EL POLLO LOCO HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

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Industry	Restaurants & Bars
Sector	Consumer Cyclicals
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 28, 2016

or

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

For the transition period from __________ to __________

Commission File Number: 001-36556

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

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

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

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

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

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

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

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

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

As of October 24 , 2016, t here were 38,473,772 shares of the issuer's common stock outstanding.

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PART I—FINANCI AL INFORMATION

Item 1. Financial Statements.

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except share data)

	September 28, 2016	December 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 6,529	$ 6,101
Restricted cash	125	125
Accounts and other receivables, net	8,495	6,186
Inventories	1,834	1,899
Prepaid expenses and other current assets	3,426	2,656
Deferred tax assets	10,032	21,656
Total current assets	30,441	38,623
Property and equipment owned, net	117,259	102,421
Property held under capital leases, net	70	89
Goodwill	248,674	248,674
Trademarks	61,888	61,888
Other intangible assets, net	509	638
Deferred tax assets	6,891	6,891
Other assets	1,481	1,804
Total assets	**$ 467,213**	**$ 461,028**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of obligations under capital leases	$ 159	$ 177
Accounts payable	9,388	11,046
Accrued salaries and vacation	9,231	6,693
Accrued insurance	5,161	5,021
Accrued income taxes payable	32	67
Accrued interest	200	245
Accrued advertising	—	204
Other accrued expenses and current liabilities	13,903	16,126
Total current liabilities	38,074	39,579
Revolver loan	107,000	123,000
Obligations under capital leases, net of current portion	347	461
Deferred taxes, net of current portion	8,740	8,740
Other intangible liabilities, net	1,068	1,248
Other noncurrent liabilities	48,039	43,367
Total liabilities	203,268	216,395
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value—200,000,000 shares authorized; 38,473,772 and 38,284,435 shares issued and outstanding	385	383
Additional paid-in-capital	371,024	369,635
Accumulated deficit	(107,464)	(125,385)
Total stockholders' equity	263,945	244,633
Total liabilities and stockholder’s equity	**$ 467,213**	**$ 461,028**

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except share data)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2016	September 30, 2015	September 28, 2016	September 30, 2015
Revenue				
Company-operated restaurant revenue	$ 89,738	$ 82,986	$ 268,984	$ 251,295
Franchise revenue	6,078	5,884	18,660	17,456
Total revenue	95,816	88,870	287,644	268,751
Cost of operations				
Food and paper cost	26,960	26,371	80,760	80,549
Labor and related expenses	24,455	20,822	73,323	63,493
Occupancy and other operating expenses	20,071	18,207	58,401	52,732
Gain on recovery of insurance proceeds, lost profit	(502)	—	(502)	—
Company restaurant expenses	70,984	65,400	211,982	196,774
General and administrative expenses	8,252	6,316	25,776	20,206
Franchise expenses	797	925	2,960	2,620
Depreciation and amortization	4,074	3,278	11,796	9,624
Loss on disposal of assets	58	261	524	427
Expenses related to fire loss	—	—	48	—
Loss (gain) on recovery of insurance proceeds	148	—	(741)	—
Asset impairment and closed-store reserves	2,490	163	2,624	24
Total expenses	86,803	76,343	254,969	229,675
(Loss) gain on disposition of restaurants	(5)	—	28	—
Income from operations	9,008	12,527	32,703	39,076
Interest expense-net of interest income	785	810	2,441	3,035
Expenses related to selling shareholders	—	—	—	50
Income tax receivable agreement expense	182	546	411	1,022
Income before provision for income taxes	8,041	11,171	29,851	34,969
Provision for income taxes	2,830	6,505	11,930	16,281
Net income	$ 5,211	$ 4,666	$ 17,921	$ 18,688
Net income per share				
Basic	$ 0.14	$ 0.12	$ 0.47	$ 0.49
Diluted	$ 0.13	$ 0.12	$ 0.46	$ 0.48
Weighted-average shares used in computing net income per share				
Basic	38,415,189	38,275,317	38,331,400	37,837,610
Diluted	39,083,577	39,107,241	39,020,127	39,044,388

See notes to condensed consolidated financial statements (unaudited).

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Thirty-Nine Weeks Ended	
	September 28, 2016	September 30, 2015
Cash flows from operating activities:		
Net income	$ 17,921	$ 18,688
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	11,796	9,624
Stock-based compensation expense	244	608
Fire insurance proceeds for expenses paid and lost profit	257	—
Income tax receivable agreement expense	411	1,022
Gain on sale of restaurant	(28)	—
Loss on disposal of assets	524	427
Gain on recovery of insurance proceeds for property, equipment and expenses	(741)	—
Gain on recovery of insurance proceeds for lost profits	(502)	—
Impairment of property and equipment	2,508	136
Closed-store reserve	116	(112)
Amortization of deferred financing costs	229	229
Amortization of favorable and unfavorable leases, net	(51)	(128)
Excess income tax benefit related to share-based compensation plans	(169)	(5,700)
Deferred income taxes, net	11,624	10,581
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(2,066)	(292)
Inventories	57	148
Prepaid expenses and other current assets	(770)	1,278
Income taxes payable	134	5,670
Other assets	94	102
Accounts payable	(6,269)	500
Accrued salaries and vacation	2,538	(113)
Accrued insurance	140	1,032
Other accrued expenses and liabilities	1,673	(279)
Net cash flows provided by operating activities	39,670	43,421
Cash flows from investing activities:		
Proceeds from sale of restaurant	1,465	—
Fire insurance proceeds for property and equipment	743	—
Purchase of property and equipment	(26,465)	(16,512)
Net cash flows used in investing activities	(24,257)	(16,512)
Cash flows from financing activities:		
Payments on revolver loan	(16,000)	(40,000)
Proceeds from issuance of common stock, net of expenses	978	4,254
Payment of obligations under capital leases	(132)	(155)
Excess income tax benefit related to share-based compensation plans	169	5,700
Net cash flows used in financing activities	(14,985)	(30,201)
Increase (Decrease) in cash and cash equivalents	428	(3,292)
Cash and cash equivalents, beginning of period	6,101	11,499
Cash and cash equivalents, end of period	$ 6,529	$ 8,207

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

EL POLLO LOCO HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Thirty-Nine Weeks Ended	
Supplemental cash flow information	**September 28, 2016**	**September 30, 2015**
Cash paid during the period for interest	$ 2,355	$ 2,781
Cash paid during the period for income taxes	$ 173	$ 30
Unpaid purchases of property and equipment	$ 4,599	$ 4,567
Cashless stock option exercise	$ —	$ (34)

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

El Pollo Loco Holdings, Inc. (“Holdings”) is a Delaware corporation headquartered in Costa Mesa, California. Holdings and its direct and indirect subsidiaries are collectively known as “we,” “us” or the “Company.” Our activities are conducted principally through our indirect wholly-owned subsidiary, El Pollo Loco, Inc. (“EPL”), which develops, franchises, licenses, and operates quick-service restaurants under the name El Pollo Loco® and operates under one operating segment. At September 28, 2016, we operated 193 and franchised 253 El Pollo Loco restaurants.

Basis of Presentation

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

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

Holdings has no material assets or operations. Holdings and Holdings’ direct subsidiary, EPL Intermediate, Inc. (“Intermediate”), guarantee EPL’s 2014 Revolver (see Note 4) on a full and unconditional basis and Intermediate has no subsidiaries other than EPL. EPL is a separate and distinct legal entity, and has no obligation to make funds available to Intermediate. EPL and Intermediate may pay dividends to Intermediate and to Holdings, respectively.

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

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

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

Liquidity

The Company's principal liquidity requirements are to service our debt and to meet capital expenditure needs. At September 28, 2016, the Company's total debt (including capital lease liabilities) was $107.5 million. The Company's ability to make payments on its indebtedness and to fund planned capital expenditures depends on available cash and on its ability to generate adequate cash flows in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond the Company's control. Based on current operations, the Company believes that its cash flow from operations, available cash of $6.5 million at September 28, 2016, and available borrowings under the 2014 Revolver (which availability was approximately $85.8 million at September 28, 2016) will be adequate to meet the Company's liquidity needs for the next 12 months.

Gain on Recovery of Insurance Proceeds

In November 2015, one of the Company's restaurants incurred damage resulting from a fire. During the thirty-nine weeks ended September 28, 2016, we incurred costs directly related to the fire of $48,000, disposed of an additional $87,000 of assets and recognized gains of $741,000, related to the reimbursement of property and equipment and expenses incurred and $502,000 related to the reimbursement of lost profits. The reimbursement of lost profits is included in the accompanying consolidated statement of operations, for the thirteen and thirty-nine weeks ended September 28, 2016, as a reduction of Company restaurant expenses. The Company received from the insurance company cash of $1,000,000 during the thirty-nine weeks ended September 28, 2016 and $354,000, net of a $10,000 insurance deductible, on October 5, 2016. The $354,000 is included in accounts and other receivables in the condensed consolidated balance sheet as of September 28, 2016. In 2015, the Company disposed of $111,000 of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flow, and other Topics. ASU 2016-15 is effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients. This ASU is intended to clarify two aspects of Topic 606: first, assessing the collectability criterion, options for the presentation of sales and similar taxes, noncash consideration, transition contract modifications, transition contract completion and secondly, technical corrections. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing. This ASU is intended to clarify two aspects of Topic 606: identifying performance obligations and licensing implementation guidance. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” The new standard establishes a right-of-use (RO U) 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 requir ed 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 assessing the impact of this ASU on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for the Company's fiscal year beginning December 28, 2017 and interim periods within that fiscal year. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

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

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

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

The revised revenue standard is effective for public entities for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently assessing the impact of this ASU on our consolidated financial statements.

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

Subsequent Events

Subsequent to September 28, 2016, the Company opened 4 new restaurants and made a $3.0 million pre-payment on the 2014 Revolver. On October 3, 2016, the Company announced a two unit franchise development agreement with Listo Way Group LLC to develop El Pollo Loco restaurants in Lafayette, Louisiana. On October 5, 2016, the Company received $354,000 in insurance proceeds related to damage resulting from a fire at one of the Company’s restaurants. On November 1, 2016, the Company amended the letters of credit related to the 2014 Revolver, thereby increasing the outstanding amount to $8.0 million.

The Company evaluated subsequent events that have occurred after September 28, 2016, and determined that there were no other events or transactions occurring during this reporting period th at require recognition or disclosure in the condensed consolidated financial statements.

Concentration of Risk

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

The Company had no suppliers for which amounts due at September 28, 2016 totaled greater than 10% of the Company's accounts payable. As of December 30 , 2015, the Company had two different suppliers for which amounts totaled 12 % and 11 % of the Company's accounts payable. Purchases from the Company's largest supplier totaled 33% for the thirteen weeks ended September 28, 2016, and 37% for the thirteen weeks ended September 30, 2015, of the Company's purchases. Purchases from the Company's largest supplier totaled 33% for the thirty-nine weeks ended September 28, 2016, and 37% for the thirty-nine weeks ended September 30, 2015, of the Company's purchases. Company-operated and franchised restaurants in the g reater Los Angeles area generated, in the aggregate, approximately 75% and 79% of total revenue for both the thirteen and thirty-nine weeks ended September 28, 2016 and September 30, 2015, respectively.

Goodwill and Indefinite Lived Intangible Assets

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

Upon the sale of a restaurant, the Company evaluates whether there is a decrement of goodwill. The amount of goodwill included in the cost basis of the asset sold is determined based on the relative fair value of the portion of the reporting unit disposed of compared to the fair value of the reporting unit retained.

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

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

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

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

The Company did not identify any indicators of potential impairment during the thirteen and thirty-nine weeks ended September 28, 2016, and therefore did not perform any impairment review, nor did the Company record any impairment.

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 fair value is measured on a nonrecurring basis using unobservable (Level 3) inputs. Based on the results of the analysis, the Company recorded a non-cash impairment charge o f $2.4 million for the thirteen and thirty-nine weeks ended September 28, 2016, related to non-recoverable assets of two restaurants in Arizona and Texas. The Company continues to monitor the recoverability of the carrying value of the assets of several ot her restaurants, including new restaurants opened in 2015 in Texas.

Income Taxes

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

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

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

The Company’s policy is to recognize interest and penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties at September 28, 2016 or at December 30, 2015, and did not recognize interest or penalties during the thirteen or thirty-nine weeks ended September 28, 2016 or September 30, 2015, since there were no material unrecognized tax benefits. Management believes no material changes to the amount of unrecognized tax benefits will occur within the next twelve months.

On July 30, 2014, the Company entered into the TRA. The TRA calls for the Company to pay to its pre-IPO stockholders 85% of the savings in cash that the Company realizes in its taxes as a result of utilizing its net operating losses and other tax attributes attributable to preceding periods.

2. PROPERTY AND EQUIPMENT

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

	September 28, 2016	December 30, 2015
Land	$ 12,323	$ 12,323
Buildings and improvements	121,875	111,349
Other property and equipment	64,065	58,525
Construction in progress	12,803	4,717
	211,066	186,914
Less: accumulated depreciation and amortization	(93,807)	(84,493)
	$ 117,259	$ 102,421

Depreciation expense was $4.1 million and $3.3 million for the thirteen weeks ended September 28, 2016 and September 30, 2015, respectively, and $11.8 million and $9.6 million for the thirty-nine weeks ended September 28, 2016 and September 30, 2015, respectively. The gross value of assets under capital leases for buildings and improvements was $1.6 million at September 28, 2016 and December 30, 2015. Accumulated depreciation for assets under capital leases was $1.5 million as of September 28, 2016 and December 30, 2015. For the thirteen weeks ended September 28, 2016, capital expenditures totaled $12.1 million, including $0.1 million for restaurant remodeling and $10.8 million for new restaurant expenditures. For the thirty-nine weeks ended September 28, 2016, capital expenditures totaled $26.5 million, including $1.6 million for restaurant remodeling and $20.8 million for new restaurant expenditures. Capital expenditures for the quarter and year-to-date periods exclude unpaid purchases of property and equipment.

3. STOCK-BASED COMPENSATION

At September 28, 2016, options to purchase 2,174,348 shares of common stock were outstanding, including 1,648,322 vested and 526,026 unvested. Unvested options vest over time, or upon our achieving annual financial goals. However, upon a change in control, the board may accelerate vesting. At September 28, 2016, 1,605,831 premium options remained outstanding. For the thirteen and thirty-nine weeks ended September 28, 2016, there were exercises of stock options for 32,386 and 147,726 shares, respectively . For the thirteen and thirty-nine weeks ended September 30 , 2015, there were exercises of stock options for 18,340 and 863,247 shares, respectively. For the thirteen and thirty-nine weeks ended September 28, 2016, options were granted at the fair market value on the date of grant of 9,875 and 329,673, respectively. No options were granted in the thirteen and thirty-nine weeks ended September 30, 2015.

At September 28 , 2016 , there were 36,752 unvested restricted shares outstanding. Restricted shares vest over time.

At September 28, 2016, we had total unrecognized compensation expense of $1.8 million, related to unvested stock options and restricted shares, which we expect to recognize over a weighted-average period of 3.0 years.

Total stock-based compensation expense was $105,000 and $244,000 for the thirteen and thirty-nine weeks ended September 28, 2016 and $165,000 and $608,000 for the thirteen and thirty-nine weeks ended September 30, 2015, respectively.

4. CREDIT AGREEMENTS

On December 11, 2014, the Company refinanced its debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for a $200 million five-year senior secured revolving facility (the “2014 Revolver”). The 2014 Revolver includes a sub limit of $15 million for letters of credit and a sub limit of $15 million for swingline loans. At September 28, 2016, $7.2 million of letters of credit and $107 million of the revolving line of credit were outstanding. The amount available under the revolving line of credit was $85.8 million at September 28, 2016. The 2014 Revolver will mature on or about December 11, 2019.

Borrowings under the 2014 Revolver (other than any swingline loans) bear interest, at the borrower’s option, at rates based upon either LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a lease-adjusted consolidated leverage ratio-based pricing grid. The base rate is calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, or (c) LIBOR plus 1.00%. For LIBOR loans, the margin is in the range of 1.75% to 2.50%, and for base rate loans the margin is in the range of 0.75% to 1.50%. The margin was initially set at 2.00% for LIBOR loans and at 1.00% for base rate loans until the delivery of financial statements and a compliance certificate for the first quarter of 2015. The interest rate range was 2.20% to 2.27% and 2.02% to 2.27% for the thirteen and thirty-nine weeks ended September 28, 2016, respectively.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also includes certain customary affirmative covenants and events of default. The Company was in compliance with all such covenants at September 28, 2016. See Note 1 for restrictions on the payment of dividends under the 2014 Revolver.

Maturities

There are no required principal payments prior to maturity for the 2014 Revolver. During the thirty-nine weeks ended September 28, 2016, the Company elected to pay down $16.0 million of outstanding borrowing on our 2014 Revolver, primarily from our cash flow from operations.

5. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES

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

	September 28, 2016	December 30, 2015
Accrued sales and property taxes	$ 4,539	$ 3,480
Income tax receivable agreement payable	4,197	7,609
Gift card liability	1,502	1,810
Other	3,665	3,227
Total other accrued expenses and current liabilities	$ 13,903	$ 16,126

6. OTHER NONCURRENT LIABILITIES

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

	September 28, 2016	December 30, 2015
Deferred rent	$ 7,765	$ 6,611
Income tax receivable agreement payable	37,753	33,930
Other	2,521	2,826
Total other noncurrent liabilities	$ 48,039	$ 43,367

7. COMMITMENTS AND CONTINGENCIES

Legal Matters

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, against EPL on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. The parties have executed a Stipulation of Class Settlement and Release which has been submitted for court approval. Purported class actions alleging wage and hour violations are commonly filed against California employers, and we fully expect to have to defend against similar lawsuits in the future.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016, on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, between May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, L.L.C., Trimaran Capital Partners, and Freeman Spogli & Co. (collectively, the "Controlling Shareholder Defendants"). Among other things, Plaintiffs allege that, in 2014 and early 2015, Holdings suffered losses due to rising labor costs in California and, in an attempt to mitigate the effects of such rising costs, removed a $5 value option from our menu, which resulted in a decrease in value-conscious store traffic. Plaintiffs further allege that during the Class Period, Holdings and the Individual Defendants made a series of materially false and misleading statements that concealed the effect that these factors were having on store sales growth, resulting in Holdings stock continuing to be traded at artificially inflated prices. As a result, Plaintiffs and other members of the putative class allegedly suffered damages in connection with their purchase of Holdings' stock during the Class Period. In addition, Plaintiffs allege that the Individual Defendants and Controlling Shareholder Defendants had direct involvement in, and responsibility over, the operations of Holdings, and are presumed to have had, among other things, the power to control or influence the transactions giving rise to the alleged securities law violations. In both cases, Plaintiffs seek an unspecified amount of damages, as well as costs and expenses (including attorneys' fees). On July 25, 2016, the Court issued an order granting, without prejudice, Holdings' Motion to Dismiss plaintiff's complaint for failure to state a claim. Plaintiffs were granted leave to amend their complaint, and filed an amended complaint on August 22, 2016. Defendants intend to vigorously defend against the claims asserted.

In addition, on September 16, 2015, Holdings and certain of its officers and directors received an informal, non-public inquiry from the SEC requesting voluntary production of documents and information. All parties cooperated fully with the SEC's request. On July 15, 2016, Holdings was informed that the SEC was closing its inquiry as to all parties.

On or about November 5, 2015, a purported Holdings shareholder filed a derivative complaint on behalf of Holdings in the Court of Chancery of the State of Delaware against certain Holdings officers, directors and Trimaran Pollo Partners, L.L.C. The derivative complaint alleges that these defendants breached their fiduciary duties to Holdings and were unjustly enriched when they sold shares of Holdings at artificially inflated prices due to alleged misrepresentations and omissions regarding EPL's comparable store sales in the second quarter of 2015. The Holdings shareholder's requested remedies include an award of compensatory damages to Holdings, as well as a court order to improve corporate governance by putting forward for stockholder vote certain resolutions for amendments to Holdings' Bylaws or Certificate of Incorporation. The parties have stipulated to, which the court has ordered, a stay of these proceedings pending the outcome of Turocy v. El Pollo Loco Holdings, Inc., discussed above. A second purported Holdings shareholder filed a derivative complaint on or about September 23, 2016, allegedly on behalf of Holdings in the same venue naming the same defendants with substantially the same allegations arising from the same set of facts.

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 $9.7 million as of September 28, 2016.

At September 28, 2016, the Company's total estimated commitment to purchase chicken was $13.4 million.

Contingent Lease Obligations

As a result of assigning the Company's interest in obligations under real estate leases in connection with the sale of company-operated restaurants to some of the Company's franchisees, the Company is contingently liable on five lease agreements. These leases have various terms, the latest of which expires in 2036. As of September 28, 2016, the potential amount of undiscounted payments the Company could be required to make in the event of non-payment by the primary lessee was $3.3 million. The present value of these potential payments discounted at the Company's estimated pre-tax cost of debt at September 28, 2016 was $2.8 million. The Company's franchisees are primarily liable on the leases. The Company has cross-default provisions with these franchisees that would put them in default of their franchise agreements in the event of non-payment under the leases. The Company believes that these cross-default provisions reduce the risk that payments will be required to be made under these leases. Accordingly, no liability has been recorded in the Company's condensed consolidated financial statements related to these contingent liabilities.

Employment Agreements

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

Indemnification Agreements

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

8. NET INCOME PER SHARE

Basic net income per share is calculated using the weighted-average number of shares of common stock outstanding during the thirteen and thirty-nine weeks ended September 28, 2016 and September 30, 2015. Diluted net income per share is calculated using the weighted-average number of shares of common stock outstanding and potentially dilutive during the period, using the treasury stock method.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2016	September 30, 2015	September 28, 2016	September 30, 2015
Numerator:				
Net income	$ 5,211	$ 4,666	$ 17,921	$ 18,688
Denominator:				
Weighted-average shares outstanding—basic	38,415,189	38,275,317	38,331,400	37,837,610
Weighted-average shares outstanding—diluted	39,083,577	39,107,241	39,020,127	39,044,388
Net income per share—basic	$ 0.14	$ 0.12	$ 0.47	$ 0.49
Net income per share—diluted	$ 0.13	$ 0.12	$ 0.46	$ 0.48
Anti-dilutive securities not considered in diluted EPS calculation	451,325	—	451,325	—

Below is a reconciliation of basic and diluted share counts.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2016	September 30, 2015	September 28, 2016	September 30, 2015
Weighted-average shares outstanding—basic	38,415,189	38,275,317	38,331,400	37,837,610
Dilutive effect of stock options and restricted shares	668,388	831,924	688,727	1,206,778
Weighted-average shares outstanding—diluted	39,083,577	39,107,241	39,020,127	39,044,388

9. RELATED PARTY TRANSACTIONS

Trimaran Pollo Partners, L.L.C. (“LLC”), owns approximately 43.5% of the Company’s outstanding common stock. This large position means that LLC and its majority owners—predecessors and affiliates of, and certain funds managed by, Trimaran Capital Partners and Freeman Spogli & Co. (collectively, “Trimaran” and “Freeman Spogli,” respectively)—possess significant influence when stockholders vote on matters such as election of directors, mergers, consolidations and acquisitions, the sale of all or substantially all of the Company’s assets, decisions affecting the Company’s capital structure, amendments to the Company’s certificate of incorporation or by-laws, and the Company’s winding up and dissolution. So long as LLC maintains at least 40% ownership, (i) any member of the board of directors may be removed at any time without cause by affirmative vote of a majority of the Company’s common stock, and (ii) stockholders representing 40% or greater ownership may cause special stockholder meetings to be called.

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

Cautionary Statement Concerning Forward-Looking Statements

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

Overview

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

Growth Strategies and Outlook

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

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

As of September 28, 2016, we had 446 locations in five states. In fiscal 2015, we opened fourteen new company-operated and five new franchised restaurants across Arizona, California, Nevada, and Texas. For the quarter ended September 28, 2016, we opened five new company-operated restaurants, in California, Texas and Nevada, and two franchised restaurants in Texas. In 2016, we intend to open 17 to 18 new company-operated and 11 to 12 new franchised restaurants in Arizona, California, Nevada, Utah and Texas. Over the long term, we plan to grow the number of El Pollo Loco restaurants by 8% to 10% annually. To increase comparable restaurant sales, we plan to increase customer frequency, attract new customers, and improve per-person spend. We believe that we are well-positioned for future growth, with a developed corporate infrastructure capable of supporting a future restaurant base that is greater than our existing one. Additionally, we believe that we have an opportunity to optimize costs and enhance our profitability as we benefit from economies of scale. These growth rates are not guaranteed.

On October 3, 2016, the Company announced a two unit franchise development agreement with Listo Way Group LLC to develop El Pollo Loco restaurants in Lafayette, Louisiana.

Highlights and Trends

Comparable Restaurant Sales

System-wide, for the quarter ended September 28, 2016, comparable restaurant sales increased 1.6%. For company-operated restaurants, comparable restaurant sales, for the quarter, increased by 1.4%. For company-operated restaurants, the quarter's comparable restaurant sales consisted of a 1.4% increase in average check size and traffic comparable to the prior year. For franchised restaurants, comparable restaurant sales increased 1.8%.

Restaurant Development

Our restaurant counts at the beginning and end of each of the last three fiscal years and the thirty-nine weeks ended September 28, 2016, were as follows.

	Thirty-Nine Weeks Ended	Fiscal Year Ended		
	September 28, 2016	2015	2014	2013
Company-operated restaurant activity:				
Beginning of period	186	172	168	169
Openings	10	14	11	2
Restaurant sale to franchisee	(1)	—	(6)	—
Closures	(2)	—	(1)	(3)
Restaurants at end of period	193	186	172	168
Franchised restaurant activity:				
Beginning of period	247	243	233	229
Openings	6	5	5	5
Restaurant sale to franchisee	1	—	6	—
Closures	(1)	(1)	(1)	(1)
Restaurants at end of period	253	247	243	233
System-wide restaurant activity:				
Beginning of period	433	415	401	398
Openings	16	19	16	7
Closures	(3)	(1)	(2)	(4)
Restaurants at end of period	446	433	415	401

Restaurant Remodeling

We and our franchisees commenced our remodeling program in 2011 and, as of September 28, 2016, together we had remodeled 106 company-operated and 183 franchised restaurants, or 289 system-wide, over 75% of our restaurant system. Remodeling is a use of cash and has implications for our net property and depreciation line items on our condensed consolidated balance sheets and statements of operations, among others. The cost of our restaurant remodels varies depending on the scope of work required, but on average the investment is $320,000 per restaurant. We believe that our remodeling program will result in higher restaurant revenue and a strengthened brand.

Critical Accounting Policies and Use of Estimates

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

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

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

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flow, and other Topics. ASU 2016-15 is effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients. This ASU is intended to clarify two aspects of Topic 606: first, assessing the collectability criterion, options for the presentation of sales and similar taxes, noncash consideration, transition contract modifications, transition contract completion and secondly, technical corrections. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing. This ASU is intended to clarify two aspects of Topic 606: identifying performance obligations and licensing implementation guidance. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

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

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for the Company's fiscal year beginning December 28, 2017 and interim periods within that fiscal year. The Company is currently assessing the impact of this ASU on our consolidated financial statements.

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

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

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Cust omers (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 consi deration 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 assessing the impact of this ASU on our consolidated financial statements.

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

JOBS Act

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

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

Key Financial Definitions

Revenue

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

Food and Paper Costs

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

Labor and Related Expenses

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

Occupancy Costs and Other Operating Expenses

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

General and Administrative Expenses

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

Franchise Expenses

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

Depreciation and Amortization

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

Loss on Disposal of Assets

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

Asset Impairment and Closed-Store Reserves

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

Interest Expense, Net

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

Provision for Income Taxes

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

Key Performance Indicators

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

Company-Operated Restaurant Revenue

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

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

Comparable Restaurant Sales

Comparable restaurant sales reflect year-over-year sales changes for comparable company-operated, franchised, and system-wide restaurants. A restaurant enters our comparable restaurant base the first full week after it has operated for fifteen months. Comparable restaurant sales exclude restaurants closed during the applicable period. At September 28, 2016 and September 30, 2015, there were

410 and 397 comparable restaurants, 170 and 160 company-operated and 240 and 237 franchised, respectively. Comparable restaurant sales indicate the performance of existing restaurants, since new restaurants are exclud ed.

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

Company-Operated Average Unit Volumes

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

Restaurant Contribution and Restaurant Contribution Margin

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
(Dollar amounts in thousands)	**September 28, 2016**	**September 30, 2015**	**September 28, 2016**	**September 30, 2015**
Company-operated restaurant revenue	$ 89,738	$ 82,986	$ 268,984	$ 251,295
Company restaurant expenses	70,984	65,400	211,982	196,774
Restaurant contribution	$ 18,754	$ 17,586	$ 57,002	$ 54,521
Restaurant contribution margin (%)	20.9%	21.2%	21.2%	21.7%

New Restaurant Openings

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

EBITDA and Adjusted EBITDA

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
(Amounts in thousands)	**September 28, 2016**	**September 30, 2015**	**September 28, 2016**	**September 30, 2015**
Net income	**$ 5,211**	**$ 4,666**	**$ 17,921**	**$ 18,688**
Non-GAAP adjustments:				
Provision for income taxes	2,830	6,505	11,930	16,281
Interest expense, net	785	810	2,441	3,035
Depreciation and amortization	4,074	3,278	11,796	9,624
EBITDA	**$ 12,900**	**$ 15,259**	**$ 44,088**	**$ 47,628**
Stock-based compensation expense (a)	105	165	244	608
Loss on disposal of assets (b)(c)	58	261	524	427
Expenses related to fire loss (c)	—	—	48	—
Loss (gain) on recovery of insurance proceeds (c)	148	—	(741)	—
Asset impairment and closed-store reserves (d)	2,490	163	2,624	24
Loss (gain) on disposition of restaurants (e)	5	—	(28)	—
Expenses related to selling shareholders (f)	—	—	—	50
Income tax receivable agreement expense (g)	182	546	411	1,022
Securities class action legal expense (h)	519	—	2,327	—
Pre-opening costs (i)	918	252	1,775	471
Adjusted EBITDA	**$ 17,325**	**$ 16,646**	**$ 51,272**	**$ 50,230**

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

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

(c) In November 2015, one of the Company’s restaurants incurred damage resulting from a fire. During the thirty-nine weeks ended September 28, 2016, we incurred costs directly related to the fire of $48,000 , disposed of an additional $87,000 of assets and recognized gains of $741,000, related to the reimbursement of property and equipment and expenses incurred and $502,000 related to the reimbursement of lost profits. The reimbursement of lost profits is inc luded in the accompanying consolidated statement of operations, for the thirteen and thirty-nine weeks ended September 28, 2016, as a reduction of Company restaurant expenses. The Company received from the insurance company cash of $1,000,000 during the th irty-nine weeks ended September 28, 2016 and $354,000 on October 5, 2016. In 2015, the Company disposed of $111,000 of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

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

(e) On June 16, 2016, we completed an agreement to sell one company-operated restaurant in Tucson, Arizona to a franchisee, resulting in cash proceeds of $1.5 million and a net gain of $28,000, which is recorded as a gain on disposition of restaurants in the accompanying consolidated statement of operations. This restaurant is now included in our franchised restaurant totals.

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

(g) On July 30, 2014, we entered into the TRA. This agreement calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the thirteen and thirty-nine weeks ended September 28, 2016, income tax receivable agreement expense consisted of the amortization of interest expense related to our total expected TRA payments.

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

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

Comparison of Results of Operations

Our operating results for the thirteen weeks ended September 28, 2016, and September 30, 2015, in absolute terms, and expressed as percentages of total revenue, with the exception of cost of operations and Company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below.

	Thirteen Weeks Ended					
	September 28, 2016		September 30, 2015		Increase / (Decrease)	
Statement of Operations Data	($,000)	(%)	($,000)	(%)	($,000)	(%)
Company-operated restaurant revenue	$ 89,738	93.7	$ 82,986	93.4	$ 6,752	8.1
Franchise revenue	6,078	6.3	5,884	6.6	194	3.3
Total revenue	**95,816**	**100.0**	**88,870**	**100.0**	**6,946**	**7.8**
Cost of operations						
Food and paper costs (1)	26,960	30.0	26,371	31.8	589	2.2
Labor and related expenses (1)	24,455	27.3	20,822	25.1	3,633	17.4
Occupancy and other operating expenses (1)	20,071	22.4	18,207	21.9	1,864	10.2
Gain on recovery of insurance proceeds, lost profit (1)	(502)	(0.6)	—	—	(502)	—
Company restaurant expenses (1)	**70,984**	**79.1**	**65,400**	**78.8**	**5,584**	**8.5**
General and administrative expenses	8,252	8.6	6,316	7.1	1,936	30.7
Franchise expenses	797	0.8	925	1.0	(128)	(13.8)
Depreciation and amortization	4,074	4.3	3,278	3.7	796	24.3
Loss on disposal of assets	58	0.1	261	0.3	(203)	(77.8)
Expenses related to fire loss	—	—	—	—	—	—
Loss on recovery of insurance proceeds	148	0.2	—	—	148	—
Asset impairment and closed-store reserves	2,490	2.6	163	(0.2)	2,327	1,427.6
Total expenses	**86,803**	**90.6**	**76,343**	**85.9**	**10,460**	**13.7**
Loss on disposition of restaurants	**(5)**	0.0	—	—	(5)	—
Income from operations	**9,008**	**9.4**	**12,527**	**14.1**	**(3,519)**	**(28.1)**
Interest expense, net	785	0.8	810	0.9	(25)	(3.1)
Income tax receivable agreement expense	182	0.2	546	0.6	(364)	(66.7)
Income before provision for income taxes	**8,041**	**8.4**	**11,171**	**12.6**	**(3,130)**	**(28.0)**
Provision for income taxes	2,830	3.0	6,505	7.3	(3,675)	(56.5)
Net income	**$ 5,211**	**5.4**	**$ 4,666**	**5.3**	**$ 545**	**11.7**

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

Our operating results for the thirty-nine weeks ended September 28, 2016 and September 30, 2015, in absolute terms, and expressed as percentages of total revenue, with the exception of cost of operations and company restaurant expenses, which are expressed as a percentage of company-operated restaurant revenue, are compared below.

	Thirty-Nine Weeks Ended					
	September 28, 2016		September 30, 2015		Increase / (Decrease)	
Statement of Operations Data	($,000)	(%)	($,000)	(%)	($,000)	(%)
Company-operated restaurant revenue	$ 268,984	93.5	$ 251,295	93.5	$ 17,689	7.0
Franchise revenue	18,660	6.5	17,456	6.5	1,204	6.9
Total revenue	**287,644**	**100.0**	**268,751**	**100.0**	**18,893**	**7.0**
Cost of operations						
Food and paper costs (1)	80,760	30.0	80,549	32.1	211	0.3
Labor and related expenses (1)	73,323	27.3	63,493	25.3	9,830	15.5
Occupancy and other operating expenses (1)	58,401	21.7	52,732	21.0	5,669	10.8
Gain on recovery of insurance proceeds, lost profit (1)	(502)	(0.2)	—	—	(502)	—
Company restaurant expenses (1)	**211,982**	**78.8**	**196,774**	**78.3**	**15,208**	**7.7**
General and administrative expenses	25,776	9.0	20,206	7.5	5,570	27.6
Franchise expenses	2,960	1.0	2,620	1.0	340	13.0
Depreciation and amortization	11,796	4.1	9,624	3.6	2,172	22.6
Loss on disposal of assets	524	0.2	427	0.2	97	22.7
Expenses related to fire loss	48	0.0	—	—	48	—
Gain on recovery of insurance proceeds	(741)	(0.3)	—	—	(741)	—
Asset impairment and closed-store reserves	2,624	0.1	24	0.0	2,600	10,833.3
Total expenses	**254,969**	**88.6**	**229,675**	**85.5**	**25,294**	**11.0**
Gain on sale of restaurants	28	0.0	—	—	28	—
Income from operations	**32,703**	**11.4**	**39,076**	**14.5**	**(6,373)**	**(16.3)**
Interest expense, net	2,441	0.8	3,035	1.1	(594)	(19.6)
Expenses related to selling shareholders	—	—	50	0.0	(50)	(100.0)
Income tax receivable agreement expense	411	0.1	1,022	0.4	(611)	(59.8)
Income before provision for income taxes	**29,851**	**10.4**	**34,969**	**13.0**	**(5,118)**	**(14.6)**
Provision for income taxes	11,930	4.1	16,281	6.1	(4,351)	(26.7)
Net income	**$ 17,921**	**6.2**	**$ 18,688**	**7.0**	**$ (767)**	**(4.1)**

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

Company-Operated Restaurant Revenue

For the quarter, company-operated restaurant revenue increased $6.8 million, or 8.1%, from the comparable period in the prior year. The growth in company-operated restaurant sales was due to $6.7 million of additional non-comparable restaurant sales primarily from twenty-two new restaurants opened during or after the prior year quarter and a $1.2 million increase resulting from a 1.4% increase in company-operated comparable restaurant sales. These increases were partially offset by two units closed and one unit sold to a franchisee in fiscal 2016. The company-operated comparable restaurant sales increase consisted of an increase average check size of 1.4% and traffic equal to the prior year quarter.

Year-to-date, company-operated restaurant revenue increased $17.7 million, or 7.0%, from the comparable period in the prior year. The growth in company-operated comparable restaurant sales was due to $18.4 million of additional non-comparable restaurant sales primarily from the twenty-two new restaurants opened during or after the prior year quarter. Year-to-date, company-operated comparable restaurant sales grew $2.3 million, or 0.9%. These increases were partially offset by two units closed and one unit sold to a franchisee in fiscal 2016. The growth in company-operated comparable restaurant sales was due to an increase in traffic of 0.6%, and an increase in average check size of 0.3%, year-over-year.

Franchise Revenue

For the quarter, franchise revenue increased $0.2 million, or 3.3%, from the comparable period in the prior year. This increase was due to a $0.3 million increase in royalties from franchised comparable restaurant sales growth of 1.8% and ten new franchised restaurants opened during or after the prior year quarter, partially offset by a $0.1 million decrease in franchise fees received from franchised restaurants related to their use of our point-of-sales system.

Year-to-date, franchise revenue increased $1.2 million, or 6.9%, from the comparable period in the prior year. This increase was due to a $1.0 million increase in royalties from franchised comparable restaurant sales growth of 2.1% and the new franchise-operated restaurants opened in fiscal 2015 and 2016 and a $0.4 million increase in fees received from franchised restaurants related to their use of our point-of-sales system. These increases were partially offset by a $0.2 million reduction in franchise renewal and development fees.

Food and Paper Costs

For the quarter, food and paper costs increased $0.6 million, or 2.2%, from the comparable period in the prior year, due to a $0.5 million increase in food costs and a $0.1 million increase in paper costs. Year-to-date, food and paper costs increased $0.2 million, or 0.3%, from the comparable period in the prior year, due to a $0.1 million decrease in food costs and a $0.3 million increase in paper costs. The increases in food and paper costs, for the quarter and year-to-date periods, resulted primarily from higher restaurant revenue partially offset by lower commodity costs related to chicken.

For the quarter, food and paper costs as a percentage of company-operated restaurant revenue were 30.0%, from 31.8% in the comparable period of the prior year. Year-to-date, food and paper costs as a percentage of company-operated restaurant revenue were 30.0%, from 32.1% in the comparable period of the prior year. The percentage decrease for the quarter and year-to-date periods was due primarily to the lower commodity costs, noted above.

Labor and Related Expenses

For the quarter, payroll and benefit expenses increased $3.6 million, or 17.4%, from the comparable period in the prior year. Year-to-date, payroll and benefit expenses increased $9.8 million, or 15.5%, from the comparable period in the prior year. The quarter and year-to-date increases were due primarily to increased labor costs resulting from the opening of new restaurants in fiscal 2015 and 2016, and the impact of the minimum wage increases in California in January 2016 and Los Angeles in July 2016. These increases were partially offset by lower worker's compensation costs due to lower claims activity.

For the quarter, payroll and benefit expenses as a percentage of company-operated restaurant revenue were 27.3%, from 25.1% in the comparable period in the prior year. Year-to-date, payroll and benefit expenses as a percentage of company-operated restaurant revenue were 27.3%, from 25.3% in the comparable period in the prior year. The percentage increases, for the quarter and year-to-date periods, were due primarily to the increase in the labor costs noted above and the impact of the incremental labor required for 12 new restaurants opened in the third and fourth quarters of 2015 and ten new restaurants opened in the thirty-nine weeks ended September 28, 2016, partially offset by the lower worker's compensation expense.

Occupancy and Other Operating Expenses

For the quarter, occupancy and other operating expenses increased $1.9 million, or 10.2%, from the comparable period of the prior year. Year-to-date, occupancy and other operating expenses increased $5.7 million, or 10.8%, from the comparable period of the prior year. The increases for the quarter and year-to-date periods were due primarily to a $0.5 million and $2.0 million, respective increase in occupancy costs, due primarily to additional rent, as a result of new restaurants opened in fiscal 2015 and the thirty-nine weeks ended September 28, 2016 and a $1.4 million and $3.7 million, respective increase in other operating expenses, resulting primarily from the new restaurants opened in 2015 and 2016 and an increase in travel and restaurant security costs.

For the quarter, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 22.4%, from 21.9% in the comparable period of the prior year. Year-to-date, occupancy and other operating expenses as a percentage of company-operated restaurant revenue were 21.7%, from 21.0% in the comparable period of the prior year. This increase resulted primarily from (i) rent expense on new restaurant leases and the renewal of leases on our existing restaurants and the accounting treatment to straight line the rental increases over the lease term, (ii) the increase in travel and restaurant security costs and (iii) incremental costs related to opening new restaurants in the fourth quarter of 2015 and the thirty-nine weeks ended September 28, 2016.

General and Administrative Expenses

For the quarter, general and administrative expenses increased $1.9 million, or 30.7%, from the comparable period in the prior year. Year-to-date, general and administrative expenses increased $5.6 million, or 27.6%, from the comparable period in the prior year. The increases for the quarter and year-to-date periods were due primarily to (i) a $1.0 million and $1.8 million, respective increase in payroll expense, due primarily to an increase in corporate employees, and a higher accrual related to the Company's annual bonus program, (ii) a $0.2 million and $2.3 million, respective increase in legal expense related primarily to the securities class action litigation, (iii) a $0.7 million and $1.3 million, respective increase in restaurant pre-opening costs, (iv) a $0.2 million and $1.0 million, respective increase in travel and other professional fees and (v) a $0.1 million and $0.4 million, respective increase in dead site costs due to legal costs related to new restaurant locations that the Company chose not to continue to pursue. For the year-to-date period, these increases were partially offset by the capitalization of internal costs related to site selection and construction activities and for the quarter and year-to-date periods were partially offset by lower stock option related expenses.

For the quarter, general and administrative expenses as a percentage of total revenue were 8.6%, from 7.1% in the comparable period of the prior year. Year-to-date, general and administrative expenses as a percentage of total revenue were 9.0%, from 7.5% in the comparable period of the prior year. The percent age increases for the quarter and year-to-date periods were due primarily to (i) a 0.5% and 0.8%, respective increase in legal expense related to the securities class action litigation, (ii) a 0.7% and 0.4%, respective increase in restaurant pre-opening co sts and (iii) the increase in other general and administrative costs, noted above. These increases were partially offset by higher total revenue for the quarter and year-to-date periods.

Gain on Recovery of Insurance Proceeds

In November 2015, one of the Company's restaurants incurred damage resulting from a fire. During the thirty-nine weeks ended September 28, 2016, we incurred costs directly related to the fire of $48,000, disposed of an additional $87,000 of assets and recognized gains of $741,000, related to the reimbursement of property and equipment and expenses incurred and $502,000 related to the reimbursement of lost profits. The reimbursement of lost profits is included in the accompanying consolidated statement of operations, for the thirteen and thirty-nine weeks ended September 28, 2016, as a reduction of company restaurant expenses. The Company received from the insurance company cash of $1,000,000 during the thirty-nine weeks ended September 28, 2016 and $354,000 on October 5, 2016. In 2015, the Company disposed of $111,000 of assets related to the fire. The restaurant was reopened for business on March 14, 2016.

Asset Impairment and Closed-Store Reserves

During the thirteen weeks ended September 28, 2016, the Company determined that the carrying value of the assets of two restaurants, in Arizona and Texas, may not be recoverable. As a result, the Company recorded a $2.4 million expense related to the impairment of the assets of the two restaurants. The Company continues to monitor the recoverability of the carrying value of the assets of several other restaurants, opened in 2015 in Texas.

Gain on Disposition of Restaurants

On June 16, 2016, we completed an agreement to sell one company-operated restaurant in Tucson, Arizona to a franchisee, resulting in cash proceeds of $1.5 million and a net gain of $28,000, which is recorded as a gain on disposition of restaurants in the accompanying Consolidated Statement of Operations. This restaurant is now included in our franchised restaurant totals.

Interest Expense, Net

For the quarter, interest expense, net, was comparable to the comparable period of the prior year. Year-to-date, interest expense, net, deceased $0.6 million from the comparable period of the prior year. This decrease was due primarily to pre-payments on the 2014 Revolver reducing our outstanding balance to $107.0 million as of September 28, 2016 compared to an outstanding balance of $125.0 million as of September 30, 2015.

Expenses Related to Selling Shareholders

In the second quarter of 2015, LLC, our largest shareholder, which was at that time our majority shareholder, sold 5.4 million shares of common stock in a block trade to various investors, pursuant to Rule 144 under the Securities Act. LLC owns stock in us not registered under the Securities Act. Under our stockholders agreement, LLC may require us to register stock in us that it owns, under the Securities Act. In that event, we are responsible for all registration expenses. In lieu of LLC's exercise of its registration rights, we agreed to bear the expenses incident to LLC's sale of these shares using Rule 144. As a result of this transaction, we incurred $0.1 million in professional fees.

Income Tax Receivable Agreement

On July 30, 2014, we entered into the TRA. The TRA calls for us to pay to our pre-IPO stockholders 85% of the savings in cash that we realize in our taxes as a result of utilizing our net operating losses and other tax attributes attributable to preceding periods. For the quarter and year-to-date periods ended September 28, 2016, we recorded income tax receivable agreement expense of $0.2 million and $0.4 million, respectively, for the amortization of interest expense related to our total expected TRA payments.

Provision for Income Taxes

For the quarter and year-to-date periods ended September 28, 2016, we recorded an income tax provision of $2.8 million and $11.9 million, respectively, reflecting an estimated effective tax rate of 35.2% and 40.0%, respectively. For the quarter ended September 28, 2016, the lower effective tax rate reflects a year-to-date revision in the estimated 2016 tax rate, resulting from the 2015 tax returns filed and additional tax credits anticipated for 2016. For the quarter and year-to-date periods ended September 30, 2015, we recorded an inc ome tax provision of $6.5 million and $16.3 million, respectively, reflecting an estimated effective tax rate of approximately 58.2% and 46.6%, respectively. The quarter and year-to-date periods ended September 30, 2015, include a $1.9 million increase in the valuation allowance against our deferred tax asset resulting from certain tax credits that may not be realizable prior to the time the credits expire.

Liquidity and Capital Resources

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

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

	Thirty-Nine Weeks Ended	
(Amounts in thousands)	September 28, 2016	September 30, 2015
Net cash provided (used) by		
Operating activities	$ 39,670	$ 43,421
Investing activities	(24,257)	(16,512)
Financing activities	(14,985)	(30,201)
Net increase (decrease) in cash	$ 428	$ (3,292)

Operating Activities

For the thirty-nine weeks ended September 28 , 2016, net cash provided by operating activities decreased by approximately $3.8 million from the comparable period of the prior year. This was due primarily to the timing of payments related to advertising, legal payments related to the securities class action litigation and the cash payment of certain annual insurance premiums in 2016 versus financing these insurance costs in 2015. These increases were partially offset by lower interest payments, resulting primarily from lower debt balances.

Investing Activities

For the thirty-nine weeks ended September 28 , 2016, net cash used by investing activities increased by $7.7 million from the comparable period of the prior year. This was due primarily to opening ten new company restaurants in the thirty-nine weeks ended September 28, 2016 compared to three new restaurants opened in the thirty-nine weeks ended September 30, 2015.

For the year ending December 28 , 2016, we expect to incur capital expenditures of $37 million to $38 million, consisting of $26 to $27 million related to new restaurants, $4 million related to the remodeling of existing restaurants, and $7 million related to maintenance and other corporate capital expenditures.

Financing Activities

For the thirty-nine weeks ended September 28 , 2016, net cash used by financing activities decreased by $15.2 million from the comparable period of the prior year. This was due primarily to the pre-payment of $16.0 million on the 2014 Revolver during the thirty-nine weeks ended September 28, 2016 compared to a pre-payment of $40.0 million for the thirty-nine weeks ended September 30, 2015 and the receipt of $4.1 million related to the exercise of stock options in the thirty-nine weeks ended September 30, 2015.

Debt and Other Obligations

New Credit Agreement

On December 11, 2014, we refinanced our debt, with EPL, Intermediate, and Holdings entering into a credit agreement with Bank of America, N.A., as administrative agent, swingline lender, and letter of credit issuer, the lenders party thereto, and the other parties thereto, which provides for the 2014 Revolver. The 2014 Revolver includes a sub limit of $15 million for letters of credit and a sub limit of $15 million for swingline loans. At September 2 8 , 2016 , $ 7.2 million of letters of c redit were outstanding and $85.8 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% to 1.50%. The margin was initially set at 2.00% for LIBOR loans and at 1.00% for base rate loans until the delivery of financial statements and a compliance certificate for the first quarter of 2015. The interest rate range was 2.20% to 2.27% and 2.02% to 2.27% for the thirteen and thirty-nine weeks ended September 28 , 2016, respectively.

The 2014 Revolver includes a number of negative and financial covenants, including, among others, the following (all subject to certain exceptions): a maximum lease-adjusted consolidated leverage ratio covenant, a minimum consolidated fixed charge coverage ratio, and limitations on indebtedness, liens, investments, asset sales, mergers, consolidations, liquidations, dissolutions, restricted payments, and negative pledges. The 2014 Revolver also in cludes certain customary affirmative covenants and events of default. We were in compliance with all such covenants at September 28 , 2016.

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

Hedging Arrangements

In connection with our credit agreements, we entered into two interest rate caps with Wells Fargo Bank, N.A. The first interest rate cap was for a notional amount of $30 million, with a cap rate of 3.00% based on 1 month USD LIBOR, which terminated on December 1, 2015. The second interest rate cap is for a notional amount of $120 million, with a cap rate of 3.00% based on 1 month USD LIBOR, terminating on December 1, 2016. As of September 28, 2016 and December 30, 2015, the amounts included in other assets in our condensed consolidated balance sheets, related to these interest rate caps, were not material to our financial position or results of operations.

Contractual Obligations

The Company entered into new chicken purchasing contracts in the first quarter of 2016 with terms ranging from twelve to twenty-four months, resulting in an estimated commitment to purchase chicken of $13.4 million at September 28, 2016.

With the exception noted above , our contractual commitments outstanding on September 28 , 2016 , have not changed materially since our annual report on Form 10-K for the year ended December 30 , 2015. These relate to future (i) debt payments, including expected interest expense, calculated based on current interest rates, (ii) restaurant operating lease payments, (iii) income tax receivable agreement payments, and (iv) purchasing commitments for chicken and beverage.

Off-Balance Sheet and Other Arrangements

As of September 28 , 2016, we were using $7.2 million of borrowing capacity on the 2014 Revolver for letters of credit in support of our insurance programs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to market risk from changes in the interest rate on our debt, which bears interest at USD LIBOR plus a margin between 1.75% and 2.50%. As of September 28, 2016, we had outstanding borrowings of $107.0 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 $1.1 million on an annualized basis.

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

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

Inflation

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

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

Commodity Price Risk

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

Item 4. C ontrols and Procedures.

Disclosure Controls and Procedures

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

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

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

Changes in Internal Control over Financial Reporting

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On or about February 24, 2014, a former employee filed a class action in the Superior Court of the State of California, County of Orange, against EPL on behalf of all putative class members (all hourly employees from 2010 to the present) alleging certain violations of California labor laws, including failure to pay overtime compensation, failure to provide meal periods and rest breaks, and failure to provide itemized wage statements. The putative lead plaintiff's requested remedies include compensatory and punitive damages, injunctive relief, disgorgement of profits, and reasonable attorneys' fees and costs. No specific amount of damages sought was specified in the complaint. The parties have executed a Stipulation of Class Settlement and Release which has been submitted for court approval. Purported class actions alleging wage and hour violations are commonly filed against California employers, and we fully expect to have to defend against similar lawsuits in the future.

Daniel Turocy, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01343) was filed in the United States District Court for the Central District of California on August 24, 2015, and Ron Huston, et al. v. El Pollo Loco Holdings, Inc., et al. (Case No. 8:15-cv-01710) was filed in the United States District Court for the Central District of California on October 22, 2015. The two lawsuits have been consolidated, with co-lead plaintiffs and class counsel. A consolidated complaint was filed on January 29, 2016 , on behalf of co-lead plaintiffs and others similarly situated, alleging violations of federal securities laws in connection with Holdings common stock purchased or otherwise acquired and the purchase of call options or the sale of put options, betwee n May 1, 2015 and August 13, 2015 (the "Class Period"). The named defendants are Holdings; Stephen J. Sather, Laurance Roberts, and Edward J. Valle (collectively, the "Individual Defendants"); and Trimaran Pollo Partners, L.L.C., Trimaran Capital Partners, and Freeman Spogli & Co. (collectively, the "Controlling Shareholder Defendants"). Among other things, Plaintiffs allege that, in 2014 and early 2015, Holdings suffered losses due to rising labor costs in California and, in an attempt to mitigate the effects of such rising costs, removed a $5 value option from our menu, which resulted in a decrease in value-conscious store traffic. Plaintiffs further allege that during the Class Period, Holdings and the Individual Defendants made a series of materially false and misleading statements that concealed the effect that these factors were having on store sales growth, resulting in Holdings stock continuing to be traded at artificially inflated prices. As a result, Plaintiffs and other members of the putative class allegedly suffered damages in connection with their purchase of Holdings' stock during the Class Period. In addition, Plaintiffs allege that the Individual Defendants and Controlling Shareholder Defendants had direct involvement in, and responsibility over, the operations of Holdings, and are presumed to have had, among other things, the power to control or influence the transactions giving rise to the alleged securities law violations. In both cases, Plaintiffs seek an unspecified amount of damages, as well as costs and expenses (including attorneys' fees). On July 25, 2016, the Court issued an order granting, without prejudice, Holdings' Motion to Dismiss plaintiff's complaint for failure to state a claim. Plaintiffs were granted leave to amend their complaint, and filed an amended complaint on August 22, 2016. Defendants intend to vigorously defend against the claims asserted.

In addition, on September 16, 2015, Holdings and certain of its officers and directors received an informal, non-public inquiry from the SEC requesting voluntary production of documents and information. All parties cooperated fully with the SEC's request. On July 15, 2016, Holdings was informed that the SEC was closing its inquiry as to all parties.

On or about November 5, 2015, a purported Holdings shareholder filed a derivative complaint on behalf of Holdings in the Court of Chancery of the State of Delaware against certain Holdings officers, directors and Trimaran Pollo Partners, L.L.C. The derivative complaint alleges that these defendants breached their fiduciary duties to Holdings and were unjustly enriched when they sold shares of Holdings at artificially inflated prices due to alleged misrepresentations and omissions regarding EPL's comparable store sales in the second quarter of 2015. The Holdings shareholder's requested remedies include an award of compensatory damages to Holdings, as well as a court order to improve corporate governance by putting forward for stockholder vote certain resolutions for amendments to Holdings' Bylaws or Certificate of Incorporation. The parties have stipulated to, which the court has ordered, a stay of these proceedings pending the outcome of Turocy v. El Pollo Loco Holdings, Inc., discussed above. A second purported Holdings shareholder filed a derivative complaint on or about September 23, 2016, allegedly on behalf of Holdings in the same venue naming the same defendants with substantially the same allegations arising from the same set of facts.

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

Item 1A. Risk Factors.

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

If we or our fran chisees 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 wag e rates at or based on the applicable federal, state, or local minimum wage, and increases in the minimum wage will increase our labor costs and the labor costs of our franchisees.

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

Sinc e January 1, 2016 , the State of California (where most of our restaurants are located) has had a minimum wage of $10.00 per hour. From January 1, 2008, to June 30, 2014, it had been $8.00 per hour, and from July 1, 2014, to December 31, 2015, it had been $9.00 per hour . It is scheduled to rise to (i) $10.50 per hour on January 1, 2017, (ii) $11.00 per hour on January 1, 2018, (iii) $12.00 per hour on January 1, 2019, (iv) $13.00 per hour on January 1, 2020, (v) $14.00 per hour on January 1, 2021, and (vi) $15.00 per hour on January 1, 2022, subject, in each case (except for the increase to $10.50 per hour), to the governor's ability to pause any scheduled increase ("off-ramp" provisions) for one year if either economy or budget conditions are met. Initial determinations are to be made by the governor by August 1 of each year prior to a January increase. The governor makes the final determination by September 1. Thereafter, the state minimum wage is to be indexed annually for inflation.

Local minimum wages may exceed or ramp up faster than state levels. In particular, the minimum wage in the City of Los Angeles and the unincorporated areas of the County of Los Angeles is scheduled to rise to $15.00 by July 1, 2020:

On June 10, 2015, the Council of the City of Los Angeles passed an ordinance, which on June 13, 2015, was approved by the mayor, raising the minimum wage on the following schedule: (i) from July 1, 2016, $10.50, (ii) from July 1, 2017, $12.00, (iii) from July 1, 2018, $13.25, (iv) from July 1, 2019, $ 14.25, (v) from July 1, 2020, $15.00, and (vi) from July 1, 2022, indexed to inflation. On September 29 , 2015, the Board of Supervisors of the County of Los Angeles adopted an ordinance amending the Los Angeles County Code and establishing a countywide min imum wage covering unincorporated areas of the county following the same schedule.

Other municipalities in the County of Los Angeles and elsewhere have followed and may continue to follow. For example:

On January 19, 2016, the City Council of the City of L ong 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 inco rporated 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.

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

One of the key means to achieving our growth strategy is and will be through opening new restaurants and operating those restaurants on a profitable basis. We opened 14 new company-operated restaurants in fiscal 2015 and plan to open an estimated 17 to 18 in fiscal 2016. Our franchisees opened five new restaurants in fiscal 2015 and plan to open 11 to 12 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.

During the thirteen weeks ended September 28, 2016, we determined that the carrying value of the assets of two restaurants, in Arizona and Texas, may not be recoverable. As a result, we recorded a $2.4 million expense related to the impairment of the assets of the two restaurants. We continue to monitor the recoverability of the carrying value of the assets of several other restaurants, opened in 2015 in Texas.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Index

Number	Description
10.28*	Form of Employee Restricted Share Agreement under 2014 Omnibus Equity Incentive Plan
31.1	Certification of Principal Executive Officer under section 302 of the Sarbanes–Oxley Act of 2002
31.2	Certification of Principal Financial Officer under section 302 of the Sarbanes–Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. section 1350, adopted by section 906 of the Sarbanes–Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

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

SIGNAT URES

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

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

Exhibit 10.28

EMPLOYEE
RESTRICTED SHARE AGREEMENT
UNDER EL POLLO LOCO HOLDINGS, INC.
2014 OMNIBUS EQUITY INCENTIVE PLAN

This Award Agreement (this "Restricted Share Agreement"), dated as of _________ __, 20__ (the "Date of Grant"), is made by and between El Pollo Loco Holdings, Inc., a Delaware corporation (the "Company") and [ ] (the "Employee"). Capitalized terms not defined herein shall have the meaning ascribed to them in the El Pollo Loco Holdings, Inc. 2014 Omnibus Equity Incentive Plan (as amended from time to time, the "Plan"). Where the context permits, references to the Company shall include any successor to the Company.

1. Grant of Restricted Shares . The Company hereby grants to the Employee ________ Shares (such shares, the "Restricted Shares"), subject to all of the terms and conditions of this Restricted Share Agreement and the Plan.

2. Lapse of Restrictions .

(a) Vesting . Except as otherwise set forth in this Section 2(a), the restrictions on Transfer (as defined in Section 6(a) hereof) set forth in Section 2(b) hereof shall lapse with respect 1/4 of the Restricted Shares on each of the first four anniversaries of the Date of Grant (each anniversary of the Date of Grant, a "Vesting Date"), subject to the continued employment of the Employee with the Company from the date hereof through the applicable Vesting Date, and provided that the Employee has not given notice of resignation as of such Vesting Date.

(b) Restrictions . Until the restrictions on Transfer of the Restricted Shares lapse as provided in Section 2(a) hereof, or as otherwise provided in the Plan, no Transfer of the Restricted Shares or any of the Employee's rights with respect to the Restricted Shares, whether voluntary or involuntary, by operation of law or otherwise, shall be permitted. Unless the Administrator determines otherwise, upon any attempt to Transfer Restricted Shares or any rights in respect of Restricted Shares, before the lapse of such restrictions, such Restricted Shares, and all of the rights related thereto, shall be immediately forfeited.

3. Adjustments . Pursuant to Section 5 of the Plan, in the event of a Change in Capitalization, the Administrator shall make such equitable changes or adjustments to the number and kind of securities or other property (including cash) issued or issuable in respect of outstanding Restricted Shares.

4. Certain Changes . The Administrator may accelerate the date on which the restrictions on transfer set forth in Section 2(a) hereof shall lapse or otherwise adjust any of the terms of the Restricted Shares; provided that, subject to Section 5 of the Plan, no action under this Section shall adversely affect the Employee's rights hereunder.

5. Notices . All notices and other communications under this Restricted

Share Agreement shall be in writing and shall be given by facsimile or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three days after mailing or 24 hours after transmission by facsimile to the respective parties, as follows: (i) if to the Company, addressed to the Company in care of its Vice President, Legal at the principal executive office of the Company and (ii) if to the Employee , using the contact information on file with the Company. Either party hereto may change such party ' s address for notices by notice duly given pursuant hereto.

6. Protections Against Violations of Agreement .

(a) Until such time as the Restricted Shares are fully vested in accordance with Section 2(a) hereof, no purported sale, assignment, mortgage, hypothecation, transfer, charge, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or creation of a security interest in or lien on, any of the Restricted Shares or any agreement or commitment to do any of the foregoing (each a "Transfer") by any holder thereof in violation of the provisions of this Restricted Share Agreement will be valid, except with the prior written consent of the Administrator (such consent shall be granted or withheld in the sole discretion of the Administrator).

(b) In addition to Section 2(b), any purported Transfer of Restricted Shares or any economic benefit or interest therein in violation of this Restricted Share Agreement shall be null and void *ab initio* , and shall not create any obligation or liability of the Company, and any person purportedly acquiring any Restricted Shares or any economic benefit or interest therein transferred in violation of this Restricted Share Agreement shall not be entitled to be recognized as a holder of such Shares.

7. Withholding Taxes . The Company shall be entitled to require a cash payment by or on behalf of the Employee and/or to deduct from any compensation payable to the Employee the minimum amount of any sums required by federal, state or local tax law to be withheld (or other such sums that that will not cause adverse accounting consequences for the Company and is permitted under applicable withholding rules promulgated by the Internal Revenue Service or another applicable governmental entity) with respect to the Restricted Shares.

8. Section 83(b) Election . If the Employee makes an election under Section 83(b) of the Code, or any successor section thereto, to be taxed with respect to the Restricted Shares as of the Date of Grant, the Employee shall deliver a copy of such election to the Company immediately after filing such election with the Internal Revenue Service, together with any required tax withholding. The Employee hereby acknowledges that it is the Employee's sole responsibility, and not the Company's, to file timely the election under Section 83(b) of the Code.

9. Governing Law . This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed therein. Any suit, action or proceeding with respect to this Agreement, or any judgment entered by any court in respect of any thereof, shall be brought in any court of competent jurisdiction in the State of Delaware, and the Company and the Employee

hereby submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment. The Employee and the Company hereby irrevocably waive (i) any objections which it may now or hereafter have to the laying of the venue of any suit, action or proceeding arising out of or relating to this Agreement brought in any court of competent jurisdiction in the State of Delaware, (ii) any claim that any such suit, action or proceeding brought in any such court has been brought in any inconvenient forum and (iii) any right to a jury trial.

10. Incorporation of Plan . The Plan is hereby incorporated by reference and made a part hereof, and the Restricted Shares and this Restricted Share Agreement shall be subject to all terms and conditions of the Plan and this Restricted Share Agreement.

11. Amendments; Construction . The Administrator may amend the terms of this Restricted Share Agreement prospectively or retroactively at any time, but no such amendment shall impair the rights of the Employee hereunder without his or her consent. Headings to Sections of this Restricted Share Agreement are intended for convenience of reference only, are not part of this Restricted Share Agreement and shall have no effect on the interpretation hereof.

12. Survival of Terms . This Restricted Share Agreement shall apply to and bind the Employee and the Company and their respective permitted assignees and transferees, heirs, legatees, executors, administrators and legal successors.

13. Rights as a Shareholder . During the period until the restrictions on Transfer of the Restricted Share lapse as provided in Section 2(a) hereof, the Employee shall have all the rights of a shareholder with respect to the Restricted Shares save only the right to Transfer the Restricted Shares. Accordingly, the Employee shall have the right to vote the Restricted Shares and to receive any ordinary dividends paid to or made with respect to the Restricted Shares.

14. Agreement Not a Contract for Services . Neither the Plan, the granting of the Restricted Shares, this Restricted Share Agreement nor any other action taken pursuant to the Plan shall constitute or be evidence of any agreement or understanding, express or implied, that the Employee has a right to continue to be employed as an officer, director, employee, consultant or advisor of the Company or any Subsidiary or Affiliate for any period of time or at any specific rate of compensation.

15. Authority of the Administrator; Disputes . The Administrator shall have full authority to interpret and construe the terms of the Plan and this Restricted Share Agreement. The determination of the Administrator as to any such matter of interpretation or construction shall be final, binding and conclusive.

16. Severability . Should any provision of this Restricted Share Agreement be held by a court of competent jurisdiction to be unenforceable, or enforceable only if modified, such holding shall not affect the validity of the remainder of this Restricted Share Agreement, the balance of which shall continue to be binding upon the parties hereto with any such modification

(if any) to become a part hereof and treated as though contained in this original Employee Restricted Share Agreement.

17. Acceptance. The Employee hereby acknowledges receipt of a copy of the Plan and this Restricted Share Agreement. The Employee has read and understands the terms and provisions of the Plan and this Restricted Share Agreement, and accepts the Restricted Shares subject to all the terms and conditions of the Plan and this Restricted Share Agreement. The Employee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under this Restricted Share Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Restricted Share Agreement on the day and year first above written.

EL POLLO LOCO HOLDINGS, INC.

By ____________________________________
Name ____________________________________
Title ____________________________________

[NAME OF EMPLOYEE]

____

Exhibit 31.1

CERTIFICATIONS

I, Stephen J. Sather, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2016

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

Exhibit 31.2

CERTIFICATIONS

I, Laurance Roberts, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2016

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

Exhibit 32.1

CERTIFICATION

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

Date: November 4, 2016

/s/ Stephen J. Sather

Stephen J. Sather
President and Chief Executive Officer

/s/ Laurance Roberts

Laurance Roberts
Chief Financial Officer