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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 25, 2022

☐ 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: 001-40951

Portillo's

PORTILLO'S INC.

(Exact name of registrant as specified in its charter)

Delaware	**87-1104304**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2001 Spring Road, Suite 400, Oak Brook, Illinois 60523
(Address of principal executive offices)

(630) 954-3773
(Registrant's telephone number, including area code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A common stock, $0.01 par value per share	PTLO	Nasdaq Global Select Market

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

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

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

As of October 26, 2022, there were 42,403,098 shares of the registrant's Class A common stock, par value $0.01 per share, issued and outstanding.

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Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"), which are subject to known and unknown risks, uncertainties and other important factors that may cause actual results to be materially different from the statements made herein. All statements other than statements of historical fact are forward-looking statements. Many of the forward-looking statements are located in Part I, Item 2 of this Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements discuss our current expectations and projections relating to our financial position, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "future," "outlook," "potential," "project," "projection," "plan," "intend," "seek," "may," "could," "would," "will," "should," "can," "can have," "likely," the negatives thereof and other similar expressions.

All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this Form 10-Q in the context of the risks and uncertainties disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2021 filed with the Securities and Exchange Commission (the "SEC") on March 10, 2022, which is available on the SEC's website at www.sec.gov.

The forward-looking statements included in this Form 10-Q are made only as of the date hereof. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

PORTILLO'S INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands, except share and per share data)

	September 25, 2022	December 26, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents and restricted cash	$ 46,722	$ 39,263
Accounts receivable	8,110	7,840
Inventory	5,934	6,078
Prepaid expenses	4,170	5,836
Total current assets	64,936	59,017
Property and equipment, net	211,741	190,834
OTHER ASSETS:		
Goodwill	394,298	394,298
Trade names	223,925	223,925
Other intangible assets, net	33,478	35,832
Equity method investment	16,245	16,170
Deferred tax assets	115,202	74,455
Other assets	4,247	5,042
Total other assets	787,395	749,722
TOTAL ASSETS	$ 1,064,072	$ 999,573
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 27,442	$ 27,249
Current portion of long-term debt	3,324	3,324
Current deferred revenue	4,033	6,893
Accrued expenses	23,264	29,472
Total current liabilities	58,063	66,938
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	315,288	315,829
Deferred rent	37,564	32,174
Tax Receivable Agreement Liability	205,287	156,638
Other long-term liabilities	3,745	4,588
Total long-term liabilities	561,884	509,229
Total liabilities	619,947	576,167
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value per share, 10,000,000 shares authorized, none issued or outstanding	—	—
Class A common stock, $0.01 par value per share, 380,000,000 shares authorized, and 42,225,023 and 35,807,171 shares issued and outstanding at September 25, 2022 and December 26, 2021, respectively.	421	358
Class B common stock, $0.00001 par value per share, 50,000,000 shares authorized, and 29,730,762 and 35,673,321 shares issued and outstanding at September 25, 2022 and December 26, 2021, respectively.	—	—
Additional paid-in-capital	232,031	186,856
Accumulated deficit	(9,053)	(15,950)
Total stockholders' equity attributable to Portillo's Inc.	223,399	171,264
Non-controlling interest	220,726	252,142
Total stockholders' equity	444,125	423,406
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,064,072	$ 999,573

See accompanying notes to unaudited condensed consolidated financial statements.

PORTILLO'S INC
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)
(In thousands, except share and per share data)

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
REVENUES, NET	$ 151,121	$ 138,003	$ 436,226	$ 396,044
COST AND EXPENSES:				
Restaurant operating expenses:				
Cost of goods sold, excluding depreciation and amortization	53,374	44,285	151,414	121,465
Labor	39,133	36,921	114,352	102,433
Occupancy	7,644	7,000	22,778	20,890
Other operating expenses	16,882	15,554	47,225	44,187
Total restaurant operating expenses	117,033	103,760	335,769	288,975
General and administrative expenses	18,059	11,750	49,185	35,755
Pre-opening expenses	791	347	1,770	2,307
Depreciation and amortization	5,289	5,516	15,803	18,225
Net income attributable to equity method investment	(409)	(292)	(807)	(651)
Other income, net	(228)	(292)	(333)	(1,095)
OPERATING INCOME	10,586	17,214	34,839	52,528
Interest expense	7,090	10,683	19,286	32,124
Tax Receivable Agreement Liability adjustment	(708)	—	(2,462)	—
INCOME BEFORE INCOME TAXES	4,204	6,531	18,015	20,404
Income tax expense	1,006	—	3,511	—
NET INCOME	3,198	6,531	14,504	20,404
Less: Redeemable preferred units accretion	—	(5,886)	—	(16,978)
NET INCOME ATTRIBUTABLE TO COMMON UNIT HOLDERS	3,198	645	14,504	3,426
Net income attributable to non-controlling interests	1,606	—	7,607	—
NET INCOME ATTRIBUTABLE TO PORTILLO'S INC.	$ 1,592	$ 645	$ 6,897	$ 3,426
Income per common share attributable to Portillo's Inc.:				
Basic	$ 0.04	$ 0.01	$ 0.19	$ 0.07
Diluted	$ 0.04	$ 0.01	$ 0.17	$ 0.07
Weighted-average common shares outstanding:				
Basic	38,899,373	51,210,222	36,899,208	51,201,100
Diluted	42,625,160	51,581,685	40,785,766	51,569,034

See accompanying notes to unaudited condensed consolidated financial statements.

PORTILLO'S INC
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' AND MEMBERS' EQUITY (UNAUDITED)
(In thousands, except share data)

	Preferred Units			Quarters Ended September 25, 2022 and September 26, 2021							
				Class A Common Stock		Class B Common Stock					
	Units	Amounts	Member's Equity	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interest	Total Stockholders' Equity
Balance at June 27, 2021	100,000	$ 211,663	$ 144,113	—	$ —	—	$ —	$ —	$ —	$ —	$ 144,113
Net income	—	—	6,531	—	—	—	—	—	—	—	6,531
Repayment of subscription receivable	—	—	249	—	—	—	—	—	—	—	249
Equity-based compensation	—	—	170	—	—	—	—	—	—	—	170
Redeemable preferred units accretion	—	5,886	(5,886)	—	—	—	—	—	—	—	(5,886)
Balance at September 26, 2021	100,000	217,549	145,177	—	—	—	—	—	—	—	145,177
Balance at June 26, 2022	—	—	—	36,218,355	362	35,673,321	—	192,862	(10,645)	261,233	443,812
Net income	—	—	—	—	—	—	—	—	1,592	1,606	3,198
Equity-based compensation	—	—	—	—	—	—	—	2,000	—	1,698	3,698
Exercise of stock options	—	—	—	64,109	—	—	—	271	—	—	271
Redemption of LLC Interests in connection with the secondary offering	—	—	—	5,942,559	59	(5,942,559)	—	(59)	—	—	—
Non-controlling interest adjustment	—	—	—	—	—	—	—	43,811	—	(43,811)	—
Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	—	—	—	(6,854)	—	—	(6,854)
Balance at September 25, 2022	—	$ —	$ —	42,225,023	$ 421	29,730,762	$ —	$ 232,031	$ (9,053)	$ 220,726	$ 444,125

See accompanying notes to unaudited condensed consolidated financial statements.

PORTILLO'S INC
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' AND MEMBERS' EQUITY (UNAUDITED)
(In thousands, except share data)

	Preferred Units			Three Quarters Ended September 25, 2022 and September 26, 2021							
				Class A Common Stock		Class B Common Stock					
	Units	Amounts	Member's Equity	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 27, 2020	100,000	$ 200,571	$ 140,709	—	$ —	—	$ —	$ —	$ —	$ —	$ 140,709
Net income	—	—	20,404	—	—	—	—	—	—	—	20,404
Equity-based compensation	—	—	443	—	—	—	—	—	—	—	443
Repayment of subscription receivable	—	—	499	—	—	—	—	—	—	—	499
Issuance of common units	—	—	100	—	—	—	—	—	—	—	100
Redeemable preferred units accretion	—	16,978	(16,978)	—	—	—	—	—	—	—	(16,978)
Balance at September 26, 2021	100,000	217,549	145,177	—	—	—	—	—	—	—	145,177
Balance at December 26, 2021	—	—	—	35,807,171	358	35,673,321	—	186,856	(15,950)	252,142	423,406
Net income	—	—	—	—	—	—	—	—	6,897	7,607	14,504
Equity-based compensation	—	—	—	—	—	—	—	5,837	—	5,510	11,347
Exercise of stock options	—	—	—	475,293	4	—	—	1,718	—	—	1,722
Redemption of LLC Interests in connection with the secondary offering	—	—	—	5,942,559	59	(5,942,559)	—	(59)	—	—	—
Non-controlling interest adjustment	—	—	—	—	—	—	—	44,533	—	(44,533)	—
Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	—	—	—	(6,854)	—	—	(6,854)
Balance at September 25, 2022	—	$ —	$ —	42,225,023	$ 421	29,730,762	$ —	$ 232,031	$ (9,053)	$ 220,726	$ 444,125

See accompanying notes to unaudited condensed consolidated financial statements.

PORTILLO'S INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Three Quarters Ended	
	September 25, 2022	**September 26, 2021**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 14,504	$ 20,404
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,803	18,225
Amortization of debt issuance costs and discount	1,952	2,877
Loss on sales of assets	212	130
Equity-based compensation	11,347	443
Deferred rent and tenant allowance	3,288	3,099
Deferred income tax expense	3,511	—
Tax Receivable Agreement liability adjustment	(2,462)	—
Amortization of deferred lease incentives	(289)	(289)
Gift card breakage	(626)	(554)
Changes in operating assets and liabilities:		
Accounts receivable	(2,064)	(89)
Receivables from related parties	(34)	(144)
Inventory	144	676
Other current assets	1,666	807
Accounts payable	(1,089)	(2,511)
Accrued expenses and other liabilities	(8,448)	(3,634)
Deferred lease incentives	1,651	690
Other assets and liabilities	(97)	(239)
NET CASH PROVIDED BY OPERATING ACTIVITIES	38,969	39,891
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(30,012)	(27,687)
Purchase of investment securities	—	(200)
Proceeds from the sale of property and equipment	44	123
NET CASH USED IN INVESTING ACTIVITIES	(29,968)	(27,764)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(2,493)	(2,493)
Proceeds from equity offering, net of underwriting discounts	183,436	—
Repurchase of outstanding equity / Portillo's OpCo units	(183,436)	—
Proceeds from stock option exercise	1,722	—
Proceeds from issuance of common units	—	100
Repayment of stock subscription receivable	—	499
Payment of initial public offering issuance costs	(771)	(2,108)
NET CASH USED IN FINANCING ACTIVITIES	(1,542)	(4,002)
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	7,459	8,125
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF THE PERIOD	39,263	41,432
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF THE PERIOD	46,722	49,557

See accompanying notes to unaudited condensed consolidated financial statements.

PORTILLO'S INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Three Quarters Ended			
	September 25, 2022		September 26, 2021	
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	$	16,856	$	29,043
Income tax paid		—		—
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Accrued capital expenditures	$	6,823	$	2,041
Redeemable preferred units accretion		—		(16,978)
Deferred offering costs in accounts payable		—		2,446
Adjustment of Tax Receivable Agreement Liability		51,112		—

See accompanying notes to unaudited condensed consolidated financial statements.

NOTE 1. DESCRIPTION OF BUSINESS

Portillo’s Inc. (the "Company") was formed and incorporated as a Delaware corporation on June 8, 2021. The Company was formed for the purpose of completing a public offering and related reorganization transactions (collectively, the "Transactions”) in order to carry on the business of PHD Group Holdings LLC and its subsidiaries ("Portillo's OpCo"). Following the consummation of the Transactions on October 20, 2021, the Company became the sole managing member of Portillo’s OpCo, and as sole managing member, the Company operates and controls all of the business and affairs of Portillo's OpCo. As a result, the Company consolidates the financial results of Portillo's OpCo and reports a non-controlling interest representing the economic interest in Portillo's OpCo held by the other members of Portillo's OpCo (the "pre-IPO LLC Members"). Unless the context otherwise requires, references to "we," "us," "our," "Portillo's," and the "Company" refer to Portillo's Inc. and its subsidiaries, including Portillo's OpCo.

The Company operates fast-casual restaurants in Illinois, Indiana, California, Arizona, Florida, Wisconsin, Minnesota, Iowa and Michigan, along with two food production commissaries in Illinois. As of September 25, 2022 and December 26, 2021, the Company had 70 and 68 restaurants in operation, respectively, excluding a restaurant owned by C&O Chicago, LLC ("C&O"), of which Portillo's owns 50% of the equity. The Company also had two and three non-traditional locations in operation as of September 25, 2022 and December 26, 2021, respectively. These non-traditional locations include a food truck and a ghost kitchen (small kitchen with no store-front presence, used to fill online orders). Portillo's additionally has a 50% interest in a single restaurant owned by C&O, that is referred to in Note 2. The Company’s principal corporate offices are located in Oak Brook, Illinois.

Initial Public Offering

The Company's registration statement on Form S-1, as amended (Registration No. 333-259810), related to its initial public offering ("IPO"), was declared effective October 20, 2021, and the Company's Class A common stock began trading on the Nasdaq Global Select Market under the symbol "PTLO" on October 21, 2021. On October 25, 2021, the Company completed its IPO of 23,310,810 shares of the Company's Class A common stock (including 3,040,540 shares sold to the underwriters pursuant to their overallotment option), at an offering price of $20.00 per share. The Company received aggregate net proceeds of approximately $430.0 million after deducting underwriting discounts and commissions of $29.1 million and other offering expenses of approximately $7.1 million.

In connection with the IPO, we completed the following:

- We amended and restated the limited liability company agreement of Portillo’s OpCo ("LLC Agreement") to, among other things, convert all outstanding equity interests (except for those redeemable preferred units which were redeemed in connection with the IPO) into LLC Units.

- We became the sole managing member of Portillo's OpCo. Because we manage and operate the business and control the strategic decisions and day-to-day operations of Portillo’s OpCo and because we also have a substantial financial interest in Portillo’s OpCo, we consolidated the financial results of Portillo’s OpCo, and a portion of our net income was allocated to non-controlling interests to reflect the entitlement of the pre-IPO LLC Members who retained their equity ownership in Portillo's OpCo. In addition, because Portillo’s OpCo was under the common control of the pre-IPO LLC Members before and after the Transactions, we measured the assets and liabilities of Portillo’s OpCo at their carrying amounts as of the date of the completion of the Transactions.

- We amended and restated our certificate of incorporation to authorize the issuance of two classes of common stock: Class A common stock and Class B common stock. Each share of Class A common stock and Class B common stock entitles its holder to one vote per share on all matters submitted to a vote of our stockholders. The Class B common stock is not entitled to economic interests in Portillo’s Inc.

The net proceeds and cash on hand were used as follows:

- to repay the redeemable preferred units in full (including the redemption premium) of $221.7 million;
- to repay all of the borrowings outstanding under the Second Lien Credit Agreement (including prepayment penalties) of $158.1 million; and
- to purchase LLC Units or shares of Class A common stock from certain pre-IPO LLC Members of $57.0 million.

In connection with the IPO, the Company entered into a Tax Receivable Agreement ("TRA") with certain pre-IPO LLC Members, pursuant to which the Company will be generally obligated to pay 85% of the amount of applicable cash savings, if any, in U.S. federal, state, and local income tax that the Company actually realizes or is deemed to realize as a result of (i) our allocable share of existing tax basis in depreciable or amortizable assets relating to LLC Units acquired in the IPO, (ii) certain favorable tax attributes acquired by the Company from entities treated as corporations for U.S. tax purposes that held LLC Units prior to the Transactions ("Blocker Companies") (including net operating losses and the Blocker Companies' allocable share of existing tax basis), (iii) increases in our allocable share of then existing tax basis in depreciable or amortizable assets, and adjustments to the tax basis of the tangible and intangible assets, of Portillo's OpCo and its subsidiaries, as a result of (x) sales or exchanges of interests in Portillo's OpCo (including the repayment of the redeemable preferred units) in connection with the IPO and (y) future redemptions or exchanges of LLC Units by pre-IPO LLC Members for Class A common stock and (iv) certain other tax benefits related to entering into the TRA, including payments made under the TRA. We will retain the benefit of the remaining 15% of these tax savings.

Secondary Offering

In the third quarter of 2022, the Company completed a secondary offering of 8,066,458 shares (including 66,458 shares sold to the underwriters pursuant to their overallotment option) of the Company's Class A common stock at an offering price of $23.75 per share. We used all of the net proceeds from the secondary offering to purchase LLC Units from certain pre-IPO LLC Members and to repurchase shares of Class A common stock from the shareholders of the Blocker Companies at a price per LLC Unit or share of Class A common stock, as applicable, equal to the public offering price per share of Class A common stock, less the underwriting discounts and commissions. All of the shares sold in the offering represented shares owned by pre-IPO LLC Members directly or indirectly through the Blocker Companies. The shares sold in the offering represented (i) 2,123,899 existing shares of Class A common stock held by the pre-IPO LLC Members and (ii) 5,942,559 newly-issued shares of Class A common stock issued in connection with the redemption of 5,942,559 LLC interests by the pre-IPO LLC Members. In connection with the redemption, 5,942,559 shares of Class B common stock were surrendered by the pre-IPO LLC Members and canceled and the Company received 5,942,559 newly-issued LLC interests, increasing the Company's total ownership interest in Portillo's OpCo. As of September 25, 2022, the Company owns 58.7% of Portillo's OpCo and the pre-IPO LLC Members own the remaining 41.3% of Portillo's OpCo.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information.

The Company has prepared the accompanying unaudited condensed consolidated financial statements in accordance with GAAP for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (the "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 our financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by GAAP for annual reports. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 26, 2021 included in our Annual Report on Form 10-K for the fiscal year ended December 26, 2021.

All intercompany balances and transactions have been eliminated in consolidation.

The Company does not have any components of other comprehensive income (loss) recorded within its consolidated financial statements, and therefore, does not separately present a statement of comprehensive income (loss).

Segment Reporting

The Company owns and operates fast-casual restaurants in the United States, along with two food production commissaries in Illinois. The Company's chief operating decision maker (the "CODM") is its Chief Executive Officer ("CEO"). The CODM reviews financial performance and allocates resources at a consolidated level on a recurring basis. The Company has one operating segment and one reportable segment.

Fiscal Year

The Company uses a 52- or 53-week fiscal year ending on the Sunday prior to December 31. In a 52-week fiscal year, each quarterly period is comprised of 13 weeks. The additional week in a 53-week fiscal year is added to the fourth quarter. Fiscal 2022 and 2021 each consist of 52 weeks. The fiscal periods presented in this report are the quarter and three quarters ended September 25, 2022 and September 26, 2021, respectively.

Use of Estimates

The preparation of these 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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the period. Actual results could differ from those estimates.

Reverse Common Unit Split

On October 20, 2021, the members of Portillo's OpCo executed the Second Amended and Restated Limited Liability Company Agreement for Portillo's OpCo, effecting a 7.4-for-1 reverse common unit split. All applicable unit data, per unit amounts and related information in the consolidated financial statements and notes thereto have been adjusted retroactively to give effect to the 7.4-for-1 reverse common unit split.

Revenue Recognition

Revenues from retail restaurants are presented net of discounts and recognized when food and beverage products are sold to the end customer. Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued expenses on the Company’s consolidated balance sheet until the taxes are remitted to the appropriate taxing authorities.

The Company offers delivery services to its customers. For delivery sales through Portillos.com or the Portillo's App, the Company recognizes revenue, including delivery fees, when the performance obligation is complete and the food is transferred to the customer. For delivery sales through a non-Company owned channel, such as the delivery partner’s website or app, we recognize marketplace sales, including third-party delivery menu price premiums, as revenue when the control of the food is transferred to the delivery service, excluding any delivery or service fees charged to the customer. Prior to the end of 2021, this price premium was previously recorded in Cost of goods sold, excluding depreciation and amortization. At the end of 2021, the Company began to record the difference in higher third-party delivery menu prices, versus regular menu prices, in revenue. The amount of the price premium recorded in 2021 and prior periods is not material and there is no anticipated or actual impact on operating income or net income for any period.

Generally, revenue is recognized as promised goods or services transfer to the guest or customer in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Revenues are recognized when payment is tendered at the point of sale as the performance obligation has been satisfied. Refer to Note 3. Revenue Recognition for additional detail.

Inventory

The Company operates two commissaries to supply the Company's restaurants with several products and ensures product consistency and quality. The commissaries derive revenue principally from the sale and distribution of food to our distributors, who, in turn, sell the food to the restaurants. This is considered under ASC 845, Non-Monetary Transactions and the impact on the statement of operations is not material. These products are held as inventory at distributors on a short-term consignment basis. Inventories subject to these consignment arrangements are recorded on the Company’s consolidated balance sheet and totaled $0.8 million and $0.4 million as of September 25, 2022 and December 26, 2021, respectively.

Equity Method Investment

The Company has a 50% interest in C&O. The Company accounts for the investment and financial results in the consolidated financial statements under the equity method of accounting as the Company has significant influence but does not have control. The investment is adjusted to reflect the Company’s share of C&O’s earnings and losses to date and any distributions received.

Recently Issued Accounting Standards

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASC 842"), along with related clarifications and improvements. The pronouncement requires lessees to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet. The guidance requires disclosure of key information about leasing arrangements that is intended to give financial statement users the ability to assess the amount, timing, and potential uncertainty of cash flows related to leases. The update is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company will adopt this standard for the annual period ending December 25, 2022. We expect the adoption of this standard will have a significant impact on the Company’s consolidated balance sheet as we recognize the operating lease assets and lease liabilities for our operating leases. The guidance is not expected to have a material impact on the condensed consolidated statements of operations, stockholders' equity, and cash flows.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The pronouncement provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting to ease the financial reporting burden related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and generally can be applied to applicable contract modifications through December 31, 2022. The guidance is not expected to have a material impact on the Company's consolidated financial statements.

The Company reviewed all other recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact to its consolidated financial statements.

NOTE 3. REVENUE RECOGNITION

Revenues from retail restaurants are presented net of discounts and recognized when food and beverage products are sold to the end customer. Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities.

The Company offers delivery services to its customers. Delivery services are fulfilled by the Company and third-party service providers. In some cases, the Company makes delivery sales through Portillos.com or the Portillo's App ("Dispatch Sales"). In other cases, the Company makes delivery sales through a non-Company owned channel, such as the delivery partner’s website or app (“Marketplace Sales”).

With respect to Dispatch Sales, delivery may be performed by the Company or through a third-party service provider. The Company recognizes revenue, including delivery fees, when the performance obligation is complete and the food is transferred to the customer. For these sales, the Company receives payment directly from the customer at the time of sale.

With respect to Marketplace Sales, the Company recognizes revenue, including third-party menu price premiums, excluding delivery or service fees collected by the delivery partner, when the performance obligation is complete, and control of the food is transferred to the delivery partner. The Company receives payment subsequent to the transfer of food. The payment terms with respect to Marketplace Sales are short-term in nature and are generally paid one week in arrears.

The Company sells gift cards which do not have expiration dates. The Company records the sale of the gift card as a contract liability and recognizes revenue from gift cards when: (i) the gift card is redeemed by the customer; or (ii) in the event a gift card is not expected to be redeemed, in proportion to the pattern of rights exercised by the customer (gift card breakage). The Company has determined that 11% of gift card sales will not be redeemed and will be retained by us based on a portfolio assessment of historical data on gift card redemption patterns. Gift card breakage is recorded within revenues, net in the condensed consolidated statements of operations. The Company recognized gift card breakage of $0.1 million and $0.6 million for the quarter and three quarters ended September 25, 2022, respectively, and $0.1 million and $0.6 million for the quarter and three quarters ended September 26, 2021, respectively.

The Company's revenue related to performance obligations not yet satisfied is revenue from gift cards sold but not yet redeemed. The gift card liability included in current deferred revenue on the consolidated balance sheets is as follows (in thousands):

	September 25, 2022	December 26, 2021
Gift card liability	$ 3,975	$ 6,606

Revenue recognized in the condensed consolidated statement of operations for the redemption of gift cards that were included in their respective liability balances at the beginning of the year is as follows (in thousands):

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
Revenue recognized from gift card liability balance at the beginning of the year	$ 534	$ 446	$ 3,215	$ 2,923

NOTE 4. INVENTORY

Inventories consisted of the following (in thousands):

	September 25, 2022	December 26, 2021
Raw materials	$ 3,951	$ 4,181
Work in progress	158	114
Finished goods	1,007	1,395
Consigned inventory	818	388
	$ 5,934	$ 6,078

NOTE 5. PROPERTY & EQUIPMENT, NET

Property and equipment, net consisted of the following (in thousands):

	September 25, 2022	December 26, 2021
Land improvements	$ 15,920	$ 15,451
Furniture, fixtures, and equipment	119,271	115,187
Leasehold improvements	147,535	138,923
Transportation equipment	2,281	2,203
Construction-in-progress	28,952	8,300
	313,959	280,064
Less accumulated depreciation	(102,218)	(89,230)
	$ 211,741	$ 190,834

Depreciation expense was $4.5 million and $13.4 million for the quarter and three quarters ended September 25, 2022, respectively, and $4.3 million and $12.6 million for the quarter and three quarters ended September 26, 2021, respectively, and is included in depreciation and amortization in the condensed consolidated statements of operations.

NOTE 6. GOODWILL & INTANGIBLE ASSETS

The Company has one reporting unit for goodwill which is evaluated for impairment annually in the fourth quarter of each fiscal year.

Intangibles, net consisted of the following (in thousands):

	As of September 25, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:			
Trade names	$ 223,925	$ —	$ 223,925
Intangibles subject to amortization:			
Recipes	56,117	(23,594)	32,523
Favorable rental contracts	2,991	(2,036)	955
	$ 283,033	$ (25,630)	$ 257,403

	As of December 26, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:			
Trade names	$ 223,925	$ —	$ 223,925
Intangibles subject to amortization:			
Recipes	56,117	(21,427)	34,690
Favorable rental contracts	2,991	(1,849)	1,142
	$ 283,033	$ (23,276)	$ 259,757

Amortization expense was $0.8 million and $2.4 million for the quarter and three quarters ended September 25, 2022, respectively, and $1.2 million and $5.6 million for the quarter and three quarters ended September 26, 2021, respectively, and is included in depreciation and amortization in the condensed consolidated statements of operations.

The estimated aggregate amortization expense for the intangibles for the remainder of this year and the succeeding five years and thereafter are $0.8 million, $3.1 million, $3.1 million, $3.0 million, $2.9 million, $2.7 million, and $17.9 million, respectively.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company discloses and recognizes the fair value of its assets and liabilities using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 - Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3 - Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The carrying value of the Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and all other current assets and liabilities approximate fair values due to the short-term nature of these financial instruments.

Other assets consist of a deferred compensation plan with related assets held in a rabbi trust.

Deferred Compensation Plan - The Company maintains a rabbi trust to fund obligations under a deferred compensation plan. Amounts in the rabbi trust are invested in mutual funds, which are designated as trading securities carried at fair value. The fair value measurement of these trading securities is considered Level 1 of the fair value hierarchy as they are measured using quoted market prices. As of September 25, 2022 and December 26, 2021, the fair value of the mutual fund investments and deferred compensation obligations were as follows (in thousands):

	September 25, 2022	December 26, 2021
	Level 1	Level 1
Assets - Investments designated for deferred compensation plan		
Cash/money accounts	$ 1,698	$ 1,482
Mutual funds	2,159	3,185
Total assets	$ 3,857	$ 4,667

As of September 25, 2022 and December 26, 2021, we had no Level 2 or Level 3 assets.

The mutual fund investments and deferred compensation obligations are included in other assets, accrued expenses, and other long-term liabilities in the consolidated balance sheets. Changes in the fair value of securities held in the rabbi trust are recognized as trading gains and losses and included in other income in the consolidated statements of operations, and offsetting increases or decreases in the deferred compensation obligation are recorded in other long-term liabilities in the consolidated balance sheets.

Refer to Note 8. Debt for additional information relating to the fair value of the Company's outstanding debt instruments.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Assets and liabilities that are measured at fair value on a non-recurring basis include property and equipment, net, equity-method investment, goodwill, trade names and other intangible assets, net. These assets are measured at fair value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no impairment charges recognized during the quarter or three quarters ended September 25, 2022 and September 26, 2021.

NOTE 8. DEBT

Debt consisted of the following (in thousands):

	September 25, 2022	December 26, 2021
First Lien Term B-3 Loans	$ 323,259	$ 325,752
Revolving Loans	—	—
Unamortized discount and debt issuance costs	(4,647)	(6,599)
Total debt, net	318,612	319,153
Less: current portion	(3,324)	(3,324)
Long-term debt, net	$ 315,288	$ 315,829

First Lien

PHD Intermediate LLC (“Holdings”), Portillo’s Holdings LLC (the “Borrower”) and certain of its subsidiaries entered into the First Lien Credit Agreement ("First Lien Credit Agreement"), dated as of August 1, 2014 and as amended October 25, 2016, May 18, 2018 and December 6, 2019, with UBS AG, Stamford Branch, as the administrative agent and collateral agent, and other lenders from time to time party thereto (the “First Lien Lenders”). The First Lien Lenders extended credit in the form of (i) first lien initial term loans in an initial aggregate principal amount of $335.0 million and (ii) a revolving credit facility in an original principal amount equal to $30.0 million, including a letter of credit sub-facility with a $7.5 million sublimit (the “Revolving Facility” and the loans thereunder, the “Revolving Loans”).

On December 6, 2019, the Borrower entered a third amendment to the First Lien Credit Agreement (the “Third Amendment to First Lien Credit Agreement”) whereby the aggregate principal amount of the term loans as of the effective date of the Third Amendment to First Lien Credit Agreement was $332.4 million (the “First Lien Term B-3 Loans”), and the Revolving Facility was increased to $50.0 million. The maturity date with respect to the First Lien Term B-3 Loans was extended to September 6, 2024, and the maturity date with respect to the Revolving Loans was extended to June 6, 2024.

In connection with the Third Amendment to First Lien Credit Agreement, the interest rates spread for the First Lien Term B-3 Loans increased by 100 basis points to 5.50% for the adjusted London interbank offered rate ("Eurocurrency Rate") loans. As of September 25, 2022 and September 26, 2021, the interest rate on the First Lien Term B-3 Loans was 8.02% and 6.50%, respectively. Beginning with December 31, 2019, the Company is required to pay on the last business day of each calendar quarter, March 31, June 30, September 30, and December 31, an aggregate principal amount of $0.8 million.

As of both September 25, 2022 and December 26, 2021, the Company had no borrowings under the Revolver outstanding. As of both September 25, 2022 and September 26, 2021, the interest rate on the Revolver was 3.25%, subject to change based on a consolidated first lien net leverage ratio as defined in the First Lien Credit Agreement. As of both September 25, 2022 and September 26, 2021, the commitment fees, pursuant to the First Lien, to maintain the Revolver were 0.250%. Also pursuant to the First Lien Credit Agreement, as of both September 25, 2022 and September 26, 2021, letter of credit fronting fees were 0.125%. Commitment fees and letter of credit fronting fees are recorded as interest expense in the condensed consolidated statements of operations.

As of September 25, 2022 and September 26, 2021, the effective interest rate was 8.84% and 7.80%, respectively.

The Company had $5.0 million of letters of credit issued against the Revolving Facility as of both September 25, 2022 and December 26, 2021. As of September 25, 2022, the Company had $45.0 million of availability under the Revolving Facility.

Second Lien

Holdings, the Borrower and certain of its subsidiaries entered into the Second Lien Credit Agreement (the “Second Lien Credit Agreement”) dated as of August 1, 2014 and as amended on October 25, 2016 and December 6, 2019 with UBS AG, Stamford Branch, as administrative agent and collateral agent, and other lenders from time to time party thereto (the “Second Lien Lenders”). The Second Lien Lenders extended credit in the form of initial second lien term loans in an initial aggregate principal amount of $80.0 million.

On December 6, 2019, the Borrower entered into second amendment to the Second Lien Credit Agreement (the “Second Amendment to Second Lien Credit Agreement”) whereby the aggregate principal amount of the term loans as of the effective date of the Second Amendment to the Second Lien Credit Agreement was $155.0 million (the “Second Lien Term B-3 Loans”). The maturity date of the Second Lien Term B-3 Loans was extended to December 6, 2024 (the “Second Lien Maturity Date”). In addition to the increased principal amount, the interest rate spread for the Second Lien Term B-3 Loans increased by 150 basis points to 9.50% for Eurocurrency Rate loans. The Borrower determined interest on the Second Lien at the Eurocurrency Rate, plus 9.50%.

In connection with the IPO, the Company received aggregate net proceeds of approximately $430.0 million after deducting underwriting discounts and commissions and offering expenses. Net proceeds of $158.1 million were used to repay the Second Lien Term B-3 Loans in full, including a $3.1 million prepayment penalty, which was recorded as a loss on debt extinguishment during the year ended December 26, 2021 in the consolidated statement of operations.

Discount and Debt Issuance Costs

In connection with entering into the Third Amendment to First Lien Credit Agreement and the Second Amendment to Second Lien Credit Agreement, in each case, dated as of December 6, 2019, the Borrower paid debt issuance costs of $14.5 million, of which $13.3 million were capitalized and are being amortized over the term of the related debt agreements, and $1.2 million were expensed as incurred.

In connection with the repayment of the Second Lien Term B-3 Loans as described above, deferred financing costs and original issuance discount of $4.2 million were recorded as a loss on debt extinguishment during the year ended December 26, 2021 in the consolidated statement of operations.

The Company amortized $0.5 million and $1.4 million of deferred financing costs during the quarter and three quarters ended September 25, 2022, respectively, and $0.6 million and $1.7 million, respectively, during the quarter and three quarters ended September 26, 2021, which is included in interest expense in the condensed consolidated statements of operations. In addition, the Company also amortized $0.2 million and $0.5 million in original issue discount related to the long-term debt during the quarter and three quarters ended September 25, 2022, respectively, and $0.4 million and $1.2 million, respectively, in the quarter and three quarters ended September 26, 2021 which is included in interest expense in the condensed consolidated statements of operations.

Total interest costs incurred were $7.1 million and $19.3 million for the quarter and three quarters ended September 25, 2022, respectively, and $10.7 million and $32.1 million for the quarter and three quarters ended September 26, 2021, respectively.

As of September 25, 2022 and December 26, 2021, the fair value of long-term debt approximates the carrying value as it is variable rate debt. The fair value measurement of this debt is considered Level 2 of the fair value hierarchy as inputs to interest are observable, unadjusted quoted prices in active markets for similar assets or liabilities.

Borrowings under the First Lien Credit Agreement are guaranteed by Holdings, the Borrower and certain of the Borrower’s subsidiaries, and Holdings, the Borrower and certain of the Borrower’s subsidiaries have pledged substantially all tangible and intangible assets as collateral, subject to certain exclusions and exceptions.

The Borrower is subject to certain financial and reporting covenants pursuant to the terms of the First Lien Credit Agreement. These covenants are customary for these types of debt agreements. As of September 25, 2022, the Company was in compliance with all covenants.

NOTE 9. NON-CONTROLLING INTERESTS

In connection with the Transactions described in Note 1. Description Of Business, we are the sole managing member of Portillo's OpCo, and as a result, consolidated the financial results of Portillo's OpCo. We report a non-controlling interest representing the LLC interests in Portillo's OpCo held by pre-IPO LLC Members. Changes in our ownership interest in Portillo's OpCo while we retain our controlling interest in Portillo's OpCo will be accounted for as equity transactions. As such, future redemptions or direct exchanges of LLC interests in Portillo's OpCo by the pre-IPO LLC members will result in a change in ownership and reduce the amount recorded as non-controlling interest and increase additional paid-in capital.

In the third quarter of 2022, in connection with the secondary offering described in Note 1. Description Of Business, 5,942,559 LLC interests were redeemed by the pre-IPO LLC Members for newly-issued shares of Class A common stock and we received 5,942,559 newly-issued LLC interests, increasing our total ownership interest in Portillo's OpCo.

The following table summarizes the LLC interest ownership by Portillo's Inc. and pre-IPO LLC members:

	As of September 25, 2022		As of December 26, 2021	
	LLC Interests	Ownership %	LLC Interests	Ownership %
Portillo's Inc.	42,225,023	58.7 %	35,807,171	50.1 %
pre-IPO LLC Members	29,730,762	41.3 %	35,673,321	49.9 %
Total	71,955,785	100.0 %	71,480,492	100.0 %

The weighted average ownership percentages for the applicable reporting periods are used to attribute net income to Portillo's Inc. and the pre-IPO LLC Members. The pre-IPO LLC Members' weighted average ownership percentage for both the quarter and three quarters ended September 25, 2022 was 45.9% and 48.5%, respectively.

The following table summarizes the effects of changes in ownership in Portillo's OpCo on the Company’s equity (in thousands):

	Quarter Ended	Three Quarters Ended
	September 25, 2022	
Net income attributable to Portillo's Inc.	$ 1,592	$ 6,897
Transfers from (to) non-controlling interests:		
Increase in additional paid-in capital as a result of activity under equity-based compensation plans	271	1,718
Increase in additional paid-in capital as a result of non-controlling interest adjustments, including the secondary offering	43,811	44,533
Redemption of LLC interests in connection with the secondary offering	(59)	(59)
Total effect of changes in ownership interest on equity attributable to Portillo's Inc.	$ 45,615	$ 53,089

NOTE 10. EQUITY-BASED COMPENSATION

Equity-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment to equity-based compensation expense will be recognized at that time.

Equity-based compensation expense included in the Company's consolidated statements of operations is as follows (in thousands):

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
Labor	$ 331	$ —	$ 1,020	$ —
General and administrative expenses	3,367	170	10,327	443
Total equity-based compensation expense	$ 3,698	$ 170	$ 11,347	$ 443

Employee Stock Purchase Plan

On April 14, 2022, the Company's board of directors approved, subject to stockholder approval, the Company's 2022 Employee Stock Purchase Plan (the "ESPP"), which was approved by stockholders on June 22, 2022. Under the ESPP, up to 250,000 shares of the Company's Class A common stock will be made available for purchase by eligible employees, who are entitled to purchase shares of common stock with accumulated payroll deductions. During the quarter and three quarters ended September 25, 2022, the Company has not issued any shares under the ESPP.

NOTE 11. INCOME TAXES

In connection with the Transactions described in Note 1. Description Of Business, we became the sole managing member of Portillo's OpCo, and as a result, began consolidating the financial results of Portillo's OpCo. Portillo's OpCo is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, Portillo's OpCo is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by Portillo's OpCo is passed through to and included in the taxable income or loss of its members, including us, on a pro rata basis. Beginning at the time of the IPO in 2021, we are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to our allocable share of any taxable income or loss of Portillo's OpCo subsequent to the IPO and Transactions, as well as any stand-alone income or loss generated by Portillo's Inc.

Income Tax Expense

The effective income tax rate for the quarter and three quarters ended September 25, 2022 was 23.9% and 19.5%. The Company's annual effective tax rate differs from the statutory rate of 21% primarily because the Company is not liable for income taxes on the portion of OpCo's earnings that are attributable to non-controlling interests and the valuation allowance recorded.

Secondary Offering

In the third quarter of 2022, in connection with the secondary offering previously discussed in Note 1. Description Of Business, 5,942,559 LLC interests were redeemed by the pre-IPO LLC Members for newly-issued shares of Class A common stock, resulting in an increase in the tax basis of net assets of Portillo's OpCo subject to the provisions of the Tax Receivable Agreement. The Company recorded a deferred tax asset of $44.3 million and an additional TRA liability of $51.1 million. As of September 25, 2022, we estimated that our obligation for future payments under the TRA liability totaled $205.3 million. There were no amounts paid under the TRA for the quarter and three quarters ended September 25, 2022.

NOTE 12. EARNINGS PER SHARE

Basic net earnings per share of Class A common stock is computed by dividing net income attributable to Portillo's Inc. by the weighted-average number of Class A common stock outstanding.

As described in Note 1. Description Of Business, in connection with the IPO, the Portillo's OpCo LLC Agreement was amended and restated to, among other things, (i) to authorize the issuance of two classes of common stock and (ii) convert all outstanding equity interests (except for those redeemable preferred units which were redeemed in connection with the IPO) into LLC Units. For purposes of calculating earnings per share, the prior period amounts have been retroactively adjusted to give effect to the above-mentioned amendment and resulting recapitalization. The computations of earnings per share for periods prior to our IPO do not consider the 23,310,810 shares of Class A common
stock issued to investors in our IPO.

Diluted earnings per share is computed by dividing net income attributable to Portillo's Inc. by the weighted-average number of dilutive securities, using the treasury stock method.

The computations of basic and diluted earnings per share for the quarter and three quarters ended September 25, 2022 and September 26, 2021 are as follows (in thousands):

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
Net income attributable to common unit holders	$ 3,198	$ 645	$ 14,504	$ 3,426
Net income attributable to non-controlling interests	1,606	—	7,607	—
Net income attributable to Portillo's Inc.	$ 1,592	$ 645	$ 6,897	$ 3,426
Shares:				
Weighted-average number of common shares outstanding-basic	38,899	51,210	36,899	51,201
Dilutive share awards	3,726	371	3,887	368
Weighted-average number of common shares outstanding-diluted	42,625	51,582	40,786	51,569
Basic net income per share	$ 0.04	$ 0.01	$ 0.19	$ 0.07
Diluted net income per share	$ 0.04	$ 0.01	$ 0.17	$ 0.07

The following shares were excluded from the calculation of diluted earnings per share because they would be antidilutive (in thousands):

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
Shares subject to performance conditions	1,862	319	1,862	319
Shares that were antidilutive	14	—	—	—
Total shares excluded from diluted income (loss) per share	1,876	319	1,862	319

NOTE 13. CONTINGENCIES

The Company is party to legal proceedings and potential claims arising in the normal conduct of business, including claims related to employment matters, contractual disputes, customer injuries, and property damage. Although the ultimate outcome of these claims and lawsuits cannot be predicted with certainty, management believes that the resulting liability, if any, will not have a material effect on the Company’s consolidated financial statements.

NOTE 14. RELATED PARTY TRANSACTIONS

As of both September 25, 2022 and December 26, 2021, the related parties’ receivables balance consisted of $0.4 million due from C&O, respectively, which is included in accounts receivable in the condensed consolidated balance sheets.

Noah Glass, a member of the Company's Board, is the founder and CEO of Olo, Inc. ("Olo"), a platform the Company uses in connection with our mobile ordering application and delivery.

The Company incurred the following Olo-related costs for the quarter and three quarters ended September 25, 2022 and September 26, 2021 (in thousands):

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
Cost of goods sold, excluding depreciation and amortization	$ 566	$ 176	$ 1,449	$ 409
Other operating expenses	111	122	326	375
Net Olo-related costs	$ 677	$ 298	$ 1,775	$ 784

As of September 25, 2022 and December 26, 2021, $0.1 million and immaterial amounts, respectively, were payable to Olo.

Tax Receivable Agreement

As described in Note 1. Description Of Business, we entered into a TRA with certain members of Portillo's OpCo that provides for the payment by us of 85% of the amount of tax benefits, if any, that Portillo's Inc. actually realizes or in some cases is deemed to realize as a result of certain transactions. There were no amounts paid under the TRA for the quarter and three quarters ended September 25, 2022.

(in thousands)	September 25, 2022	December 26, 2021
Tax receivable agreement liability	$ 205,287	$ 156,638

Secondary Offering

In the third quarter of 2022, in connection with the secondary offering previously discussed in Note 1. Description Of Business, we purchased LLC Units and shares of Class A common stock using the proceeds of the secondary offering at a price equal to the public offering price less the underwriting discounts and commissions from certain pre-IPO LLC Members, including from funds affiliated with Berkshire Partners LLC, which is our controlling stockholder that beneficially owns approximately 52.5% of the Company.

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

The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading “Cautionary Statements Concerning Forward-Looking Statements” in this report and under the heading “Risk Factors” in Part I, Item IA of our Annual Report on Form 10-K for the fiscal year ended December 26, 2021 and Part II, Item 1A of this Form 10-Q. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 26, 2021 and the condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q. All information presented herein is based on our fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years and the associated quarters, months and periods of those fiscal years.

Although we believe that the expectations reflected in the forward-looking statements are reasonable based on our current knowledge of our business and operations, we cannot guarantee future results, levels of activity, performance or achievements. We assume no obligation to provide revisions to any forward-looking statements should circumstances change.

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of our company as of and for the periods presented below.

We have prepared the unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC").

Overview

Portillo’s serves iconic Chicago street food through high-energy, multichannel restaurants designed to ignite the senses and create a memorable dining experience. Since our founding in 1963 in a small trailer which Dick Portillo called “The Dog House,” we have grown to become a treasured brand with a passionate (some might say obsessed) nationwide following. We create a consumer experience like no other by combining the best attributes of fast casual and quick service concepts with an exciting energy-filled atmosphere and restaurant model capable of generating tremendous volumes. Nearly all of our restaurants were built with double lane drive-thrus and have been thoughtfully designed with a layout that accommodates a variety of access modes including dine-in, carryout, delivery, and catering in order to quickly and efficiently serve our guests. No matter how our guests order from us, our highly productive kitchens and team members consistently serve high quality food and deliver a memorable guest experience. We believe the combination of our craveable food, multichannel sales model, dedication to operational excellence, and a distinctive culture driven by our team members gives us a competitive advantage.

As of September 25, 2022, we owned and operated 71 Portillo’s restaurants across nine states, including a restaurant owned by C&O Chicago, L.L.C. ("C&O") of which Portillo’s owns 50% of the equity.

Financial Highlights for the Quarter Ended September 25, 2022 vs. Quarter Ended September 26, 2021:

- Total revenue increased 9.5% or $13.1 million to $151.1 million;
- Same restaurant sales increased 5.8%;
- Operating income decreased $6.6 million to $10.6 million;
- Net income decreased $3.3 million to $3.2 million;
- Restaurant-Level Adjusted EBITDA* decreased $0.2 million to $34.1 million; and
- Adjusted EBITDA* decreased $2.6 million to $21.6 million.

Financial Highlights for the Three Quarters Ended September 25, 2022 vs. Three Quarters Ended September 26, 2021:

- Total revenue increased 10.1% or $40.2 million to $436.2 million;
- Same restaurant sales increased 5.2%;
- Operating income decreased $17.7 million to $34.8 million;
- Net income decreased $5.9 million to $14.5 million;
- Restaurant-Level Adjusted EBITDA* decreased $6.6 million to $100.5 million; and
- Adjusted EBITDA* decreased $8.4 million to $66.9 million.

* Adjusted EBITDA and Restaurant-Level Adjusted EBITDA are non-GAAP measures. Definitions and reconciliations of Adjusted EBITDA to net income and Restaurant-Level Adjusted EBITDA to operating income the most directly comparable financial measures presented in accordance with GAAP, are set forth under the section "Key Performance Indicators and Non-GAAP Financial Measures".

Recent Developments and Trends

We continue to see revenue growth due to our new restaurant openings, as well as same-restaurant sales growth. Total revenue grew 9.5% during the quarter ended September 25, 2022 and 10.1% for the three quarters ended September 25, 2022. Same-restaurant sales grew 5.8% during the quarter ended September 25, 2022, compared to 6.8% same-restaurant sales growth during the same quarter in 2021. Same-restaurant sales grew 5.2% and 10.6% for the three quarters ended September 25, 2022 and September 26, 2021, respectively.

During the quarter and three quarters ended September 25, 2022, we experienced significant commodity inflation, with the most impactful increases in beef and chicken prices. While we expect these commodity pressures to continue through the fourth quarter of fiscal 2022, we do not believe they will have a material impact to our long-term growth and profitability. Additionally, we experienced higher labor expenses during the quarter and three quarters ended September 25, 2022, compared to the same periods last year primarily due to additional wage investments made in June 2021 and the beginning of the third quarter of 2022, which combined with the expected commodity inflation, will continue to have an impact to Restaurant-Level Adjusted EBITDA Margin for the remainder of fiscal 2022. We are partially offsetting these expense increases through menu price increases and operational efficiencies. During the first and second quarters of 2022, we increased menu prices on certain items by approximately 1.5% and 3.5%, respectively. We have also increased menu prices on certain items during the fourth quarter of 2022 by approximately 3.0% to continue to combat inflationary cost pressures. As a result, Restaurant-Level Adjusted EBITDA Margin was 22.6% in the quarter ended September 25, 2022. Absent significant and prolonged COVID-19 relapses or global economic disruptions and through our continued efforts to elevate guest experiences and implement operational efficiencies, we believe the strength of our brand will deliver consistent, long-term growth.

Development Highlights

Two new restaurants were opened during the three quarters ended September 25, 2022. The opening of these restaurants brings the total restaurant count to 71 as of September 25, 2022, including a restaurant owned by C&O of which Portillo’s owns 50% of the equity.

Location	Opening Date
Joliet, Illinois	February 2022
St. Petersburg, Florida	April 2022

Consolidated Results of Operations

The following table summarizes our results of operations for the quarter and three quarters ended September 25, 2022 and September 26, 2021 (in thousands):

	Quarter Ended				Three Quarters Ended			
	September 25, 2022		September 26, 2021		September 25, 2022		September 26, 2021	
REVENUES, NET	$ 151,121	100.0 %	$ 138,003	100.0 %	$ 436,226	100.0 %	$ 396,044	100.0 %
COST AND EXPENSES:								
Restaurant operating expenses:								
Cost of goods sold, excluding depreciation and amortization	53,374	35.3 %	44,285	32.1 %	151,414	34.7 %	121,465	30.7 %
Labor	39,133	25.9 %	36,921	26.8 %	114,352	26.2 %	102,433	25.9 %
Occupancy	7,644	5.1 %	7,000	5.1 %	22,778	5.2 %	20,890	5.3 %
Other operating expenses	16,882	11.2 %	15,554	11.3 %	47,225	10.8 %	44,187	11.2 %
Total restaurant operating expenses	117,033	77.4 %	103,760	75.2 %	335,769	77.0 %	288,975	73.0 %
General and administrative expenses	18,059	12.0 %	11,750	8.5 %	49,185	11.3 %	35,755	9.0 %
Pre-opening expenses	791	0.5 %	347	0.3 %	1,770	0.4 %	2,307	0.6 %
Depreciation and amortization	5,289	3.5 %	5,516	4.0 %	15,803	3.6 %	18,225	4.6 %
Net income attributable to equity method investment	(409)	(0.3)%	(292)	(0.2)%	(807)	(0.2)%	(651)	(0.2)%
Other income, net	(228)	(0.2)%	(292)	(0.2)%	(333)	(0.1)%	(1,095)	(0.3)%
OPERATING INCOME	10,586	7.0 %	17,214	12.5 %	34,839	8.0 %	52,528	13.3 %
Interest expense	7,090	4.7 %	10,683	7.7 %	19,286	4.4 %	32,124	8.1 %
Tax Receivable Agreement Liability adjustment	(708)	(0.5)%	—	— %	(2,462)	(0.6)%	—	— %
INCOME BEFORE INCOME TAXES	4,204	2.8 %	6,531	4.7 %	18,015	4.1 %	20,404	5.2 %
Income tax expense	1,006	0.7 %	—	— %	3,511	0.8 %	—	— %
NET INCOME	3,198	2.1 %	6,531	4.7 %	14,504	3.3 %	20,404	5.2 %
Less: Redeemable preferred units accretion	—	— %	(5,886)	(4.3)%	—	— %	(16,978)	(4.3)%
NET INCOME ATTRIBUTABLE TO COMMON HOLDERS	3,198	2.1 %	645	0.5 %	14,504	3.3 %	3,426	0.9 %
Net income attributable to non-controlling interests	1,606	1.1 %	—	— %	7,607	1.7 %	—	— %
NET INCOME ATTRIBUTABLE TO PORTILLO'S INC.	$ 1,592	1.1 %	$ 645	0.5 %	$ 6,897	1.6 %	$ 3,426	0.9 %

Revenues, Net

Revenues primarily represent the aggregate sales of food and beverages, net of discounts. Sales taxes collected from customers are excluded from revenues. Revenues in any period are directly influenced by the number of operating weeks in the period, the number of open restaurants, restaurant traffic, our menu prices, third-party delivery platform prices and product mix. At the end of 2021, the Company began to record the difference in higher third-party delivery menu prices, versus regular menu prices, in revenues. This markup was previously recorded in Cost of goods sold, excluding depreciation and amortization. As a result, we anticipate this change to positively impact our same-restaurant sales growth by 2%-3% in each quarter in 2022 and for the full fiscal year 2022, with a corresponding increase to Cost of goods sold, excluding depreciation and amortization. Operating income has not been, and is not anticipated in the future to be, impacted by such change. See Note 2. Summary Of Significant Accounting Policies-Revenue Recognition, for more information.

Revenues for the quarter ended September 25, 2022 were $151.1 million compared to $138.0 million for the quarter ended September 26, 2021, an increase of $13.1 million or 9.5%. The increase in revenues was primarily attributed to the opening of two new restaurants in the fourth quarter of 2021 and two new restaurants during the three quarters ended September 25, 2022, combined with an increase in our same-restaurant sales. The new restaurants positively impacted revenues by approximately $5.8 million in the quarter ended September 25, 2022. Same-restaurant sales increased 5.8% during the third quarter ended September 25, 2022, which was attributable to an increase in average check of 6.3% and a 2.8% impact from the change in recording third-party delivery pricing, offset by a 3.3% decline in transactions. The higher average check was driven by an approximate 8.2% increase in certain menu prices partially offset by lower items sold per transaction. For the purpose of calculating same-restaurant sales for September 25, 2022, sales for 61 restaurants were included in the Comparable Restaurant Base (as defined in "Selected Operating Data" below) versus 60 as of the quarter ended September 26, 2021.

Revenues for the three quarters ended September 25, 2022 were $436.2 million compared to $396.0 million for the three quarters ended September 26, 2021, an increase of $40.2 million or 10.1%. The increase in revenues was primarily attributed to the opening of five new restaurants in 2021 and two new restaurants during the three quarters ended September 25, 2022 combined with an increase in our same-restaurant sales. The new restaurants positively impacted revenues by approximately $20.8 million in the three quarters ended September 25, 2022. Same-restaurant sales increased 5.2% during the three quarters ended September 25, 2022, which was attributable to an increase in average check of 6.1% and a 2.8% impact from the change in recording third-party delivery pricing, offset by a 3.7% decline in transactions. The higher average check was primarily driven by an approximate 7.4% increase in menu prices partially offset by lower items sold per transaction. We increased menu prices approximately 1.5% in the first quarter of 2022, and approximately 3.5% during the second quarter of 2022. We increased menu prices on certain items during the fourth quarter of 2022 by approximately 3.0% to continue to combat inflationary cost pressures. For the purpose of calculating same-restaurant sales for September 25, 2022, sales for 61 restaurants were included in the Comparable Restaurant Base (as defined in "Selected Operating Data" below) versus 60 as of the quarter ended September 26, 2021.

Cost of Goods Sold, Excluding Depreciation and Amortization

Cost of goods sold, excluding depreciation and amortization includes the direct costs associated with food and beverages, including paper products and third-party delivery commissions. The components of cost of goods sold, excluding depreciation and amortization are variable by nature, change with sales volume, are impacted by product mix and are subject to increases or decreases in commodity costs. We anticipate the comparability of cost of goods sold, excluding depreciation and amortization, to be impacted in 2022 versus 2021 due to the aforementioned change in how the Company records third-party delivery menu prices. Operating income has not been, and is not anticipated in the future to be, impacted by such change.

Cost of goods sold, excluding depreciation and amortization for the quarter ended September 25, 2022 was $53.4 million compared to $44.3 million for the quarter ended September 26, 2021, an increase of $9.1 million or 20.5%. This increase was primarily driven by a 15.4% increase in commodity prices, with the largest impacts in beef and chicken prices; the impact of how the Company records third-party delivery menu prices; and the opening of two new restaurants in the fourth quarter of 2021 and two new restaurants during the three quarters ended September 25, 2022. As a percentage of revenues net, cost of goods sold, excluding depreciation and amortization increased 3.2% during the quarter ended September 25, 2022. The increase was primarily due to an increase in commodity prices and the impact of how the Company records third-party delivery menu prices, partially offset by an increase in our average check.

Cost of goods sold, excluding depreciation and amortization for the three quarters ended September 25, 2022 was $151.4 million compared to $121.5 million for the three quarters ended September 26, 2021, an increase of $29.9 million or 24.7%. This increase was primarily driven by a 15.4% increase in commodity prices, with the largest impacts in beef, chicken, and pork prices; the impact of how the Company records third-party delivery menu prices; and the opening of five new restaurants in 2021 and two new restaurants during the three quarters ended September 25, 2022. As a percentage of revenues, net, cost of goods sold, excluding depreciation and amortization increased 4.0% during the three quarters ended September 25, 2022. The increase was primarily due to an increase in commodity prices and the impact of how the Company records third-party delivery menu prices, partially offset by an increase in our average check.

Labor Expenses

Labor expenses include hourly and management wages, bonuses and equity-based compensation, payroll taxes, workers' compensation expense, and team member benefits. Factors that influence labor costs include wage inflation and payroll tax legislation, health care costs and the staffing needs of our restaurants.

Labor expenses for the quarter ended September 25, 2022 were $39.1 million compared to $36.9 million for the quarter ended September 26, 2021, an increase of $2.2 million or 6.0%. This increase was primarily driven by incremental investments to support our team members, including rate increases primarily made in July 2022, higher equity-based compensation, and the opening of two new restaurants in the fourth quarter of 2021 and two new restaurants during the three quarters ended September 25, 2022. These increases were partially offset by operational efficiencies and lower variable-based compensation. As a percentage of revenues, net, labor decreased 0.9% due primarily to an increase in our average check, operational efficiencies and lower variable-based compensation, partially offset by the aforementioned incremental rate increases to support our team members.

Labor expenses for the three quarters ended September 25, 2022 were $114.4 million compared to $102.4 million for the three quarters ended September 26, 2021, an increase of $11.9 million or 11.6%. This increase was primarily driven by incremental investments to support our team members, including rate increases primarily made in June 2021 and July 2022, higher equity-based compensation, and the opening of five new restaurants in 2021 and two new restaurants during the three quarters ended September 25, 2022. These increases were partially offset by operational efficiencies and lower variable-based compensation. As a percentage of revenues, net, labor increased 0.3% due primarily to the aforementioned incremental hourly rate increases to support our team members, partially offset by an increase in our average check, operational efficiencies, and lower variable-based compensation.

Occupancy Expenses

Occupancy expenses primarily consist of rent, property insurance, common area expenses and property taxes.

Occupancy expenses for the quarter ended September 25, 2022 were $7.6 million compared to $7.0 million for the quarter ended September 26, 2021, an increase of $0.6 million or 9.2%, primarily driven by the opening of two new restaurants in the fourth quarter of 2021 and two new restaurants during the three quarters ended September 25, 2022.

Occupancy expenses for the three quarters ended September 25, 2022 were $22.8 million compared to $20.9 million for the three quarters ended September 26, 2021, an increase of $1.9 million or 9.0%, primarily driven by the opening of five new restaurants in 2021 and two new restaurants during the three quarters ended September 25, 2022.

Other Operating Expenses

Other operating expenses consist of direct marketing expenses, utilities and other operating expenses incidental to operating our restaurants, such as credit card fees and repairs and maintenance.

Other operating expenses for the quarter ended September 25, 2022 were $16.9 million compared to $15.6 million for the quarter ended September 26, 2021, an increase of $1.3 million or 8.5%, primarily driven by the opening of two new restaurants in the fourth quarter of 2021 and two new restaurants during the three quarters ended September 25, 2022, as well as an increase in repair and maintenance expenses and utilities, offset by a decrease in operating supplies.

Other operating expenses for the three quarters ended September 25, 2022 were $47.2 million compared to $44.2 million for the three quarters ended September 26, 2021, an increase of $3.0 million or 6.9%, primarily driven by the opening of five new restaurants in 2021 and two new restaurants during the three quarters ended September 25, 2022, as well as an increase in repair and maintenance expenses and utilities, offset by a decrease in travel and uniform costs.

General and Administrative Expenses

General and administrative expenses primarily consist of costs associated with our corporate and administrative functions that support restaurant development and operations, including marketing and advertising costs incurred as well as legal and professional fees. General and administrative expenses also include equity-based compensation expense. General and administrative expenses are impacted by changes in our team member count and costs related to strategic and growth initiatives.

General and administrative expenses for the quarter ended September 25, 2022 were $18.1 million compared to $11.8 million for the quarter ended September 26, 2021, an increase of $6.3 million or 53.7%. This increase was primarily driven by increases in equity-based compensation of $3.2 million, insurance of $0.7 million, transaction-related fees and expenses, consisting primarily of certain professional fees of $0.6 million, and software licensing fees.

General and administrative expenses for the three quarters ended September 25, 2022 were $49.2 million compared to $35.8 million for the three quarters ended September 26, 2021, an increase of $13.4 million or 37.6%. This increase was primarily driven by an increase in equity-based compensation of $9.9 million, insurance of $2.1 million, transaction-related fees and expenses, consisting primarily of certain professional fees of $1.3 million, and software licensing fees, partially offset by a decrease in variable-based compensation expense.

Pre-Opening Expenses

Pre-opening expenses consist primarily of occupancy expenses, which represent rent expense recognized during the period between the date of possession of the restaurant facility and the restaurant opening date, wages, travel for the opening team and other supporting team members, food, beverage, and the initial stocking of operating supplies. All such costs incurred prior to the opening are expensed in the period in which the expense was incurred. Pre-opening expenses can fluctuate significantly from period to period, based on the number and timing of openings and the specific pre-opening expenses incurred for each restaurant. Additionally, restaurant openings in new geographic market areas will initially experience higher pre-opening expenses than our established geographic market areas, such as the Chicagoland area, where we have greater economies of scale and incur lower travel and lodging costs for our training team.

Pre-opening expenses for the quarter ended September 25, 2022 were $0.8 million compared to $0.3 million for the quarter ended September 26, 2021, an increase of $0.4 million or 128.0%. The increase was due to preparation for the planned restaurant openings in the fourth quarter.

Pre-opening expenses for the three quarters ended September 25, 2022 were $1.8 million compared to $2.3 million for the three quarters ended September 26, 2021, a decrease of $0.5 million or 23.3%. This decrease was due to the timing and geographic location of restaurant openings in the first three quarters of 2022 versus 2021.

Depreciation and Amortization

Depreciation and amortization expenses consist of the depreciation of fixed assets, including leasehold improvements, fixtures and equipment and the amortization of definite-lived intangible assets, which are primarily comprised of recipes.

Depreciation and amortization expense for the quarter ended September 25, 2022 was $5.3 million compared to $5.5 million for the quarter ended September 26, 2021, a decrease of $0.2 million or 4.1%. This decrease was primarily attributable to an expired non-compete intangible asset, partially offset by incremental depreciation of capital expenditures related to the opening of two new restaurants in the fourth quarter of 2021 and two new restaurants during the three quarters ended September 25, 2022.

Depreciation and amortization expense for the three quarters ended September 25, 2022 was $15.8 million compared to $18.2 million for the three quarters ended September 26, 2021, a decrease of $2.4 million or 13.3%. This decrease was primarily attributable to an expired non-compete intangible asset, partially offset by incremental depreciation of capital expenditures related to the opening of five new restaurants in 2021 and two new restaurants during the three quarters ended September 25, 2022.

Net Income Attributable to Equity Method Investment

Net income attributable to equity method investment consists of a 50% interest in C&O, which runs a single restaurant located within the Chicagoland market. We account for the investment and financial results in the consolidated financial statements under the equity method of accounting as we have significant influence but do not have control.

Net income attributable to equity method investment for the quarter ended September 25, 2022 was $0.4 million compared to $0.3 million for the quarter ended September 26, 2021. This increase was primarily driven by increased revenue, which is attributable to an increase in average check.

Net income attributable to equity method investment for the three quarters ended September 25, 2022 was $0.8 million compared to $0.7 million for the three quarters ended September 26, 2021. This increase was primarily driven by increased revenue, which is attributable to an increase in average check.

Other Income, Net

Other income, net includes among other items, income resulting from discounts received for timely filing of sales tax returns, management fee income associated with our investment in C&O, trading gains or losses on our deferred compensation plan and gains or losses on asset disposals.

Other income, net for the quarter ended September 25, 2022 was $0.2 million compared to $0.3 million for the quarter ended September 26, 2021, a decrease of $0.1 million or 21.9%. This decrease was primarily due to an increase in losses on asset disposals.

Other income, net for the three quarters ended September 25, 2022 was $0.3 million compared to $1.1 million for the three quarters ended September 26, 2021, a decrease of $0.8 million or 69.6%. This decrease was primarily due to an increase in trading losses in the rabbi trust used to fund our deferred compensation plan.

Interest Expense

Interest expense primarily consists of interest and fees on our credit facilities and the amortization expense for debt discount and deferred issuance costs.

Interest expense for the quarter ended September 25, 2022 was $7.1 million compared to $10.7 million for the quarter ended September 26, 2021, a decrease of $3.6 million or 33.6%. This decrease was primarily driven by the payoff of the Second Term B-3 Loans with the use of IPO proceeds during the year ended December 26, 2021 and decreased borrowings on the First Lien Term B-3 Loans during the quarter ended September 25, 2022. This decrease was partially offset by $0.9 million of additional interest expense on the First Lien Term B-3 Loans due to an increased interest rate. There were no outstanding borrowings under the Revolving Facility during the quarter ended September 25, 2022 or September 26, 2021.

Interest expense for the three quarters ended September 25, 2022 was $19.3 million compared to $32.1 million for the three quarters ended September 26, 2021, a decrease of $12.8 million or 40.0%. This decrease was primarily driven by the payoff of the Second Term B-3 Loans with the use of IPO proceeds during the year ended December 26, 2021 and decreased borrowings on the First Lien Term B-3 Loans during the quarter ended September 25, 2022. This decrease was partially offset by $0.8 million of additional interest expense on the First Lien Term B-3 Loans due to an increased interest rate. There were no outstanding borrowings under the Revolving Facility during the three quarters ended September 25, 2022 or September 26, 2021.

Tax Receivable Agreement Liability Adjustment

In connection with the IPO, we entered into a Tax Receivable Agreement liability with certain members of Portillo's OpCo that provides for the payment by us of 85% of the amount of tax benefits, if any, that Portillo's Inc. actually realizes or in some cases is deemed to realize as a result of certain transactions.

The tax receivable agreement liability adjustment was $0.7 million for the quarter ended September 25, 2022 and $2.5 million for the three quarters ended September 25, 2022 related to a remeasurement primarily due to option exercises. There was no tax receivable agreement liability adjustment for the quarter or three quarters ended September 26, 2021.

Income Tax Expense

Portillo's OpCo is treated as a partnership for U.S. federal, as well as state and local income tax purposes and is not subject to taxes. Rather, any taxable income or loss generated by Portillo's OpCo is passed through to and included in the taxable income or loss of its members on a pro rata basis. As of the IPO, we are subject to U.S. federal, as well as state and local income taxes with respect to our allocable share of any taxable income or loss of Portillo's OpCo, as well as any stand-alone income or loss generated by Portillo's Inc.

Income tax expense for the quarter ended September 25, 2022 was $1.0 million. Our effective income tax rate for the quarter ended September 25, 2022 was 23.9%. There was no income tax expense for the quarter ended September 26, 2021.

Income tax expense for the three quarters ended September 25, 2022 was $3.5 million. Our effective income tax rate for the three quarters ended September 25, 2022 was 19.5%. There was no income tax expense for the three quarters ended September 26, 2021.

Net Income Attributable to Non-controlling Interests

In connection with the IPO, we became the sole managing member of Portillo's OpCo. We manage and operate the business and control the strategic decisions and day-to-day operations of Portillo’s OpCo and we also have a substantial financial interest in Portillo’s OpCo. Accordingly, we consolidate the financial results of Portillo’s OpCo, and a portion of our net income is allocated to non-controlling interests to reflect the entitlement of the pre-IPO LLC Members who retained their equity ownership in Portillo's OpCo (the "pre-IPO LLC Members"). The weighted average ownership percentages for the applicable reporting periods are used to attribute net income (loss) to Portillo's Inc. and the non-controlling interest holders.

Net income attributable to non-controlling interests for the quarter ended September 25, 2022 was $1.6 million. There was no such income for the quarter ended September 26, 2021.

Net income attributable to non-controlling interests for the three quarters ended September 25, 2022 was $7.6 million. There was no such income for the three quarters ended September 26, 2021.

Key Performance Indicators and Non-GAAP Financial Measures

In addition to the GAAP measures presented in our financial statements, we use the following key performance indicators and non-GAAP financial measures to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions. These key measures include new restaurant openings, average unit volume ("AUV"), same-restaurant sales, Adjusted EBITDA, Adjusted EBITDA Margin, Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA Margin. The Company includes these measures because management believes that they are important to day-to-day operations and overall strategy and are useful to investors in that they provide for greater transparency with respect to supplemental information used by management in its financial and operational decision-making.

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
Total Restaurants (a)	71	67	71	67
AUV (in millions) (a)	N/A	N/A	$ 8.4	$ 8.0
Change in same-restaurant sales (b)	5.8 %	6.8 %	5.2 %	10.6 %
Adjusted EBITDA (in thousands)	$ 21,620	$ 24,202	$ 66,864	$ 75,276
Adjusted EBITDA Margin	14.3 %	17.5 %	15.3 %	19.0 %
Restaurant-Level Adjusted EBITDA (in thousands)	$ 34,088	$ 34,243	$ 100,457	$ 107,069
Restaurant-Level Adjusted EBITDA Margin	22.6 %	24.8 %	23.0 %	27.0 %

(a) Includes a restaurant that is owned by C&O, of which Portillo's owns 50% of the equity, as described in Note 2. Summary Of Significant Accounting Policies in the notes to the unaudited condensed consolidated financial statements. AUVs for the quarters ended September 25, 2022 and September 26, 2021 represent AUVs for the twelve months ended September 25, 2022 and September 26, 2021, respectively.
(b) Excludes a restaurant that is owned by C&O of which Portillo's owns 50% of the equity.

Change in Same-Restaurant Sales

The change in same-restaurant sales is the percentage change in year-over-year revenue (excluding gift card breakage) for the comparable restaurant base, which is defined as the number of restaurants open for at least 24 full fiscal periods (the "Comparable Restaurant Base"). For the three quarters ended September 25, 2022 and September 26, 2021, there were 61 and 60 restaurants in our Comparable Restaurant Base, respectively. The Comparable Restaurant Base excludes a restaurant that is owned by C&O, of which Portillo's owns 50% of the equity, as described in Note 2. Summary Of Significant Accounting Policies in the notes to the unaudited condensed consolidated financial statements.

Average Unit Volume ("AUV")

AUV is the total revenue (excluding gift card breakage) recognized in the Comparable Restaurant Base, including a restaurant that is owned by C&O, divided by the number of restaurants in the Comparable Restaurant Base by period.

Non-GAAP Financial Measures

To supplement the consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: Adjusted EBITDA and Adjusted EBITDA Margin, and Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA Margin. Accordingly, these measures are not required by, nor presented in accordance with GAAP, but rather are supplemental measures of operating performance of our restaurants. You should be aware that these measures are not indicative of overall results for the Company and that Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA Margin do not accrue directly to the benefit of stockholders because of corporate-level expenses excluded from such measures. These measures are supplemental measures of operating performance and our calculations thereof may not be comparable to similar measures reported by other companies. These measures are important measures to evaluate the performance and profitability of our restaurants, individually and in the aggregate, but also have important limitations as analytical tools and should not be considered in isolation as substitutes for analysis of our results as reported under GAAP.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA represents net income before depreciation and amortization, interest expense and income taxes, adjusted for the impact of certain non-cash and other items that we do not consider in our evaluation of ongoing core operating performance as identified in the reconciliation of net income, the most directly comparable GAAP measure to Adjusted EBITDA. Adjusted EBITDA Margin represents Adjusted EBITDA as a percentage of total revenues.

We use Adjusted EBITDA and Adjusted EBITDA Margin (i) to evaluate our operating results and the effectiveness of our business strategies, (ii) internally as benchmarks to compare our performance to that of our competitors and (iii) as factors in evaluating management's performance when determining incentive compensation.

We believe that Adjusted EBITDA and Adjusted EBITDA Margin are important measures of operating performance because they eliminate the impact of expenses that do not relate to our core operating performance.

The following table reconciles net income to Adjusted EBITDA and Adjusted EBITDA margin (in thousands):

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	**September 26, 2021**	**September 25, 2022**	**September 26, 2021**
Net income	$ 3,198	$ 6,531	$ 14,504	$ 20,404
Depreciation and amortization	5,289	5,516	15,803	18,225
Interest expense	7,090	10,683	19,286	32,124
Income tax expense	1,006	—	3,511	—
EBITDA	16,583	22,730	53,104	70,753
Deferred rent (1)	1,053	781	2,999	2,375
Equity-based compensation	3,698	169	11,347	443
Consulting fees (2)	—	168	—	1,168
Other loss (3)	114	25	239	157
Transaction-related fees & expenses (4)	880	329	1,637	380
Tax Receivable Agreement liability adjustment (5)	(708)	—	(2,462)	—
Adjusted EBITDA	$ 21,620	$ 24,202	$ 66,864	$ 75,276
Adjusted EBITDA Margin	14.3 %	17.5 %	15.3 %	19.0 %

(1) Represents the difference between cash rent payments and the recognition of straight-line rent expense recognized over the lease term.
(2) Represents consulting fees related to our former owner.
(3) Represents loss on disposal of property and equipment.
(4) Represents the exclusion of certain expenses that management believes are not indicative of ongoing operations, consisting primarily of certain professional fees.
(5) Represents remeasurement of the Tax Receivable Agreement liability.

Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA Margin

Restaurant-Level Adjusted EBITDA is defined as revenue, less restaurant operating expenses, which include cost of goods sold (excluding depreciation and amortization), labor expenses, occupancy expenses and other operating expenses. Restaurant-Level Adjusted EBITDA excludes corporate level expenses and depreciation and amortization on restaurant property and equipment. Restaurant-Level Adjusted EBITDA Margin represents Restaurant-Level Adjusted EBITDA as a percentage of revenue.

We believe that Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA Margin are important measures to evaluate the performance and profitability of our restaurants, individually and in the aggregate.

The following table reconciles operating income to Restaurant-Level Adjusted EBITDA and Restaurant-Level Adjusted EBITDA Margin (in thousands):

	Quarter Ended		Three Quarters Ended	
	September 25, 2022	September 26, 2021	September 25, 2022	September 26, 2021
Operating income	$ 10,586	$ 17,214	$ 34,839	$ 52,528
Plus:				
General and administrative expenses	18,059	11,750	49,185	35,755
Pre-opening expenses	791	347	1,770	2,307
Depreciation and amortization	5,289	5,516	15,803	18,225
Net income attributable to equity method investment	(409)	(292)	(807)	(651)
Other loss (income), net	(228)	(292)	(333)	(1,095)
Restaurant-Level Adjusted EBITDA	$ 34,088	$ 34,243	$ 100,457	$ 107,069
Restaurant-Level Adjusted EBITDA Margin	22.6 %	24.8 %	23.0 %	27.0 %

Liquidity and Capital Resources

Our primary sources of liquidity are cash from operations, cash and cash equivalents on hand, and availability under our Revolving Facility. As of September 25, 2022, we maintained a cash and cash equivalents and restricted cash balance of $46.7 million and had $45.0 million of availability under our Revolver, after giving effect to $5.0 million in outstanding letters of credit.

Our primary requirements for liquidity are to fund our working capital needs, operating lease obligations, capital expenditures, and general restaurant support center needs. Our requirements for working capital are not significant because our guests pay for their food and beverage purchases in cash or on debit or credit cards at the time of the sale and we are able to sell many of our inventory items before payment is due to the supplier of such items. Our ongoing capital expenditures are principally related to opening of new restaurants, existing capital investments (both for remodels and maintenance), as well as investments in our restaurant support center infrastructure.

Based upon current levels of operations and anticipated growth, we expect that cash flows from operations will be sufficient to meet our needs for at least the next twelve months, and the foreseeable future.

Liquidity Upon IPO

Initial Public Offering

On October 25, 2021, Portillo's Inc. completed the IPO of 23,310,810 shares of the Class A common stock (including 3,040,540 shares sold to the underwriters pursuant to their overallotment option). Portillo's Inc. received net proceeds from the offering of approximately $430.0 million (after deducting underwriting fees and commissions and offering expenses). The net proceeds and cash on hand were used as follows:

- to repay the redeemable preferred units in full (including the redemption premium) of $221.7 million;
- to repay all of the borrowings outstanding under the Second Lien Credit Agreement (including prepayment penalties) of $158.1 million; and
- to purchase LLC Units or shares of Class A common stock from certain pre-IPO LLC members of $57.0 million.

Secondary Offering

In the third quarter of 2022, the Company completed a secondary offering of 8,066,458 shares (including 66,458 shares sold to the underwriters pursuant to their overallotment option) of the Company's Class A common stock at an offering price of $23.75 per share. All of the shares sold in the offering represented shares owned by pre-IPO LLC Members directly or indirectly through the Blocker Companies. The Company did not receive any proceeds from the sale of shares of Class A common stock, but rather used the net proceeds to purchase shares and LLC Units, as applicable, from the pre-IPO LLC Members.

Tax Receivable Agreement

In connection with the IPO, we entered into a Tax Receivable Agreement ("TRA") with certain of our pre-IPO LLC Members, pursuant to which we will generally be required to pay 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax that we actually realize or be deemed to realize, as a result of (i) our allocable share of existing tax basis in depreciable or amortizable assets relating to LLC Units acquired in the IPO, (ii) certain favorable tax attributes acquired by the Company from entities treated as corporations for U.S. tax purposes that held LLC Units prior to the Transactions ("Blocker Companies") (including net operating losses and the Blocker Companies' allocable share of existing tax basis), (iii) increases in our allocable share of then existing tax basis in depreciable or amortizable assets, and adjustments to the tax basis of the tangible and intangible assets, of Portillo’s OpCo and its subsidiaries, as a result of (x) sales or exchanges of interests in Portillo’s OpCo (including the repayment of the redeemable preferred units) in connection with the IPO and (y) future redemptions or exchanges of LLC Units by pre-IPO LLC Members for Class A common stock and (iv) certain other tax benefits related to entering into the TRA, including payments made under the TRA.

As of September 25, 2022, we estimate that our obligation for future payments under the TRA totaled $205.3 million. Amounts payable under the TRA are contingent upon, among other things, (i) generation of future taxable income over the term of the TRA and (ii) future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the TRA to utilize the tax benefits, then we would not be required to make the related TRA payments. The payments that we are required to make will generally reduce the amount of overall cash flow that might have otherwise been available to us, but we expect the cash tax savings we will realize to fund the required payments. Assuming no material changes in relevant tax law and that we earn sufficient taxable income to realize all tax benefits that are subject to the TRA, we estimate that the tax savings associated with all tax attributes described above would aggregate to approximately $241.5 million as of September 25, 2022. Under this scenario, we would be required to pay the TRA Parties approximately 85% of such amount, or $205.3 million, primarily over the next 15 years, substantially declining in year 16 through year 47.

Summary of Cash Flows

The following table presents a summary of our cash flows from operating, investing and financing activities:

(in thousands)	Three Quarters Ended	
	September 25, 2022	September 26, 2021
Net cash provided by operating activities	$ 38,969	$ 39,891
Net cash used in investing activities	(29,968)	(27,764)
Net cash used in financing activities	(1,542)	(4,002)
Net increase in cash and cash equivalents and restricted cash	7,459	8,125
Cash and cash equivalents and restricted cash at beginning of period	39,263	41,432
Cash and cash equivalents and restricted cash at end of period	$ 46,722	$ 49,557

Operating Activities

Net cash provided by operating activities for the three quarters ended September 25, 2022 was $39.0 million compared to net cash provided by operating activities of $39.9 million for the three quarters ended September 26, 2021, a decrease of $0.9 million or 2.3%. This decrease was primarily driven by lower net income of $5.9 million, the change in operating assets and liabilities of $3.8 million and partially offset by the change in non-cash items of $8.8 million.

The $3.8 million change in our operating asset and liability balances was primarily driven by operating assets and liabilities being a use of net cash of $8.3 million in the three quarters ended September 25, 2022, compared to a use of net cash of $4.4 million in three quarters ended September 26, 2021 driven by the change in trade receivables, accounts payable, and accrued expenses and other liabilities in the three quarters ended September 25, 2022. The $8.8 million change from the three quarters ended September 25, 2022 in non-cash charges is primarily attributable to equity-based compensation, offset by a decrease in depreciation and amortization.

Investing Activities

Net cash used in investing activities was $30.0 million for the three quarters ended September 25, 2022 compared to $27.8 million for the three quarters ended September 26, 2021, an increase of $2.2 million or 7.9%. This increase was primarily due to the timing and number of restaurant openings in 2022 compared to the timing and number of restaurant openings in 2021.

Financing Activities

Net cash used in financing activities was $1.5 million for the three quarters ended September 25, 2022 compared to net cash used in financing activities of $4.0 million for the three quarters ended September 26, 2021, a decrease of $2.5 million or 61.5%. This decrease is primarily due to a decrease in payment of initial public offering costs of $1.3 million and proceeds from stock option exercises of $1.7 million.

Revolving Facility and Liens

We maintain a Revolving Facility that provides for a revolving total commitment amount of $50.0 million. The Revolving Facility will mature and all amounts outstanding will be due and payable in June 2024. The Revolving Facility permits the issuance of letters of credit upon our request.

As of September 25, 2022, there were no borrowings outstanding under the Revolving Facility. We had $45.0 million of availability, as of September 25, 2022, after giving effect to $5.0 million in outstanding letters of credit.

In connection with the IPO, the Company received aggregate net proceeds of approximately $430.0 million after deducting underwriting discounts and commissions and offering expenses. Net proceeds of $158.1 million were used to repay the Second Lien Term B-3 Loans (including prepayment penalties) in full.

Borrowings under the First Lien Credit Agreement are guaranteed by PHD Intermediate LLC ("Holdings"), Portillo's Holdings LLC (the "Borrower") and certain of the Borrower's subsidiaries, and Holdings, the Borrower and certain of the Borrower's subsidiaries have pledged substantially all tangible and intangible assets as collateral, subject to certain exclusions and exceptions.

The Borrower is subject to certain financial and reporting covenants pursuant to the terms of the First Lien Credit Agreement. These covenants are customary for these types of debt agreements. As of September 25, 2022, the Company was in compliance with all covenants.

Material Cash Requirements

There have been no material changes to the material cash requirements as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2021, other than those payments made in the ordinary course of business.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The preparation of these financial statements requires the Company to make estimates, judgments, and assumptions that can have a meaningful effect on the reporting of condensed consolidated financial statements. There have been no significant changes to our critical accounting estimates or significant accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2021.

See Note 2. Summary Of Significant Accounting Policies under Part I, Item 1 of this Form 10-Q for an analysis of recently issued accounting pronouncements.

JOBS Act

We qualify as an emerging growth company ("EGC") pursuant to the provisions of the Jumpstart our Business Startups (“JOBS”) Act. For as long as we are an EGC, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not EGCs, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory “say-on-pay” votes on executive compensation and shareholder advisory votes on golden parachute compensation.

In addition, Section 107 of the JOBS Act also provides that an EGC can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. An EGC can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We intend to take advantage of the extended transition period.

We will remain an EGC until the last day of the fiscal year following the fifth anniversary of the date of the first sale of our Class A common stock pursuant to an effective registration statement, which was October 21, 2021, unless, prior to that time, we have more than $1.07 billion in annual gross revenue, have a market value for our Class A common stock held by non-affiliates of more than $700 million as of the last day of our second fiscal quarter of the fiscal year and a determination is made that we are deemed to be a “large accelerated filer,” as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or issue more than $1.0 billion of non-convertible debt over a three-year period, whether or not issued in a registered offering. We have availed ourselves of the reduced reporting obligations with respect to executive compensation disclosure and expect to continue to avail ourselves of the reduced reporting obligations available to EGCs in future filings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to our exposure to market risks as described in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 26, 2021.

Item 4. Controls and Procedures.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 25, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Information regarding certain legal proceedings to which the Company is a party are discussed in Note 13. Contingencies in the notes to the unaudited condensed consolidated financial statements and is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 2021.

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

Secondary Offering

In the third quarter of 2022, the Company completed a secondary offering of 8,066,458 shares (including 66,458 shares sold to the underwriters pursuant to their overallotment option) of the Company's Class A common stock at an offering price of $23.75 per share. We used all of the net proceeds from the secondary offering to purchase LLC Units from certain pre-IPO LLC Members and to repurchase shares of Class A common stock from the shareholders of the Blocker Companies at a price per LLC Unit or share of Class A common stock, as applicable, equal to the public offering price per share of Class A common stock, less the underwriting discounts and commissions. The shares sold in the offering represented (i) 2,123,899 existing shares of Class A common stock held by the pre-IPO LLC Members and (ii) 5,942,559 newly-issued shares of Class A common stock issued in connection with the redemption of 5,942,559 LLC interests by the pre-IPO LLC Members. In connection with the redemption, 5,942,559 shares of Class B common stock were surrendered by the pre-IPO LLC Members and canceled and the Company received 5,942,559 newly-issued LLC interests, increasing the Company's total ownership interest in Portillo's OpCo.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Portillo's Inc. (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q filed on November 18, 2021)	
3.2	Amended and Restated Bylaws of Portillo's Inc. (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q filed on November 18, 2021)	
10.1	Form of Stock and Unit Purchase Agreement by and among Portillo's Inc. and the parties named therein (incorporated by reference to the Company's Registration Statement on S-1 filed on August 8, 2022)	
31.1	Certification of the Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
31.2	Certification of the Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	#
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	*
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	*
104	Cover page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	*

* *Filed Herewith*
\# *Furnished Herewith*
† *Indicates a management contract or compensatory plan or agreement*

SIGNATURE

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.

		Portillo's Inc. (Registrant)
Date: November 3, 2022	By:	/s/ Michael Osanloo
		Michael Osanloo President, Chief Executive Officer and Director (Principal Executive Officer)
Date: November 3, 2022	By:	/s/ Michelle Hook
		Michelle Hook Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Osanloo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 25, 2022 of Portillo's 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)) 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) [Omitted];
   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;
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

By: /s/ Michael Osanloo
Michael Osanloo
President, Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michelle Hook, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 25, 2022 of Portillo's 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)) 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) [Omitted];
   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;
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 3, 2022

By: /s/ Michelle Hook

Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Portillo's Inc. (the “Company”), for the quarterly period ended September 25, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2022	By:	/s/ Michael Osanloo
		Michael Osanloo
		President, Chief Executive Officer and Director (Principal Executive Officer)
Date: November 3, 2022	By:	/s/ Michelle Hook
		Michelle Hook
		Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)