

EPL Intermediate, Inc. Announces Results for the 13 Weeks and 26 Weeks Ended June 30, 2008
2008-08-11

El Pollo Loco reported operating revenues for the 13-week second quarter ended June 30, 2008 of \$76.4 million, an increase of \$6.7 million, or 9.6%, over operating revenues for the 13-week second quarter ended June 30, 2007 of \$69.7 million.

EPL Intermediate, Inc., parent company of El Pollo Loco, Inc., today reported results for its 13-week second quarter and 26 weeks ended June 25, 2008. For simplicity of presentation, the Company has described the 13-week second quarters and 26-week periods ended June 27, 2007 and June 25, 2008 as June 30, 2007 and June 30, 2008, respectively.

El Pollo Loco reported operating revenues for the 13-week second quarter ended June 30, 2008 of \$76.4 million, an increase of \$6.7 million, or 9.6%, over operating revenues for the 13-week second quarter ended June 30, 2007 of \$69.7 million. Operating revenues include sales at both company-operated stores and franchise revenues.

Same store sales for the system, which includes sales from both company-operated and franchised stores, increased 1.9% in the second quarter of fiscal 2008. Restaurants enter the comparable restaurant base for same-store sales the first full week after that restaurant's 15-month anniversary.

Included in the second quarter of 2008 is an expense of \$10.7 million to settle litigation between El Pollo Loco Mexico, S. A. de C.V. ('EPL- Mexico') and El Pollo Loco, Inc. As a result of this expense, the Company had an operating loss of \$3.0 million in the second quarter of 2008, compared to operating income of \$8.6 million in the second quarter of 2007. Excluding the settlement expense, the Company's operating income would have decreased \$0.9, or 10.7%, to \$7.7 million in the second quarter of 2008 compared to \$8.6 million in the second quarter of 2007.

In 2004, EPL- Mexico sued El Pollo Loco in the U.S. District Court alleging breach of an agreement by El Pollo Loco to exploit intellectual property and to develop restaurants in Mexico. In January 2008, El Pollo Loco, Inc. appealed a \$21.3 million judgment in favor of EPL-Mexico. The parties agreed to settle in June 2008. The settlement amount was paid by Chicken Acquisition Corp., the Company's indirect shareholder, which was treated as a capital contribution to the Company. The payment to EPL-Mexico is included as a general and administrative expense.

Items impacting the comparison of operating income include:

-- an increase in product cost of \$2.5 million, or 12.5%, to \$22.6 million for the 13 weeks ended June 30, 2008 from \$20.1 million for the 13 weeks ended June 30, 2007. These costs, as a percentage of restaurant revenue, increased 1.0% to 32.0% during the second quarter of 2008 compared to 31.0% for the second quarter of 2007. The increase is attributed to increased chicken and commodity costs, along with heavier promotional discounting in the current period, partially offset by the benefit of the menu price increases taken this year.

-- an increase in payroll and benefits expenses of \$1.4 million, or 9.0%, to \$18.5 million for the 13 weeks ended June 30, 2008 from \$16.9 million for the 13 weeks ended June 30, 2007. As a percentage of restaurant revenue, these costs remained flat at 26.1% for the 2008 and 2007 periods.

-- an increase in restaurant other operating expense (which includes utilities, repair and maintenance, advertising, property taxes, occupancy and other operating expenses) of 1.1% as a percentage of restaurant revenue, resulting primarily from higher rent expense and a property tax adjustment in the second quarter of 2008. The increase was also due to a 0.5% increase in utilities as a percentage of restaurant revenue, which was due to higher gas prices in the current period.

-- Higher credit card fees of 0.1% as a percentage of restaurant revenue also contributed to the increase in restaurant operating expense, partially offset by a decrease of 0.4% in advertising expense as a percentage of restaurant revenue. Advertising expense each quarter may be above or below our planned annual rate of approximately 4%, depending on the timing of marketing promotions and the relative weights of media spending.

-- an increase in general and administrative expense of \$11.9 million, or 187.6%, to \$18.2 million for the 13 weeks ending June 30, 2008 from \$6.3 million for the same period of 2007. The increase is due to the \$10.7 million settlement expense, increased salaries and wages of \$0.4 million due to increased headcount, and an increase of \$0.8 million in legal fees in the 2008 period, primarily attributed to the Mexico litigation. Excluding the settlement expense, general and administrative expense in the second quarter of 2008 increased \$1.1 million, or 17.6%, representing 10.5% of revenue compared to 9.7% of revenue in the second quarter of 2007.

Interest expense, net of interest income, decreased \$0.8 million, or 10.2%, to \$6.4 million for the second quarter of 2008 from \$7.2 million for the 13 weeks ended June 30, 2007. Average debt balances for the second quarter of 2008 decreased to \$250.5 million compared to \$265.1 million for the second quarter of 2007, and the average interest rate decreased to 9.52% for the 2008 period compared to 10.52% for the 2007 period.

Our provision for income taxes consisted of an income tax benefit of \$3.9 million and income tax expense of \$0.1 million for the 13-week periods ended June 30, 2008 and 2007, respectively, for an effective tax rate of 41.5% for 2008 and 6.6% for 2007.

As a result of the factors above, in particular, the \$10.7 million settlement expense, the net loss for the second quarter of fiscal 2008 was \$5.6 million, compared with net income of \$1.4 million for the prior year quarter, or (7.9)% and 2.1% as a percentage of restaurant revenue, for the 13 weeks ended June 30, 2008 and 2007, respectively.

Operating revenues for the 26-week period ended June 30, 2008 were \$147.6 million, which was an increase of \$11.1 million, or 8.1%, over operating revenues for the 26 weeks ended June 30, 2007 of \$136.5 million.

Same store sales for the system increased 1.8% for the 26 weeks ended June 30, 2008.

Excluding the \$10.7 million settlement of the Mexico litigation, operating income for the 26 weeks ended June 30, 2008 was \$14.1 million, which was a decrease of \$2.3 million, or 13.9%, from operating income of \$16.4 million for the 26 weeks ended June 30, 2007.

Interest expense, net of interest income, decreased \$0.9 million, or 6.1%, to \$13.6 million for the 26 weeks ended June 30, 2008 from \$14.5 million for the 26 weeks ended June 30, 2007. Average debt balances for the 2008 period decreased to \$256.0 million compared to \$266.5 million for the 2007 period, and average interest rate decreased to 9.96% for the 2008 period compared to 10.63% for the 2007 period.

The provision for income taxes consisted of income tax benefit of \$4.1 million and income tax expense of \$0.3 million for the 26 weeks ending June 30, 2008 and 2007, respectively.

The net loss for the 26 weeks ended June 30, 2008 was \$6.0 million, compared with net income of \$1.6 million for the 26 weeks ended June 30, 2007, or (4.4)% and 1.2% as a percentage of restaurant revenue, for the 26 weeks ended June 30, 2008 and 2007, respectively.

Commenting on the year to date 2008 results, Stephen E. Carley, president and CEO of El Pollo Loco, Inc., shared, 'We continued to deliver positive system-wide sales growth in the second quarter of 2008, despite an increasingly competitive QSR environment where restaurants continue to battle for consumers struggling with the sustained impact of soaring gas prices, escalating food prices, and declining home values. In the months ahead, we will continue to provide our guests compelling offers that deliver a strong price/value ratio and which drive frequency and transactions.'

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