

The Distressed Restaurant Handbook

Debt, cash flow, and the decisions
nobody prepared you for



CHRIS SIMONE

Copyright © 2026 Chris Simone. All rights reserved.

No part of this book may be reproduced in any form without written permission from the author, except brief quotations in reviews.

This book provides general information and the author's own experience. It is not legal, tax, or financial advice. See "A Note Before Anything Else."

Published by Distressed Restaurant Advisors
distressedrestaurantadvisors.com

First paperback edition, 2026

Contents

A Note Before Anything Else	5
Introduction: The 1 A.M. Owner	7
Part One: Know Your Real Numbers	11
How to Read Your P&L When You're Scared of It	12
What Your POS Is Hiding (And Why Your Numbers Might Be Wrong)	17
Your Labor Percentage Is Probably Lying to You	23
Raising Prices Without Losing Your Customers (What the Numbers Actually Show)	30
What Third-Party Delivery Actually Costs You (Hint: It Isn't the Commission Rate)	37
Part Two: The Debt Traps	43
The Real Math Behind a Merchant Cash Advance (And Why It Feels Impossible to Escape)	44
What a Sales Tax Warrant Actually Means for Your Restaurant (And What Happens Next)	47
When Payroll Tax Gets Personal	50

Part Three: The Way Through	55
Talk to Your Landlord Before You're Behind	56
The Labor Lever Nobody Talks About: Automation That Doesn't Cut Service	61
What Your Restaurant Is Actually Worth	66
Sell, Close, or Reorganize? A Framework for What's Next	71
What a Restaurant Bankruptcy Actually Looks Like From the Inside	74
About the Author	79

A Note Before Anything Else

This book explains how things generally work. It does not tell you what to do, because nobody can do that responsibly without seeing your specific situation.

I am not an attorney, an accountant, or a licensed business broker. Nothing in this book is legal advice, tax advice, or financial advice, and reading it does not create any professional relationship between us. The law described here changes, varies by state, and turns on details that a book cannot see. Where this book describes legal processes — tax enforcement, leases, bankruptcy — it describes them the way an experienced operator explains the road, not the way a professional navigates your specific trip.

The examples and numbers in this book are real. They come from my own restaurant's books and my own family's history unless noted otherwise. They are offered so you can see the mechanics clearly — not as a promise that your numbers, your case, or your outcome will look like mine.

If your situation involves unpaid taxes, mounting debt, a lease default, or a decision about closing or restructuring, the single most valuable thing you can do is put your actual numbers in front of a qualified professional — an attorney, a CPA, or both — while you still have options. This book's job is to make you the most prepared person in that room.

— Chris

Introduction: The 1 A.M. Owner

If you found this book the way I think you did, it's late, the restaurant is closed, and you're doing math in your head that doesn't work.

Maybe it's a merchant cash advance pulling money out of your account every morning. Maybe it's a letter from the state with the word "warrant" on it. Maybe it's nothing that dramatic — just month after month of working harder than you've ever worked while the numbers get quietly worse, and a feeling you haven't said out loud to anyone: *I don't know if I can save this.*

I've owned an independent pizzeria with my family since 2003. Twenty-three years of Friday rushes, walk-in repairs, health inspections, and payroll Thursdays. And in those twenty-three years, our restaurant has been through Chapter 11 twice — once after the 2008 crash, and again around 2013, when the first plan's terms needed restructuring. Both

times, every creditor was eventually paid in full. Both times, the restaurant stayed open, our people kept their jobs, and the town barely noticed.

I'm telling you this on page one for a reason. Everything in this book comes from inside the building. When I show you a point-of-sale report that lies, it's my report. When I walk through what a daily cash advance actually costs, those were my mornings. And when I describe what a restructuring looks like from the inside, that's not research.

What this book will do: explain, plainly, the things nobody explains to restaurant owners until it's too late. How to read your own numbers and catch the ones that are wrong. How the debt products aimed at restaurants actually work. What your real options are when the model stops working — and what each path genuinely looks like, stripped of both the terror and the sales pitch.

What this book won't do: tell you what to decide. Every restaurant, lease, debt stack, and state is different, and the decisions at the end of this road are ones you should make with a professional who can see your whole picture. My job is to make sure you walk

into that room informed, organized, and unashamed — instead of arriving at the end of your rope having never understood the tools that existed to help you.

The book runs in three parts. **Part One** is your numbers — the five that matter, and the specific ways your own systems are probably misleading you. **Part Two** is the debt traps — cash advances, tax warrants, and the one category of debt that follows you personally. **Part Three** is the way through — the landlord conversation, the cost lever nobody talks about, what your restaurant is actually worth, and the honest anatomy of the decision every struggling owner eventually faces.

One more thing, because it's the real reason this book exists. There is a shame that attaches to restaurant debt, and it kills more restaurants than the debt does. It keeps owners from opening their P&L, from calling their landlord, from asking a professional a question while the question still has good answers. I've watched people lose everything to that silence.

You're not stupid, you're not a failure, and you are not remotely alone — the forces squeezing your restaurant are squeezing a hundred thousand others tonight. The

owners who make it are not the ones who never got in trouble. They're the ones who looked at it straight, early, with the lights on.

So let's look at it straight.

Part One: Know Your Real Numbers

How to Read Your P&L When You're Scared of It

There's a specific avoidance that sets in when a restaurant starts losing money. The owner who used to check numbers daily stops opening the reports. Not because they're lazy — because every number is bad news, and there's a limit to how much bad news a person can absorb while also working the line.

I understand the instinct. It's also the most expensive habit in this book. You cannot fix what you won't look at, and the numbers get worse in the dark.

So here's a way to read a P&L that takes fifteen minutes, answers the questions that actually matter, and doesn't require an accounting degree.

The five numbers, in order

1. Sales, against the same period last year. Not last month — last year. Restaurants are seasonal, and comparing August to July tells you about the calendar, not the business. Down a few percent year over year is

the current market for a lot of independents. Down double digits is a demand problem that cost-cutting alone won't fix.

2. Prime cost. Food plus labor, as a percentage of sales. This is the number that decides whether your model works. For most full-service independents, the working range is 55% to 62%. Above 65%, the business loses money no matter how careful you are with everything else. If you read nothing else monthly, read this — but only after you've verified your inputs, because as the earlier chapters showed, both the food number and the labor number are frequently wrong at the source.

3. Occupancy cost. Rent plus taxes, insurance, and utilities, as a percentage of sales. Healthy is 6% to 10%. The trap: this number is mostly fixed, so when sales decline it climbs on its own. A restaurant that signed a lease at 8% of sales in a good year may be sitting at 13% after a slow one, and no amount of kitchen discipline fixes that. It tells you whether your problem is operations or structure.

4. Operating profit before debt service. What the restaurant earns from operating, before loan

payments, advances, and owner draws. This is the single most important number for a struggling shop, because it answers the question everything else depends on: **is the business broken, or is the debt broken?** A restaurant earning \$6,000 a month from operations while \$9,000 a month goes out the door in debt payments is not a failing restaurant. It's a sound restaurant carrying debt sized for a revenue level that no longer exists. Those are different problems with different solutions, and most owners never separate them.

5. Cash. Not profit — cash. Days of operating expenses in the bank. Profitable-on-paper and out-of-cash happens constantly in this industry, because debt payments, loan principal, and cash advances don't show up as expenses on the P&L. If the P&L says you made money and the account says you're overdrawn, the gap is almost always debt service. Find it and put a number on it.

Three red flags worth a hard look

- **Payables growing month over month.**

Stretching vendors is borrowing, just without

paperwork. If the payables balance rises three months running, the business is financing losses with suppliers' patience, and that patience has a cliff.

- **Sales tax used as float.** The collected-but-not-remitted balance is the most dangerous line on the books, for reasons the tax chapters cover. If you find it funding payroll, that's the fire to put out first.
- **A P&L that never gets closed.** Books that run months behind aren't a bookkeeping problem — they're the avoidance made permanent. Whatever the numbers say, knowing it three months late removes every option that depends on acting early.

The reframe that makes this bearable

The reason to read the P&L is not to grade yourself. It's triage. Every chapter that follows — the debt conversations, the landlord conversation, the sell-or-reorganize decision — starts from these five numbers. An owner who knows them can have every one of

those conversations from a position of knowledge. An owner who doesn't is negotiating blind.

The numbers are not a verdict on you. They're a map of where you actually are, and you cannot leave a place you refuse to locate.

What Your POS Is Hiding (And Why Your Numbers Might Be Wrong)

Before you make a single decision based on your sales reports, you need to know whether the reports are telling you the truth. In my experience they frequently aren't — not because the system is broken, but because of how it counts things, and because nobody ever checks.

Here are three specific errors found in one restaurant's own data. All three are common. All three change the decision you'd make.

Error one: your “net sales” may include tips

This one is worth checking today.

Most point-of-sale systems give you a total amount and a tax amount, and the obvious move is to subtract one from the other and call it net sales. That number is wrong if your system folds tips into the total.

On one specific day, the two calculation methods differed by \$491.36. That figure was exactly that day's tips. Same pattern on every other day tested.

On its own, a few hundred dollars a day sounds survivable. Here's why it isn't. That restaurant started prompting for tips in late 2025. In January 2025, tips ran about 0.5% of net sales. A year later, they were 8%.

So when the year-over-year comparison got run using the wrong formula, July looked up 13%. Corrected, the real figure was closer to **2%**.

That's the difference between "we're recovering, stay the course" and "we're flat, something needs to change." Same restaurant, same month, same raw data. One arithmetic choice.

Check yours: pull one day. Add up the tips separately. Compare your reported net sales against your total-minus-tax figure. If they differ by the tip total, every year-over-year number you've looked at is inflated — and inflated by *more* each year if your tip capture has been growing.

Error two: the same item rung up two different ways

This one hides in your item counts rather than your dollars.

That restaurant's system had two valid paths to ring up a specialty pizza. A server could select the specialty item and then choose a size modifier, or select the size item and then choose a specialty modifier. Both produce a correct ticket. Both charge the customer correctly. The kitchen makes the same pizza.

But if you pull an item report and count only one path — which is what happens by default — **you undercount by about 34%.**

Think about what that does downstream. Your prep pars are built on those counts, so you under-prepare. Your menu engineering says an item is a slow mover, so you consider cutting something that's actually selling a third more than you think. Your food ordering is off.

Check yours: pick your three best sellers. Count them in your item report. Then count them from raw order data, catching every path they can be rung. If

the numbers don't match, your item-level reporting is unreliable and so is everything built on it.

Error three: your wage data is stale in at least one system

If you run a point-of-sale system and a separate scheduling system, they probably talk to each other. It's worth knowing exactly what they share.

In that restaurant's case, the two systems synced employee records, clock-ins, and daily sales. They did **not** sync wages. Not on a delay — not at all. The scheduling system's wages had been typed in by hand once, when each person was hired, and never touched again.

The result, verified against payroll: three employees who'd received raises were still priced at their old rates in the scheduler. One had been at the higher rate for twelve days.

Employee	Scheduler said	Actually paid
Employee A	\$15	\$18
Employee B	\$15	\$18

Employee	Scheduler said	Actually paid
Employee C	\$18	\$20

And neither system modeled salary at all. Two salaried managers were being priced at made-up hourly rates, which meant the scheduler “saved money” every time it cut their hours — money that didn’t exist, because their pay didn’t change.

The practical rule: a wage change has to land in three places — payroll, your point-of-sale system, and your scheduler. Payroll is the only one that’s authoritative. Never take a labor dollar figure from your scheduling software without checking it against actual payroll.

Why this chapter comes before the others

Every recommendation in this book depends on your numbers being real. An owner making cuts based on a labor percentage that’s wrong, or killing a menu item that’s actually selling, or believing sales are up 13% when they’re up 2%, is making confident decisions on fiction.

Spend an afternoon verifying before you spend a month acting.

Your Labor Percentage Is Probably Lying to You

Labor percentage is the number owners panic about most, and it's the one most likely to be wrong. Not slightly wrong. Wrong enough to make you cut staff you need.

Here's a real week from one restaurant. The reported labor figure was **29.82%**, against a 28% target. Over budget, red on the dashboard, and the obvious response is to cut hours.

The real number was **24.8%**. The restaurant was comfortably *under* target.

Nothing about the staffing had changed. The number was manufactured by two problems that are almost universal.

Problem one: hours that no human worked

That restaurant had a shared terminal used for lunch service. It wasn't a person. It was a station that

somebody signed into around 2:30 in the afternoon and nobody ever signed out of.

The system's automatic clock-out ran at 8:00 the next morning. So a five-hour lunch shift got recorded as roughly **seventeen hours**. Six nights out of seven.

There were also owner and family accounts on the clock with no wage attached. Real work, genuinely performed — but not hourly payroll, and not a labor cost in the sense the percentage is trying to measure.

Look at what that does across nine weeks:

Week	Total hours recorded	Actually paid hours
Aug 10	463.3	316.5
Aug 3	426.7	343.7
Jul 27	414.4	325.8
Jul 20	365.9	316.0
Jul 13	415.4	342.1

The week that triggered the alarm, August 10, showed the biggest total hours of the entire stretch. But the

paid hours that week were 316.5 — slightly **below** the nine-week average.

Real staffing was flat. The entire spike was phantom.

Problem two: the trap in how the rate was calculated

This is the part that catches careful people, so it's worth slowing down for.

That restaurant calculated its burdened labor rate the sensible way: take real payroll dollars, divide by total recorded hours. That produced \$16.73 an hour, and it was accurate — for the two weeks it was calculated in.

The problem is that the phantom hours were baked into that rate. Dividing real dollars by inflated hours produces an artificially low rate, which then gets multiplied back by inflated hours. The errors cancel out.

But only while the ratio of phantom hours stays constant.

In the calibration weeks, phantom hours were 17.8% of the total. The week the alarm went off, they were

31.7%. The moment that share moved, the cancellation broke and the number lied.

Recalculated properly — real payroll divided by *paid* hours only — the rate was \$20.35 an hour. Applied to actual paid hours, labor came out at 24.8%.

There's a warning inside this. If you strip out the phantom hours without also recalculating your rate, you'll produce a number that's *too low*, because your rate assumed those hours existed. Fix both or neither.

Problem three: salaried people break scheduling software

One more, because it's nearly universal and it runs the opposite direction.

That restaurant's scheduling software reported weekly labor of \$5,455. The true all-in figure was **\$6,323**. Understated by \$868, about 16%.

Three reasons, all structural:

- **Salaried staff can't be modeled.** Two managers were on fixed weekly salaries. The scheduler priced them hourly anyway, and

invented several hundred dollars of overtime for a person whose pay does not change with hours.

- **Owner hours were free.** One owner was scheduled thirty-nine hours across eight shifts, priced at zero. That's 12% of the week's coverage, invisible in every labor report.
- **Missing wages default to a placeholder.** Anyone the system doesn't have a rate for gets an assumed rate. Sometimes that's close. Sometimes it isn't.

Scheduling software is built to help you build schedules. It is not an accounting system, and its cost estimates should never be the number you make decisions on.

How to get a number you can trust

1. **Separate paid hours from recorded hours.** Exclude anyone with no wage — owners, family, shared terminals, test accounts.
2. **Find your phantom clock-outs.** Look for shifts longer than about twelve hours. Anything

auto-closed by the system overnight is a data artifact, not labor.

3. **Recalculate your burdened rate against paid hours only.** Real payroll dollars divided by real paid hours.
4. **Price salaried people at their salary**, not at an implied hourly rate.
5. **Decide explicitly whether owner labor counts**, and be consistent. Both answers are defensible. Switching between them is not.
6. **Fix the operational cause too.** Sign the terminal out at close, or move your system's auto-clock-out to just after closing instead of the next morning.

Why this matters more when you're struggling

When cash is tight, labor is the first lever everyone reaches for, because it's the one you can move this week. That makes it the most dangerous number to get wrong.

The restaurant in this chapter was about to cut hours it didn't need to cut, in response to a spike that never happened, on a week when it was already under budget. Cutting would have hurt service, hurt the staff who were already there, and done nothing for the underlying problem — because there wasn't one.

Get the number right before you act on it.

Raising Prices Without Losing Your Customers (What the Numbers Actually Show)

Every restaurant owner has had this month. Cheese is up, labor is up, the delivery platforms take their cut, and the menu prices are the same ones you set two years ago. You know you need to raise them. You're also terrified that the day you do, the dining room empties out.

Here's what actually happened when one pizzeria ran an across-the-board increase of roughly 4%, measured carefully over the following two months.

Week two looks like a disaster. It usually isn't.

The first read after the increase was ugly. Orders down 8.3% year over year. If you'd stopped measuring there — and most owners do, because that's when the panic peaks — you'd have rolled the whole thing back.

Six weeks later, orders had recovered to down 1.8%. By the following month, comparable-day traffic was actually **flat to slightly up**, with net sales **up 13.6%** year over year.

The sticker shock faded. It almost always does. What looks like a demand collapse in the first fortnight is usually your regulars noticing the new number, grumbling, and then continuing to come in. The short-run reaction and the long-run reaction are different animals, and the short-run one is the liar.

The practical rule: don't judge a price increase for at least six weeks, and don't judge it at all on a two-week window.

Measure it the right way or you'll fool yourself

The same pizzeria's raw month-over-month numbers said net sales were *down* 1.9%. The correctly measured number said they were *up* 1.6%. Same month, same data, opposite conclusion.

The difference was three things:

- **Calendar alignment.** June started on a Monday that year, giving the month an extra Tuesday and one fewer Sunday. Comparing calendar dates instead of weekday averages built a fake decline into the comparison.
- **A structural change mixed in.** Sunday lunch had been deliberately closed. That closure was the entire Sunday decline — nothing to do with price — but it dragged the whole month's average down.
- **Cherry-picked windows.** An earlier internal report had claimed a huge profit win using a three-day stretch of cool weather. It was meaningless.

If you're going to measure a price change, compare weekday-averaged year-over-year figures, exclude holidays that fell differently, and pull the same window on both sides. Otherwise you're just reading noise and making decisions on it.

Check that your increase actually reached the register

This is the cheapest money in the building and almost nobody checks it.

When that pizzeria audited its point-of-sale system against the price changes it had *intended* to make, several never landed. The pepperoni slice was still at the old price while the cheese slice had gone up 12%. The large 14" pie, the cannoli, the cookies — all still ringing at old prices, weeks after the “increase.”

Pull your printed price change list. Ring up every item on it. Some percentage of your increase is probably sitting in a menu file nobody pushed live.

You may not be the cheap one

That pizzeria went into this convinced it was underpriced against the competition and needed a big catch-up increase. So the prices of every comparable local restaurant got pulled and put side by side.

The result contradicted the whole premise. On every shared pizza size, they were at the **top** of the local market — above every independent competitor, including the premium artisan shop across town, and level with the national chains' list prices. The 16"

cheese at \$21.99 was three to five dollars above the nearest independent.

That changed the strategy completely. “We’re cheap, raise everything” became “we’re the price leader on purpose, and the job is making the premium visible” — ingredient story, menu language, marketing — rather than closing a gap that didn’t exist.

Before you decide how much room you have, go buy your competitors’ menus. Not what you remember them charging. What they charge today.

Watch the mix, but don’t misread it

After the increase, the pizzeria’s customers were clearly buying smaller pies. Large-pie share fell from 60% to 51%. The 18” and 16” were both down about 25% in units while the 12” was up 34%.

The obvious conclusion — the price increase drove people to smaller pizzas — turned out to be wrong. Pulling the full year showed large-pie share had been running in that lower band *all year*, well before the increase. The prior year’s 60% was the outlier, not the new number. It was a value-trading market shift, not a reaction to anything they’d done.

Two lessons. First, always check whether the “change” you’re seeing predates the thing you’re blaming. Second, look at the substitution math: large pies fell by 162 units while small pies rose by only 23. That’s not customers trading down, that’s whole-pie occasions disappearing entirely — a demand problem, not a pricing one, and the fix is completely different.

The counterintuitive part: your biggest item may be your worst

Run revenue per square inch on a pizza menu and something uncomfortable usually appears:

Size	Revenue per square inch
18”	\$0.118
12”	\$0.162
10”	\$0.223

The giant pie everyone’s proud of is the margin laggard. The little one is the best deal in the building — for the restaurant.

This isn’t an argument for dropping your large sizes. It’s an argument for knowing which items actually

carry the business, and for pricing your premium sizes steeply enough to be worth making. A wider gap between small and large simultaneously makes the small one look like the value option *and* fixes the economics on the big one.

Do the same exercise with plate cost on entrees, or per-ounce on drinks. The item you assume is the winner frequently isn't.

What this adds up to

Inflation forces the increase. It doesn't tell you how to do it. The operators who get burned are usually the ones who raise prices blind, panic at the two-week number, roll it back, and conclude "our customers won't pay more" — when what actually happened is they never measured long enough to find out.

Raise deliberately. Verify it landed. Measure it honestly over a real window. Know where you actually sit in your market before assuming you have room, or assuming you don't.

What Third-Party Delivery Actually Costs You (Hint: It Isn't the Commission Rate)

Ask most restaurant owners what DoorDash or Uber Eats takes, and they'll tell you the commission rate on their contract. Somewhere around 15% to 30%, depending on the tier they signed up for. That number is real. It's also nowhere near what actually leaves your business.

Here's an actual month, pulled from one pizzeria's July statement. Not an industry average, not an estimate — one real payout report, read line by line.

Gross orders that month: \$19,089. Amount the restaurant actually received: \$10,307.

That's 54%. The platform kept 46%.

The contract said 24.7%.

Where the other 21% went

The commission is only the first line on the statement. Underneath it:

- **Commission: \$4,721** (24.7% — the number everyone quotes)
- **Advertising fees: \$1,424** (7.5%)
- **Restaurant-funded customer discounts: \$2,650** (13.9%)
- **Error charges and adjustments: \$168** (0.9%)

That third line is the one that surprises people. Those are the promotions the restaurant is paying for — the “buy one get one,” the “\$5 off your order” — where the discount comes out of the restaurant’s side, not the platform’s. On this account it wasn’t a one-time misfiring promo. It ran between 8% and 19.5% of subtotal on *every single payout*, averaging about 14%. That’s structural. It had been running that way for months.

What that does to a single order

The delivery ticket was actually bigger than the walk-in ticket — about \$40 versus \$30. That sounds great

until you run contribution per order:

- **In-house order: about \$20.66**
- **Delivery order: about \$10.46**

A delivery order with a 33% larger ticket produced *half* the contribution of somebody walking in the door. And on this account, 100% of the advertising spend was pointed at the channel making half as much per order.

To be fair to the channel: it still cleared roughly \$4,990 in contribution that month. It was profitable. It was just the thinnest dollar in the building, and it was the one getting all the marketing money.

The advertising attribution problem

This is the part worth checking carefully on your own account.

The platform's sponsored listing dashboard reported 436 orders and \$17,265 in sales attributed to ads over a seven-week window. That works out to about 58% of all delivery volume supposedly created by advertising.

Then compare actual gross sales per day, month over month: \$585, then \$617, then \$616. A 5% lift.

The attribution was claiming credit for more than half the channel, while the actual month-over-month movement was noise. Two numbers in the ad dashboard explain why: a 6.2% click-through rate, against a normal range of 2% to 5%, and a 25% click-to-order conversion. Those aren't the numbers of strangers discovering a restaurant. Those are the numbers of people who already typed the restaurant's name into the search bar and would have ordered anyway.

Net effect on that account: about \$934 a month in ad spend producing about \$239 in contribution. Roughly **negative \$695 a month, or \$8,300 a year**, to advertise to customers who already knew the name.

How to check your own

You don't need a consultant to run this. You need one statement and twenty minutes.

- 1. Pull a full payout-level statement**, not the summary dashboard. The summary hides the

discount lines.

2. Add every deduction, not just commission.

Ads, funded discounts, error charges, adjustments.

3. Divide what you actually received by gross orders. That percentage is your real take rate. Compare it to what you thought it was.

4. Check whether your delivery menu is marked up. Industry practice is 20% to 25% to offset commission. A surprising number of restaurants never set this and are selling at dine-in prices against a 46% haircut.

5. Test your ad attribution. Compare gross sales per day across months, not the platform's attributed revenue. If the daily average barely moved, the ads are billing you for demand you already had.

6. Find every promotion with no end date. Discounts set up during a slow stretch have a way of running for a year.

One caveat on the numbers above: that was a month-over-month comparison during summer, with school out, and the seasonality wasn't adjusted for. It was enough to act on. It wasn't a controlled study, and yours won't be either.

The point

Third-party delivery isn't automatically a bad channel. On this account it was genuinely profitable and worth keeping. But an owner who believes they're paying 25% when they're paying 46% is making pricing, marketing, and staffing decisions on a number that's off by nearly half — and when a restaurant is already tight, that gap is often exactly the size of the problem.

Read the statement. The answer is in there.

Part Two: The Debt Traps

The Real Math Behind a Merchant Cash Advance (And Why It Feels Impossible to Escape)

You signed up for what felt like a short-term bridge. Now money comes out of your merchant account every single day, and it never seems to end, and the number you owe barely seems to move. This isn't in your head. The product is built this way.

What an MCA actually is, legally. It isn't a loan. It's structured as a purchase of your future receivables, which is precisely why it isn't subject to the interest-rate caps (usury laws) that apply to loans. The "factor rate" on the paperwork — something like 1.35, meaning you repay \$1.35 for every dollar advanced — sounds modest next to a loan's stated APR. But once you account for how fast that gets repaid, the effective annualized rate routinely lands in the 60% to 150%-plus range. Public bankruptcy filings

have documented franchisees carrying MCA debt with effective rates in the 59% to 94% range.

Why the daily pull is the part that actually breaks a business. A normal loan payment comes out once a month, so a slow week doesn't touch it. An MCA holdback comes out constantly — daily or weekly, fixed dollar amount or fixed percentage of sales — which means a slow stretch doesn't get any breathing room. The repayment structure itself is what creates the cash crunch, often even when the underlying restaurant is otherwise fine.

Why stacking is the real death spiral. Once one MCA's daily pull is straining cash flow, the natural instinct is to take a second MCA to cover the gap it created. That second advance is now being repaid against the same shrinking pool of receivables as the first, and the effective cost compounds. This is the single most common pattern behind a restaurant that looks fine on the menu and dining room but is quietly out of cash.

What owners typically do about it:

- **Negotiate directly with the MCA provider.** Settlements happen, though they aren't guaranteed and the provider has no obligation to offer one.
- **Consolidate or refinance** into a single, more manageable structure — though this only helps if the new terms are actually sustainable, not just different.
- **Address it inside a formal reorganization.** A Subchapter V filing's automatic stay stops MCA ACH pulls immediately on filing — often the most important single piece of relief available in an active cash-bleed situation, because it's the one lever that stops the daily withdrawal itself rather than just changing its size.

Understanding the mechanism doesn't fix it by itself. But it's usually the first thing that lets an owner stop blaming their own management for something the contract was engineered to produce.

What a Sales Tax Warrant Actually Means for Your Restaurant (And What Happens Next)

You open a letter from the state Department of Revenue and see the word “warrant,” and your stomach drops. It sounds like a police matter. It isn’t. A tax warrant is a civil action, not a criminal one — but that doesn’t mean it’s small, and it doesn’t mean it goes away on its own.

What it actually is. When sales tax goes unpaid long enough, most states can file a tax warrant against the business. Functionally, it works like a judgment lien: it attaches to business assets, it shows up on credit reports, and depending on your state, it can affect your ability to renew the license that lets you legally sell in the first place — in Indiana, that’s the Registered Retail Merchant Certificate.

Why sales tax is different from other business debt. The money was never really yours. Every time a

customer paid sales tax at the register, you collected it on the state's behalf and were supposed to remit it. States tend to treat that "trust fund" status seriously, which is part of why sales tax debt is often harder to negotiate down than ordinary income tax, and why it usually isn't wiped out the same way other debt can be in a bankruptcy filing.

What actually happens after a warrant is filed.

This varies by state, but common tools include liens on business assets, garnishment of receivables, bank account freezes, and license revocation if the balance sits unresolved. There's usually a window to respond before the more severe tools get used — which is exactly the window where the panic is worst and the thinking is hardest to do clearly.

Paths owners typically explore, once the panic wears off enough to think:

- **A negotiated payment plan directly with the state.** Not always available for trust-fund tax, but worth asking about immediately.
- **Financing that pays the warrant off in full,** converting non-dischargeable trust-fund

debt into ordinary commercial debt. This solves the warrant problem but creates a new one — the financing has to be serviceable — so it's not free of risk, just a different risk.

- **Including it in a formal reorganization,** such as a Subchapter V filing, where tax debt typically gets specific priority treatment inside a structured, court-supervised plan rather than being handled ad hoc.

None of this replaces reading your specific notice and getting in front of someone who has actually dealt with one — deadlines and state rules matter and they're not the same everywhere. But the letter isn't a dead end, and it isn't a verdict on you as an operator. Plenty of restaurants have worked through exactly this and kept the doors open.

When Payroll Tax Gets Personal

Most restaurant debt belongs to the business. Vendor balances, the loan on the oven, the cash advance, even most tax debt — if the business fails, that debt generally fails with it, subject to whatever personal guarantees you signed.

There is one category that behaves differently, and every owner needs to understand it before deciding which bills to pay in a tight month: taxes you collected or withheld on someone else's behalf.

What “trust fund” means and why it follows you

When you withhold income tax and Social Security from an employee's paycheck, that money was never yours. You're holding it in trust for the government on the employee's behalf. Same with sales tax: your customer paid it, you collected it, and you owe it to the state.

Because it was never your money, the law treats not remitting it very differently from not paying an ordinary bill. Federal law includes what's called the trust fund recovery penalty. In plain terms: the IRS can assess the unpaid trust-fund portion of payroll taxes **personally** against the people responsible for collecting and paying it — typically owners, and sometimes managers or bookkeepers who control which bills get paid. Most states have a parallel concept for sales tax, often called responsible officer or responsible person liability.

Two features make this the most dangerous debt in the building:

- **The corporate shield doesn't apply.** The LLC or corporation that protects you from vendor lawsuits does not protect you here. The assessment attaches to you, personally.
- **It generally survives bankruptcy.** Most business debt can be restructured or discharged. Trust-fund tax liability, as a general rule, cannot. A business bankruptcy doesn't erase it, and in most circumstances a personal one doesn't either.

The mistake almost everyone makes under pressure

When cash runs short, owners pay whoever is loudest. The cheese vendor who won't deliver Friday's order gets paid. The landlord who called twice gets paid. The payroll tax deposit is silent — no phone call, no delivery to miss — so it slides. One deposit becomes a quarter. A quarter becomes a year.

Understand what that trade actually is. The vendor balance is dischargeable business debt. The tax deposit you skipped may be a personal, largely non-dischargeable liability with penalties and interest compounding on top. Under pressure, owners routinely convert the safest kind of debt into the most dangerous kind, five hundred dollars at a time, because of which creditor happens to make noise.

The quiet creditor is the one that can follow you home.

If you're already behind

I'm not going to tell you what to do — that's a conversation for a tax professional or an attorney who can see your specific situation, and this category is

exactly where you want one. But the mechanics are worth knowing walking in:

- **Current compliance comes first.** In workout discussions, tax authorities generally care most about whether the bleeding has stopped — whether current deposits are being made on time. Arrangements on old balances usually depend on staying current with new ones.
- **Silence is the expensive strategy.** Payment plans exist at both the federal and state level. Enforcement escalates fastest against businesses that don't respond at all.
- **The personal assessment is a separate event from the business debt.** It arrives with its own notices and its own deadlines, and responding to those on time matters.
- **Who counts as “responsible” is a real question.** It turns on who had authority over which bills got paid — a fact-specific analysis, and one reason a professional matters here.

The one-sentence rule

If you take one thing from this chapter: **the payroll tax deposit and the sales tax remittance get paid before anything else, because everything else is negotiable and they are not.** A restaurant that stays current on trust taxes while stretching vendors is in a repairable situation. A restaurant doing the reverse is manufacturing personal liability every pay period, and doesn't feel it happening.

Part Three: The Way Through

Talk to Your Landlord Before You're Behind

Of everyone you owe money to, your landlord is the one most owners handle worst — avoided until the rent is late, then approached from the weakest possible position. Which is backwards, because your landlord is also the creditor with the most concrete reason to work with you.

Why a landlord will actually deal

Put yourself on their side of the table for a minute. If your restaurant goes dark, the landlord doesn't just lose a tenant. They inherit:

- **A vacancy** that in most markets runs months to a year-plus for restaurant space.
- **A space built for one use.** Hood systems, grease traps, walk-ins — restaurant build-outs are expensive and specific. The next tenant either needs to be another restaurant, in a

market where restaurants are visibly struggling, or the landlord pays to convert the space.

- **Real money for the next deal.** New tenants routinely negotiate improvement allowances and free-rent periods. Landing a replacement tenant costs the landlord cash they don't spend if you stay.

Add that up and a struggling tenant paying something on a modified schedule frequently beats an empty box costing money. Landlords know this arithmetic better than you do. What they hate is not risk — it's surprise.

Timing is most of the leverage

The conversation goes completely differently depending on when it happens.

Before you miss a payment, you're a responsible operator managing a rough stretch. You have credibility, options, and a landlord who wants to keep you.

After a default notice, you're a problem being managed. In many leases, a default also triggers rights you'd rather not activate — late fees, acceleration

clauses, the start of an eviction clock that runs fast in most states. And eviction, once it starts, is one of the quickest legal processes a small business will ever be on the wrong end of.

The rule: the moment your five P&L numbers say occupancy cost has climbed out of range or cash is going to get tight next quarter, that's when the conversation happens. Not when the rent check bounces.

Read your lease first — especially one clause

Before any conversation, read your lease front to back, and look hardest for a **personal guarantee**. Many restaurant leases include one. It means the lease debt can follow you personally even if the business entity fails — which changes both your negotiating posture and how much this conversation matters. Know whether yours has one, whether it's capped (some are limited to a year or two of rent, sometimes called a “good guy” style guarantee), and what triggers it. If you don't understand what you signed, that's a

worthwhile hour with an attorney before you negotiate anything.

While you're in there: assignment and subletting clauses (they control whether you can ever sell the restaurant), the default and cure periods, and any option renewals with dates coming up.

What to bring and what to ask for

Come with numbers, not vibes. A landlord asked to help wants evidence that helping works: a simple one-page summary — sales trend, what happened, what you've already cut, and what the business can actually pay.

Then make a specific ask. Common structures, roughly in order of how easy they are for a landlord to say yes to:

- **Deferral.** Pay reduced rent for a defined stretch, repay the difference over the following year. Costs the landlord timing, not money.
- **Abatement in trade.** Reduced rent in exchange for something — most often a term

extension, which gives the landlord more guaranteed years in return for short-term relief.

- **Percentage rent.** A lower base plus a percentage of sales for a period, sharing the downside and the recovery.
- **A blend.** Deferral now, extension signed, revisit in six months.

Never ask for “whatever you can do.” Open with a structure, and let them counter.

One more reason this conversation matters

If your situation ever reaches a formal reorganization — the subject of a later chapter — your lease becomes one of the most important pieces on the board, with formal rules about keeping or walking away from it. A lease you’ve already renegotiated onto sustainable terms is an asset in that process. A lease in default with an angry landlord is a complication. The work you do now, early and voluntarily, keeps its value in every scenario that follows.

The Labor Lever Nobody Talks About: Automation That Doesn't Cut Service

When a restaurant needs to cut labor, there's usually only one play on the board: fewer people, fewer hours. And every operator knows the real cost of that play — slower service, burned-out staff, and regulars who notice.

There's a second lever now, and I say this as an operator using it daily in my own restaurant, not as someone selling a theory: a meaningful slice of restaurant labor isn't hospitality at all. It's phone calls, typing, and repetitive back-office work. That slice can be automated, and cutting it doesn't touch the guest experience — in several cases it improves it.

Where the hours actually hide

The phone. Add up what the phone costs you: someone stops what they're doing to answer, takes an order, repeats it back, all during the Friday rush when

that person is needed on the floor. And the calls that ring out during the rush aren't neutral — each one is an order that went to the competitor who answered. AI phone answering has crossed the threshold from gimmick to genuinely usable: it answers every call, every time, takes the order, and never puts a customer on hold because the line is three deep. In my restaurant, overflow calls that used to ring out now get caught. That's simultaneously a labor saving and a revenue recovery.

Reviews and messages. Responding to every review, every Facebook message, every “are you open on Labor Day” email is real time — typically the owner's time, at midnight. This is exactly the repetitive, pattern-shaped work that automation handles well, with you approving rather than composing.

The books. Invoice entry, transaction categorization, chasing down statements. Automated bookkeeping tools have gotten good enough that the weekly bookkeeping session shrinks from hours to minutes of review. For an owner doing their own books — most of us — that's not a staff saving, it's giving the owner

their evenings back, which has a value the P&L doesn't show.

Marketing that runs itself. A welcome letter to every new household that moves into the neighborhood. A monthly mailer to the right streets. These are things every consultant tells you to do and no exhausted operator sustains manually. Automated, they simply happen, month after month, whether you're having a good week or not.

What the math looks like

Keep it honest and simple. A phone-and-front-desk labor slice of twenty hours a week at \$15 is roughly \$15,600 a year. The software that absorbs most of it runs a fraction of that. The gap is margin you recovered without asking anyone to work harder or any guest to accept less.

That's one slice. Stack the review responses, the bookkeeping hours, the marketing that now actually happens, and the recovered missed-call orders, and automation is frequently worth more per year to a small restaurant than any single menu or scheduling

decision in this book — while being the only labor reduction that doesn't degrade the product.

What not to automate

The line matters, so let me draw it clearly: automate the work nobody became a restaurateur to do. Never automate the reason people come.

The greeting at the door, the server who remembers the usual, the owner walking the dining room — that's the product. An independent restaurant's one structural advantage over the chains is that a human being who cares is actually in the building. Automation's job is to buy that human being more time in the dining room and less time on hold, on the phone, in the inbox, and in the spreadsheet.

Why this belongs in a book about distress

Because a struggling restaurant's options are usually framed as raise prices, cut people, or close — and the earlier chapters covered the limits of the first two. Automation is the fourth option: a real cost reduction, available at exactly the moment when cutting service would be most damaging, since a struggling

restaurant cannot afford to get worse at the one thing keeping its remaining customers.

It's also, frankly, the fix that's easiest to start this month. You don't have to renegotiate anything or fire anyone to let software answer the phone.

What Your Restaurant Is Actually Worth

Every owner carries a number in their head. It's usually built from what the place cost to create, how many years of life went into it, and what a similar restaurant supposedly sold for a few towns over. That number is almost never the market's number, and the gap between the two causes more bad exit decisions than anything else in this book.

There isn't one value. There are three, and which one applies depends entirely on the circumstances of the sale.

Value one: the going concern

A running restaurant with staff, customers, and cash flow sells as a business. The standard yardstick for small owner-operated businesses is a multiple of seller's discretionary earnings — the cash flow available to one working owner, meaning profit plus the owner's own compensation and perks added back.

For independent restaurants, that multiple typically runs somewhere around one and a half to two and a half times, with the range driven by lease quality, books quality, and how dependent the place is on the owner personally. As a rough cross-check, healthy independents often trade around a quarter to forty percent of annual revenue.

Notice what drives that number: **provable** cash flow. Messy books, unreported sales, and owner expenses tangled through the business all shrink the multiple, because a buyer can't pay for what can't be verified. The cleanup work from the earlier chapters isn't just operational hygiene — it's literally the thing that makes your business saleable.

Notice also what doesn't drive it: what you invested. The market pays for the cash flow that exists now, not the money or years it took to build.

Value two: the assets

Now the brutal one. If the restaurant isn't sold as a running business — it closes, and the contents are sold — the value is the auction value of used restaurant equipment, and that market is merciless. Equipment

typically fetches on the order of ten to twenty cents on the original dollar even when relatively fresh, and old equipment goes for close to scrap. A kitchen that cost six figures to build twenty years ago can bring low single-digit thousands at a forced sale. The build-out itself — the hood, the walk-in, the plumbing — mostly belongs to the building and transfers to nobody.

Every owner should compute this floor value honestly, because it's the answer to “worst case, I'll just close and sell everything.” For most established independents, the honest answer is: that path recovers almost nothing. Which is worth knowing *before* it gets relied on as the backup plan.

Value three: the specific buyer

The same restaurant is worth different amounts to different buyers. To a stranger, it's worth the going-concern math above, discounted for every risk they can't verify. To the operator two doors down who wants a second location, the equipment in place, and your lease — it can be worth meaningfully more, because they're buying things that would cost them real money and a year of delay to recreate. A relevant

anchor: building a new restaurant from a shell routinely runs several hundred thousand dollars before the first order is rung. For a turnkey operating location, that replacement cost quietly supports value that the earnings math alone might not.

This is why “quietly ask the two or three most likely operators” often beats a public listing for a small restaurant — the best buyer usually already knows your block.

The subtractions owners forget

Whatever the sale price, the owner doesn’t pocket it. Subtract, in roughly this order:

- **Secured debt.** Equipment loans and any lender with a filed lien on the business assets gets paid from the sale before you do. If cash advances or loans filed liens, they’re in this line.
- **The landlord’s consent.** Most leases require it for an assignment, and a sale without a transferable lease is a sale of equipment, not a business. This is why the previous chapter’s relationship matters.

- **Broker fees and taxes**, if applicable.

A distressed restaurant carrying heavy debt can easily produce a sale price that's entirely consumed by the payoff column — a real transaction in which the owner nets zero. Knowing that in advance changes which path makes sense, which is exactly the decision the next chapters take up.

The point

Compute all three of your numbers — going concern, asset floor, and best-specific-buyer — before distress forces the question. Owners who know their numbers choose between real options. Owners who don't choose between fantasies, and the market grades fantasies harshly.

Sell, Close, or Reorganize? A Framework for What's Next

At some point the numbers stop being an operating problem and start being a decision problem. You're not asking "how do I fix this shift" anymore. You're asking whether there's a version of this business worth saving at all — and if so, which of three very different paths actually gets you there.

Path one: sell as a going concern. This makes sense when the business itself still works — decent unit economics, a lease or location or brand that has real value to someone else — but you're done, undercapitalized, or both. A buyer is paying for the future cash flow, not rescuing the past.

Path two: liquidate and close. This is the right call when the underlying economics don't work even with the debt stripped away. If the restaurant would still lose money on a clean balance sheet, no restructuring fixes that. Closing cleanly and

recovering what you can from the assets is sometimes the most honest option on the table.

Path three: reorganize. This fits when the operating business itself is fundamentally sound — it can cover its real costs — but the debt load is the actual problem, often debt that was sized to a revenue base that no longer exists. A lot of restaurant debt taken on in 2020 to 2022 was sized against pre-pandemic sales volumes that traffic and pricing pressure have since eroded. A formal reorganization, like a Subchapter V filing, restructures that debt against what the business can actually pay today, under court supervision.

Questions that help sort which path fits:

- Is the restaurant profitable before debt service, or is the core business itself underwater?
- Is the debt mostly secured against equipment or real estate, or is it unsecured — cash advances, credit cards, vendor debt?
- Is there real, transferable value in the lease, the location, or the brand that a buyer would actually pay for?

- Do you want to keep operating this business, or is the goal simply to exit cleanly?

A note on the reorganize path, from firsthand experience. This pizzeria has used Chapter 11 twice before — once after 2008, and again around 2013 to refinance that same plan when the original terms needed revisiting. Both times, every creditor was paid in full. That’s not a promise about how anyone else’s case turns out. It’s evidence that “reorganize” doesn’t have to mean “failure” — sometimes it means the business survives long enough to still be worth something.

This framework is a starting point for the conversation with your own attorney and financial advisor, not a replacement for it. The right path depends on your state, your lease, and your specific debt structure, and those details change the answer.

What a Restaurant Bankruptcy Actually Looks Like From the Inside

I need to start with what this chapter is and isn't. It isn't advice, and it isn't a recommendation — whether any formal process fits your situation is a question only a bankruptcy attorney looking at your specific case can answer. What this chapter is: a plain description of a process most owners badly misunderstand, from someone whose own restaurant has been through it.

My family's pizzeria has used Chapter 11 twice — once after 2008, and again around 2013 to refinance the terms of that first plan when they needed revisiting. Both times, every creditor was ultimately paid in full. Both times, the restaurant kept operating, the staff kept their jobs, and the town's reaction was, honestly, a shrug. So when I describe what this looks like, it's not theory.

The misconception that keeps owners from even asking

Most owners hear “bankruptcy” and picture the end: padlocked doors, an auctioneer, a public failure. That picture describes a liquidation. A **reorganization** is a different instrument with a different purpose — and since 2020, small businesses have had access to a streamlined version called Subchapter V, built specifically for businesses like a single-location restaurant.

The single most important fact about it: **the owner keeps running the business.** You keep the keys. You make the sandwiches. There’s no takeover, no court-appointed manager running your kitchen. A Subchapter V trustee is assigned, but their role is closer to facilitator than boss — they help move the case toward a workable plan.

What actually happens, in order

The filing stops the bleeding, immediately. The moment a case is filed, something called the automatic stay takes effect. Collections freeze. Lawsuits pause. Bank levies stop. And — for the

restaurant caught in the trap from the cash advance chapter — the daily ACH pulls stop. For a business being drained by daily debits, this is the mechanism that makes payroll survivable while the debt gets sorted out honestly.

The business keeps operating. Customers order pizza. Vendors get paid for new deliveries — often on adjusted terms, but the ovens don't go cold. In my family's experience, most customers never knew. The people who did know didn't care. The fear of local scandal is, in my observed experience, wildly overestimated.

A plan gets built around what the business can actually pay. Within a few months, the business proposes a repayment plan — typically three to five years — built on its real, demonstrated cash flow, not on the debt load that was sized for a revenue level that no longer exists. That's the entire point of the process: it forces the debt to fit the business as it actually is. Subchapter V streamlined this significantly compared to traditional reorganization — fewer committees, lower cost, faster timelines, and a path to confirming a plan even without every creditor's agreement,

provided the plan meets the fairness standards the law sets.

Then the business performs the plan. Payments get made from operations, month after month, under light supervision. Complete the plan and the restructured debts resolve per its terms. This is the unglamorous middle that never makes it into anyone's mental picture of bankruptcy: mostly, it looks like running a restaurant and making a payment.

What it costs and what it can't do

Honesty requires the other side of the ledger. The process has real costs — attorney fees and filing costs are significant for a small business, which is one reason the timing and preparation chapters before this one matter so much. It's public record, even if nobody in town reads the docket. It demands disciplined books and reporting — the same cleanup this book has been pushing all along, which is not a coincidence.

And it has boundaries. A business filing addresses the business's debts. Personal guarantees you signed are personal obligations, and certain debts — including

the trust-fund taxes from the payroll chapter — have their own rules and generally don't wash away. Which debts land where in your specific situation is precisely the map a bankruptcy attorney draws in a first consultation.

Why I'm willing to say this out loud

There's a shame around this subject that costs owners everything. I've watched people drain retirement accounts, max out family credit, and sign their third stacked cash advance — all to avoid a process they'd never actually had explained to them, a process designed by law specifically to keep viable businesses alive. Some of those restaurants died of the avoidance, not the debt.

The owners who come through this are, in my experience, the ones who learned what the tools actually do while they still had options — and then made the decision with a professional, calmly, instead of at the end of a rope.

That's the entire reason this chapter, and honestly this book, exists.

About the Author

Chris Simone has owned and operated an independent pizzeria in Zionsville, Indiana with his family since 2003. He has run it through the 2008 crash, the Great Recession's long tail, a pandemic, and two Chapter 11 reorganizations — both of which repaid every creditor in full.

Along the way he became the numbers person his own restaurant needed: auditing point-of-sale data, rebuilding labor and food-cost reporting, measuring price increases properly, and automating the phone, the books, and the marketing with modern AI tools — all documented in the chapters of this book.

Today, through **Distressed Restaurant Advisors**, he helps other independent owners do what he had to learn the hard way: get honest numbers, understand their options, and walk into hard conversations prepared.

If this book found you at the right moment, the next step is simple. My practice starts with a single

diagnostic session: your real numbers, on the table, and a plain answer about which situation you're actually in.

distressedrestaurantadvisors.com