New Column!

Main Street

By Rachel Kubanda

When Franchisees Hit the Margin Wall: What Crust Pizza's Bankruptcies Say About the Restaurant Industry

Editor's Note: *"Main Street" is a new column that will cover small business and subchapter V issues.*

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The pizza business — and the broader quick-service restaurant industry — is going through a difficult period. While large national chains may be able to absorb higher costs, smaller franchise owners are often struggling to stay afloat.

Recent Texas bankruptcy filings by several Crust Pizza franchisees show the severity of the problem and the financial pressures facing restaurant operators nationwide. In late March 2026, AJ Reno Enterprises LLC and Swing Zone LLC — both operating under the Crust Pizza banner in the Houston area — filed chapter 11 petitions under subchapter V in the U.S. Bankruptcy Court for the Southern District of Texas.[1] The franchisees, John and Amy Reno, operate locations in Magnolia and Houston Heights.

Within a few months, three more Crust Pizza franchisees filed their own subchapter V bankruptcy cases: (1) JRCP Restaurants LLC in Gosling Pines, Texas;[2] (2) Armadillo Pizza LLC in Kingwood, Texas;[3] and (3) Armadillo Pizza College Station LLC in College Station, Texas.[4] These cases are notable because Crust Pizza itself does not appear to be in financial trouble.

Founded in The Woodlands, Texas, in 2011, the brand now has about 37 restaurants in Texas and Louisiana, and Technomic data show a 25.4 percent year-over-year sales increase in 2024.[5] In April 2025, CEO Carl Comeaux announced plans to grow the chain to 250 restaurants across several new states over the next nine years.[6]

The brand is expanding while some franchise owners are struggling — a widening divide across the restaurant industry. A franchisor — the company that owns the brand — may keep expanding while individual franchisees struggle. National brands often have more cash, negotiating power and marketing resources; franchisees might have fewer options while carrying loans, rent, payroll and food costs at one or a few locations.

The same pattern is appearing across other major restaurant brands: Papa John's has announced plans to close 300 underperforming restaurants, including 200 by the end of 2026, and reduce its workforce by 7 percent.[7] Yum! Brands, the owner of Pizza Hut, plans to close 250 locations during the first half of 2026.[8] Domino's franchisee North County Pizza Inc. filed for chapter 11 in California in March 2026.[9] Pizza Hut franchisee EYM Pizza L.P., which operates about 140 locations, filed for chapter 11 in Texas after a dispute involving unpaid royalties.[10] Rogue Fare LLC, a Mountain Mike's franchisee in Oregon, filed for chapter 11 in July 2026. It reported only $50,000 in assets against debts of $1 million to $10 million.[11] The problem is not necessarily poor management; several financial pressures often converge.

Why Franchisees Are Struggling

Food is more expensive. Prices for cheese, wheat, meat and other key ingredients remain above pre-pandemic levels and account for much of each order's cost. Labor costs have increased. Minimum-wage increases and higher pay needed to attract employees have raised operating costs.

Additionally, rent remains high. Many franchisees are locked into long-term commercial leases that were negotiated before the pandemic or early in the post-pandemic recovery, when optimism and

1 *In re AJ Reno Enters. LLC*, No. 4:26-bk-32029 (Bankr. S.D. Tex. filed Mar. 27, 2026); *In re Swing Zone LLC*, No. 4:26-bk-32026 (Bankr. S.D. Tex. filed Mar. 27, 2026).
2 *In re JRCP Rests. LLC*, No. 4:25-bk-36931 (Bankr. S.D. Tex. filed Nov. 18, 2025).
3 *In re Armadillo Pizza LLC*, No. 26-31060 (Bankr. S.D. Tex. filed Feb. 18, 2026).
4 *In re Armadillo Pizza College Station LLC*, No. 26-31066 (Bankr. S.D. Tex. filed Feb. 18, 2026) (jointly administered with main debtor case at Doc. No. 26-31060).
5 Alicia Kelso, "The Fast-Casual Pizza Category Struggles Continue," Nation's Restaurant News (Apr. 2026), www.nrn.com/top-500-restaurants/the-fast-casual-pizza-category-struggles-continue.
6 Press Release, Crust Pizza Co., "Crust Pizza Co. Announces Nationwide Expansion Plans" (Apr. 2025).
7 Papa John's Int'l Inc. Fourth Quarter 2025 Earnings Call (2025); *see also* Daniella Genovese, "Papa John's Shuts Down Dozens of Locations Across 17 States," Fox Business (Jun. 11, 2026), www.foxbusiness.com/retail/papa-johns-shuts-down-dozens-locations-across-17-states-fast-food-competition-intensifies.
8 Julie Littman, "These 6 Restaurant Chains Will Close Hundreds of Units This Year," *Restaurant Dive* (Mar. 19, 2026), www.restaurantdive.com/news/wendys-papa-johns-pizza-hut-noodles-darden-closures-2026/815110/.
9 Kirk O'Neil, "Major Pizza Chain Franchisee Files for Chapter 11 Bankruptcy," *TheStreet* (Mar. 16, 2026), www.thestreet.com/restaurants/major-pizza-chain-franchisee-files-chapter-11-bankruptcy.
10 Bret Thorn, "Pizza Hut Franchisee EYM Files for Chapter 11 Bankruptcy Protection," *Nation's Restaurant News* (Mar. 2026), www.nrn.com/quick-service/pizza-hut-franchisee-eym-files-for-chapter-11-bankruptcy-protection.
11 Emily Carter, "Popular Pizza Chain Franchisee Files for Chapter 11 Bankruptcy Protection," *Dockside Restaurant News* (Jul. 2026), https://docksiderestaurant.com.au/popular-pizza-chain-franchisee/.

demand were high. Commercial rents in many metropolitan areas have not declined meaningfully even as restaurant demand has softened, creating a mismatch between occupancy costs and revenue. Unlike variable costs such as food and labor, rent is a fixed obligation that cannot be adjusted easily without landlord cooperation or a lease restructuring. Some franchisees now pay rent equal to 10 to 15 percent or more of gross revenue — well above the 6 to 8 percent range typically considered sustainable for quick-service restaurants.

Customers are also spending more carefully. Inflation has reduced how often many people eat out. Some choose grocery-store meals, meal kits or frozen pizza; others dine out less often but spend more on special occasions. Quick-service pizza restaurants therefore face competition from fast-casual restaurants offering a higher-end experience and from cheaper, increasingly convenient grocery options.

Third-party delivery platforms add pressure. Many pizza franchisees rely on third-party platforms such as DoorDash, Uber Eats and Grubhub to reach customers. These platforms typically charge commissions of 15 to 30 percent per order, significantly eroding already thin margins. Franchisees have also reported delays in receiving payments. DoorDash, for example, typically remits payments on a weekly cycle, but processing delays and disputes over chargebacks and order adjustments can extend the timeline. For operators managing tight cash flow, even short delays can cascade, making it harder to cover payroll, vendor invoices and rent on time. The combination of high commissions and payment-timing mismatches adds another layer of strain to operators facing rising costs and declining traffic.

The Role of Debt

Many franchisees borrow to open or purchase restaurants, including some Crust Pizza franchisees that used SBA-backed loans. SBA 7(a) loans are commonly used by franchisees to finance build-outs, equipment and working capital. When a franchisee defaults on an SBA-guaranteed loan, the lender can seek recovery under the SBA guarantee, but the borrower — and often personal guarantors — remain liable for any deficiency.

The SBA Office of Inspector General has reported rising default rates on restaurant-related 7(a) loans, reflecting broader financial stress in the industry. For franchisees operating on thin margins, these obligations can become unsustainable, particularly when combined with fixed costs such as rent and royalty payments. When sales were strong, those loans seemed manageable, but rising food, labor, rent and other costs later left less cash for debt service.

Chapter 11 bankruptcy — particularly subchapter V — can give small businesses time to reorganize, generally more quickly and less expensively than a traditional chapter 11 case. Under subchapter V, a business may be able to:

- restructure its loans and repay them over time;
- negotiate with lenders and landlords;
- catch up on overdue rent through a court-approved payment plan; and
- continue operating while it works on a repayment plan.

Bankruptcy does not guarantee survival; it gives a restaurant an opportunity to reorganize its debts and negotiate better terms.

> **National brands often have more cash, negotiating power and marketing resources; franchisees might have fewer options while carrying loans, rent, payroll and food costs at one or a few locations.**

A Temporary Problem — or a Lasting Change?

The current wave of franchisee bankruptcies is probably a combination of both. Some franchisees expanded too quickly or took on too much debt after the pandemic and may face serious problems over the next 12 to 18 months.

Other challenges may be permanent: Labor, rent and other operating costs may remain well above pre-pandemic levels. Brands and franchisees might therefore need to reconsider expansion, leverage and the true cost of a profitable location.

The Crust Pizza bankruptcies are a small part of a larger industry trend. They show that a restaurant brand can grow while individual franchisees struggle to survive, and that rapid expansion does not ensure that every location is financially healthy. abi

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