate, or may decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

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

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

Future offerings of debt or equity securities by us may adversely affect the mar ket 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, and the perception that these sales could occur could also depress the market price of our common stock or impede our ability to raise equity capital. No lock-up agreements presently are in effect. LLC presently owns approximately 43.7% 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.

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

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

As of February 29, 2016, we had an aggregate of 158,669,405 shares of common stock authorized, unissued, and not reserved for incentive plan issuance. We may issue all of these shares of common stock without any action or approval by our stockholders, subject to certain exceptions. Any common stock issued in connection with our incentive plan, the exercise of outstanding stock options, or otherwise would dilute the percentage ownership held by all other stockholders.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December30, 2015, our restaurant system consisted of 433 restaurants, comprised of 186 company-operated restaurants and 247 franchised restaurants, located in California, Arizona, Nevada, Texas, and Utah. In addition, we currently license our brand to two restaurants in the Philippines. We have not included these two licensed restaurants as part of our unit count as presented in this annual report. The table below sets forth the locations (by state) for all restaurants in operation.

State	Company-Operated	Franchised	Total
California	155	213	368
Nevada	19	5	24
Arizona	2	18	20
Texas	9	10	19
Utah	1	1	2
Total	186	247	433

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 70 people. For a majority of our company-operated restaurants, we lease land on which our restaurants are built. Our leases generally have terms of 20 years, with two or three renewal terms of five years. Restaurant leases provide for a specified annual rent, and some leases call for additional or contingent rent based on revenue above specified levels. Generally, our leases are “net” leases that require us to pay a pro rata share of taxes, insurance, and maintenance costs. We own 15 properties, currently operating 12 and licensing three to franchisees. In addition, we operate 174 company-operated restaurants on leased real estate, an owned operating unit with additional parking on leased real estate, and have another 17 leased sites that are subleased or assigned to franchisees who operate El Pollo Loco restaurants. We also have one closed unit and two units subleased for uses other than El Pollo Loco.

We lease our headquarters, consisting of approximately 24,890 square feet in Costa Mesa, California, for a term expiring in 2018, plus one five-year extension option. Our headquarters is located at 3535 Harbor Boulevard, Suite 100, Costa Mesa, California 92626, and our telephone number is (714) 599-5000. We believe that our current office space is suitable and adequate for its intended purposes and our near-term expansion plans.

ITEM 3. LEGAL PROCEEDINGS

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, against EPL on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. We have executed a Memorandum of Understanding outlining an agreement in principle between the parties to settle the claims on a class-wide basis. The parties are working to memorialize the settlement and secure the required court approval.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016, on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, L.L.C., Trimaran Capital Partners, and Freeman Spogli & Co. (collectively, the "Controlling Shareholder Defendants"). Among other things, Plaintiffs allege that, in 2014 and early 2015, Holdings suffered losses due to rising labor costs in California and, in an attempt to mitigate the effects of such rising costs, removed a $5 value option from our menu, which resulted in a decrease in value-conscious store traffic. Plaintiffs further allege that during the Class Period, Holdings and the Individual Defendants made a series of materially false and misleading statements that concealed the effect that these factors were having on store sales growth, resulting in Holdings stock continuing to be traded at artificially inflated prices. As a result, Plaintiffs and other members of the putative class allegedly suffered damages in connection with their purchase of Holdings' stock during the Class Period. In addition, Plaintiffs allege that the Individual Defendants and Controlling Shareholder Defendants had direct involvement in, and responsibility over, the operations of Holdings, and are presumed to have had, among other things, the power to control or influence the transactions giving rise to the alleged securities law violations. In both cases, Plaintiffs seek an unspecified amount of damages, as well as costs and expenses (including attorneys' fees). Defendants intend to vigorously defend against the claims asserted. In addition, on September 16, 2015, the Company and certain of its officers and directors received an informal, non-public inquiry from the SEC requesting voluntary production of documents and information. All parties are cooperating fully with the SEC's request.

On or about November 5, 2015, a purported EPL shareholder filed a derivative complaint on behalf of the Company in the Court of Chancery of the State of Delaware against certain EPL officers, directors and Trimaran Pollo Partners, L.L.C. The derivative complaint alleges that these defendants breached their fiduciary duties to EPL and were unjustly enriched when they sold shares of EPL at artificially inflated prices due to alleged misrepresentations and omissions regarding EPL's comparable store sales in the second quarter of 2015. The EPL shareholder's requested remedies include an award of compensatory damages to EPL, as well as a court order to improve corporate governance by putting forward for stockholder vote certain resolutions for amendments to EPL's Bylaws or Certificate of Incorporation.

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

ITEM 4. MINE SAFETY DISCLOSURE

None.

PART II

ITEM 5. MARKET FOR R EGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has been listed on the NASDAQ under the symbol “LOCO” since July 25, 2014. Prior to that date, there was no established public trading market for our common stock.

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

	Low	High
Fiscal 2014:		
Third Quarter (July 25, 2014—September 24, 2014)	$ 18.48	$ 41.70
Fourth Quarter (September 25, 2014—December 31, 2014)	$ 19.85	$ 38.78
Fiscal 2015:		
First Quarter (January 1, 2015-April 1, 2015)	$ 19.98	$ 28.09
Second Quarter (April 2, 2015-July 1, 2015)	$ 20.30	$ 29.20
Third Quarter (July 2, 2015-September 30, 2015)	$ 10.25	$ 20.84
Fourth Quarter (October 1, 2015—December 30, 2015)	$ 9.58	$ 13.33

As of February 29, 2016, the closing price per share of our common stock on the NASDAQ was $12.91.

As of February 29, 2016, there were approximately 4 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered at such date and does not include holders of shares in “street name” or persons, partnerships, associates, corporations, or other entities in security position listings maintained by depositories. As of the same date, there were approximately 33,271 registered and beneficial accounts.

Dividend Policy

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

Issuer Purchases of Equity Securities

In the quarterly period ended December 30, 2015, neither we nor any affiliated purchaser made or had made on our or its behalf any purchases of equity securities, including for exercise price and tax withholdings related to awards under our compensation plans.

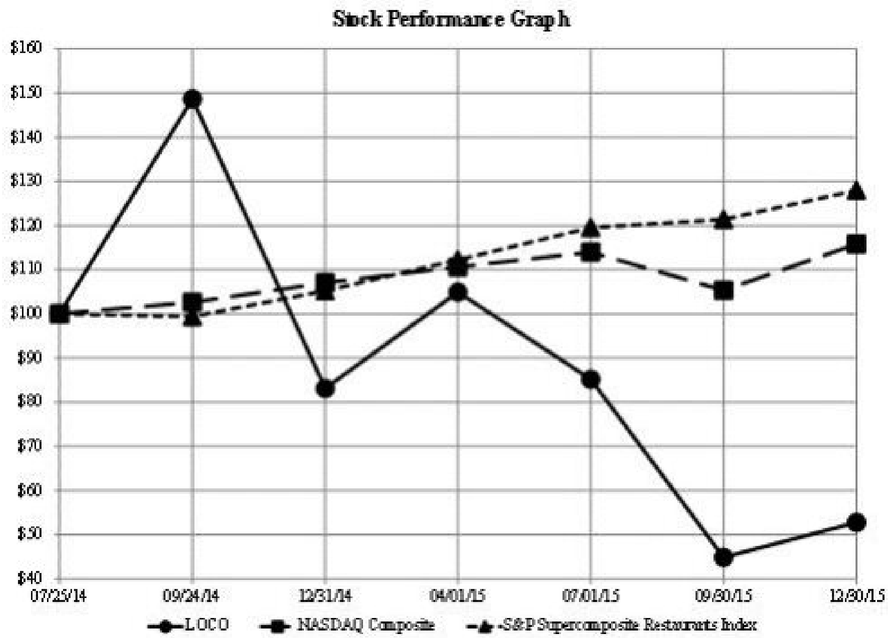
Recent Sales of Unregistered Securities

None.

Stock Performance Graph

The following graph and table illustrate the total return from July 25, 2014, through December 30, 2015, for (i) our common stock, (ii) the NASDAQ Composite Total Return Index, and (iii) the Standard and Poor's Supercomposite Restaurants Index, assuming the investment of $100 at the beginning of the period (at the closing price on our first day of trading of $24.03), reinvestment of dividends, and no transaction costs.

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



Date	LOCO	NASDAQ Composite	S&P Supercomposite Restaurants Index
July 25, 2014	$ 100.00	$ 100.00	$ 100.00
September 24, 2014	148.65	102.61	99.36
December 31, 2014	83.10	107.02	105.22
April 1, 2015	104.91	110.61	112.22
July 1, 2015	85.19	113.95	119.52
September 30, 2015	44.86	105.30	121.36
December 30, 2015	52.77	115.81	127.95

ITEM 6. SELECTED FINANCIAL DATA

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

	Fiscal Year				
	2015	2014	2013	2012	2011
Statement of Operations Data:					
Revenue					
Company-operated restaurant revenue	$ 332,040	$ 322,516	$ 294,327	$ 274,928	$ 255,361
Franchise revenue	23,017	22,345	20,400	18,682	17,877
Total revenue	355,057	344,861	314,727	293,610	273,238
Cost of operations					
Food and paper costs	105,917	102,611	93,589	85,428	78,873
Labor and related expenses	84,231	80,646	75,669	73,406	69,584
Occupancy and other operating expenses	69,977	68,538	63,150	61,636	59,269
Company restaurant expenses	260,125	251,795	232,408	220,470	207,726
General and administrative expenses	28,997	29,519	25,506	24,451	22,828
Franchise expenses	3,456	3,704	3,841	3,647	3,862
Depreciation and amortization	13,092	11,538	10,213	9,530	9,615
Loss on disposal of assets	471	646	868	966	197
Asset impairment and close-store reserves	92	1,033	(101)	1,494	2,014
Total expenses	306,233	298,235	272,735	260,558	246,242
Gain on disposition of restaurants	—	2,658	400	—	—
Income from operations	48,824	49,284	42,392	33,052	26,996
Interest expense, net	3,707	18,062	36,334	38,890	37,715
Early extinguishment of debt	—	9,718	21,530	—	20,173
Expenses related to selling shareholders	50	667	—	—	—
Income tax receivable agreement expense	156	41,382	—	—	—
Income (loss) before (provision) benefit for income taxes	44,911	(20,545)	(15,472)	(5,838)	(30,892)
(Provision) benefit for income taxes	(20,857)	63,008	(1,401)	(2,027)	(1,579)
Net income (loss)	$ 24,054	$ 42,463	$ (16,873)	$ (7,865)	$ (32,471)
Per Share Data:					
Net income (loss) per share					
Basic	$ 0.63	$ 1.32	$ (0.59)	$ (0.27)	$ (1.35)
Diluted	$ 0.62	$ 1.24	$ (0.59)	$ (0.27)	$ (1.35)
Weighted average shares used in computing net income (loss) per share					
Basic	37,949,316	32,285,484	28,712,622	28,712,194	24,106,380
Diluted	39,039,558	34,346,241	28,712,622	28,712,194	24,106,380
Consolidated Statement of Cash Flows Data:					
Net cash provided by operating activities	$ 57,971	$ 26,085	$ 19,700	$ 19,409	$ 6,454
Net cash used in investing activities	$ (30,835)	$ (21,401)	$ (13,787)	$ (14,993)	$ (3,709)
Net cash provided by (used in) financing activities	$ (32,534)	$ (10,200)	$ (10,385)	$ (1,920)	$ (6,469)

	Fiscal Year			
	2015	2014	2013	2012
Balance Sheet Data—Consolidated (at period end):				
Cash and cash equivalents	$ 6,101	$ 11,499	$ 17,015	$ 21,487
Net property (1)	$ 102,421	$ 82,090	$ 68,641	$ 64,808
Total assets	$ 461,028	$ 455,306	$ 416,942	$ 417,898
Total debt (2)	$ 123,638	$ 165,846	$ 289,242	$ 274,621
Total stockholders' equity	$ 244,633	$ 210,400	$ 48,536	$ 64,587

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

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

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

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

Basis of Presentation

We use a 52- or 53-week fiscal year ending on the last Wednesday of each calendar year. Fiscal 2013, 2014, and 2015 ended on December 25, 2013, December 31, 2014 and December 30, 2015, respectively. In a 52-week fiscal year, each quarter includes 13 weeks of operations. In a 53-week fiscal year, the first, second, and third quarters each include 13 weeks of operations, and the fourth quarter includes 14 weeks of operations. Approximately every six or seven years a 53-week fiscal year occurs. Fiscal 2013 and 2015 were 52-week fiscal years. Fiscal 2014 was a 53-week fiscal year. 53-week years may cause revenues, expenses, and other results of operations to be higher due to the additional week of operations. Fiscal years are identified in this report according to the calendar years in which they ended. For example, references to fiscal 2015 refer to the fiscal year ended December 30, 2015.

Overview

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

Growth Strategies and Outlook

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

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

As of December 30, 2015, we had 433 locations in five states. In fiscal 2014, we opened 11 new company-operated and five new franchised restaurants. In fiscal 2015, we opened 14 new company-operated and five new franchised restaurants across Arizona, California, and Texas. Over the long term, we plan to grow the number of El Pollo Loco restaurants by 8% to 10% annually. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend. We believe that we are well-positioned for future growth, with a developed corporate infrastructure capable of supporting a future restaurant base that is greater than our existing one. Additionally, we believe that we have an opportunity to optimize costs and enhance our profitability as we benefit from economies of scale. These growth rates are not guaranteed.

Key Performance Indicators

To evaluate the performance of our business, we utilize a variety of financial and performance measures. These key measures include company-operated restaurant revenue, comparable restaurant sales, company-operated average unit volumes, restaurant contribution, restaurant contribution margin, new restaurant openings, EBITDA, and Adjusted EBITDA. In fiscal 2015, our restaurants generated company-operated restaurant revenue of $332.0 million and system-wide sales of $753.4 million, and system comparable sales increased 2.2%, consisting of company-operated restaurant comparable sales growth of 1.0% and franchised comparable sales growth of

3.1 %. The company-operated comparable sales increase consisted of a 1.9 % transaction decline and a 2.9 % check growth. In fiscal 2015 , for company-operated restaurants, our annual AUV was $ 1.9 million, restaurant contribution margi n was 21. 7 %, and Adjusted EBITDA was $ 65.5 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 traffic and higher in the second and third quarters. As a result of seasonality, our quarterly and annual results of operations and key performance indicators such as company restaurant revenue and comparable restaurant sales may fluctuate.

Comparable Restaurant Sales

We closely monitor company, franchise, and total system comparable restaurant sales. Comparable restaurant sales reflect the change in year-over-year sales for the comparable company, franchise, and total system restaurant base. We define our comparable restaurant base to include those restaurants open for 15 months or longer. As of December 30, 2015, December 31, 2014 and December 25, 2013, there were 160, 160, and 165 restaurants, respectively, in our comparable company-operated restaurant base. As of December 30, 2015, December 31, 2014, and December 25, 2013, there were 237, 237, and 227 restaurants, respectively, in our comparable franchised restaurant base. This measure highlights the performance of existing restaurants as the impact of new restaurant openings is 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, accounting principles generally accepted in the United States of America (“GAAP”). Restaurant contribution is defined as company-operated restaurant revenue less company restaurant expenses. Restaurant contribution margin is defined as restaurant contribution as a percentage of net company-operated restaurant revenue. Restaurant contribution and restaurant contribution margin are supplemental measures of operating performance of our restaurants, and our calculations thereof may not be comparable to those reported by other companies. Restaurant contribution and restaurant contribution margin have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Management believes that restaurant contribution and restaurant contribution margin are important tools for investors, because they are widely-used metrics within the restaurant industry to evaluate restaurant-level productivity, efficiency, and performance. Management uses restaurant contribution and restaurant contribution margin as key metrics to evaluate the profitability of incremental sales at our restaurants, to evaluate our restaurant performance across periods, and to evaluate our restaurant financial performance compared with our competitors.

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

	Fiscal Year		
(Dollar amounts in thousands)	**2015**	**2014**	**2013**
Company-operated restaurant revenue	$ 332,040	$ 322,516	$ 294,327
Company restaurant expenses	260,125	251,795	232,408
Restaurant contribution	$ 71,915	$ 70,721	$ 61,919
Restaurant contribution margin (%)	21.7%	21.9%	21.0%

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

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

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

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

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

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

	Fiscal Year		
	2015	2014	2013
Net income (loss)	$ 24,054	$ 42,463	$ (16,873)
Non-GAAP adjustments:			
(Benefit) provision for income taxes	20,857	(63,008)	1,401
Interest expense, net	3,707	18,062	36,334
Depreciation and amortization	13,092	11,538	10,213
EBITDA	$ 61,710	$ 9,055	$ 31,075
Stock based compensation expense (a)	539	1,093	822
Management fees (b)	—	343	624
Loss on disposal of assets (c)	471	646	868
Impairment and closures (d)	89	1,033	(101)
Early extinguishment of debt (e)	—	9,718	21,530
Gain on disposition of restaurants (f)	—	(2,658)	(400)
Expense related to selling shareholders (g)	50	667	—
Income tax receivable agreement expense (h)	156	41,382	—
Tax credit expense (i)	—	415	—
Securities class action legal expense (j)	993	—	—
Pre-opening costs (k)	1,456	1,215	201
Adjusted EBITDA	$ 65,464	$ 62,909	$ 54,619

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

(b) Includes management fees and other out-of-pocket costs paid to affiliates of Trimaran and Freeman Spogli up through our IPO. This agreement was cancelled in conjunction with the IPO.

(c) 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.

(d) Includes costs related to impairment of long-lived assets and closing restaurants. In 2013, we reversed a portion of the close-store reserves established in 2012, due to our subleasing, in 2013, of one of the reserved restaurants at a lower net cost than originally estimated.

(e) Includes costs associated with our debt refinancing transactions in December 2014 and October 2013 and the repayment of our 2013 Second Lien Term Loan with a portion of the proceeds of our IPO in July 2014.

(f) On September 24, 2014, we completed the sale of six company-operated restaurants in the greater San Antonio area. This sale resulted in cash proceeds of $5.4 million, a decrement to goodwill of $650,000 and a net gain of $2.7 million. These six restaurants are now franchised.

(g) Includes : (1) Costs related to the sale, in the second quarter of 2015, of 5.4 million share of common stock in a block trade to various investors, by our largest shareholder, which was at that time our majority shareholder, pursuant to Rule 144 under the Securities Act. This shareholder owns stock in us not registered under the Securities Act. Under our stockholders agreement, this shareholder may require us to register stock in us that it owns, under the Securities Act. In that event, we are responsible for all registration expenses. In lieu of the shareholder's exercise of its registration rights, we agreed to bear the expenses incident to the shareholder's sale of these shares using Rule 144and (2) Costs related to our secondary offering of stock on November 25, 2014.

(h) On July 30, 2014, we entered into the TRA. This agreement calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods.

(i) Consists of the cost to obtain the tax credits recorded in the third and fourth quarters of 2014. $6.7 million of tax benefits were recorded to tax provision in the third and fourth quarters.

(j) Consists of costs related to a securities class action lawsuit. See Item 3. Legal Proceedings

(k) 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.

Highlights and Trends

Comparable Restaurant Sales

In fiscal 2015, 2014, and 2013, comparable restaurant sales system-wide increased 2.2%, 7.0%, and 7.0%, respectively. Comparable restaurant sales growth reflects the change in year-over-year sales for the comparable restaurant base. A restaurant enters our comparable restaurant base the first full week after its 15-month anniversary. System-wide comparable restaurant sales include restaurant sales at all comparable company-operated restaurants and at all comparable franchised restaurants, as reported by franchisees. Comparable restaurant sales at company-operated restaurants increased 1.0% in fiscal 2015, 5.8% in fiscal 2014, and 5.3% in fiscal 2013. In fiscal 2015, the increase in company-operated comparable restaurant sales was primarily the result of an increase in average check size of 2.9% offset by a decrease in traffic of 1.9%. In fiscal 2014, the increase in company-operated comparable restaurant sales was driven by an increase in average check size of 3.3% and by traffic growth of 2.5%. In fiscal 2013, the increase in company-operated comparable restaurant sales was driven by an increase in average check size of 2.7% and by traffic growth of 2.6%. In fiscal 2015, 2014, and 2013, comparable restaurant sales at franchised restaurants increased 3.1%, 8.0%, and 8.8%, respectively.

Restaurant Development

Since 2011, we have focused on repositioning our brand, improving operational efficiency and brand awareness, strengthening our management team, and refinancing our indebtedness in preparation for future growth. New restaurant development is expected to be a key driver of our growth strategy. In fiscal 2015, we opened 14 company-operated restaurants, and our franchisees opened five new restaurants. From time to time, we and our franchisees close restaurants. In fiscal 2015, our franchisees closed one restaurant. Our restaurant counts at the end of each of the last three years are as follows:

	Fiscal Year		
	2015	2014	2013
Company-operated restaurant activity:			
Beginning of period	172	168	169
Openings	14	11	2
Restaurant sale to franchisee	—	(6)	—
Closures	—	(1)	(3)
Restaurants at end of period	186	172	168
Franchised restaurant activity:			
Beginning of period	243	233	229
Openings	5	5	5
Restaurant sale to franchisee	—	6	—
Closures	(1)	(1)	(1)
Restaurants at end of period	247	243	233
Total restaurant activity:			
Beginning of period	415	401	398
Openings	19	16	7
Closures	(1)	(2)	(4)
Restaurants at end of period	433	415	401

Restaurant Remodeling

We and our franchisees commenced our remodeling program in 2011 and, as of December 30, 2015, together we had remodeled 107 company-operated and 168 franchised restaurants, or 275 system-wide, over 70% of our restaurant system due to be remodeled. 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 $270,000 per restaurant. We believe that our remodeling program will result in higher restaurant revenue and a strengthened brand.

2014 Refinancing

In December 2014, we refinanced our $15 million first lien revolving credit facility (the “2013 Revolver”) and a $190 million first lien term loan facility (the “2013 First Lien Term Loan,” and, together with the 2013 Revolver, the “2013 First Lien Credit Agreement”) by entering into a $200 million first lien revolving credit facility (the “2014 Revolver”) (such refinancing, the “2014 Refinancing”). The 2014 Revolver carries longer maturities and lower interest rates than the indebtedness that it replaced. The 2014 refinancing combined with the pre-payment of $42 million on the 2014 Revolver in 2015, resulted in a reduction of interest expense of $14.3 million in 2015 compared to 2014.

2013 Refinancing

In October 2013, we refinanced our $12.5 million first lien revolving credit facility, $170 million first lien term loan facility, and $105 million 17% Second Priority Senior Secured Notes due 2018 (collectively, the “2011 Financing Agreements”) by entering into the 2013 First Lien Credit Agreement and a $100 million second lien term loan facility (the “2013 Second Lien Term Loan,” and, together with the 2013 First Lien Credit Agreement, the “2013 Credit Agreements”) (such refinancing, the “2013 Refinancing”). The 2013 Credit Agreements carried longer maturities and lower interest rates than the indebtedness that they replaced. Following the completion of the 2013 Refinancing, our interest expense declined by approximately $17.8 million on an annualized basis, or approximately 49% of our $36.3 million of interest expense in fiscal 2013. We repaid in full the 2013 Second Lien Term Loan with the majority of the net proceeds from our IPO.

Critical Accounting Policies and Use of Estimates

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

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

Revenue Recognition

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

Goodwill and Indefinite-Lived Intangible Assets, Net

Intangible assets consist primarily of goodwill and trademarks.

We do not amortize our goodwill and indefinite-lived intangible assets. We perform an annual impairment test for goodwill during the fourth fiscal quarter of each year, or more frequently if impairment indicators arise. For our annual goodwill impairment assessment at December 30, 2015, 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 30, 2015, 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 competi tive 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.

Insurance Reserves

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

Accounting for Lease Obligations

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

Franchise Operations

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

Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. As of December 30, 2015, we had federal and state net operating loss ("NOL") carryforwards of $105.2 million and $93.6 million, respectively. These Federal and State NOLs expire beginning in 2028 and 2025, respectively.

A valuation allowance is required when there is significant uncertainty as to the realizability of deferred tax assets. 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.

At December 25, 2013, we maintained a full valuation allowance against our deferred tax assets. A fter evaluating all of the positive and negative evidence, including our continued income from operations, reduction in interest expense resulting from the 2014 and 2013 refinancing of debt and from our completed IPO and the resultant repayment of the 2013 Second Lien Term Loan, we concluded that it was more likely than not that our deferred tax assets would be recovered. As a result, in fiscal 2014, we released our valuation allowance totaling approximately $65 million. We had previously maintained a full valuation allowance on our deferred tax assets, as we had been experiencing continuing taxable losses, and accordingly did not recognize a benefit for NOL carryforwards or other deferred tax assets in fiscal 2013 and 2012. In 2015, a valuation allowance of $2.9 million was established to reserve against the potential that certain tax credits may not be utilized prior to the date they expire.

We will continue to reevaluate the continued need for either a full or partial 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. In connection with the TRA, we amended the 2013 First Lien Credit Agreement to permit dividend payments to us by our subsidiaries in amounts up to $11 million per fiscal year, not to exceed $33 million in the aggregate, while the 2013 First Lien Credit Agreement was outstanding. In fiscal 2014, we incurred charges totaling approximately $41 million relating to the present value of our total estimated TRA payments. We are permitted to make TRA payments under the 2014 Revolver. The TRA charge of $41 million is a permanent add-back to the Company’s taxable income that resulted in approximately $14 million of tax expense for 2014. In fiscal 2015, we incurred charges of $.2 million related to the amortization of the present value of the TRA obligation.

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.

Stock-Based Compensation

We measure and recognize 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. The options granted in fiscal 2012 had a three-year vesting period (with 25% of the options vesting immediately), while the options granted in fiscal 2013 and 2014 had a four-year vesting period. No options were granted in fiscal 2015. For options that are based on performance requirements, costs are recognized over the periods to which the performance criteria relate.

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, and we have developed estimates of various inputs including forfeiture rate, expected term, expected volatility, and risk-free interest rate. These assumptions generally require significant judgment. 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. Expected volatility is estimated using four publicly-traded peer companies in our market category.

These are selected based on similarities of size and other financial and operational characteristics. Volatility is calculated with reference to the historical daily closing equity pri ces of our peer companies, prior to the grant date, over a period equal to the expected term. We calculate 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 te rm of our employee stock options. We do not anticipate paying any cash dividends for the foreseeable future and therefore use an expected dividend yield of zero for option valuation purposes.

The following table summarizes the assumptions relating to our stock options for fiscal 2015, 2014, and 2013.

	Fiscal Year		
	2015	2014	2013
Risk-free interest rates	—	1.70% to 1.72%	1.15% to 1.99%
Expected term	—	5.75 years	6.25 years
Expected dividend yield	—	0%	0%
Volatility	—	32.4% to 41.0%	40.6%

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 life, 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 2014, and 2013. We will continue to use significant judgment in evaluating the expected term, volatility, and forfeiture rate related to our stock-based compensation.

Recent Accounting Pronouncements

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

Key Financial Definitions

Revenue

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

Food and Paper Costs

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

Labor and Related Expenses

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

Occupancy Costs and Other Operating Expenses

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

General and Administrative Expenses

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

Franchise Expenses

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

Depreciation and Amortization

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

Loss on Disposal of Assets

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

Asset Impairment and Close-Store Reserves

We review long-lived assets such as property, equipment, and intangibles on a unit-by-unit basis for impairment when events or circumstances indicate a carrying value of the assets that may not be recoverable, and record an impairment charge when appropriate. Closure costs include non-cash restaurant charges such as up-front expensing of unpaid rent remaining on the life of a lease.

Interest Expense, Net

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

Early Extinguishment of Debt

In October 2013, we refinanced the 2011 Financing Agreements by entering into the 2013 Credit Agreements, which included longer maturities and lower interest rates than the indebtedness that they replaced. The proceeds from our IPO in July 2014 were primarily used to repay the 2013 Second Lien Term Loan. In December 2014, we refinanced our then-existing debt, replacing the 2013 Revolver and the 2013 First Lien Term Loan with the 2014 Revolver. As a result of the 2013 Refinancing, the repayment of the 2013 Second Lien Term Loan, and the 2014 Refinancing, in both fiscal 2014 and 2013 we incurred charges for prepayment penalties and fees, call premium, accelerated accretion, and write-off of deferred financing costs and fees and of unamortized discount.

Benefit (Provision) for Income Taxes

Benefit (provision) for income taxes consists of federal and state taxes on our income.

Results of Operations

Fiscal Year 2015 Compared to Fiscal Year 2014

Our operating results for the fiscal years ended December 30, 2015, and December 31, 2014, 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 2015 (52-Weeks)		Fiscal Year 2014 (53-Weeks)		Increase / (Decrease)	
	($,000)	(%)	($,000)	(%)	($,000)	(%)
Statement of Operations Data:						
Revenue						
Company-operated restaurant revenue	$ 332,040	93.5	$ 322,516	93.5	$ 9,524	3.0
Franchise revenue	23,017	6.5	22,345	6.5	672	3.0
Total revenue	355,057	100.0	344,861	100.0	10,196	3.0
Cost of operations						
Food and paper costs	105,917	31.9	102,611	31.8	3,306	3.2
Labor and related expenses	84,231	25.4	80,646	25.0	3,585	4.4
Occupancy and other operating expenses	69,977	21.1	68,538	21.3	1,439	2.1
Company restaurant expenses	260,125	78.3	251,795	78.1	8,330	3.3
General and administrative expenses	28,997	8.2	29,519	8.6	(522)	(1.8)
Franchise expenses	3,456	1.0	3,704	1.1	(248)	(6.7)
Depreciation and amortization	13,092	3.7	11,538	3.3	1,554	13.5
Loss on disposal of assets	471	0.1	646	0.2	(175)	(27.1)
Asset impairment and close-store reserves	92	0.0	1,033	0.3	(941)	(91.1)
Total expenses	306,233	86.2	298,235	86.5	7,998	2.7
Gain on disposition of restaurants	—	0.0	2,658	0.8	(2,658)	(100.0)
Income from operations	48,824	13.8	49,284	14.3	(460)	(0.9)
Interest expense, net	3,707	1.0	18,062	5.2	(14,355)	(79.5)
Early extinguishment of debt	—	—	9,718	2.8	(9,718)	(100.0)
Expenses related to selling shareholders	50	—	667	0.2	(617)	(92.5)
Income tax receivable agreement expense	156	—	41,382	12.0	(41,226)	(99.6)
Income (loss) before (provision) benefit for income taxes	44,911	12.6	(20,545)	(6.0)	65,456	(318.6)
(Provision) benefit for income taxes	(20,857)	(5.9)	63,008	18.3	83,865	133.1
Net income (loss)	$ 24,054	6.8	$ 42,463	12.3	$ (18,409)	(43.4)

Company-Operated Restaurant Revenue

In fiscal 2015, company-operated restaurant revenue increased $9.5 million, or 3.0%, due to an increase in company-operated comparable restaurant sales of $3.1 million, or 1.0%. The growth in company-operated comparable restaurant sales was due primarily to an increase in average check size of 2.9% offset by a decrease in traffic of 1.9% compared to the prior year. Company-operated restaurant revenue was also favorably impacted by $16.3 million of additional sales from new restaurants, and was partially offset by $5.5 million of lost sales from closed restaurants and $4.6 million for the additional week of operations, in fiscal 2014, in a 53-week fiscal year.

Franchise Revenue

In fiscal 2015, franchise revenue increased $0.7 million, or 3.0%. This increase was due primarily to increases in franchised comparable restaurant sales of 2.2%, $0.5 million in higher point of sales revenue, resulting primarily from additional franchise units, and $0.3 million in higher franchise development and agreement renewal fees. This increase was partially offset by a $1.3 million decrease in sublease income, resulting from the expiration or buy out, in the prior year, of sublease agreements.

Food and Paper Costs

Food and paper costs increased $3.3 million in fiscal 2015, due to a $3.7 million increase in food costs and a $0.44 million decrease in paper costs. This increase was due primarily to higher sales volume and to higher commodity costs, offset by lower packaging costs. Food and paper costs as a percentage of company-operated restaurant revenue were 31.9% in fiscal 2015, compared to 31.8% in fiscal 2014. This increase in percentage was due to higher commodity costs, offset by increases in average check size, due to menu price increases in the third and fourth quarter of 2014 and the first and fourth quarters of 2015.

Labor and Related Expenses

Payroll and benefit expenses increased $3.6 million in fiscal 2015, compared to fiscal 2014. This increase was due primarily to additional labor needs arising from the opening of 14 new restaurants in fiscal 2015 and 11 new restaurants in fiscal 2014, a minimum wage increase in California in the third quarter of fiscal 2014 and increased medical and workers compensation expense, resulting primarily from increased claims activity. Payroll and benefit expenses as a percentage of company-operated restaurant revenue were 25.4% in fiscal 2015, compared to 25.0% in fiscal 2014. This increase was due primarily to the increase in medical and workers compensation expense, noted above, partially offset by menu price increases.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased $1.4 million in fiscal 2015, compared to fiscal 2014. This increase was due primarily to (i) a $1.3 million increase in occupancy costs, due primarily to increased rent, as a result of new restaurants opened in fiscal 2015 and 2014, (ii) a $0.3 million increase in advertising costs, and (iii) a $0.2 million increase in operating expense, resulting primarily from higher credit and debit card processing fees. These increases were partially offset by a $0.4 million decrease in utility costs, due primarily to lower gas costs. Occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 21.1% in fiscal 2015, compared to 21.3% in fiscal 2014. This decrease is primarily due to lower utility costs, noted above.

General and Administrative Expenses

General and administrative expenses decreased $0.5 million in fiscal 2015. The decrease was due primarily to (i) a $1.0 million capitalization of internal costs related to site selection and construction activities, (ii) a $0.6 million decrease in stock option expense, due primarily to certain options that were fully expensed in the prior year and the reversal of expense in the current year related to various performance based options that are not expected to meet their specific performance criteria and (iii) a $0.2 million decrease in payroll expense, due primarily to a reduction in the accrual for the expected payments related to the Company’s annual bonus program, partially offset by an increase in medical expense and an increase in corporate employees. These decreases in expense were partially offset by a $0.9 million increase in legal expense, resulting primarily from expense related to a securities class action case and a $0.2 million increase in restaurant opening costs, due primarily to increased company-operated restaurant openings in 2015 as compared to 2014. General and administrative expenses as a percentage of total revenue were 8.2% in fiscal 2015, compared to 8.6% in fiscal 2014. This decrease was due primarily to the reduction in costs, noted above, and increased revenue.

Gain on Disposition of Restaurants

On September 24, 2014, we completed the sale of six company-operated restaurants in the greater San Antonio area to AA Pollo, resulting in cash proceeds of $5.4 million. Goodwill was decremented by $650,000, based on a calculation of the fair value of the restaurants sold relative to the fair value of the reporting unit retained. We recognized a net gain of $2.7 million on this transaction, which is recorded as a gain on disposition of restaurants in the accompanying statement of operations. These six restaurants are now included in our franchised restaurant totals.

Interest Expense, Net

Interest expense, net, decreased $14.4 million in fiscal 2015, compared to fiscal 2014. This decrease was due primarily to (i) the repayment of the 2013 Second Lien Term Loan with IPO proceeds in July 2014, (ii) the 2014 Refinancing in the fourth quarter of fiscal 2014, which further reduced the interest rate on our debt and (iii) the pre-payment of $42.0 million on the 2014 Revolver in fiscal 2015.

Early Extinguishment of Debt

The proceeds from our IPO in July 2014 were primarily used to repay the 2013 Second Lien Term Loan. In conjunction with this repayment, we incurred, in fiscal 2014, an extinguishment of debt charge of $5.1 million, consisting of $1.5 million in call premium, $2.7 million related to the write-off of remaining unamortized deferred finance costs, and $0.9 million relating to the write-off of unamortized discount. In December 2014, in conjunction with our 2014 Refinancing, the 2013 First Lien Term Loan was repaid in full, which resulted in a $4.6 million extinguishment of debt charge, consisting of $3.9 million related to the write-off of deferred financing costs and $0.7 million related to the write-off of unamortized discount.

Expenses Related to Selling Shareholders

In the second quarter of 2015, LLC, our largest shareholder, which was at that time our majority shareholder, sold 5.4 million shares of common stock in a block trade to various investors, pursuant to Rule 144 under the Securities Act. LLC owns stock in us not registered under the Securities Act. Under our stockholders agreement, LLC may require us to register stock in us that it owns, under the Securities Act. In that event, we are responsible for all registration expenses. In lieu of LLC's exercise of its registration rights, we agreed to bear the expenses incident to LLC's sale of these shares using Rule 144. As a result of this transaction, we incurred $0.1 million in professional fees. After our IPO in July 2014, we had a follow-on offering of shares on November 25, 2014. In conjunction with this secondary offering, we incurred approximately $0.7 million in charges for underwriting discounts, commissions, and professional fees and expenses related to this transaction.

Income Tax Receivable Agreement

On July 30, 2014, we entered into the TRA . The TRA calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. In connection with the TRA, we amended the 2013 First Lien Credit Agreement to permit dividend payments to us by our subsidiaries in amounts up to $11 million per fiscal year, not to exceed $33 million in the aggregate, while the 2013 First Lien Credit Agreement was outstanding. In fiscal 2014, we incurred charges totaling approximately $41 million relating to the present value of our total estimated TRA payments. In fiscal 2015, we incurred income tax receivable agreement expense of $0.2 million, resulting from the amortization of interest expense related to our total expected TRA payments, changes in estimates for actual tax returns filed and an adjustment to the expected TRA liability, due to the expected realization of various pre-IPO tax credits. We are permitted to make TRA payments under the 2014 Revolver.

(Provision) Benefit for Income Taxes

In fiscal 2015, we recorded an income tax provision of $20.9 million, compared to an income tax benefit of $63.0 million in fiscal 2014. After evaluating all of the positive and negative evidence, including our continued profitability and the reduction in interest expense resulting from the 2013 Refinancing and from our completed IPO and the resultant repayment of the 2013 Second Lien Term Loan, we concluded that it was more likely than not that our deferred tax assets would be realized. As a result, in fiscal 2014, we released our valuation allowance of approximately $65 million. In addition, we applied for various tax credits that resulted in $6.7 million of additional deferred tax assets and tax benefits. The fiscal 2015 provision includes a $2.9 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.

Fiscal Year 2014 Compared to Fiscal Ye ar 2013

Our operating results for the fiscal years ended December 31, 2014 and December 25, 2013, 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					
	2014 (53-Weeks)		2013 (52-Weeks)		Increase / (Decrease)	
	($,000)	(%)	($,000)	(%)	($,000)	(%)
Statement of Operations Data:						
Revenue						
Company-operated restaurant revenue	$ 322,516	93.5	$ 294,327	93.5	$ 28,189	9.6
Franchise revenue	22,345	6.5	20,400	6.5	1,945	9.5
Total revenue	344,861	100.0	314,727	100.0	30,134	9.6
Cost of operations						
Food and paper costs	102,611	31.8	93,589	31.8	9,022	9.6
Labor and related expenses	80,646	25.0	75,669	25.7	4,977	6.6
Occupancy and other operating expenses	68,538	21.3	63,150	21.5	5,388	8.5
Company restaurant expenses	251,795	78.1	232,408	79.0	19,387	8.3
General and administrative expenses	29,519	8.6	25,506	8.1	4,013	15.7
Franchise expenses	3,704	1.1	3,841	1.2	(137)	(3.6)
Depreciation and amortization	11,538	3.3	10,213	3.2	1,325	13.0
Loss on disposal of assets	646	0.2	868	0.3	(222)	(25.6)
Asset impairment and close-store reserves	1,033	0.3	(101)	0.0	1,134	(1,122.8)
Total expenses	298,235	86.5	272,735	86.7	25,500	9.3
Gain on disposition of restaurants	2,658	0.8	400	(0.1)	2,258	565
Income from operations	49,284	14.3	42,392	13.5	6,892	16.3
Interest expense, net	18,062	5.2	36,334	11.5	(18,272)	(50.3)
Early extinguishment of debt	9,718	2.8	21,530	6.8	(11,812)	(54.9)
Secondary offering expense	667	0.2	—	—	667	—
Income tax receivable agreement expense	41,382	12.0	—	—	41,382	—
Loss before provision for income taxes	(20,545)	(6.0)	(15,472)	(4.9)	(5,073)	(32.8)
(Provision) benefit for income taxes	63,008	18.3	(1,401)	(0.4)	(64,409)	(4,597.4)
Net Income (loss)	$ 42,463	12.3	$ (16,873)	(5.4)	$ 59,336	(351.7)

Company-Operated Restaurant Revenue

In fiscal 2014, company-operated restaurant revenue increased $28.2 million, or 9.6% due primarily to an increase in company-operated comparable restaurant sales of $16.8 million, or 5.8%. The growth in company-operated comparable restaurant sales was due primarily to an increase in average check size of 3.3% and an increase in traffic of 2.5% compared to the prior year. Company-operated restaurant revenue was also favorably impacted by $8.8 million of additional sales from new restaurants and $4.6 million for the additional week of operations in a 53-week fiscal year, and was partially offset by $2.0 million of lost sales from closed restaurants which operated for the full year in fiscal 2013.

Franchise Revenue

In fiscal 2014 franchise revenue increased $1.9 million, or 9.5%. The increase was due primarily to increases in franchised comparable restaurant sales of 8.0%, $0.3 million related to the buyout of a sublease agreement in which the franchisee entered into a direct lease with the landlord of the property, $0.1 million for the additional week of franchise revenue recognized in a 53-week fiscal year, and $0.1 million in higher franchise agreement renewal fees. This increase was partially offset by the negative impacts of the closure of one franchised restaurant in each of fiscal 2014 and 2013.

Food and Paper Costs

Food and paper costs increased $9.0 million in fiscal 2014, due to an $8.0 million increase in food costs and a $1.0 million increase in paper costs. This increase was due primarily to higher sale volume and to higher commodity costs. Food and paper costs as a percentage of company-operated restaurants revenue were 31.8% in both fiscal 2014 and 2013. This percentage was flat due to higher commodity costs, offset by increases in average check size, due to menu price increases in the fourth quarter of 2013 and the third and fourth quarters of 2014 .

Labor and Related Expenses

Payroll and benefit expenses increased $5.0 million in fiscal 2014, compared to fiscal 2013. This increase was due primarily to increased labor costs resulting from higher sales volume, additional labor needs arising from the opening of eleven new restaurants in fiscal 2014 and two new restaurants in fiscal 2013, and a minimum wage increase in California in the third quarter of fiscal 2014. These increases were partially offset by lower medical insurance costs, due to lower claims activity. Payroll and benefit expenses as a percentage of company-operated restaurant revenue were 25.0% in fiscal 2014, compared to 25.7% in fiscal 2013. This decrease was due primarily to increase in revenue, the relatively fixed nature of restaurant management labor costs, menu price increase, and lower medical insurance costs.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased $5.4 million in fiscal 2014, compared to fiscal 2013. This increase was due primarily to (i) a $1.4 million increase in utility costs, due primarily to higher gas and electric costs and additional utility co sts as a result of new restaurants opened in 2014 and 2013, (ii) a $2.1 million increase in advertising costs, which drove higher sales and to additional advertising contributions in the Los Angeles market in the second and part of the third quarter of 2014, (iii) a $1.0 million increase in occupancy costs, due primarily to increased rent, as a result of new restaurants opened in 2014 and 2013, and (iv) a $0.9 million increase in operating expense, resulting primarily from higher credit and debit card processing fees and various other operating-related expenses. Occupancy and other operating expenses as a percentage of company-operated restaurants revenue were 21.3% in fiscal 2014, compared to 21.5% in fiscal 2013. This decrease is primarily due to higher revenue and the relatively fixed nature of occupancy costs, partially offset by the higher expenses discussed above.

General and Administrative Expenses

General and administrative expenses increased $4.0 million in fiscal 2014. The increase was due primarily to (i) a $2.1 million increase in payroll expenses, due primarily to an increase in corporate employees and an additional week of operations payroll expense recognized for a fifty-third week in fiscal 2014, partially offset by lower medical costs due primarily to lower medical claims activity, (ii) a $0.8million increase in professional fees, due primarily to costs associated with our IPO and with securing federal and state tax credits, and (iii) a $1.0 million increase in restaurant opening costs, due primarily to increased company-operated restaurant opening in 2014 as compared to 2013. General and administrative expenses as a percentage of total revenue were 8.6% in fiscal 2014, compared to 8.1% in fiscal 2013. This increase was due primarily to the higher costs noted above, partially offset by increased revenue.

Gain on Disposition of Restaurants

On September 24, 2014, we completed an agreement to sell six company-operated restaurants in the greater San Antonio area to AA Pollo, resulting in cash proceeds of $5.4 million. Goodwill was decremented by $650,000, based on a calculation of the fair value of the restaurants sold relative to the fair value of the reporting unit retained. We recognized a net gain of $2.7 million on this transaction, which is recorded as a gain on disposition of restaurants in the accompanying statement of operations. These six restaurants are now included in our franchised restaurant totals.

Interest Expense, Net

Interest expense, net, decreased $18.3 million in fiscal 2014 compared to fiscal 2013. This decrease was due primarily to the 2013 Refinancing, which reduced the interest rate on our debt, to the repayment of the 2013 Second Lien Term Loan with IPO proceeds, and to the 2014 Refinancing in the fourth quarter of fiscal 2014, which further reduced the interest rate on our debt.

Early Extinguishment of Debt

The proceeds from our IPO in July 2014 were primarily used to repay the 2013 Second Lien Term Loan. In conjunction with this repayment, we incurred an extinguishment of debt charge of $5.1 million, consisting of $1.5 million in call premium, $2.7 million related to the write-off of remaining unamortized deferred finance costs, and $0.9 million relating to the write-off of unamortized discount. In December 2014, in conjunction with our 2014 Refinancing, the 2013 First Lien Term Loan was repaid in full, which resulted in a $4.6 million extinguishment of debt charge, consisting of $3.9 million related to the write-off of deferred financing costs and $0.7 million related to the write-off of unamortized discount.

Secondary Offering Expense

After our IPO in July 2014, we had a follow-on offering of shares on November 25, 2014. In conjunction with this secondary offering, we incurred approximately $0.7 million in charges for underwriting discounts, commissions, and professional fees and expenses related to this transaction.

Income Tax Receivable Agreement

On July 30, 2014, we entered into the TRA. The TRA calls for us to pay to our pre-IPO stockhol ders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. In connection with the TRA, we amended the 2013 First Lien Credit Agreement to permit dividend payments to us by our subsidiaries in amounts up to $11 million per fiscal year, not to exceed $33 million in the aggregate, while the 2013 First Lien Credit Agreement was outstanding. In fiscal 2014, we incurred charges totaling approximately $41 million relating to the present value of our total estimated TRA payments. We are permitted to make TRA payments under the 2014 Revolver.

Benefit (Provision) for Income Taxes

In fiscal 2014, we recorded an income tax benefit of $63.0 million, compared to an income tax provision of $1.4 million in fiscal 2013. After evaluating all of the positive and negative evidence, including our continued profitability and the reduction in interest expense resulting from the 2013 Refinancing and from our completed IPO and the resultant repayment of the 2013 Second Lien Term Loan, we concluded that it was more likely than not that our deferred tax assets would be realized. As a result, in fiscal 2014, we released our valuation allowance of approximately $65 million. In addition, we applied for various tax credits that resulted in $6.7 million of additional deferred tax assets and tax benefits.

Liquidity and Capital Resources

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

In October 2013, we refinanced the 2011 Financing Agreements by entering into the 2013 Credit Agreements. These senior secured credit facilities carried longer maturities and lower interest rates than the indebtedness that they replaced.

On July 30, 2014, we closed our IPO, the majority of the proceeds of which were used to repay our 2013 Second Lien Term Loan.

In December 2014, we refinanced the 2013 First Lien Credit Agreement by entering into the 2014 Revolver, which carried a longer maturity and a lower interest rate than the indebtedness that it replaced.

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

	Fiscal Year		
(Amounts in thousands)	**2015**	**2014**	**2013**
Net cash provided by (used in)			
Operating activities	$ 57,971	$ 26,085	$ 19,700
Investing activities	(30,835)	(21,401)	(13,787)
Financing activities	(32,534)	(10,200)	(10,385)
Net (decrease) in cash and cash equivalents	$ (5,398)	$ (5,516)	$ (4,472)

Operating Activities

In fiscal 2015, net cash provided by operating activities increased by $31.9 million compared to fiscal 2014. This was due primarily to (i) lower interest payments, due to our IPO in July 2014, the majority of the proceeds of which were used to repay the 2013 Second Lien Term Loan, the 2014 refinancing, which carried lower interest rates and the pre-payment in 2015 of $42.0 million of the outstanding debt on the 2014 Revolver and (ii) the timing of payments in 2015 compared to 2014 related to rent, advertising and payments to our primary food distributor, due primarily to the impact of the 53rd week in 2014 and a change in 2014 of the payment terms to our primary food distributor to realize early payment discounts

In fiscal 2014, net cash provided by operating activities increased by $6.4 million compared to fiscal 2013. This was due primarily to (i) increased revenue due primarily to company-operated comparable restaurants sales growth, and (ii) lower interest payments due to the 2013 Refinancing and our IPO, the majority of the proceeds of which were used to repay the 2013 Second Lien Term Loan. The increases above were partially offset by a reduction in payable balance to our primary food distributor, which resulted in early pay discounts and lower cost to the Company.

Investing Activities

In fiscal 2015, net cash used in investing activities increased by $9.4 million compared to fiscal 2014. This was due primarily to increased capital expenditures related to new restaurants, and the sales proceeds from the San Antonio transaction received in fiscal 2014. In fiscal 2015, we incurred capital expenditures of approximately $30.8 million, consisting of $17.4 million related to new restaurants, $6.3 million related to the remodeling of existing restaurants, and $7.1 million related to maintenance, the capitalization of development costs and other corporate capital expenditures.

In fiscal 2014, cash used in investing activities increased by $7.6 million compared to fiscal 2013. This was due primarily to increased capital expenditures related to new restaurants, partially offset by sales proceeds from the San Antonio transaction. In fiscal 2014, we incurred capital expenditures of approximately $26.8 million, consisting of $15.6 million related to new restaurants, $7.5 million related to the remodeling of existing restaurants, and $3.7 million related to maintenance and other corporate capital expenditures.

Financing Activities

In fiscal 2015, net cash used by financing activities increased by $22.3 million compared to fiscal 2014. This was due primarily to the pre-payment of $42.0 million on our Revolver in 2015.

In fiscal 2014, net cash used by financing activities decreased by $0.2 million compared to fiscal 2013. This was due primarily to proceeds from our IPO which were used for the repayment of the 2013 Credit Agreements, along with cash from our balance sheet.

Debt and Other Obligations

New Credit Agreement

On December 11, 2014, we refinanced our debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for the 2014 Revolver. The 2014 Revolver includes a sub limit of $15 million for letters of credit and a sub limit of $15 million for swingline loans. At December 30, 2015, $7.2 million of letters of credit were outstanding and $69.8 million was available to borrow under the revolving line of credit. The 2014 Revolver will mature on or about December 11, 2019.

Borrowings under the 2014 Revolver (other than any swingline loans) bear interest, at the borrower's option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.75% to 2.50%, and for base rate loans the margin is in the range of 0.75% and 1.50%. The margin was initially set at 2.00% for LIBOR loans and at 1.00% for base rate loans until the delivery of financial statements and a compliance certificate for the first quarter of 2015. The interest rate range was 1.94% to 2.63% during fiscal 2015 and was 2.02% at December 30, 2015.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also includes certain customary affirmative covenants and events of default. We were in compliance with all such covenants at December 30, 2015.

Under the 2014 Revolver, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under its income tax receivable agreement (the "TRA"), and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of th e exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5 million in other restricted payments per year, and (d) make other restricted payments, provided that such payments would not cause, in each case, on a pro forma basis, (x) its lease-adjusted consolidated leverage ratio to equal or exceed 4.25 times and (y) its consolidated fixed charge coverage ratio to be less than 1.75 times.

Prior Credit Agreements

On October 11, 2013, the Company refinanced its debt, with EPL entering into the 2013 Credit Agreements, including the 2013 First Lien Term Loan and the 2013 Second Lien Term Loan (together, the “2013 Term Loans”). The proceeds received from the 2013 Term Loans on October 11, 2013, plus $14.4 million of cash on hand, were used to pay off the 2011 Financing Agreements and to pay fees and expenses in connection therewith.

The 2013 Credit Agreements were executed with Intermediate as guarantor, Jefferies Finance LLC as administrative agent, collateral agent, and a lender, and, solely with respect to the 2013 First Lien Credit Agreement, General Electric Capital Corporation as issuing bank, swing line lender, and a lender, and GE Capital Bank as a lender.

2013 First Lien Credit Agreement

Loans under the 2013 First Lien Credit Agreement bore interest at an Alternate Base Rate or LIBOR, at EPL’s option, plus an applicable margin. The applicable margin rate under the 2013 First Lien Credit Agreement was 4.25% with respect to LIBOR loans and 3.25% with respect to Alternate Base Rate loans, with a 1.00% floor with respect to the LIBOR rate. Interest was due on loan amounts under Alternate Base Rate elections on a monthly basis and on loan amounts bearing interest based on LIBOR at the end of each interest period in effect, provided that with respect to LIBOR interest periods longer than three months, interest was payable at three month intervals. The 2013 First Lien Term Loan was issued at a discount of $950,000, and this discount was being accreted over the term of the loan, using the effective interest method. The unamortized discount at December 25, 2013, was $910,000.

The 2013 First Lien Term Loan required quarterly principal payments of 0.25% be made commencing March 26, 2014. Obligations under the 2013 First Lien Credit Agreement were secured by a first priority lien on substantially all of EPL’s and Intermediate’s assets.

The 2013 Revolver provided for a $15 million revolving line of credit. At December 25, 2013, $7.3 million of letters of credit were outstanding and $7.7 million was available to borrow under the revolving line of credit.

As part of the 2014 Refinancing, the 2013 First Lien Term Loan was repaid in full, resulting in an expense of $3.9 million related to the remaining unamortized deferred finance costs and the write off of $0.7 million of unamortized discount. These costs were expensed, and are reflected in loss on early extinguishment of debt in the accompanying consolidated statements of operations.

2013 Second Lien Credit Agreement

Loans under the 2013 Second Lien Credit Agreement bore interest at an Alternate Base Rate or LIBOR, at EPL’s option, plus an applicable margin. The applicable margin rate under the 2013 Second Lien Credit Agreement was 8.50% with respect to LIBOR loans and 7.50% with respect to Alternate Base Rate loans, with a 1.00% floor with respect to the LIBOR rate. Interest was due on loan amounts under Alternate Base Rate elections on a monthly basis and on loan amounts bearing interest based on LIBOR at the end of each interest period in effect, provided that with respect to LIBOR interest periods longer than three months, interest was payable at three month intervals. The 2013 Second Lien Term Loan was issued at a discount of $1.0 million, and this discount was being accreted over the term of the loan, using the effective interest method. The unamortized discount at December 25, 2013, was $962,000. The 2013 Second Lien Term Loan and the related guarantees were secured by a second-priority lien on substantially all of the assets and equity interests of EPL and Intermediate, subject to certain exceptions, which were also used to secure the 2013 First Lien Term Loan on a first-priority basis.

In conjunction with our IPO, the 2013 Second Lien Term Loan was repaid in full. In conjunction with the repayment of the 2013 Second Lien Term Loan, we incurred call premiums of $1.5 million. In addition, we expensed $2.7 million of the remaining unamortized deferred finance costs, and wrote off $0.9 million of unamortized discount. These costs were expensed, and are reflected in loss on early extinguishment of debt in the accompanying consolidated statements of operations.

Hedging Arrangements

In connection with our credit agreements, we entered into two interest rate caps with Wells Fargo Bank, N.A. The first interest rate cap was for a notional amount of $30 million, with a cap rate of 3.00% based on 1 month USD LIBOR, which terminated on December 1, 2015. The second interest rate cap is for a notional amount of $120 million, with a cap rate of 3.00% based on 1 month USD LIBOR, terminating on December 1, 2016. As of December 31, 2014, and December 30, 2015, the amounts included in other assets in our consolidated balance sheets, related to these interest rate caps, were not material to our financial position or results of operations.

Contractual Obligations

The following table represents our contractual commitments (which include expected interest expense, calculated based on current interest rates) to make future payments pursuant to our debt and other obligations disclosed above and pursuant to our restaurant operating leases outstanding as of December 30, 2015:

	Payments Due by Period				
(Amounts in thousands)	**Total**	**2016**	**2017-2018**	**2019-2020**	**2021 and thereafter**
Operating leases	$ 247,182	$ 21,588	$ 42,833	$ 37,193	$ 145,568
Capital leases	879	259	372	149	99
Long-term debt	133,539	5,167	5,248	123,124	—
Income tax receivable agreement	43,711	4,197	33,195	3,684	2,635
Purchasing commitments—beverage	13,851	6,925	6,926	—	—
Purchasing commitments—chicken	4,238	4,238	—	—	—
Total	$ 443,400	$ 42,374	$ 88,574	$ 164,150	$ 148,302

Off-Balance Sheet and Other Arrangements

At December 30, 2015, December 31, 2014, and December 25, 2013, we had $7.2 million, $7.6 million, and $7.7 million, respectively, of borrowing capacity on the 2014 Revolver and EPL's former revolving credit facilities pledged as collateral to secure outstanding letters of credit.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risk from changes in interest rates on our debt, which bears interest at a USD LIBOR plus a margin between 1.75% and 2.50%. As of December 30, 2015, we had outstanding borrowings of $123.0 million and another $7.2 million of letters of credit in support of our insurance programs. A 1.00% increase in the effective interest rate applied to these borrowings would result in a pre-tax interest expense increase of $1.3 million on an annualized basis.

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

To mitigate exposure to fluctuations in interest rates, we entered into two interest rate caps, as discussed above under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt and Other Obligations—Hedging Arrangements."

Inflation

Inflation has an impact on food, paper, construction, utility, labor and benefits, general and administrative, and other costs, all of which can materially impact our operations. We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state, or state minimum wage, and increases in the minimum wage will increase our labor costs. Since January 1, 2016, the State of California (where most of our restaurants are located) has had a minimum wage of $10.00 per hour. From January 1, 2008 to June 30, 2014, it had been $8.00 per hour and from July 1, 2014 to December 31, 2015, it had been $9.00 per hour. We also do substantial business in locales such as the City of Los Angeles and the County of Los Angeles that may have higher minimum wages. For details, see Item 1A."Risk Factors-Risks Related to Our Business and Industry-If we or our franchisees face labor shortages or increased labor costs, our results of operations and growth could be adversely affected." In general, we have been able to substantially offset costs increases resulting from inflation by increasing menu prices, managing menu mix, improving productivity, or other adjustments. We may or 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 price under our purchasing commitments. In a rapidly-fluctuating commodities market, it may prove difficult for us to adjust our menu prices in accord 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 14 to our consolidated financial statements included elsewhere in this report.

ITEM 8. FINANCIAL STATEMEN TS AND SUPPLEMENTARY DATA

EL POLLO LOCO HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements

REPORT OF INDEPENDENT REGIST ERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of El Pollo Loco Holdings, Inc. ("Company") as of December 30, 2015 and December 31, 2014, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of El Pollo Loco Holdings, Inc. at December 30, 2015 and December 31, 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2015 **,** in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP
Costa Mesa, California
March 11, 2016

EL POLLO LOCO HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	December 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 6,101	$ 11,499
Restricted cash	125	125
Accounts and other receivables, net	6,186	5,759
Inventories	1,899	1,900
Prepaid expenses and other current assets	2,656	5,108
Income tax receivable	—	102
Deferred tax assets	21,656	19,490
Total current assets	38,623	43,983
Property and equipment owned, net	102,421	82,090
Property held under capital lease, net	89	128
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Other intangible assets, net	638	778
Deferred tax assets	6,891	15,566
Other assets	1,804	2,199
Total assets	$ 461,028	$ 455,306
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under capital leases	$ 177	$ 208
Accounts payable	11,046	5,528
Accrued salaries and vacation	6,693	7,970
Accrued insurance	5,021	3,818
Accrued income taxes payable	67	—
Accrued interest	245	208
Accrued advertising	204	832
Other accrued expenses and current liabilities	16,126	13,013
Total current liabilities	39,579	31,577
Revolver loan	123,000	165,000
Obligations under capital leases, net of current portion	461	638
Deferred taxes, net of current portion	8,740	—
Other intangible liabilities, net	1,248	1,544
Other noncurrent liabilities	43,367	46,147
Total liabilities	216,395	244,906
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value—100,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value—200,000,000 shares authorized; 38,284,435 and 37,420,450 shares issued and outstanding	383	374
Additional paid-in capital	369,635	359,465
Accumulated deficit	(125,385)	(149,439)
Total stockholders' equity	244,633	210,400
Total liabilities and stockholders' equity	$ 461,028	$ 455,306

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 30, 2015		December 31, 2014		December 25, 2013
Revenue						
Company-operated restaurant revenue	$	332,040	$	322,516	$	294,327
Franchise revenue		23,017		22,345		20,400
Total revenue		355,057		344,861		314,727
Cost of operations						
Food and paper costs		105,917		102,611		93,589
Labor and related expenses		84,231		80,646		75,669
Occupancy and other operating expenses		69,977		68,538		63,150
Company restaurant expenses		260,125		251,795		232,408
General and administrative expenses		28,997		29,519		25,506
Franchise expenses		3,456		3,704		3,841
Depreciation and amortization		13,092		11,538		10,213
Loss on disposal of assets		471		646		868
Asset impairment and close-store reserves		92		1,033		(101)
Total expenses		306,233		298,235		272,735
Gain on disposition of restaurants		—		2,658		400
Income from operations		48,824		49,284		42,392
Interest expense—net of interest income of $49, $63, and $94 for the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively		3,707		18,062		36,334
Early extinguishment of debt		—		9,718		21,530
Secondary offering expense		50		667		—
Income tax receivable agreement expense		156		41,382		—
Income (loss) before (provision) benefit for income taxes		44,911		(20,545)		(15,472)
(Provision) benefit for income taxes		(20,857)		63,008		(1,401)
Net income (loss)	$	24,054	$	42,463	$	(16,873)
Net income (loss) per share:						
Basic	$	0.63	$	1.32	$	(0.59)
Diluted	$	0.62	$	1.24	$	(0.59)
Weighted average shares used in computing net income (loss) per share:						
Basic		37,949,316		32,285,484		28,712,622
Diluted		39,039,558		34,346,241		28,712,622

See notes to consolidated financial statements.

EL POLLO LOCO HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance , December 26, 2012	28,712,622	$ 287	$ 239,329	$ (175,029)	$ 64,587
Stock based compensation	—	—	822	—	822
Net loss	—	—	—	(16,873)	(16,873)
Balance , December 25, 2013	28,712,622	287	240,151	(191,902)	48,536
Stock based compensation	—	—	1,093	—	1,093
Issuance of common stock for initial public offering, net of offering costs of $10,914	8,214,286	82	112,218	—	112,300
Issuance of common stock upon exercise of stock options	493,542	5	2,038	—	2,043
Excess income tax benefit related to share-based compensation plans	—	—	3,965	—	3,965
Net income	—	—	—	42,463	42,463
Balance , December 31, 2014	37,420,450	374	359,465	(149,439)	210,400
Stock based compensation	—	—	539	—	539
Issuance of common stock upon exercise of stock options	863,985	9	4,211	—	4,220
Excess income tax benefit related to share-based compensation plans	—	—	5,420	—	5,420
Net income	—	—	—	24,054	24,054
Balance , December 30, 2015	38,284,435	$ 383	$ 369,635	$ (125,385)	$ 244,633

See notes to consolidated financial statements.

EL POLLO LOCO HOLDINGS, INC.

CONSOLIDATED STATE MENTS OF CASH FLOWS

(Amounts in thousands)

For the Years Ended	December 30, 2015	December 31, 2014	December 25, 2013
Cash flows from operating activities			
Net income (loss)	$ 24,054	$ 42,463	$ (16,873)
Adjustments to reconcile changes in net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,092	11,538	10,213
Loss on early extinguishment of debt	—	9,718	21,530
Stock-based compensation expense	539	1,093	822
Interest accretion	—	290	3,753
Income tax receivable agreement expense	156	41,382	—
Gain on disposition of restaurants	—	(2,658)	(400)
Loss on disposal of assets	471	646	868
Impairment of property and equipment	181	293	27
Close-store reserves	(89)	740	(128)
Amortization of deferred financing costs	304	1,302	2,007
Amortization of favorable and unfavorable leases, net	(156)	(227)	(213)
Excess income tax benefit related to share-based compensation plans	(5,420)	(3,965)	—
Deferred income taxes, net	15,249	(67,001)	1,371
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(427)	147	(1,319)
Inventories	1	(245)	33
Prepaid expenses and other current assets	2,452	(3,065)	(123)
Income taxes receivable/payable	5,589	3,836	5
Other assets	91	247	95
Accounts payable	2,317	(8,023)	1,294
Accrued salaries and vacation	(1,311)	(651)	595
Accrued insurance	1,203	221	444
Other accrued expenses and liabilities	(325)	(1,996)	(4,301)
Net cash provided by operating activities	**57,971**	**26,085**	**19,700**
Cash flows from investing activities			
Proceeds from disposition of assets	—	5,435	35
Purchase of property and equipment	(30,835)	(26,836)	(13,822)
Net cash flows used in investing activities	**(30,835)**	**(21,401)**	**(13,787)**
Cash flows from financing activities			
Proceeds from borrowings on revolver and term loans	—	165,000	288,050
Revolver loan payments	(42,000)	—	—
Proceeds from issuance of common stock for initial public offering, net of expenses	—	112,300	—
Proceeds from issuance of common stock upon exercise of stock options	4,254	2,070	—
Payment of call premium on notes	—	(1,526)	(7,913)
Payment of obligations under capital leases	(208)	(268)	(229)
Repayments on senior secured notes	—	(290,000)	(282,196)
Deferred financing costs for Revolver	—	(1,526)	(8,097)
Excess income tax benefit related to share-based compensation plans	5,420	3,965	—
Amendment fee	—	(215)	—
Net cash flows used in financing activities	**(32,534)**	**(10,200)**	**(10,385)**
Decrease in cash and cash equivalents	**(5,398)**	**(5,516)**	**(4,472)**
Cash and cash equivalents, beginning of year	**11,499**	**17,015**	**21,487**
Cash and cash equivalents, end of year	**$ 6,101**	**$ 11,499**	**$ 17,015**
Supplemental cash flow information			
Cash paid for interest, net of capitalized interest	$ 3,487	$ 20,224	$ 34,427
Cash paid during the year for income taxes, net	$ 18	$ 156	$ 26
Noncash investing and financing activity			
Unpaid purchase of property and equipment	$ 3,201	$ 1,235	$ 1,139
Cashless stock option exercise	$ 34	$ 27	—

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

El Pollo Loco Holdings, Inc. (“Holdings”) is a Delaware corporation headquartered in Costa Mesa, California. Holdings and its direct and indirect subsidiaries are collectively known as the “Company.” The Company’s activities are conducted principally through its indirect subsidiary, El Pollo Loco, Inc. (“EPL”), which develops, franchises, licenses and operates quick-service restaurants under the name El Pollo Loco ® . The restaurants, which are located principally in California but also in Arizona, Nevada, Texas, and Utah, specialize in flame-grilled chicken in a wide variety of contemporary Mexican-influenced entrees, including specialty chicken burritos, chicken quesadillas, chicken tortilla soup, Pollo Bowls and Pollo Salads. At December 30, 2015, the Company operated 186 (137 in the greater Los Angeles area) and franchised 247 (138 in the greater Los Angeles area) El Pollo Loco restaurants. In addition, the Company currently licenses two restaurants in the Philippines . The Company’s largest stockholder is Trimaran Pollo Partners, L.L.C. (“LLC,” which is controlled by affiliates of Trimaran Capital, L.L.C.). LLC acquired Chicken Acquisition Corp. (“CAC”), a predecessor of Holdings, on November 17, 2005 (the “Acquisition”) and has a 43.7% ownership interest as of December 30, 2015. LLC’s only material asset is its investment in Holdings.

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

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

Under the 2014 Revolver, Holdings may not make certain payments such as cash dividends, except that it may, inter alia, (i) pay up to $1 million per year to repurchase or redeem qualified equity interests of Holdings held by past or present officers, directors, or employees (or their estates) of the Company upon death, disability, or termination of employment, (ii) pay under its income tax receivable agreement (the “TRA”), and, (iii) so long as no default or event of default has occurred and is continuing, (a) make non-cash repurchases of equity interests in connection with the exercise of stock options by directors and officers, provided that those equity interests represent a portion of the consideration of the exercise price of those stock options, (b) pay up to $2.5 million per year pursuant to stock option plans, employment agreements, or incentive plans, (c) make up to $5 million in other restricted payments per year, and (d) make other restricted payments, provided that such payments would not cause, in each case, on a pro forma basis, (x) its lease-adjusted consolidated leverage ratio to equal or exceed 4.25 times and (y) its consolidated fixed charge coverage ratio to be less than 1.75 times.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquidity

The Company’s principal liquidity requirements are to service its debt and meet capital expenditure needs. At December 30, 2015, the Company’s total debt (including capital lease liabilities) was $123.6 million. The Company’s ability to make payments on its indebtedness and to fund planned capital expenditures will depend 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 $6.1 million at December 30, 2015 and available borrowings under the 2014 Revolver (which availability was $69.8 million at December 30, 2015) will be adequate to meet the Company’s liquidity needs for the next 12 months.

Basis of Presentation

The Company uses a 52- or 53-week fiscal year ending on the last Wednesday of the calendar year. In a 52-week fiscal year, each quarter includes 13 weeks of operations; in a 53-week fiscal year, the first, second and third quarters each include 13 weeks of operations and the fourth quarter includes 14 weeks of operations. Every six or seven years a 53-week fiscal year occurs. Fiscal 2014 was a 53-week year, ended on December 31, 2014. Fiscal 2015 and 2013 were 52-week years, ended December 30, 2015 and December 25, 2013, respectively.

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 termination liabilities, stock-based compensation, income tax receivable agreement liability, and income tax valuation allowances.

Cash and Cash Equivalents

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

Restricted Cash

The Company's restricted cash represents cash collateral to one commercial bank for Company credit cards.

Subsequent Events

Subsequent to December 30, 2015, the Company and a franchisee each completed one new store opening.

The Company evaluated subsequent events that have occurred after December 30, 2015, 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 two suppliers for which amounts due at December 30, 2015 totaled 12% and 11% of the Company's accounts payable. At December 31, 2014, no amounts due to suppliers exceeded 10% of the Company's accounts payable. Purchases from the Company's largest supplier totaled 36% of the Company's purchases for fiscal 2015, 2014, and 2013. Purchases from the Company's second largest supplier did not exceed 10% for fiscal 2015, 2014 and 2013. In fiscal 2015, 2014, and 2013, Company-operated and franchised restaurants in the greater Los Angeles area generated, in the aggregate, approximately 79%, 80%, and 80%, respectively, of total revenue.

Accounts and Other Receivables, Net

Accounts and other receivables consist primarily of royalties, advertising and sublease rent and related amounts receivable from franchisees which are due on a monthly basis that may differ from the Company's month-end dates as well as credit/debit card receivables. The need for an allowance for doubtful accounts is reviewed on a specific identification basis based upon past due balances and the financial strength of the obligor. Bad debt expense was immaterial for the years ended December 30, 2015, December 31, 2014, and December 25, 2013.

Inventories

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

Property and Equipment Owned, Net

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

The estimated useful service lives are as follows:

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

The Company capitalizes certain directly attributable costs in conjunction with site selection that relate to specific sites for planned future restaurants. The Company also capitalizes certain directly attributable costs, including interest, in conjunction with constructing new restaurants. These costs are included in property and amortized over the shorter of the life of the related buildings and leasehold improvements or the lease term. Costs related to abandoned sites and other site selection costs that cannot be identified with specific restaurants are charged to general and administrative expenses in the accompanying consolidated statements of operations.The Company capitalized internal costs related to site selection and construction activities of $1.1 million during the year ended December 30, 2015. Internal costs related to site selection and construction activities were immaterial during the years ended December 31, 2014 and December 25, 2013. Capitalized internal interest costs related to site selection and construction activities were immaterial during the years ended December 30, 2015, December 31, 2014, and December 25, 2013.

Goodwill and Indefinite-Lived Intangible Assets

The Company's indefinite-lived intangible assets consist of trademarks. Goodwill represents the excess of cost over fair value of net identified assets acquired in business combinations accounted for under the purchase method. Goodwill resulted from the Acquisition and from the acquisition of certain franchise locations.

Upon the sale of a restaurant, we decrement goodwill. The amount of goodwill that we include in the cost basis of the asset sold is determined based on the relative fair value of the portion of the reporting unit disposed compared to the fair value of the reporting unit retained.

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

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

We perform 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 unit and are also consistent with the projections and assumptions that are used in current operating plans. These assumptions are subject to c hange as a result of changing economic and competitive conditions.

No impairment was recorded during the years ended December 30, 2015, December 31, 2014, or December 25, 2013.

Other Intangibles, Net—Definite Lived

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

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

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

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

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

Deferred Financing Fees

Deferred financing fees are capitalized and amortized over the period of the loan on a straight-line basis, which approximates the effective interest method. Included in other assets are fees (net of accumulated amortization) of $1.2 million and $1.5 million as of December 30, 2015 and December 31, 2014, respectively. Amortization expense for deferred financing costs was $0.3 million, $1.3 million and $2.0 million for the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively, and is reflected as a component of interest expense in the accompanying consolidated statements of operations. In conjunction with the October 11, 2013, refinancing of the Company's debt, $8.1 million of unamortized deferred financing costs related to the prior debt were written off. In conjunction with the 2014 repayment and refinancing of the Company's debt, $6.6 million of unamortized deferred financing costs related to the 2013 Credit Agreements were written off (see Notes 6 and 7).

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment on a restaurant-by-restaurant basis whenever events or changes in circumstances indicate that the carrying value of certain assets may not be recoverable. 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 Company recorded non-cash impairment charges of $181,000, $293,000 and $27,000 for the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively.

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 30, 2015 and December 31, 2014, the Company had accrued $5,021,000 and $3,818,000, 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 30, 2015, December 31, 2014, and December 25, 2013 totaled $8,363,000, $6,124,000, and $6,912,000, respectively. These amounts are included in labor and related expenses and general and administrative expenses on the accompanying consolidated statements of operations.

Restaurant and Franchise Revenue

Revenues from the operation of company-operated restaurants are recognized as food and beverage products are delivered to customers and payment is tendered at the time of sale. The Company presents sales net of sales-related taxes and promotional allowances. Promotional allowances amounted to approximately $7.4 million, $7.2 million and $5.7 million during the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively. Franchise revenue consists of franchise royalties, initial franchise fees, license fees due from franchisees, IT support services and rental income for leases and subleases to franchisees. Franchise royalties are based upon a percentage of net sales of the franchisee and are recorded as income as such sales are earned by the franchisees. Initial franchise and license fees are recognized when all material obligations have been performed and conditions have been satisfied, typically when operations of the franchised restaurant have commenced. Initial franchise fees recognized during the years ended December 30, 2015, December 31, 2014, and December 25, 2013, totaled $790,000, $631,000, and $521,000, respectively. The Company recognizes renewal fees when a renewal agreement with a franchisee becomes effective.

Advertising Costs

Advertising expense is recorded as the obligation to contribute to the advertising fund is created, generally when the associated revenue is recognized. Advertising expense, which is a component of occupancy and other operating expenses, was $13.9 million, $13.5 million and $11.9 million for the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively, and is net of $18.5 million, $17.6 million and $15.8 million, respectively, funded by the franchisees' advertising fees.

Franchisees pay a monthly fee to the Company that ranges from 4% to 5% of their restaurants' net sales as reimbursement for advertising, public relations and promotional services the Company provides. Fees received in advance of provided services are included in other accrued expenses and current liabilities and were $204,000 and $832,000 at December 30, 2015 and December 31, 2014, respectively. Pursuant to Intermediate's Franchise Disclosure Document, company-operated restaurants contribute to the advertising fund on the same basis as franchised restaurants. At December 30, 2015, the Company was obligated to spend an additional $79,000 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, and the costs of advertising are charged to operations as incurred. Total contributions and other marketing expenses are included in general, and administrative expenses in the accompanying consolidated statements of operations.

Preopening Costs

Preopening costs incurred in connection with the opening of new restaurants are expensed as incurred. Preopening costs, which are included in general and administrative expenses on the accompanying consolidated statements of operations, were $1.5 million, $1.2 million and $0.2 million for the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively.

Franchise Area Development Fees

The Company receives area development fees from franchisees when they execute multi-unit area development agreements. The Company does not recognize revenue from the agreements until the related restaurants open or at the time the development agreements expire, if the required units are not opened. Unrecognized area development fees totaled $856,000 and $486,000 at December 30, 2015 and December 31, 2014, respectively, and are included in other accrued expenses and current liabilities and other noncurrent liabilities in the accompanying consolidated balance sheets. As of December 30, 2015, the Company had executed development agreements that represent commitments to open 17 franchised restaurants at various dates through 2016.

Gift Cards

The Company sells gift cards to its customers in the restaurants and through selected third parties. The gift cards sold to customers have no stated expiration dates and are subject to actual and/or potential escheatment rights in several of the jurisdictions in which the Company operates. The Company recognizes income from gift cards when redeemed by the customer.

Operating Leases

Rent expense for the Company's operating l eases, 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 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.

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 the Company is required to file.

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

The Company’s policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at December 30, 2015 and December 31, 2014, respectively, and has not recognized interest and/or penalties during the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively, since there are no material unrecognized tax benefits. Management believes no material change to the amount of unrecognized tax benefits will occur within in the next 12 months.

On July 30, 2014, the Company entered into an Income Tax Receivable Agreement (the “TRA”). The TRA calls for the Company to pay to its pre-IPO stockholders 85% of the savings in cash that the Company realizes in its taxes as a result of utilizing its net operating losses and other tax attributes attributable to preceding periods. In connection with the TRA, the Company had amended its first lien credit agreement (the “First Lien Credit Agreement”) to permit dividend payments to the Company by its subsidiaries in amounts up to $11 million per fiscal year, not to exceed $33 million in the aggregate, while the First Lien Credit Agreement was outstanding. In fiscal 2014, the Company incurred a charge of approximately $41 million relating to the present value of its total expected TRA payments. As of December 30, 2015, the Company had accrued expenses and current liabilities of $7.6 million and other noncurrent liabilities of $33.9 million relating to expected TRA payments included on the consolidated balance sheet.

Fair Value Measurements

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

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

As of December 30, 2015 and December 31, 2014, the Company had no assets and liabilities measured at fair value on a recurring basis, except for one interest rate cap at December 30, 2015 and two interest rate caps at December 31, 2014 (which are Level 3 assets), which are not material.

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). During the fiscal year ended December 31, 2014, we determined that a portion of our goodwill should be decremented for the sale of the San Antonio restaurants. We also determined that a restaurant location was impaired and wrote down the underlying fixed assets. This determination was based on the projected discounted cash flows related to the restaurant. Based on these analyses, we wrote off $0.7 million and $0.2 million, respectively. During the fiscal year ended December 25, 2013, we determined that a portion of our goodwill should be decremented for an eminent domain purchase by the State of California. This determination was based on the projected discounted cash flows related to the restaurant. Based on this analysis, we wrote off $0.6 million. These valuations represent Level 3 measurements in the fair value hierarchy.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and certain accrued expenses approximate fair value due to their short-term maturities. The recorded value of other notes payable and senior secured notes payable approximates fair value, based on borrowing rates currently available to the Company for loans with similar terms and remaining maturities (Level 3 measurement). 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 stock issued under the Company's employee stock plans. The guidance also requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. 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 that are based on a performance requirement, the cost is recognized on an accelerated basis over the period in which the performance criteria relate.

Earnings per Share

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

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases." The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. T hese changes become effective for the Company's fiscal year beginning December_28, 2017 and interim periods within that fiscal year. The impact of this expected adoption of ASU 2016-01 is being evaluated by the Company.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes” which requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. Prior to the issuance of the standard, deferred tax liabilities and assets were required to be separately classified into a current amount and a noncurrent amount in the balance sheet. The new accounting guidance represents a change in accounting principle and the standard is required to be adopted in annual periods beginning after December 15, 2016. After the adoption of this ASU all deferred tax assets and liabilities will be classified as noncurrent on the consolidated balance sheet.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330).” The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting periods beginning after December 15, 2016. The adoption of ASU 2015-11 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

In April 2015, the FASB issued ASU 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. This update requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying value of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs were not affected by this update. The pronouncement is effective for reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. The adoption of ASU 2015-03 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation – Stock Compensation (Topic 718).” The pronouncement was issued to clarify the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The pronouncement is effective for reporting periods beginning after December 15, 2015. The adoption of ASU 2014-12 is not expected to have a significant impact on the Company’s consolidated financial position or results of operations.

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

The revised revenue standard is effective for public entities for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of the Company’s pending adoption of ASU 2014-09 on the Company’s financial statements and has not yet determined the method by which it will adopt the standard in fiscal 2018.

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

Franchise Development Option Agreement with Related Party

On July 11, 2014, EPL and Trimaran Pollo Partners, L.L.C. (“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 begi n development of company-operated restaurants in the Territory or support the development of the Territory. We have no current intention to begin development in the Territory.

3. PROPERTY AND EQUIPMENT

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

	December 30, 2015	December 31, 2014
Land	$ 12,323	$ 12,323
Buildings and improvements	111,349	92,834
Other property and equipment	58,525	49,890
Construction in progress	4,717	2,353
	186,914	157,400
Less: accumulated depreciation and amortization	(84,493)	(75,310)
	$ 102,421	$ 82,090

Depreciation expense was $13.1 million, $11.5 million and $10.2 million for the years ended December 30, 2015, December 31, 2014, and December 25, 2013, respectively. Gross value of assets under capital leases for buildings and improvements was $1,559,200 and $1,800,800 at December 30, 2015 and December 31, 2014, respectively. Accumulated depreciation for assets under capital leases was $1,470,000 and $1,673,000 for the years ended December 30, 2015 and December 31, 2014, respectively. For the year ended December 30, 2015, capital expenditures related to restaurant remodeling and new restaurant expenditures totaled $23.7 million, which consisted of $6.3 million and $17.4 million, respectively. For the year ended December 31, 2014, capital expenditures related to restaurant remodeling and new restaurant expenditures totaled $23.7 million, which consisted of $7.4 million and $16.3 million, respectively.

4. GOODWILL AND OTHER INTANGIBLE ASSETS AND LIABILITIES

Changes in goodwill consist of the following (in thousands):

	December 30, 2015	December 31, 2014
Balance at beginning of year	$ 248,674	$ 249,324
Restaurant disposition	—	(650)
Balance at end of year	$ 248,674	$ 248,674

On September 24, 2014, we completed an agreement to sell six company-operated restaurants in the greater San Antonio area to AA Pollo, Inc., resulting in cash proceeds of $5.4 million. Goodwill was decremented by $650,000, based on a calculation of the fair value of the restaurants sold relative to the fair value of the portion of the reporting unit retained. We recognized a net gain of $2.7 million on this transaction, which is recorded as a gain on disposition of restaurants in the accompanying statement of operations. These six restaurants are now franchised. There have been no impairment losses to goodwill life to date.

Domestic trademarks consist of the following (in thousands):

	December 30, 2015	December 31, 2014
Beginning balance	$ 120,700	$ 120,700
Accumulated impairment charges	(58,812)	(58,812)
Ending balance	$ 61,888	$ 61,888

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

	December 30, 2015	December 31, 2014
Favorable leasehold interest	$ 6,038	$ 6,038
Less: accumulated amortization	(5,400)	(5,260)
Total favorable leasehold interest, net	$ 638	$ 778
Unfavorable leasehold interest	$ (9,156)	$ (9,156)
Less: accumulated amortization	7,908	7,612
Unfavorable leasehold interest liability, net	$ (1,248)	$ (1,544)

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

For the Years Ending	Favorable Leasehold Interest	Unfavorable Leasehold Interest
December 28, 2016	$ 130	$ (228)
December 27, 2017	106	(225)
December 26, 2018	97	(144)
December 25, 2019	94	(136)
December 30, 2020	85	(123)
Thereafter	126	(392)
Total	$ 638	$ (1,248)

The aggregate amortization expense for the years ended December 30, 2015, December 31, 2014, and December 25, 2013 was $156,000, $227,000, and $213,000, respectively. The remaining weighted average amortization periods of the favorable leasehold interest and the unfavorable leasehold liability are four years and nine years respectively.

5. LEASES

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

Information regarding the Company's future lease obligations at December 30, 2015 is as follows (in thousands):

	Capital Leases		Operating Leases	
For the Years Ending	Minimum Lease Payments	Minimum Sublease Income	Minimum Lease Payments	Minimum Sublease Income
December 28, 2016	$ 259	$ 72	$ 21,588	$ 1,075
December 27, 2017	199	28	22,078	1,025
December 26, 2018	172	—	20,755	864
December 25, 2019	95	—	19,359	671
December 30, 2020	54	—	17,834	389
Thereafter	100	—	145,568	1,651
Total	$ 879	$ 100	$ 247,182	$ 5,675
Less: imputed interest (11.0% to 14.8%)	(241)			
Present value of capital lease obligations	638			
Less: current maturities	(177)			
Noncurrent portion	$ 461			

Net rent expense is as follows (in thousands):

For the Years Ended	December 30, 2015	December 31, 2014	December 25, 2013
Base rent	$ 19,944	$ 19,067	$ 18,732
Contingent rent	96	350	491
Less: sublease Income	(2,620)	(3,572)	(3,602)
Net rent expense	$ 17,420	$ 15,845	$ 15,621

Base rent and contingent rent are included in occupancy and other operating expenses, while sublease income is included in franchise revenue in the accompanying consolidated statements of operations. Sublease income includes contingent rental income of $1.1 million, $1.6 million, and $1.7 million for fiscal 2015, 2014, and 2013, respectively.

The Company is a lessor for certain property, facilities and equipment owned by the Company and leased to others, principally franchisees, under noncancelable leases with initial terms ranging from three to nine years. The lease agreements generally provide for a fixed base rent and, in some instances, contingent rent based on a percentage of gross operating profit or net revenues. Total rental income included in franchise revenue in the accompanying consolidated statements of operations for leased property was $424,000, $401,000 and $377,000 for fiscal 2015, 2014, and 2013, respectively.

Minimum future rental income for company-operated properties under noncancelable operating leases, which is recorded on a straight-line basis, in effect as of December 30, 2015, is as follows (in thousands):

For the Years Ending	
December 28, 2016	$ 224
December 27, 2017	210
December 26, 2018	210
December 25, 2019	120
December 30, 2020	124
Thereafter	616
Total future minimum rental income	$ 1,504

6. NEW CREDIT AGREEMENTS

On December 11, 2014, the Company refinanced its debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a $200 million five-year senior secured revolving facility (the "2014 Revolver"). The 2014 Revolver includes a sub limit of $15 million for letters of credit and a sub limit of $15 million for swingline loans. At December 30, 2015, $7.2 million of letters of credit were outstanding and $69.8 million was available to borrow under the revolving line of credit. The 2014 Revolver will mature on or about December 11, 2019.

Borrowings under the 2014 Revolver (other than any swingline loans) bear interest, at the borrower's option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.75% to 2.50%, and for base rate loans the margin is in the range of 0.75% and 1.50%. The margin was initially set at 2.00% for LIBOR loans and at 1.00% for base rate loans until the delivery of financial statements and a compliance certificate for the first quarter of 2015. The interest rate range was 1.94% to 2.63% during fiscal 2015 and was 2.02% at December 30, 2015.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also includes certain customary affirmative covenants and events of default. The Company was in compliance with all such covenants at December 30, 2015. See Note 1 for restrictions on the payment of dividends under the 2014 Revolver.

Tran saction Costs

Transaction costs of $1.5 million were incurred in connection with the December 11, 2014 refinancing and were capitalized and are included in other assets in the accompanying consolidated balance sheets and the related amortization is reflected as a component of interest expense, net, in the accompanying consolidated financial statements.

Maturities

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

7. PRIOR CREDIT AGREEMENTS

On October 11, 2013, the Company refinanced its debt, with EPL entering into (i) a new first lien credit agreement (the "2013 First Lien Credit Agreement") that included a $190 million senior secured term loan (the "2013 First Lien Term Loan") and a senior secured revolving credit facility of $15 million (the "2013 Revolver") that, in each case, was to mature in October 2018, and (ii) a new second lien credit agreement (the "2013 Second Lien Credit Agreement" and, together with the 2013 First Lien Credit Agreement, the "2013 Credit Agreements") that included a $100 million second lien term loan (the "2013 Second Lien Term Loan" and, together with the 2013 First Lien Term Loan, the "2013 Term Loans") that was to mature in April 2019. The proceeds received from the 2013 Term Loans on October 11, 2013, plus $14.4 million of cash on hand, were used to pay off the senior secured first lien credit facility due July 2017 and 17% second priority senior secured notes due January 2018 (collectively, the "2011 Financing Agreements") and to pay fees and expenses in connection therewith.

The 2013 Credit Agreements were executed with Intermediate as guarantor, Jefferies Finance LLC as administrative agent, collateral agent, and a lender, and, solely with respect to the 2013 First Lien Credit Agreement, General Electric Capital Corporation as issuing bank, swing line lender, and a lender, and GE Capital Bank as a lender.

First Lien Credit Agreement

Loans under the 2013 First Lien Credit Agreement bore interest at an Alternate Base Rate or LIBOR, at EPL's option, plus an applicable margin. The applicable margin rate under the 2013 First Lien Credit Agreement was 4.25% with respect to LIBOR loans and 3.25% with respect to Alternate Base Rate loans with a 1.00% floor with respect to the LIBOR rate. Interest was due on loan amounts under Alternate Base Rate elections on a monthly basis and on loan amounts bearing interest based on LIBOR at the end of each interest period in effect, provided that with respect to LIBOR interest periods longer than three months, interest was payable at three-month intervals. The 2013 First Lien Term Loan was issued at a discount of $950,000, and this discount was being accreted over the term of the loan, using the effective interest method. The unamortized discount at December 25, 2013 was $910,000.

The 2013 First Lien Term Loan required that quarterly principal payments of 0.25% be made commencing March 26, 2014. Obligations under the 2013 First Lien Credit Agreement were secured by a first priority lien on substantially all of EPL's and Intermediate's assets.

The 2013 Revolver provided for a $15 million revolving line of credit. At December 25, 2013, $7.3 million of letters of credit were outstanding and $7.7 million was available to borrow under the revolving line of credit.

In conjunction with the December 11, 2014, refinancing of EPL's debt, the 2013 First Lien Term Loan was repaid in full, resulting in an expense of $3.9 million related to the remaining unamortized deferred finance costs and the write off of $0.7 million of unamortized discount. These costs were expensed and were reflected in loss on early extinguishment of debt in the accompanying consolidated statements of operations.

Second Lien Credit Agreement

Loans under the 2013 Second Lien Credit Agreement bore interest at an Alternate Base Rate or LIBOR, at EPL's option, plus an applicable margin. The applicable margin rate under the 2013 Second Lien Credit Agreement was 8.50% with respect to LIBOR loans and 7.50% with respect to Alternate Base Rate loans with a 1.00% floor with respect to the LIBOR rate. Interest was due on loan amounts under Alternate Base Rate elections on a monthly basis and on loan amounts bearing interest based on LIBOR at the end of each interest period in effect, provided that with respect to LIBOR interest periods longer than three months, interest was payable at three-month intervals. The 2013 Second Lien Term Loan was issued at a discount of $1.0 million, and this discount was being accreted over the term of the loan, using the effective interest method. The unamortized discount at December 25, 2013 was $962,000. The 2013

Second Lien Term Loan and the related guarantees were secured by a second-priority lien on substantially all of the assets and equity interests of EPL and Intermediate, subject to c ertain exceptions, which were also used to secure the 2013 First Lien Term Loan on a first-priority basis.

In conjunction with the Company's IPO, the 2013 Second Lien Term Loan was repaid in full. In conjunction with the repayment of the 2013 Second Lien Term Loan, the Company incurred call premiums of $1.5 million. In addition, the Company expensed $2.7 million of the remaining unamortized deferred finance costs and wrote off $0.9 million of unamortized discount. These costs were expensed and were reflected in loss on early extinguishment of debt in the accompanying consolidated statements of operations.

Transaction Costs

Transaction costs of $8.1 million were incurred in connection with the October 11, 2013 refinancing and were capitalized and were included in other assets in the consolidated balance sheet , and the related amortization is reflected as a component of interest expense, net in the accompanying consolidated financial statements.

2011 Prior Credit Agreement

On July 14, 2011 the Company entered into a credit agreement ("Prior Credit Agreement") that included a $170 million Senior Secured Term Loan (the "Prior Term Loan") that was due to mature in July 2017 and a senior secured revolving credit facility of $12.5 million (the "Prior Revolver," and together with the Term Loan, the "Prior Senior Credit Facility") that was due to mature in July 2016. EPL also issued $105 million of 17% second priority senior secured notes due January 2018 ("2018 Notes").

The Prior Credit Agreement was executed with Intermediate as guarantor. The Senior Credit Facility was secured by a first priority lien on substantially all of EPL's and Intermediate's assets.

In conjunction with the October 11, 2013 refinancing of EPL's debt, call premiums of $3.3 million were incurred in connection with the repurchase of the Prior Senior Credit Facility. In addition, the Company expensed $5.1 million of the remaining unamortized deferred finance costs and wrote off $3.2 million of unamortized discount, associated with the Prior Senior Credit Facility. These costs were expensed and are reflected in loss on early extinguishment of debt in the accompanying consolidated statements of operations.

Second Priority Senior Secured Notes ("2018 Notes")

The 2018 Notes bore cash interest of 12.5% per annum, which was due semi-annually in January and July of each year, which commenced on January 1, 2012. An additional 4.5% non-cash interest amount accrued on the 2018 Notes, which was added to the principal amount of the 2018 Notes on each interest payment date. The 2018 Notes were issued at a discount of $3.2 million, and this discount was accreted over the term of the notes, using the effective interest rate method. The 2018 Notes were unconditionally guaranteed by Intermediate and each existing and subsequently acquired wholly-owned domestic subsidiary of EPL. The 2018 Notes were due to mature on January 10, 2018.

In conjunction with the October 11, 2013 refinancing of EPL's debt, call premiums of $4.6 million were incurred in connection with the repurchase of the 2018 Notes. In addition, the Company expensed $3.2 million of the remaining unamortized deferred finance costs and wrote off $2.0 million of the remaining unamortized discount associated with the Prior Senior Credit Facility. These costs were expensed and are reflected in loss on early extinguishment of debt in the accompanying consolidated statements of operations.

Hedging Arrangements

In connection with our credit agreements, we entered into two interest rate caps with Wells Fargo Bank, N.A. The first interest rate cap was for a notional amount of $30 million, with a cap rate of 3.00% based on 1 month USD LIBOR, which terminated on December 1, 2015. The second interest rate cap is for a notional amount of $120 million, with a cap rate of 3.00% based on 1 month USD LIBOR, terminating on December 1, 2016. The fair value of these instruments is not material at December 30, 2015.

8. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

	December 30, 2015	December 31, 2014
Accrued sales and property taxes	$ 3,480	$ 3,918
Income tax receivable agreement payable	7,609	4,170
Gift card liability	1,810	1,535
Other	3,227	3,390
Total other accrued expenses and current liabilities	$ 16,126	$ 13,013

9. OTHER NONCURRENT LIABILITIES

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

	December 30, 2015	December 31, 2014
Deferred rent	$ 6,611	$ 6,204
Income tax receivable agreement payable	33,930	37,213
Other	2,826	2,730
Total noncurrent liabilities	$ 43,367	$ 46,147

10. INCOME TAXES

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

For the Years Ended	December 30, 2015	December 31, 2014	December 25, 2013
Current income taxes:			
Federal	$ —	$ (1)	$ —
State	188	29	30
Total current	188	28	30
Deferred income taxes:			
Federal	8,871	(44,137)	1,037
State	6,378	(22,864)	334
Total deferred	15,249	(67,001)	1,371
Charge in lieu of tax (attributable to stock options)	5,420	3,965	—
Tax provision for income taxes	$ 20,857	$ (63,008)	$ 1,401

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

For the Years Ended	December 30, 2015	December 31, 2014	December 25, 2013
Statutory federal income tax rate of 35% applied to earnings before income taxes and extraordinary items	35.0%	35.0%	35.0%
State tax benefit (net of federal benefit)	5.1	(5.7)	5.4
State tax credits	(0.6)	32.7	—
TRA expense	0.1	(70.6)	—
Change in valuation allowance	6.5	317.4	(43.4)
Other	0.3	(1.7)	(6.5)
Total	46.4%	307.1%	(9.5)%

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 and the reduction in interest expense resulting from the 2014 and 2013 refinancing of debt and from the Company's IPO and resultant payoff of the 2013 Second Lien Term Loan, the Company concluded that it is more likely than not that its deferred tax assets will be realized. As a result, in fiscal 2014, the Company released its valuation allowance of approximately $65 million, which was recorded as a benefit to income taxes. In fiscal 2015, the Company recorded a $2.9 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.

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. In fiscal 2014, the Company incurred a charge of approximately $41 million related to the present value of its total expected TRA payments. The TRA charge of $41 million is a permanent add-back to the Company's taxable income and resulted in approximately $14 million of tax expense in fiscal 2014 and $0.1 million of tax expense in fiscal 2015.

In fiscal 2014, the Company applied for California Enterprise Zone ("EZ") credits, resulting in approximately $10.3 million of California tax credits and approximately $6.7 million of additional deferred tax assets and tax benefits.

The Company's deferred tax assets and liabilities consist of the following (in thousands):

	December 30, 2015	December 31, 2014
Deferred assets:		
Capital leases	$ 273	$ 362
Accrued vacation	583	652
Accrued legal	216	421
Deferred rent	3,758	3,348
Accrued workers' compensation	1,778	1,626
Enterprise zone and other credits	11,433	10,815
Net operating losses	45,081	50,912
Fixed assets	—	4,621
Other	2,293	3,995
Total deferred tax assets	65,415	76,752
Valuation allowance	(2,920)	—
Net deferred tax assets	62,495	76,752
Deferred liabilities:		
Goodwill	(8,557)	(8,272)
Trademark	(26,525)	(26,488)
Prepaid expense	(761)	(649)
Fixed asset	(1,758)	—
Other	(5,087)	(6,287)
Deferred tax liabilities	(42,688)	(41,696)
Net deferred tax asset	$ 19,807	$ 35,056

The deferred tax amounts mentioned above have been classified on the accompanying consolidated balance sheets as follows (in thousands):

	December 30, 2015	December 31, 2014
Current:		
Assets (liabilities)	$ 21,656	$ 19,490
Noncurrent:		
Assets (liabilities)	(1,849)	15,566
	$ 19,807	$ 35,056

As of December 30, 2015, the Company has federal and state NOL carryforwards of approximately $105.2 million and $93.6 million, respectively, which expire beginning in 2028 and 2025, respectively. The Company also has state enterprise zone credits of approximately $11.0 million, which expire in 2023, and federal and state alternative minimum tax ("AMT") credits of approximately $0.4 million, which carry forward indefinitely. In fiscal 2014, the Company completed a section 382 analysis and determined that all of the Company's NOL carryforwards and other tax attributes are subject to limitation under section 382 of the Internal Revenue Code of 1986 (the “Code”) and similar state law provisions. However, that limitation did not impact the Company's 2015 or 2015 year tax liability.

The Company has elected to utilize the tax-law-ordering approach with respect to excess share-based compensation deductions. Under this approach, the utilization of excess tax deductions associated with share-based awards is dictated by provisions in the tax law that identify the sequence in which such benefits are utilized for tax purposes. In fiscal 2015 and 2014, the Company recognized excess tax deductions of approximately $15.0 million and $9.9 million, respectively. The associated windfall tax benefits of approximately $5.4 million and $4.0 million, respectively, were recorded in additional paid-in-capital ("APIC") pursuant to the tax-law-ordering approach.

Recently enacted tax laws may also affect the tax provision on the Company's consolidated financial statements. The state of California passed a new law which mandates the use of a single sales factor apportionment formula for tax year beginning on or after January 1, 2013. As a result, our state deferred tax assets were revalued during the year ended December 25, 2013 in order to account for the change in tax law. As of December 30, 2015, there was a $2.9 million valuation allowance against the state deferred tax asset.

As of December 30, 2015, December 31, 2014, and December 25, 2013, 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 2012 by the federal taxing authority, and for years before 2011 by state taxing authorities.

11. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution employee benefit plan that permits its employees, subject to certain eligibility requirements, to contribute up to 25% of their qualified compensation to the plan. The Company matches 100% of the employees’ contributions of the first 3% of the employees’ annual qualified compensation, and 50% of the employees’ contributions of the next 2% of the employees’ annual qualified compensation. The Company’s matching contribution immediately fully vests. The Company’s contributions to the plan for the years ended December 30, 2015, December 31, 2014, and December 25, 2013 were $539,000, $503,000, and $447,000 respectively.

12. STOCK-BASED COMPENSATION

As of December 30, 2015, options to purchase 2,151,214 shares of common stock of the Company were outstanding. Included in the December 30, 2015 amount are 1,728,964 options that are fully vested. The remaining options vest over time or upon the Company’s attaining annual financial goals. However, the compensation committee of the board of directors, as administrator of the Company’s 2014 Omnibus Eq uity 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. In fiscal 2013 and 2012, the Company granted 535,238 and 2,126,677 options with an exercise price of $5.84, which was greater than the fair value of the common stock on the date of grant (premium options). As of December 30, 2015, 1,739,367 premium options remain outstanding. In fiscal 2014 and 2013, the Company granted 229,048 and 267,619 options with an exercise price equal to the fair value of the common stock on the date of grant. Of the total options granted in fiscal 2014, 2013 and 2012 , 50% are performance based and vest according to whether certain financial targets are met, and the remaining 50% vest over four or three years. As of December 30, 2015, 411,847 of these options remained outstanding. No options were granted in fiscal 2015. The options generally expire 10 years from the date of grant. Changes in stock options for the years ended December 30, 2015 and December 31, 2014, are as follows:

	Shares	Weighted-Average Exercise Price
Outstanding—December 25, 2013	3,338,096	$ 5.31
Grants	229,048	15.55
Exercised	(496,944)	4.20
Forfeited, cancelled or expired	(24)	5.31
Outstanding—December 31, 2014	3,070,176	6.25
Grants	—	—
Exercised	(863,247)	4.93
Forfeited, cancelled or expired	(55,715)	17.25
Outstanding—December 30, 2015	2,151,214	$ 6.50
Vested and expected to vest at December 30, 2015	2,146,360	$ 6.50
Exercisable at December 30, 2015	1,728,964	$ 6.12

Stock options at December 30, 2015 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	209,788	7.52	$ 4.09	109,438	$ 4.09
5.84	1,739,367	6.58	5.84	1,538,657	5.84
12.72	32,386	0.75	12.72	32,386	12.72
15.00	169,673	8.57	15.00	48,483	15.00
$4.09 - $15.00	2,151,214	6.74	$ 6.50	1,728,964	$ 6.12

The intrinsic value of options outstanding and options exercisable, calculated as the difference between the market value as of December 30, 2015 and the exercise price, are $13.7 million and $11.5 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 $14.9 million, $11.5 million and $0 for fiscal years 2015, 2014 and 2013, respectively.

Options are accounted for as follows:

Employee Options

The Company expenses the estimated fair value of employee stock options 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 period during which an employee is required to provide service, usually the vesting period. The options granted in fiscal 2012 had a three year vesting period while the options granted in fiscal 2013 and 2014 had a four year vesting period. For options that are based on a performance requirement, the cost is recognized over the period which the performance criteria relate. The Company has authorized 4,402,240 shares of common stock for issuance in connection with stock options. As of December 30, 2015, 882,594 shares were available for grant. In order to meet the fair value measurement objective, the Company utilizes the Black–Scholes option-pricing model to value compensation expense for share-based awards and has developed estimates of various inputs including forfeiture rate, expected term life, expected volatility, and risk-free interest rate. The forfeiture rate is based on historical rates and reduces the compensation expense recognized. The expected term of options granted is derived from the simplified method. The risk-free interest rate is based on the implied yield on a U.S. Treasury security with constant maturity with a remaining term equal to the expected term of the Company's employee stock options. Expected volatility is based on the comparative industry entity data. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero for option valuation. The volatility factor was determined based on four publicly-traded companies which are in the same market category as the Company. The peer companies were selected based on sim ilarity of market capitalization, size and certain operating characteristics. The calculated volatility was established by taking the historical daily closing values prior to grant date, over a period equal to the expected term, for each of the peer compan ies.

The weighted-average estimated fair value of employee stock options granted during the year ended December 31, 2014 was $6.23 per share using the Black–Scholes model with the following weighted-average assumptions used to value the option grants: expected volatility of 32.4% to 41.0%, expected life of 5.75 years, risk-free interest rate of 1.70% to 1.72%, and expected dividends of 0%.

The weighted-average estimated fair value of employee stock options granted during the year ended December 25, 2013 was $1.40 per share using the Black–Scholes model with the following weighted-average assumptions used to value the option grants: expected volatility of 40.6%, expected life of 6.25 years, risk-free interest rates of 1.15% to 1.99%, and expected dividends of 0%.

During the years ended December 30, 2015, December 31, 2014 and December 25, 2013, the Company recognized share-based compensation expense of $0.5 million, $1.1 million and $822,000, 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.

As of December 30, 2015, there was total unrecognized compensation expense of $0.9 million related to unvested stock options which the Company expects to recognize over a weighted average period of 2.1 years.

Restricted Stock

In fiscal 2015, we granted three of our directors restricted stock grants for 2,636 shares each. In fiscal 2014, we granted two of our directors restricted stock grants for 3,333 shares each. Restricted stock grants were equivalent to $50,000 divided by the stock's value on the date of grant, which in fiscal 2015 was deemed to be the preceding day's closing price and in fiscal 2014 was deemed to be our public offering price. These grants vest based on continued service over three years. We base the amount of unearned compensation recorded on the market value of the shares on the date of issuance. In fiscal 2015 and 2014, the Company recognized share-based compensation expense of $98,000 and $32,000, respectively. This expense was included in general and administrative expenses in the accompanying consolidated statements of operations. As of December 30, 2015, there was total unrecognized compensation expense of $250,000 related to unvested restricted shares, which the Company expects to recognize over a weighted-average period of 2.1 years.

Changes in restricted shares for the years ended December 30, 2015 and December 31, 2014, are as follows:

	Shares	Weighted-Average Fair Value
Unvested shares at December 25, 2013	—	$ —
Granted	6,666	34.56
Released	—	—
Forfeited, cancelled, or expired	—	—
Unvested shares at December 31, 2014	6,666	34.56
Granted	7,908	18.97
Released	(2,222)	34.56
Forfeited, cancelled, or expired	—	—
Unvested shares at December 30, 2015	12,352	$ 24.58

13. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated using the weighted-average number of shares of common stock outstanding during the years ended December 30, 2015, December 31, 2014, and December 25, 2013. Diluted net income (loss) per share is calculated using the weighted-average number of shares of common stock outstanding and potentially dilutive during the period, using the treasury stock method.

Below are our basic and diluted net income (loss) per share data for the periods indicated, which a re in thousands except for per share data.

For the Years Ended	December 30, 2015	December 31, 2014	December 25, 2013
Numerator:			
Net income (loss)	$ 24,054	$ 42,463	$ (16,873)
Denominator:			
Weighted-average shares outstanding—Basic	37,949,316	32,285,484	28,712,622
Weighted-average shares outstanding—Diluted	39,039,558	34,346,241	28,712,622
Net income (loss) per share—Basic	$ 0.63	$ 1.32	$ (0.59)
Net income (loss) per share—Diluted	$ 0.62	$ 1.24	$ (0.59)
Anti-dilutive securities not considered in diluted EPS calculation	214,411	5,865	1,709,748

For the year ended December 25, 2013, potentially dilutive securities, which consist of options to purchase 1,709,748 shares of common stock at prices ranging from $1.81 to $12.72 were not included in the computation of diluted net loss per share because such inclusion would be antidilutive.

Below is a reconciliation of basic and diluted share counts.

For the Years Ended	December 30, 2015	December 31, 2014	December 25, 2013
Weighted-average shares outstanding—Basic	37,949,316	32,285,484	28,712,622
Dilutive effect of stock options and restricted shares	1,090,242	2,060,757	—
Weighted-average shares outstanding—Diluted	39,039,558	34,346,241	28,712,622

14. COMMITMENTS AND CONTINGENCIES

Legal Matters

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, against EPL on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. We have executed a Memorandum of Understanding outlining an agreement in principle between the parties to settle the claims on a classwide basis. The parties are working to memorialize the settlement and secure the required court approval.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016 on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, L.L.C., Trimaran Capital Partners, and Freeman Spogli & Co. (collectively, the "Controlling Shareholder Defendants"). Among other things, Plaintiffs allege that, in 2014 and early 2015, Holdings suffered losses due to rising labor costs in California and, in an attempt to mitigate the effects of such rising costs, removed a $5 value option from our menu, which resulted in a decrease in value-conscious store traffic. Plaintiffs further allege that during the Class Period, Holdings and the Individual Defendants made a series of materially false and misleading statements that concealed the effect that these factors were having on store sales growth, resulting in Holdings stock continuing to be traded at artificially inflated prices. As a result, Plaintiffs and other members of the putative class allegedly suffered damages in connection with their purchase of Holdings' stock during the Class Period. In addition, Plaintiffs allege that the Individual Defendants and Controlling Shareholder Defendants had direct involvement in, and responsibility over, the operations of Holdings, and are presumed to have had, among other things, the power to control or influence the transactions giving rise to the alleged securities law violations. In both cases, Plaintiffs seek an unspecified amount of damages, as well as costs and expenses (including attorneys' fees). Defendants intend to vigorously defend against the claims asserte d. In addition, on September 16, 2015, the Company and certain of its officers and directors received an informal, non-public inquiry from the SEC requesting voluntary production of documents and information. All parties are cooperating fully with the SEC' s request.

On or about November 5, 2015, a purported EPL shareholder filed a derivative complaint on behalf of the Company in the Court of Chancery of the State of Delaware against certain EPL officers and, directors and Trimaran Pollo Partners, L.L.C. The derivative complaint alleges that these defendants breached their fiduciary duties to EPL and were unjustly enriched when they sold shares of EPL at artificially inflated prices due to alleged misrepresentations and omissions regarding EPL's comparable store sales in the second quarter of 2015. The EPL shareholder's requested remedies include an award of compensatory damages to EPL, as well as a court order to improve corporate governance by putting forward for stockholder vote certain resolutions for amendments to EPL's Bylaws or Certificate of Incorporation.

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

Purchasing Commitments

The Company has long-term beverage supply agreements with certain major beverage vendors. Pursuant to the terms of these arrangements, marketing rebates are provided to the Company and its franchisees from the beverage vendors based upon the dollar volume of purchases for system-wide restaurants which will vary according to their demand for beverage syrup and fluctuations in the market rates for beverage syrup. These contracts have terms extending into 2017 with an estimated Company obligation totaling $13.9 million.

At December 30, 2015, the Company's total estimated commitment to purchase chicken was $4.2 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 four lease agreements. These leases have various terms, the latest of which expires in 2022. As of December 30, 2015, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was $1,360,000. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at December 30, 2015 was $1,240,000. 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

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

Indemnification Agreements

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

15. RELATED PARTY TRANSACTIONS

Trimaran Pollo Partners , L.L.C. ("LLC"), owns approximately 43.7% 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, deci sions 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.

On November 18, 2005, the Company enter ed into a Monitoring and Management Services Agreement (the "Agreement") with Trimaran Fund Management, L.L.C. ("Fund Management"), an affiliate of Trimaran and of certain directors, which provided for annual fees of $500,000 and reasonable expenses. This Agreement was amended on December 26, 2007 to add an affiliate of Freeman Spogli, Freeman Spogli & Co. V, L.P., as a party sharing in the fees payable under the Agreement. During the years ended December 31, 2014, and December 25, 2013, $343,000 and $624,0 00, respectively, were paid pursuant to this Agreement. These amounts were included in general and administrative expenses in the accompanying consolidated statements of operations. The Agreement terminated as of the Company's IPO.

16. STOCK SPLIT, AUTHORIZATION OF ADDITIONAL SHARES, AND INITIAL PUBLIC OFFERING

On July 14, 2014, Holdings amended its certificate of incorporation to increase the number of shares that Holdings is authorized to issue to 200 million shares of common stock, par value $0.01 per share. The amendment of the certificate of incorporation effected an internal recapitalization pursuant to which Holdings effected an 8.56381-for-1 stock split on its outstanding common stock.

Accordingly, all common share and per share amounts in the consolidated financial statements and these notes thereto have been adjusted to reflect the 8.56381-for-1 stock split as though it occurred at the beginning of the initial period presented.

On July 24, 2014, Holdings amended and restated its certificate of incorporation to, among other things, increase its authorized share count to 300,000,000 shares of stock, including 200,000,000 shares of common stock and 100,000,000 shares of preferred stock, each par value $0.01 per share. On July 30, 2014, Holdings completed its initial public offering of 8,214,286 shares of common stock at a price to the public of $15.00 per share (the "IPO"), including 1,071,429 shares sold to the underwriters pursuant to their option to purchase additional shares. After underwriting discounts, commissions, and fees and expenses of IPO offering and distribution, as set forth in our registration statement for the IPO on Form S-1, the Company received net IPO proceeds of approximately $112.3 million. The Company used these proceeds primarily to repay in whole a $100 million second lien term loan (the "Second Lien Term Loan").

17. 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 30, 2015. We have derived this data from our unaudited consolidated interim financial statements that, in our opinion, have been prepared on substantially the same basis as the audited financial statements contained elsewhere in this report and include all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. These unaudited quarterly results should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2015				2014			
(Dollar amounts in thousands, except share data)	**Dec.**	**Sept.**	**July**	**Apr.**	**Dec.**	**Sept.**	**June**	**Mar.**
Selected Financial Data								
Total revenue ($)	86,307	88,870	89,454	90,426	89,973	86,557	86,904	81,427
Income from Operations ($)	9,748	12,527	13,582	12,967	11,311	13,621	12,842	11,510
Provision (benefit) for income taxes	4,576	6,505	5,062	4,714	(2,606)	(61,389) (3)	570	417
Net income (loss) ($)	5,367	4,666	7,230	6,791	4,575 (2) (4)	25,849 (2) (3)	6,569 (2)	5,470 (2)
Per Share Data (5) :								
Net income (loss) per share								
Basic	0.14	0.12	0.19	0.18	0.12	0.76	0.23	0.19
Diluted	0.14	0.12	0.18	0.17	0.12	0.70	0.21	0.18
Weighted average shares used in computing net income (loss) per share								
Basic	38,284,435	38,275,317	37,812,767	37,424,745	37,149,379	34,221,829	28,715,485	28,712,622
Diluted	38,965,248	39,107,241	39,085,206	38,921,884	39,691,650	36,821,095	30,372,281	30,157,316
Selected Operating Data								
Number of restaurants (at period end)								
Company-operated	186	175	174	173	172	166	168	168
Franchised	247	245	244	243	243	239	233	233
System-wide	433	420	418	416	415	405	401	401
Average unit volume (AUV) (company-operated) (1)	1,826	1,928	1,952	1,963	1,839	1,893	1,927	1,813
Comparable restaurant sales growth (%)								
Company-operated	1.0	0.0	(0.5)	3.5	6.4	6.4	5.0	5.4
Franchised	2.4	1.1	2.6	6.2	8.6	9.1	5.9	8.3
System-wide	1.8	0.6	1.3	5.1	7.6	7.9	5.4	7.2
Restaurant contribution margin (%)	21.5	21.2	21.6	23.3	22.3	20.7	22.6	22.1

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

(2) Repayment of the 2013 Second Lien Term Loan with a portion of the proceeds of our IPO resulted in lower interest rates on our indebtedness, which has contributed to lower interest expense and higher net income in subsequent periods.

(3) In the thirteen weeks ended September 24, 2014, we released our valuation allowance of approximately $65 million, and incurred a TRA charge of approximately $41 million.

(4) In the fourteen weeks ended December 31, 2014, we refinanced the 2013 First Lien Credit Agreement with the 2014 Revolver, which resulted in lower interest rates on our indebtedness, contributing to lower interest expense and higher net income. In connection with the 2014 Refinancing, the 2013 First Lien Term Loan was repaid in full, resulting in a one-time charge to our consolidated statement of operations of $4.6 million, reflecting expenses related to the write-off of deferred financing costs and unamortized discounts.

(5) 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.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including, as appropriate, to our Chief Executive Officer and Chief Financial Officer, so as to permit timely decisions regarding required disclosures.

With the supervision and participation of management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, and our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

The design of any system of control is based on assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated objectives in all cases, or that compliance with policies or procedures will remain steady. Because of their inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

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 30, 2015 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 30, 2015.

Further, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting as long as we are an "emerging growth company" pursuant to the provisions of the JOBS Act.

Changes in Internal Control over Financial Reporting

No change occurred in our internal control over financial reporting in the most recent quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 2015 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of our 2015 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 2015 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 2015 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 2015 fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

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

(2) Financial Statement Schedules: None.

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

SIGNA TURES

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

EL POLLO LOCO HOLDINGS, INC.

By:	/s/ Stephen J. Sather
	Stephen J. Sather
	President and Chief Executive Officer
Date:	March 11, 2016

SIGNATURES AND POWER OF ATTORNEY

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

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

Name	Title	Date
/s/ Stephen J. Sather Stephen J. Sather	Director, President and Chief Executive Officer (principal executive officer)	March 11, 2016
/s/ Laurance Roberts Laurance Roberts	Chief Financial Officer (principal financial and accounting officer)	March 11, 2016
/s/ Michael G. Maselli Michael G. Maselli	Chairman and Director	March 11, 2016
/s/ Dean C. Kehler Dean C. Kehler	Director	March 11, 2016
/s/ John M. Roth John M. Roth	Director	March 11, 2016
/s/ Douglas K. Ammerman Douglas K. Ammerman	Director	March 11, 2016
/s/ Samuel N. Borgese Samuel N. Borgese	Director	March 11, 2016
/s/ Mark Buller Mark Buller	Director	March 11, 2016

EXHIBIT INDEX

Number	Description	Filed Herewith	Incorporated by Reference Form	Period Ended	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of El Pollo Loco Holdings, Inc.		10-Q	06/25/14	3.1	09/05/14
3.2	Amended and Restated By-Laws of El Pollo Loco Holdings, Inc.		10-Q	06/25/14	3.2	09/05/14
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	09/24/14	10.1	11/07/14
10.2	Franchise Development Agreement (Exclusive), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and Anil Yadav and Atour Eyvazian, collectively, as developer		8-K	N/A	10.1	08/22/14
10.3	Consent to and Assignment of Development Rights (Initial Change of Entity), dated August 20, 2014, between El Pollo Loco, Inc., as franchisor, and (i) Anil Yadav and Atour Eyvazian, collectively, as assignor, and (ii) AA Pollo, Inc., as assignee		8-K	N/A	10.2	08/22/14
10.4	Franchise Development Option Agreement, dated July 11, 2014, between El Pollo Loco, Inc., and Trimaran Pollo Partners, L.L.C.		S-1/A	N/A	10.14	07/14/14
10.5	Stockholders Agreement, dated as of November 18, 2005, by and among El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and the stockholders listed therein		S-1	N/A	10.3	06/24/14
10.6	Amendment No. 1 to Stockholders Agreement, dated as of April 20, 2006, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C.		S-1	N/A	10.4	06/24/14
10.7	Amendment No. 2 to Stockholders Agreement, dated as of December 26, 2007, by and between El Pollo Loco Holdings, Inc. (formerly Chicken Acquisition Corp.) and Trimaran Pollo Partners, L.L.C.		S-1	N/A	10.5	06/24/14
10.8	Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of March 8, 2006		S-1	N/A	10.6	06/24/14
10.9	Amendment No. 1 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of December 26, 2007		S-1	N/A	10.7	06/24/14
10.10	Amendment No. 2 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of January 30, 2008		S-1	N/A	10.8	06/24/14
10.11	Amendment No. 3 to Second Amended and Restated Limited Liability Company Operating Agreement of Trimaran Pollo Partners, L.L.C., dated as of July 14, 2011		S-1	N/A	10.9	06/24/14

Number	Description	Filed Herewith	Incorporated by Reference Form	Period Ended	Exhibit	Filing Date
10.12	Form of Franchise Agreement		S-1	N/A	10.12	06/24/14
10.13	Form of Franchise Development Agreement		S-1	N/A	10.13	06/24/14
10.14*	Amended and Restated Employment Agreement between Stephen J. Sather and El Pollo Loco, Inc.		S-1	N/A	10.14	06/24/14
10.15*	Employment Agreement between Laurance Roberts and El Pollo Loco, Inc.		S-1	N/A	10.15	06/24/14
10.16*	Employment Agreement between Kay Bogeajis and El Pollo Loco, Inc.		S-1	N/A	10.16	06/24/14
10.17*	Employment Agreement between Edward Valle and El Pollo Loco, Inc.		S-1	N/A	10.17	06/24/14
10.18*	2012 Stock Option Plan		S-1	N/A	10.18	06/24/14
10.19*	2014 Omnibus Equity Incentive Plan		S-1/A	N/A	10.22	07/22/14
10.20*	Form of Option Award Agreement (Fair Market Value Options) under 2012 Stock Option Plan		S-1	N/A	10.19	06/24/14
10.21*	Form of Option Award Agreement (Premium Options) under 2012 Stock Option Plan		S-1	N/A	10.20	06/24/14
10.22*	Form of Option Award Agreement (Fair Market Value Options) under 2014 Omnibus Equity Incentive Plan		S-1/A	N/A	10.25	07/22/14
10.23*	Form of Non-Officer Director Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan		S-1/A	N/A	10.26	07/22/14
10.24*	Form of Indemnification Agreement between El Pollo Loco Holdings, Inc. and each of its directors and executive officers		S-1/A	N/A	10.27	07/22/14
10.25	Credit Agreement, dated as of December 11, 2014, among El Pollo Loco, Inc., as borrower, El Pollo Loco Holdings, Inc., and EPL Intermediate, Inc., as guarantors, Bank of America, N.A., as administrative agent, swingline lender and letter of credit issuer, the lenders party thereto, and the other parties thereto		8-K	N/A	10.1	12/16/14
21.1	Subsidiaries of El Pollo Loco Holdings, Inc.		S-1	N/A	21.1	06/24/14
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				

Number	Description	Filed Herewith	Incorporated by Reference Form	Period Ended	Exhibit	Filing Date
32.1	Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. section 1350, adopted by section 906 of the Sarbanes–Oxley Act of 2002	**				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				

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

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

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

El Pollo Loco Holdings, Inc.
Costa Mesa, California

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-197001) of El Pollo Loco Holdings, Inc. of our report dated March 11, 2016, relating to the consolidated financial statements, which appear in this Form 10-K.

/s/ BDO USA, LLP
Costa Mesa, California
March 11, 2016

Exhibit 31.1

CERTIFICATIONS

I, Stephen J. Sather, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 11, 2016

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

Exhibit 31.2

CERTIFICATIONS

I, Laurance Roberts, certify that:

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

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

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

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

Date: March 11, 2016

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

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

Date: March 11, 2016

/s/ Stephen J. Sather

Stephen J. Sather
President and Chief Executive Officer

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer