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

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 23, 2021

OR

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

For the transition period from __________ to __________
Commission File Number: 001-36197

DEL TACO RESTAURANTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**46-3340980**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

25521 Commercentre Drive Lake Forest, California	**92630**
(Address of principal executive offices)	**(Zip Code)**

(949) 462-9300
(Registrant’s telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 Par Value	TACO	The Nasdaq Stock 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, 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.

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 April 28, 2021, there were 36,757,296 shares of the registrant’s common stock issued and outstanding.

Del Taco Restaurants, Inc.

Index

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Del Taco Restaurants, Inc.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	March 23, 2021	December 29, 2020
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 7,310	$ 7,912
Accounts and other receivables, net	4,769	5,463
Inventories	2,574	2,799
Prepaid expenses and other current assets	3,112	2,078
Assets held for sale	1,495	1,495
Total current assets	19,260	19,747
Property and equipment, net	144,923	146,706
Operating lease right-of-use assets	248,655	249,071
Goodwill	108,979	108,979
Trademarks	208,400	208,400
Intangible assets, net	9,435	9,754
Other assets, net	5,204	4,652
Total assets	$ 744,856	$ 747,309
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 16,405	$ 18,683
Other accrued liabilities	44,507	45,413
Current portion of finance lease obligations and other debt	116	190
Current portion of operating lease liabilities	22,005	22,648
Total current liabilities	83,033	86,934
Long-term debt, finance lease obligations and other debt, excluding current portion, net	114,472	114,418
Operating lease liabilities, excluding current portion	251,714	251,958
Deferred income taxes	61,698	61,485
Other non-current liabilities	19,790	19,760
Total liabilities	530,707	534,555
Commitments and contingencies (*Note 15*)		
Shareholders' equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.0001 par value; 400,000,000 shares authorized; 36,757,296 shares issued and outstanding at March 23, 2021; 36,828,237 shares issued and outstanding at December 29, 2020	4	4
Additional paid-in capital	332,476	333,712
Accumulated other comprehensive loss	—	—
Accumulated deficit	(118,331)	(120,962)
Total shareholders' equity	214,149	212,754
Total liabilities and shareholders' equity	$ 744,856	$ 747,309

See accompanying notes to consolidated financial statements.

Del Taco Restaurants, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(In thousands, except share and per share data)

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Revenue:		
Company restaurant sales	$ 103,578	$ 100,333
Franchise revenue	5,205	4,391
Franchise advertising contributions	3,825	3,211
Franchise sublease and other income	2,923	1,875
Total revenue	115,531	109,810
Operating expenses:		
Restaurant operating expenses:		
Food and paper costs	26,652	28,295
Labor and related expenses	35,508	34,936
Occupancy and other operating expenses	24,842	24,408
General and administrative	11,261	9,866
Franchise advertising expenses	3,825	3,211
Depreciation and amortization	5,947	6,137
Occupancy and other - franchise subleases and other	2,878	1,595
Pre-opening costs	196	233
Impairment of goodwill	—	87,277
Impairment of trademarks	—	11,900
Impairment of long-lived assets	—	8,287
Restaurant closure charges, net	412	494
Loss on disposal of assets and adjustments to assets held for sale, net	2	122
Total operating expenses	111,523	216,761
Income (loss) from operations	4,008	(106,951)
Other expense (income), net		
Interest expense	721	1,508
Other income	(373)	—
Total other expense, net	348	1,508
Income (loss) from operations before provision (benefit) for income taxes	3,660	(108,459)
Provision (benefit) for income taxes	1,029	(5,991)
Net income (loss)	2,631	(102,468)
Other comprehensive income:		
Reclassification of interest rate cap amortization included in net income (loss), net of tax	—	45
Total other comprehensive income, net	—	45
Comprehensive income (loss)	$ 2,631	$ (102,423)
Earnings (loss) per share:		
Basic	$ 0.07	$ (2.76)
Diluted	$ 0.07	$ (2.76)
Weighted-average shares outstanding		
Basic	36,761,670	37,075,994
Diluted	37,190,154	37,075,994

See accompanying notes to consolidated financial statements.

Del Taco Restaurants, Inc.
Consolidated Statements of Shareholders' Equity
(Unaudited)
(In thousands, except share data)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
Balance at December 31, 2019	$ —	37,059,202	$ 4	$ 333,379	$ (52)	$ (31,224)	$ 302,107
Net loss	—	—	—	—	—	(102,468)	(102,468)
Other comprehensive income, net of tax	—	—	—	—	45	—	45
Comprehensive loss							(102,423)
Stock-based compensation	—	—	—	1,225	—	—	1,225
Issuance of vested restricted stock, net of shares withheld for tax withholding	—	21,758	—	(105)	—	—	(105)
Balance at March 24, 2020	$ —	37,080,960	$ 4	$ 334,499	$ (7)	$ (133,692)	$ 200,804

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
Balance at December 29, 2020	$ —	36,828,237	$ 4	$ 333,712	$ —	$ (120,962)	$ 212,754
Net income	—	—	—	—	—	2,631	2,631
Comprehensive income							2,631
Stock-based compensation	—	—	—	1,400	—	—	1,400
Issuance of vested restricted stock, net of shares withheld for tax withholding	—	35,108	—	(219)	—	—	(219)
Repurchase of common stock	—	(106,049)	—	(948)	—	—	(948)
Dividends paid	—	—	—	(1,469)	—	—	(1,469)
Balance at March 23, 2021	$ —	36,757,296	$ 4	$ 332,476	$ —	$ (118,331)	$ 214,149

See accompanying notes to consolidated financial statements.

Del Taco Restaurants, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Operating activities		
Net income (loss)	$ 2,631	$ (102,468)
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Depreciation and amortization	5,947	6,137
Amortization of deferred financing costs, debt discount and interest rate cap	62	123
Amortization of operating lease assets	5,307	5,112
Stock-based compensation	1,400	1,225
Impairment of goodwill	—	87,277
Impairment of trademarks	—	11,900
Impairment of long-lived assets	—	8,287
Deferred income taxes	213	(10,158)
Loss on disposal of assets and adjustments to assets held for sale, net	2	122
Restaurant closure charges	4	46
Other income	(373)	—
Changes in operating assets and liabilities:		
Accounts and other receivables, net	693	1,326
Inventories	225	86
Prepaid expenses and other current assets	(1,657)	3,357
Other assets	(62)	(95)
Accounts payable	(1,882)	(711)
Operating lease liabilities	(5,154)	(4,863)
Other accrued liabilities	(828)	6,796
Other non-current liabilities	82	(940)
Net cash provided by operating activities	6,610	12,559
Investing activities		
Purchases of property and equipment	(3,700)	(7,983)
Proceeds from disposal of property and equipment, net	—	1,440
Purchases of other assets	(830)	(384)
Proceeds from sale of company-operated restaurants	—	1,219
Net cash used in investing activities	(4,530)	(5,708)
Financing activities		
Repurchase of common stock and warrants	(948)	—
Payment of tax withholding related to restricted stock vesting	(219)	(105)
Payments on finance leases and other debt	(46)	(29)
Proceeds from revolving credit facility	9,000	40,000
Payments on revolving credit facility	(9,000)	(10,000)
Payment of dividends	(1,469)	—
Net cash (used in) provided by financing activities	(2,682)	29,866
Net (decrease) increase in cash and cash equivalents	(602)	36,717
Cash and cash equivalents at beginning of period	7,912	1,421
Cash and cash equivalents at end of period	$ 7,310	$ 38,138
Supplemental cash flow information:		
Cash paid during the period for interest	$ 706	$ 854
Cash paid during the period for income taxes	—	—
Supplemental schedule of non-cash activities:		
Accrued property and equipment purchases	$ 3,481	$ 5,039
Amortization of interest rate cap into net income, net of tax	—	45
Operating lease right-of-use assets obtained in exchange for lease obligations	4,890	9,358
Write-offs against bad debt reserves	38	—

See accompanying notes to consolidated financial statements.

1. Description of Business

Del Taco Restaurants, Inc. is a Delaware corporation headquartered in Lake Forest, California. The consolidated financial statements include the accounts of Del Taco Restaurants, Inc. and its wholly owned subsidiaries (collectively, the "Company" or "Del Taco"). The Company develops, franchises, owns, and operates Del Taco quick-service Mexican-American restaurants. At March 23, 2021, there were 297 company-operated and 302 franchise-operated Del Taco restaurants located in 16 states, including one franchise-operated unit in Guam. At March 24, 2020, there were 296 company-operated and 300 franchise-operated Del Taco restaurants located in 15 states, including one franchise-operated unit in Guam.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC"). For additional information, these unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 29, 2020 ("2020 Form 10-K").

The Company's fiscal year ends on the Tuesday closest to December 31. Fiscal year 2021 is a fifty-two week period ending December 28, 2021. Fiscal year 2020 is the fifty-two week period ended December 29, 2020. In a fifty-two week fiscal year, the first, second and third quarters each include twelve weeks of operations and the fourth quarter includes sixteen weeks of operations. For fiscal year 2021, the Company's accompanying financial statements reflect the twelve weeks ended March 23, 2021. For fiscal year 2020, the Company's accompanying financial statements reflect the twelve weeks ended March 24, 2020.

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments which are necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. The results of operations for such interim periods are not necessarily indicative of results of operations to be expected for the full fiscal year.

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that such estimates have been based on reasonable and supportable assumptions and the resulting estimates are reasonable for use in the preparation of the consolidated financial statements. Actual results could differ from these estimates. The Company's significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, valuations provided in business combinations, insurance reserves, restaurant closure reserves, stock-based compensation, contingent liabilities, certain leasing activities and income tax valuation allowances.

Recently Adopted Accounting Standards

In December 2019, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which simplifies the accounting for income taxes by removing the following exceptions: (1) exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or gain from other items; (2) exception to the requirement to recognize a deferred tax liability for equity method investments when a subsidiary becomes an equity method investment; and (3) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Furthermore, ASU 2019-12 simplifies the accounting for income taxes by doing the following: (1) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax; (2) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction; (3) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; and (4) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The Company adopted the requirements of this new standard on December 30, 2020, the first day of fiscal year 2021, utilizing the prospective approach. There was no material impact on the Company's consolidated financial statements and related disclosures as a result of adopting this standard.

Summary of Significant Accounting Policies

There have been no changes to our significant accounting policies described in the 2020 Form 10-K filed with the SEC on March 11, 2021 that have had a material impact on our consolidated financial statements and related notes.

3. Impairment of Long-Lived Assets and Restaurant Closure Charges

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company considers a triggering event to have occurred related to a specific restaurant if the restaurant’s cash flows are less than a minimum threshold. Long-lived assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. The Company evaluates such cash flows for individual restaurants and franchise agreements on an undiscounted basis. If it is determined that the carrying amounts of such long-lived assets are not recoverable, the assets are written down to their estimated fair values. The Company generally estimates fair value using the discounted value of the estimated cash flows associated with the respective restaurant or agreement, using Level 3 inputs. The impairment charges represent the excess of the aggregate carrying value of a restaurant's operating lease right-of-use asset, furniture, fixtures and equipment and leasehold improvements over their estimated fair value. Impairment charges are allocated to a restaurant's operating lease right-of-use assets, furniture, fixtures and equipment and leasehold improvements on a pro rata basis based on the respective assets' carrying values.

No impairment charges were recorded during the twelve weeks ended March 23, 2021. During the twelve weeks ended March 24, 2020, the Company evaluated certain restaurants having indicators of impairment based on operating performance, taking into consideration the negative impact of the COVID-19 pandemic on forecasted restaurant performance, which resulted in elevated impairment charges for the twelve weeks ended March 24, 2020. As a result, the Company recorded a non-cash impairment charge totaling $8.3 million related to eight restaurants based on the estimate of future recoverable cash flows.

Restaurant Closure Charges, Net

The restaurant closure liability was $0.3 million and $0.5 million at March 23, 2021 and December 29, 2020, respectively, and relates to the non-lease executory costs associated with company-operated restaurants that were closed during the fourth quarter of 2015. A summary of the restaurant closure liability activity for these closed restaurants consisted of the following (in thousands):

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Beginning Balance	$ 454	$ 437
Accretion	3	8
Cash payments	(117)	—
Ending Balance	$ 340	$ 445

The current portion of the restaurant closure liability was $0.1 million and $0.2 million as of March 23, 2021 and December 29, 2020, respectively, and is included in other accrued liabilities in the consolidated balance sheets. The non-current portion of the restaurant closure liability was $0.2 million and $0.3 million as of March 23, 2021 and December 29, 2020, respectively, and is included in other non-current liabilities in the consolidated balance sheets. The restaurant closure liability is expected to be settled by 2032.

4. Refranchising and Assets Held for Sale

Refranchising

In connection with the sale of company-operated restaurants to franchisees, the Company typically enters into several agreements, in addition to an asset purchase agreement, with franchisees including franchise and lease agreements. The Company typically sells the restaurants' inventory and equipment and retains ownership of the leasehold interest on the real estate to sublease to the franchisee. The Company has determined that its restaurant dispositions usually represent multiple-element arrangements, and as a result, the cash consideration received is allocated to the separate elements based on their relative selling price. Cash consideration generally includes up-front consideration for the sale of the restaurants and franchise fees and future cash consideration for royalties and lease payments. The Company considers the future lease payments in allocating the initial cash consideration received. The Company compares the stated rent under the lease and/or sublease agreements with comparable market rents, and the Company records sublease assets/liabilities with a corresponding offset to the gain or loss on the sale of the company-operated restaurants. Sublease assets represent subleases with stated rent above comparable market rents. Sublease assets are amortized to sublease income over the term of the related sublease. Sublease liabilities represent subleases with stated rent below comparable market rents and are amortized to sublease income over the term of the related sublease. Both sublease assets and sublease liabilities arise from the sale of company-operated restaurants to franchisees. The cash consideration per restaurant for franchise fees is consistent with the amounts stated in the related franchise agreements, which are also charged for separate standalone arrangements. The Company initially defers and subsequently recognizes the franchise fees over the term of the franchise agreement. Future royalty income is recognized in franchise revenue as earned.

The Company did not sell any company-operated restaurants to franchisees during the twelve weeks ended March 23, 2021. The Company sold five company-operated restaurants to a franchisee during the twelve weeks ended March 24, 2020. The following table summarizes the net loss recognized related to this transaction (dollars in thousands):

		12 Weeks Ended March 24, 2020
Company-operated restaurants sold to franchisees		5
Proceeds from the sale of company-operated restaurants, net of selling costs	$	1,219
Net assets sold (primarily furniture, fixtures and equipment) [(a)]		(731)
Goodwill related to the company-operated restaurants sold to franchisees		(1,196)
Allocation to deferred franchise fees		(159)
Sublease assets, net		220
Loss on sale of company-operated restaurants, net [(b)]	$	(647)

(a) Of the net assets sold during the twelve weeks ended March 24, 2020, $0.7 million was included in assets held for sale as of December 31, 2019.

(b) Of the loss related to the five company-operated restaurants sold during the twelve weeks ended March 24, 2020, $0.6 million was previously recognized during the fifty-two weeks ended December 31, 2019 as a fair value adjustment to the assets held for sale balance. The loss on sale of company-operated restaurants is included in loss on disposal of assets and adjustments to assets held for sale, net on the consolidated statements of comprehensive income (loss).

Assets Held for Sale

Assets held for sale includes the net book value of property and equipment for company-operated restaurants that the Company plans to sell within the next year to new or existing franchisees. Long-lived assets that meet the held for sale criteria are held for sale and reported at the lower of their carrying value or fair value less estimated costs to sell.

As of March 23, 2021, the Company classified the land and building related to a previously closed company-operated restaurant as held for sale. During the second fiscal quarter of 2020, the Company recorded a $0.2 million adjustment to assets held for sale in order to recognize the assets at their estimated fair value less estimated costs to sell. The estimated fair value of assets held for sale is based upon Level 2 inputs, which include previous and current negotiations with third parties. Assets held for sale at March 23, 2021 and December 29, 2020 consisted of the following (in thousands):

		March 23, 2021		December 29, 2020
Land	$	561	$	561
Building		934		934
	$	1,495	$	1,495

5. Goodwill and Other Intangible Assets

Goodwill was $109.0 million as of both March 23, 2021 and December 29, 2020. Since June 30, 2015, the date of the business combination between Del Taco and Levy Acquisition Corporation, accumulated goodwill impairment losses were $205.6 million as of both March 23, 2021 and December 29, 2020.

Trademarks were $208.4 million as of both March 23, 2021 and December 29, 2020.

The Company's other intangible assets at March 23, 2021 and December 29, 2020 consisted of the following (in thousands):

	March 23, 2021			December 29, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Sublease assets	$ 1,820	$ (219)	$ 1,601	$ 1,820	$ (193)	$ 1,627
Franchise rights	13,846	(6,617)	7,229	13,918	(6,421)	7,497
Reacquired franchise rights	943	(338)	605	943	(313)	630
Total amortized other intangible assets	$ 16,609	$ (7,174)	$ 9,435	$ 16,681	$ (6,927)	$ 9,754

During the twelve weeks ended March 23, 2021, the Company wrote off $0.1 million of franchise rights associated with the closure of two franchise-operated restaurants.

6. Debt and Obligations Under Finance Leases

The Company's long-term debt, finance lease obligations and other debt at March 23, 2021 and December 29, 2020 consisted of the following (in thousands):

	March 23, 2021	December 29, 2020
Senior Credit Facility, as amended, net of unamortized debt discount of $170 and $182 and deferred financing costs of $771 and $821 at March 23, 2021 and December 29, 2020, respectively	$ 114,059	$ 113,997
Total outstanding indebtedness	114,059	113,997
Obligations under finance leases and other debt	529	611
Total debt	114,588	114,608
Less: amounts due within one year	116	190
Total amounts due after one year, net	$ 114,472	$ 114,418

At March 23, 2021 and December 29, 2020, the Company assessed the amounts recorded under the Senior Credit Facility and determined that such amounts approximated fair value.

As a result of the modification of a lease from a finance lease to an operating lease during the twelve weeks ended March 23, 2021, the Company wrote off a finance lease obligation of approximately $36,000 and the related finance lease asset with a net book value of approximately $37,000. The net difference of approximately $1,000 was carried over to the new operating lease right-of-use asset.

Senior Credit Facility

On August 4, 2015, the Company refinanced its then existing senior credit facility and entered into a new credit agreement (the "Senior Credit Facility"). The Senior Credit Facility, which was to mature on August 4, 2020, provided for a $250 million revolving credit facility.

In September 2019, the Company refinanced the Senior Credit Facility, pursuant to Amendment No. 4 to the Credit Agreement among Del Taco, as borrower, the Company and its subsidiaries, as guarantors, Bank of America, N.A. as administrative agent and letter of credit issuer, the lenders party thereto, and other parties thereto, which provides for a $250 million five-year senior secured revolving facility. The Senior Credit Facility, as amended, includes a sub limit of $35 million for letters of credit. The Senior Credit Facility, as amended, will mature on September 19, 2024.

The Senior Credit Facility, as amended, contains certain financial covenants, including the maintenance of a consolidated total lease adjusted leverage ratio and a consolidated fixed charge coverage ratio. The Company was in compliance with the financial covenants as of March 23, 2021. Substantially all of the assets of the Company are pledged as collateral under the Senior Credit Facility.

At March 23, 2021, the weighted-average interest rate on the outstanding balance of the Senior Credit Facility, as amended, was 1.87%. At March 23, 2021, the Company had a total of $121.6 million of availability for additional borrowings under the Senior Credit Facility, as amended, as the Company had $115.0 million of outstanding borrowings and $13.4 million of letters of credit outstanding, which reduce availability under the Senior Credit Facility, as amended.

7. Leases

The Company's material leases consist of restaurant locations and its executive offices with expiration dates through 2044. In general, the leases have remaining terms of 1-20 years, most of which include options to extend the leases for additional five-year periods. The lease term is generally the minimum noncancelable period of the lease. The Company does not include option periods unless the Company determines that it is reasonably certain of exercising the option at inception or when a triggering event occurs.

The Company has subleased certain properties to other third parties where the Company remains primarily liable to the landlord for the performance of all obligations in the event that the sublessee does not perform its obligations under the lease. As a result of the sublease arrangements, future rental commitments under operating leases will be offset by sublease amounts to be paid by the sublessee. In general, the terms of the sublease are similar to the terms of the master lease.

The components of lease cost for the twelve weeks ended March 23, 2021 and March 24, 2020 were as follows (in thousands):

	Classification	Twelve Weeks Ended March 23, 2021	Twelve Weeks Ended March 24, 2020
Operating lease cost	Occupancy and other operating expenses, Occupancy and other - franchise subleases and other, Pre-opening costs, Restaurant closure charges, net and General and administrative	$ 9,528	$ 9,446
Finance lease cost:			
Amortization of right of use assets	Depreciation and amortization	29	55
Interest on lease liabilities	Interest expense	3	12
Short-term lease cost	Occupancy and other operating expenses	42	72
Variable lease cost	Occupancy and other operating expenses, Occupancy and other - franchise subleases and other and Restaurant closure charges, net	460	323
Sublease income	Franchise sublease and other income	(1,646)	(1,582)
Total lease cost		$ 8,416	$ 8,326

Del Taco Restaurants, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Supplemental balance sheet information related to the Company's operating and finance leases (noting the financial statement caption each is included with) as of March 23, 2021 and December 29, 2020 was as follows (in thousands):

	March 23, 2021	December 29, 2020
Operating lease assets:		
Operating lease right-of-use assets	$ 248,655	$ 249,071
Operating lease liabilities:		
Current portion of operating lease liabilities	$ 22,005	$ 22,648
Operating lease liabilities, excluding current portion	251,714	251,958
Total operating lease liabilities	$ 273,719	$ 274,606
Finance lease assets:		
Buildings under finance leases	$ 260	$ 441
Accumulated depreciation	(168)	(283)
Finance lease assets, net	$ 92	$ 158
Finance lease obligations:		
Current portion of finance lease obligations and other debt	$ 63	$ 128
Long-term debt, finance lease obligations and other debt, excluding current portion, net	43	46
Total finance lease obligations	$ 106	$ 174

As a result of the modification of a lease from a finance lease to an operating lease during the twelve weeks ended March 23, 2021, the Company wrote off a finance lease asset with a net book value of approximately $37,000 and the related finance lease obligation of approximately $36,000. The net difference of approximately $1,000 was carried over to the new operating lease right-of-use asset.

Weighted Average Remaining Lease Term (in years)	March 23, 2021
Operating leases	12.3
Finance leases	2.3

Weighted Average Discount Rate	March 23, 2021
Operating leases	6.53 %
Finance leases	10.35 %

Supplemental cash flow information related to leases was as follows (in thousands):

	Twelve Weeks Ended March 23, 2021	Twelve Weeks Ended March 24, 2020
Cash paid for amounts in the measurement of lease liabilities:		
Operating cash flows used for operating leases	$ 9,900	$ 6,012
Operating cash flows used for finance leases	$ 3	$ 12
Financing cash flows used for finance leases	$ 31	$ 54

The estimated future lease payments as of March 23, 2021 are as follows (in thousands):

	Finance Lease Liabilities	Operating Lease Liabilities	Operating Subleases	Net Lease Commitments
2021	$ 66	$ 29,945	$ (4,516)	$ 25,495
2022	19	42,336	(6,578)	35,777
2023	17	37,320	(5,935)	31,402
2024	16	31,405	(5,305)	26,116
2025	1	31,269	(5,619)	25,651
Thereafter	—	234,016	(54,277)	179,739
Total lease payments	$ 119	$ 406,291	$ (82,230)	$ 324,180
Amounts representing interest	(13)	(132,572)		(132,585)
Present value of lease obligations	$ 106	$ 273,719		$ 191,595

As of March 23, 2021, we have legally binding lease payments related to restaurant leases that have not yet commenced of $5.3 million which are included in the balance of operating lease liabilities in the table above.

During the twelve weeks ended March 24, 2020, the Company entered into one sale-leaseback arrangement with a third party private investor. The sale-leaseback transaction does not provide for any continuing involvement by the Company other than a normal lease where the Company intends to use the property during the lease term. The lease has been accounted for as an operating lease. The net proceeds from the transaction totaled approximately $1.4 million. Under the arrangement, the Company sold the land and building of an existing restaurant and leased it back for a term of 20 years. The sale of this property resulted in a gain of approximately $0.6 million which is included in loss on disposal of assets and adjustments to assets held for sale, net in the consolidated statements of comprehensive income (loss).

During the twelve weeks ended June 16, 2020, following the sale of a company-operated restaurant to a franchisee, the related lease was assigned to the franchisee. The Company is a guarantor on the lease which has a remaining term of 19 years, expiring in 2039, and remaining lease payments total approximately $1.6 million. The Company would remain a guarantor of the lease in the event the lease is extended for any established renewal periods. As of March 23, 2021, the Company does not anticipate any material defaults under the forgoing lease, and therefore, no liability has been provided.

Additionally, another Del Taco franchisee has a direct sublease with a third party where the Company is a guarantor on the sublease. The lease has a remaining term of 10 years, expiring in 2031, and remaining lease payments total approximately $1.5 million. The Company would remain a guarantor of the lease in the event the lease is extended for any established renewal periods. In 2019, the franchisee defaulted on the lease payments. The Company had a liability of $0.1 million as of both March 23, 2021 and December 29, 2020, respectively, representing the estimated payments that the Company will be liable for until it is able to find a new franchisee or convert the restaurant to a company-operated restaurant.

8. Derivative Instruments

2016 Interest Rate Cap Agreement

In June 2016, the Company entered into an interest rate cap agreement, which became effective July 1, 2016, to hedge cash flows associated with interest rate fluctuations on variable rate debt, with a termination date of March 31, 2020 ("2016 Interest Rate Cap Agreement"). The 2016 Interest Rate Cap Agreement had an initial notional amount of $70.0 million of the Senior Credit Facility that effectively converted that portion of the outstanding balance of the Senior Credit Facility from variable rate debt to capped variable rate debt, resulting in a change in the applicable interest rate from an interest rate of one-month LIBOR plus the applicable margin (as provided by the Senior Credit Facility) to a capped interest rate of 2.00% plus the applicable margin. During the period from July 1, 2016 through the expiration on March 31, 2020, the 2016 Interest Rate Cap Agreement had no hedge ineffectiveness.

To ensure the effectiveness of the 2016 Interest Rate Cap Agreement, the Company elected the one-month LIBOR rate option for its variable rate interest payments on term balances equal to or in excess of the applicable notional amount of the interest rate cap agreement as of each reset date. The reset dates and other critical terms perfectly match with the interest rate cap reset dates and other critical terms during fiscal year 2020 through the expiration on March 31, 2020.

During the twelve weeks ended March 24, 2020, the Company reclassified approximately $62,000 of interest expense related to the hedges of these transactions into earnings.

The effective portion of the 2016 Interest Rate Cap Agreement through the expiration on March 31, 2020 was included in accumulated other comprehensive loss.

9. Fair Value Measurements

The fair values of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximate their carrying amounts due to their short maturities. The carrying value of the Senior Credit Facility, as amended, approximated its fair value.

10. Other Accrued Liabilities and Other Non-current Liabilities

A summary of other accrued liabilities follows (in thousands):

	March 23, 2021	December 29, 2020
Employee compensation and related items	$ 13,952	$ 16,048
Accrued advertising	5,496	3,920
Accrued income tax	5,118	4,301
Accrued insurance	4,757	5,031
Accrued sales tax	3,088	3,712
Accrued real property tax	2,519	1,841
Accrued property and equipment purchases	1,835	1,970
Deferred gift card income	1,376	1,669
Accrued rent and related items	1,375	1,490
Restaurant closure liabilities	136	198
Other	4,855	5,233
	$ 44,507	$ 45,413

A summary of other non-current liabilities follows (in thousands):

	March 23, 2021	December 29, 2020
Insurance reserves	$ 8,570	$ 8,178
Deferred development and initial franchise fees	4,569	4,523
Deferred social security taxes	3,381	3,381
Sublease liabilities	1,349	1,375
Deferred gift card income	1,161	1,464
Restaurant closure liabilities	204	256
Other	556	583
	$ 19,790	$ 19,760

11. Stock-Based Compensation

The Del Taco Restaurants, Inc. 2015 Omnibus Incentive Plan (the "2015 Plan") was approved by shareholders to offer eligible employees, directors and consultants cash and stock-based incentive awards. Awards under the 2015 Plan are generally not restricted to any specific form or structure and could include, without limitation, stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards, other cash-based compensation and performance awards. Under the plan, there were 3,300,000 shares of common stock reserved and authorized. At March 23, 2021, there were 102,564 shares of common stock available for grant under the 2015 Plan. On March 31, 2021, the Company's Board of Directors approved an amendment to the 2015 Plan to increase the amount of shares available for grant by 1,800,000 which is subject to stockholder approval at the 2021 Annual Meeting on May 27, 2021.

Stock-Based Compensation Expense

The total compensation expense related to the 2015 Plan was $1.4 million and $1.2 million for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively.

Restricted Stock Awards

A summary of outstanding and unvested restricted stock activity as of March 23, 2021 and changes during the period from December 29, 2020 through March 23, 2021 are as follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 29, 2020	1,254,775	$ 9.84
Granted	93,000	9.39
Vested	(59,625)	9.46
Forfeited	(3,750)	7.93
Nonvested at March 23, 2021	1,284,400	$ 9.83

For the twelve weeks ended March 23, 2021 and March 24, 2020, the Company made payments of $0.2 million and $0.1 million, respectively, related to tax withholding obligations for the vesting of restricted stock awards in exchange for 24,517 and 13,867 shares withheld, respectively.

As of March 23, 2021, there was $7.1 million of unrecognized stock compensation expense, net of estimated forfeitures, related to restricted stock awards that is expected to be recognized over a weighted-average remaining period of 2.3 years. The fair value of these awards was determined based on the Company's stock price on the grant date.

Stock Options

A summary of stock option activity as of March 23, 2021 and changes during the period from December 29, 2020 through March 23, 2021 are as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
			(in years)	(in thousands)
Options outstanding at December 29, 2020	574,453	$ 9.54	4.4	$ 624
Granted	5,000	8.94		
Exercised	—	—		
Forfeited/Expired	(6,500)	11.85		
Options outstanding at March 23, 2021	572,953	$ 9.51	4.3	$ 938
Options exercisable at March 23, 2021	284,875	$ 11.17	2.7	$ 90
Options exercisable and expected to vest at March 23, 2021	517,663	$ 9.78	4.1	$ 753

The aggregate intrinsic value in the table above is the amount by which the current market price of the Company's stock exceeds the exercise price on March 23, 2021 and December 29, 2020, respectively.

As of March 23, 2021, there was $0.5 million of unrecognized stock compensation expense, net of estimated forfeitures, related to stock option grants that is expected to be recognized over a weighted-average remaining period of 2.7 years.

12. Shareholders' Equity

On February 26, 2016, the Company's Board of Directors authorized a share repurchase program covering up to $25.0 million in the aggregate of the Company's common stock and warrants which was effective immediately and expires upon completion of the repurchase program, unless terminated earlier by the Board of Directors. On August 23, 2016, the Company announced that the Board of Directors increased the repurchase program by $25.0 million to $50.0 million. The Board of Directors authorized an additional increase for the repurchase program effective July 23, 2018 of another $25.0 million to a total of $75.0 million. Purchases under the program may be made in open market or privately negotiated transactions. During the twelve weeks ended March 23, 2021, the Company repurchased 106,049 shares of common stock for an average price per share of $8.92 for an aggregate cost of approximately $0.9 million, including incremental direct costs to acquire the share. During the twelve weeks ended March 24, 2020, the Company did not repurchase any shares or warrants.

As of March 23, 2021, there was approximately $17.1 million remaining under the share repurchase program. All of the Company's outstanding warrants expired on June 30, 2020. The Company has no obligations to repurchase shares under this authorization, and the timing and value of shares purchased will depend on the Company's stock price, market conditions and other factors.

In January 2021, the Board of Directors authorized the initiation of a quarterly cash dividend program. During the twelve weeks ended March 23, 2021, the Company paid a dividend of $0.04 per share of common stock, which totaled $1.5 million. The dividends were paid on February 23, 2021 to shareholders of record at the close of business on February 2, 2021. The payment of dividends on common stock is at the discretion of the Board of Directors.

13. Earnings (Loss) Per Share

Basic income per share is calculated by dividing net income attributable to Del Taco's common shareholders for the period by the weighted average number of common shares outstanding for the period. In computing dilutive income per share, basic income per share is adjusted for the assumed issuance of all applicable potentially dilutive share-based awards, including warrants, restricted stock, common stock options and restricted stock units.

Below are basic and diluted net income per share for the periods indicated (amounts in thousands except share and per share data):

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Numerator:		
Net income (loss)	$ 2,631	$ (102,468)
Denominator:		
Weighted-average shares outstanding - basic	36,761,670	37,075,994
Dilutive effect of unvested restricted stock	379,375	—
Dilutive effect of stock options	49,109	—
Weighted-average shares outstanding - diluted	37,190,154	37,075,994
Net income (loss) per share - basic	$ 0.07	$ (2.76)
Net income (loss) per share - diluted	$ 0.07	$ (2.76)
Antidilutive stock options, unvested restricted stock awards and warrants excluded from the computations	274,577	6,612,980

14. Income Taxes

The effective income tax rates were 28.1% and 5.5% for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively. The provision (benefit) for income taxes was $1.0 million and $(6.0) million for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively.

The income tax expense for the twelve weeks ended March 23, 2021 is driven by the estimated annual effective income tax rate which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits. The income tax benefit for the twelve weeks ended March 24, 2020 is primarily impacted by impairment of non-tax deductible goodwill of $87.3 million and reclassification of $3.5 million of goodwill from held for sale, as well as statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits.

Management believes it is more likely than not that all deferred tax assets will be realized, and therefore, no valuation allowance as of March 23, 2021 and December 29, 2020 is required.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The CARES Act provides numerous tax provisions and other stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, temporary suspension of certain payment requirements for the employer portion of social security taxes, the creation of certain refundable employee retention credits, and technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property. Beginning with pay dates on and after April 14, 2020, the Company has elected to defer the employer-paid portion of social security taxes through the end of fiscal year 2020. The total amount deferred as of December 29, 2020 is $6.8 million, of which 50% is due by December 31, 2021 and 50% is due by December 31, 2022. The Company also assessed its eligibility for the business relief provision under the CARES Act known as the Employee Retention Credit ("ERC"), a refundable payroll tax credit for 50% of qualified wages paid during 2020. The American Rescue Plan passed into law on March 11, 2021 extended the ERC through December 31, 2021, and the credit was increased to 70% of qualified wages paid from January 1, 2021 through December 31, 2021. Based on the Company's assessment, the Company recognized a credit of $0.8 million during the twelve weeks ended March 23, 2021 for the ERC, which is recorded as an offset to related wages paid to employees while not providing services due to COVID-19 classified in occupancy and other operating expenses on the consolidated statements of comprehensive income (loss).

15. Commitments and Contingencies

The primary claims in the Company’s business are workers’ compensation and general liabilities. These insurance programs are self-insured or high deductible programs with excess coverage that management believes is sufficient to adequately protect the Company. In the opinion of management, adequate provision has been made for all incurred claims up to the self-insured or high deductible limits, including provision for estimated claims incurred but not reported. Because of the uncertainty of the ultimate resolution of outstanding claims, as well as the uncertainty regarding claims incurred but not reported, it is possible that management’s provision for these losses could change materially. However, no estimate can currently be made of the range of additional losses.

Purchasing Commitments

The Company enters into various purchase obligations in the ordinary course of business, generally of a short-term nature. Those that are binding primarily relate to commitments for food purchases and supplies, amounts owed under contractor and subcontractor agreements, orders submitted for equipment for restaurants under construction, information technology service agreements and marketing initiatives, some of which are related to both company-operated and franchise-operated locations. The Company also has a long-term beverage supply agreement with a major beverage vendor whereby marketing rebates are provided to the Company and its franchisees based upon the volume of purchases for system-wide restaurants which vary according to demand for beverage syrup. This contract has terms expiring at the end of 2021. The Company’s future estimated cash payments under existing contractual purchase obligations for goods and services as of March 23, 2021 are approximately $25.2 million. The Company has excluded agreements that are cancellable without penalty.

Litigation

In March 2014, a former Del Taco employee filed a purported class action complaint alleging that Del Taco has not appropriately provided meal breaks and failed to pay wages to its California hourly employees. On March 24, 2021, Del Taco filed its motion to oppose the plaintiff's motion for class certification. Discovery remains in process and Del Taco intends to assert all of its defenses to this threatened class action and the individual claims. Del Taco has several defenses to the action that it believes could prevent the certification of the class, as well as the potential assessment of any damages on a class basis. Legal proceedings are inherently unpredictable, and the Company is not able to predict the ultimate outcome or cost of the unresolved matter. However, based on management’s current understanding of the relevant facts and circumstances, the Company does not believe that these proceedings give rise to a probable or estimable loss and should not have a material adverse effect on the Company’s financial position, operations or cash flows. Therefore, Del Taco has not recorded any amount for the claim as of March 23, 2021.

In September 2018, the Equal Employment Opportunity Commission (“EEOC”) filed a complaint on behalf of an individual complainant and an additional class of individuals alleging that Del Taco engaged in unlawful employment practices on the basis of sex and retaliation in violation of Title VII. The Company tendered the claim to its insurance carrier under its employment practices liability insurance policy. The Company's insurance coverage and retention includes amounts incurred for legal defense and any potential settlement. Since the Company had expected the settlement discussions to give rise to a loss in excess of the Company's insurance retention that is both probable and estimable, the Company recorded an expense for the overall action equal to the full retention of $0.5 million during the fifty-two weeks ended December 31, 2019. In December 2020, the Company reached a settlement with the EEOC for $1.25 million and a three-year consent decree, which includes company-wide injunctive relief aimed at preventing workplace harassment and retaliation. As of December 29, 2020, the Company recorded a receivable of $1.3 million from the Company's insurance carrier and an accrued liability of $1.3 million for legal fees covered by insurance and the claim settlement which was collected from the insurance carrier in the twelve weeks ended March 23, 2021. Of the $1.25 million claim settlement, $0.9 million was paid to the plaintiff during the twelve weeks ended March 23, 2021 with the remainder to be paid at a later date. In consideration of the Company's insurance coverage, the ultimate liability with respect to this action did not have a material effect on the operating results, cash flows or financial position of the Company for the twelve weeks ended March 23, 2021.

The Company and its subsidiaries are parties to other legal proceedings incidental to their businesses, including claims alleging the Company’s restaurants do not comply with the Americans with Disabilities Act of 1990. In the opinion of management, based upon information currently available, the ultimate liability with respect to those other actions will not have a material effect on the operating results, cash flows or the financial position of the Company. However, due to the risks and uncertainties inherent in legal proceedings and litigation, actual results could differ from expectations.

Construction Defect Issues

During the second quarter of 2020, the Company identified various construction defects related to three closed restaurants in Texas. During the fourth quarter of 2020, the Company identified a fourth closed restaurant with construction defects. The Company believes the issues are attributable to defective construction performed by the same general contractor for all four restaurants. The Company plans to undertake voluntary rehabilitation of the four properties, and while the full extent of voluntary rehabilitation costs are not yet known, the Company is pursuing legal remedies against the general contractor to recover future incurred costs. These four restaurants were partially impaired in prior years.

16. Subsequent Events

In April 2021, the Board of Directors declared a quarterly dividend of $0.04 per share of common stock to be paid on May 27, 2021 to shareholders of record at the close of business on May 13, 2021. While the Company intends to pay quarterly cash dividends for the foreseeable future, all subsequent dividend payments will be reviewed quarterly and declared by the Board of Directors at its discretion.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 29, 2020, and related notes thereto, along with the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 11, 2021.

In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties such as the number of restaurants we intend to open and estimates of our effective tax rates. We use words such as "estimates," "projected," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," "future," "propose," "preliminary," "guidance" and variations of these words or similar expressions (or the negative versions of such words or expressions) to identify forward-looking statements. These statements are based on assumptions and information available to us as of the date any such statements are made and are subject to risks and uncertainties. These risks and uncertainties include, without limitation, the impact of the COVID-19 pandemic, consumer demand, our inability to successfully open company-operated or franchise-operated restaurants or establish new markets, competition in our markets, our inability to grow and manage growth profitably, adverse changes in food and supply costs, our inability to access additional capital, changes in applicable laws or regulations, food safety and foodborne illness concerns, our inability to manage existing and to obtain additional franchisees, our inability to attract and retain qualified personnel, our inability to profitably expand into new markets, changes in, or the discontinuation of the Company's repurchase program, and the possibility that we may be adversely affected by other economic, business, and/or competitive factors. Our actual results may differ materially from those anticipated in these forward-looking statements due to these risks and uncertainties, as well as others, including, without limitation, those discussed in Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 29, 2020. We assume no obligation to update or revise these forward-looking statements as a result of new information, future events or any other reason.

Fiscal Year

We operate on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal year 2021 is the 52-week period ended December 28, 2021 ("Fiscal 2021"). Fiscal year 2020 is the 52-week period ended December 29, 2020 ("Fiscal 2020").

Overview

We are a nationwide operator and franchisor of restaurants featuring fresh and fast cuisine, including both Mexican inspired and American classic dishes. As of March 23, 2021, we have 599 Del Taco restaurants, a majority of these in the Pacific Southwest. In each of our restaurants, our food is made to order in working kitchens. We serve our customers fresh and high-quality food typical of fast casual restaurants but with the speed, convenience and value associated with traditional quick service restaurants ("QSRs"). With attributes of both a fast casual restaurant and a QSR — a combination we call QSR+ — we occupy a place in the restaurant market distinct from our competitors. With a menu designed to appeal to a wide variety of budgets and tastes and recently updated interior and exterior designs across most of our entire system, we believe that we are poised for growth, operating within the fastest growing segment of the restaurant industry, the limited service restaurant ("LSR") segment. With high quality food and attractive price points, we believe we offer a compelling value proposition relative to both QSR and fast casual peers.

Highlights and Trends

First Quarter 2021 Highlights

Our first quarter 2021 results and highlights include the following:

- Total revenues increased 5.2% for the twelve weeks ended March 23, 2021 to $115.5 million compared to $109.8 million for the twelve weeks ended March 24, 2020. The increase is primarily due to an increase in company-operated and franchise-operated same store sales.
- For the twelve weeks ended March 23, 2021, system-wide same store sales increased 9.1%, company-operated same store sales increased 4.9% and franchise-operated same store sales increased 14.0%.
- During the twelve weeks ended March 23, 2021, we opened two new company-operated restaurants, opened three new franchise-operated restaurants and closed two franchise-operated restaurants. During the twelve weeks ended March 24, 2020, we opened two new company-operated restaurants, opened one new franchise-operated restaurant, sold five company-operated restaurants to a franchisee, closed one company-operated restaurant, and closed two franchise-operated restaurants.

Same Store Sales

Same store sales growth reflects the change in year-over-year sales for the same store base. We include a restaurant in the same store base in the accounting period following its 18th full month of operations and exclude restaurant closures. The following table shows the same store sales growth for the twelve weeks ended March 23, 2021 and March 24, 2020:

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Company-operated same store sales	4.9 %	(2.5)%
Franchise-operated same store sales	14.0 %	(3.7)%
System-wide same store sales	9.1 %	(3.1)%

Restaurant Development

Del Taco restaurant counts at the end of the twelve weeks ended March 23, 2021 and March 24, 2020 were as follows:

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Company-operated restaurant activity:		
Beginning of period	295	300
Openings	2	2
Closures	—	(1)
Sold to franchisees	—	(5)
Restaurants at end of period	297	296
Franchise-operated restaurant activity:		
Beginning of period	301	296
Openings	3	1
Closures	(2)	(2)
Purchased from Company	—	5
Restaurants at end of period	302	300
Total restaurant activity:		
Beginning of period	596	596
Openings	5	3
Closures	(2)	(3)
Restaurants at end of period	599	596

The closures presented in the table above represent permanent closures of restaurants. Temporary closures, which can occur for a variety of reasons, are not reflected as a reduction in this table. Our franchisees are independent businesses and decisions to close restaurants can be impacted by numerous factors that are outside of our control, including but not limited to, franchisees' agreements with their landlords and lenders.

Since 2012, we have focused on repositioning our brand, increasing brand awareness, strengthening operational capabilities and refinancing indebtedness to build a foundation for future organic and new unit growth. New restaurant development is expected to contribute to our growth strategy. While the COVID-19 pandemic impacted our restaurant development plans for Fiscal 2020 due to the significant uncertainties that resulted from the impact of dine-in operating restrictions, various social distancing measures and stay-at-home orders on customer re-engagement with our brand and the short- and long-term impact on consumer discretionary spending, we and our franchisees plan to continue restaurant development during 2021, including the recent launch of our new "Fresh Flex" prototype restaurant design. We plan to open 12 system-wide restaurants in Fiscal 2021. From time to time, we and our franchisees may close restaurants.

Key Performance Indicators

In assessing the performance of our business, management utilizes a variety of financial and performance measures.
These key measures include company restaurant sales, same store sales, company-operated average unit volumes, restaurant contribution and restaurant contribution margin, number of new restaurant openings, EBITDA and Adjusted EBITDA.

Company Restaurant Sales

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

Seasonal factors and the timing of holidays cause revenue to fluctuate from quarter to quarter. Revenue per restaurant is typically lower in the first quarter due to reduced January traffic. As a result of seasonality, quarterly and annual results of operations and key performance indicators, such as company restaurant sales and same store sales, may fluctuate.

Same Store Sales

We regularly monitor company, franchise and total system same store sales. Same store sales growth reflects the change in year-over-year sales for the comparable company, franchise and total system restaurant base. We include a restaurant in the same store base in the accounting period following its 18th full month of operations and exclude restaurant closures. As of March 23, 2021 and March 24, 2020, there were 285 and 278 restaurants, respectively, in the comparable company-operated restaurant base. As of March 23, 2021 and March 24, 2020, there were 286 and 278 restaurants, respectively, in the comparable franchise-operated restaurant base. This measure highlights the performance of existing restaurants as the impact of new restaurant openings is excluded. Same store sales growth can be generated by an increase in the number of transactions and/or by increases in the average check resulting from a shift in menu mix and/or higher prices resulting from new products, promotions or price increases.

Company-Operated Average Unit Volumes

We measure company-operated average unit volumes ("AUVs") on both a weekly and an annual basis. Weekly AUVs are calculated by dividing the sales from comparable company-operated restaurants over a seven day period from Wednesday to Tuesday by the number of comparable restaurants. Annual AUVs are calculated by dividing sales for the trailing 52-week period for all company-operated restaurants that are in the comparable base by the total number of restaurants in the comparable base for such period. This measurement allows management to assess changes in consumer traffic and spending patterns at our company-operated restaurants and the overall performance of the restaurant base.

Restaurant Contribution and Restaurant Contribution Margin

Restaurant contribution and restaurant contribution margin are neither required by, nor presented in accordance with United States generally accepted accounting principles ("U.S. GAAP"). Restaurant contribution is defined as company restaurant sales less restaurant operating expenses, which are food and paper costs, labor and related expenses and occupancy and other operating expenses. Restaurant contribution margin is defined as restaurant contribution as a percentage of company restaurant sales. Restaurant contribution and restaurant contribution margin are supplemental measures of operating performance of restaurants and the calculations thereof may not be comparable to those reported by other companies. Restaurant contribution and restaurant contribution margin have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of results as reported under U.S. GAAP. Management believes that restaurant contribution and restaurant contribution margin are important tools for investors because they are widely-used metrics within the restaurant industry to evaluate restaurant-level productivity, efficiency and performance. Management uses restaurant contribution and restaurant contribution margin as key performance indicators to evaluate the profitability of incremental sales at Del Taco restaurants, to evaluate restaurant performance across periods and to evaluate restaurant financial performance compared with competitors. See the heading entitled "Management's Use of Non-GAAP Financial Measures" for the reconciliation of restaurant contribution to the most directly comparable GAAP financial measure.

Number of New Restaurant Openings

The number of restaurant openings reflects the number of new restaurants opened by us and our franchisees during a particular reporting period. Before a new restaurant opens, we and our franchisees incur pre-opening costs, as described below. Some new restaurants open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. Typically, new restaurants experience normal inefficiencies in the form of higher food and paper, labor and other direct operating expenses and, as a result, restaurant contribution margins are generally lower during the start-up period of operation. Typically, the average start-up period after which new company restaurant sales and restaurant operating expenses normalize is approximately 26 to 52 weeks. In new markets, the length of time before average company restaurant sales and restaurant operating expenses for new restaurants stabilize is less predictable and can be longer as a result of limited knowledge of these markets and consumers' limited awareness of our brand. When we enter new markets, we may be exposed to start-up times that are longer and restaurant contribution margins that are lower than typical historical experience, and these new restaurants may not be profitable and their sales performance may not follow historical patterns.

EBITDA and Adjusted EBITDA

EBITDA represents net income (loss) before interest expense, provision (benefit) for income taxes, depreciation and amortization. Adjusted EBITDA represents net income (loss) before interest expense, provision (benefit) for income taxes, depreciation, amortization and items that we do not consider representative of ongoing operating performance, as identified in the reconciliation table under the heading entitled "Management's Use of Non-GAAP Financial Measures."

EBITDA and Adjusted EBITDA as presented in this quarterly report are supplemental measures of performance that are neither required by, nor presented in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA are not measurements of financial performance under U.S. GAAP and should not be considered as alternatives to net income (loss), income (loss) from operations or any other performance measures derived in accordance with U.S. GAAP or as alternatives to cash flow from operating activities as a measure of liquidity. In addition, in evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we may incur expenses or charges such as those added back to calculate EBITDA and Adjusted EBITDA. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that future results will be unaffected by unusual or nonrecurring items.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of results as reported under U.S. GAAP. Some of these limitations include but are not limited to:

(i) they do not reflect cash expenditures, or future requirements for capital expenditures or contractual commitments;

(ii) they do not reflect changes in, or cash requirements for, working capital needs;

(iii) they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on debt;

(iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;

(v) they do not adjust for all non-cash income or expense items that are reflected in the statements of cash flows;

(vi) they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of ongoing operations; and

(vii) other companies in the industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by providing specific information regarding the U.S. GAAP amounts excluded from such non-GAAP financial measures. We further compensate for the limitations in the use of non-GAAP financial measures by presenting comparable U.S. GAAP measures more prominently.

We believe EBITDA and Adjusted EBITDA facilitate operating performance comparisons from period to period by isolating the effects of some items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. These potential differences may be caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense). We also present EBITDA and Adjusted EBITDA because (i) we believe these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in their industry, (ii) we believe investors will find these measures useful in assessing our ability to service or incur indebtedness, and (iii) we use EBITDA and Adjusted EBITDA internally as benchmarks to compare performance to that of competitors. See the heading entitled "Management's Use of Non-GAAP Financial Measures" for the reconciliation of EBITDA and Adjusted EBITDA to net income (loss).

Key Financial Definitions

Company Restaurant Sales

Company restaurant sales represents sale of food and beverages in company-operated restaurants, net of promotional allowances, employee meals and other discounts. Company restaurant sales in any period is directly influenced by the number of operating weeks in such period, the number of open restaurants, same store sales performance and per-restaurant sales.

Franchise Revenue

Franchise revenue consists of franchise royalty income from franchisees and, to a lesser extent, franchise renewal fees and franchise fees from franchise owners for new franchise restaurant openings. Franchise fees are collected upon signing a franchise agreement and deferred and recognized as revenue over the term of the franchise agreement and franchise renewal fees are deferred and recognized over the term of the franchise renewal agreement. To a lesser extent, franchise revenue also includes pass-through fees for services, such as software maintenance and technology subscriptions, since we are considered the principal related to the purchase and sale of the services to the franchisee and have no remaining performance obligations. The related expenses are recognized in occupancy and other - franchise subleases and other.

Franchise Advertising Contributions

Franchise advertising contributions consist of a percentage of a franchise restaurant's net sales, typically 4%, paid to the Company for advertising and promotional services that the Company provides. The offset is recorded to franchise advertising expenses.

Franchise Sublease and Other Income

Franchise sublease and other income primarily consists of rental income received from franchisees related to properties where we have subleased a leasehold interest to the franchisee but remain primarily liable to the landlord. The related expenses are recognized in occupancy and other - franchise subleases and other. Franchise sublease and other income also includes rental income for closed restaurant properties where we have subleased to a third party but remain primarily liable to the landlord. The related expenses are recognized in restaurant closure charges, net. Franchise sublease and other income also includes information technology hardware such as point of sale equipment, tablets, kitchen display systems, servers, scanners and printers that we occasionally purchase from third party vendors and then sell to franchisees. Since we are considered the principal related to the purchase and sale of the hardware to the franchisee and have no remaining performance obligations, the franchisee reimbursement is recognized as franchise sublease and other income upon transfer of the hardware. The related expenses are recognized in occupancy and other - franchise subleases and other.

Food and Paper Costs

Food and paper costs include the direct costs associated with food, beverage and packaging of menu items. The components of food and paper costs are variable in nature, change with sales volume and are impacted by menu mix and are subject to increases or decreases based on fluctuations in commodity, distribution and transportation costs. Other important factors causing fluctuations in food and paper costs include seasonality, promotional activity and restaurant level management of food and paper waste. Food and paper are a significant expense and can be expected to grow proportionally as company restaurant sales grows.

Labor and Related Expenses

Labor and related expenses include all restaurant-level management and hourly labor costs, including wages, benefits, bonuses, workers’ compensation expense, group health insurance, paid leave and payroll taxes. Like other expense items, we expect labor and related expenses to grow proportionately as company restaurant sales grows. Factors that influence fluctuations in labor and related expenses include minimum wage, paid sick leave and payroll tax legislation, health care and workers compensation costs and the performance of Del Taco restaurants.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses include all other restaurant-level operating expenses, such as rent, utilities, restaurant supplies, repairs and maintenance, credit and debit card processing fees, advertising, insurance, common area maintenance, real estate taxes, third party delivery fees and other restaurant operating costs, including net expenses incurred for employees who are not providing services due to COVID-19.

General and Administrative Expenses

General and administrative expenses are comprised of expenses associated with corporate and regional supervision functions that support the operations of existing restaurants and development of new restaurants, including compensation and benefits, travel expenses, stock-based compensation expenses, legal and professional fees, information systems, corporate office occupancy costs and other related corporate costs. Also included are expenses above the restaurant level, including salaries for field management, such as area and regional managers, and franchise operational support. General and administrative expenses also include legal, accounting, insurance, investor relations and other expenses that are incurred as a public company.

Franchise Advertising Expenses

Franchise advertising expenses consist of the franchise portion of advertising expense.

Depreciation and Amortization

Depreciation and amortization expenses are periodic non-cash charges that consist of depreciation of fixed assets, including leasehold improvements and restaurant and other equipment, and amortization of various intangible assets primarily including franchise rights and capitalized software.

Occupancy and Other – Franchise Subleases and Other

Occupancy and other – franchise subleases includes rent, property taxes and common area maintenance paid on properties subleased to franchisees where we remain primarily liable to the landlord, as well as other franchise expenses related to information technology hardware that we occasionally purchase from third party vendors and then sell to franchisees and recognize in franchise sublease and other income.

Pre-opening Costs

Pre-opening costs are incurred in connection with opening of new restaurants and incurred prior to opening, including restaurant labor related to the hiring and training of restaurant employees, as well as supplies, occupancy costs including cash and non-cash rent expense and other operating expenses directly associated with the opening of new restaurants. Pre-opening costs are expensed as incurred.

Impairment of Goodwill

Goodwill arises from the excess purchase price over acquired net assets, including identifiable intangible assets, in business combinations. Goodwill is not amortized, and is instead reviewed for impairment annually, or more frequently if events and circumstances indicate that it might be impaired. The amount by which the carrying amount of the Company exceeds its fair value is recorded as impairment of goodwill.

Impairment of Trademarks

The Company's trademarks are not amortized, but instead are tested for impairment annually in the fourth quarter of each fiscal year or more frequently if events and circumstances indicate that the assets might be impaired. When events or circumstances indicate the carrying value of the Company's trademarks may not be recoverable, an appropriate impairment charge is recorded. Impairments could increase if performance of the Company is not sufficient to recover the carrying amount of its trademarks.

Impairment of Long-Lived Assets

We review long-lived assets such as leasehold improvements, restaurant and other equipment and operating lease right-of-use assets on a unit-by-unit basis for impairment. When events or circumstances indicate the carrying value of the assets may not be recoverable, an appropriate impairment charge is recorded. Impairments could increase if performance of company-operated restaurants is not sufficient to recover the carrying amount of the related long-lived assets.

Restaurant Closure Charges, Net

Restaurant closure charges, net, consist primarily of (1) rent, property tax and common area maintenance related to previously closed restaurants; (2) the present value of non-lease executory costs for closed restaurants, net of estimated sublease income, including any positive or negative adjustments to these amounts as more information becomes available; and (3) direct costs related to restaurant closures.

Loss on Disposal of Assets and Adjustments to Assets Held For Sale, Net

Loss on disposal of assets and adjustments to assets held for sale, net includes the loss on disposal of assets related to sales, retirements and replacement or write-off of leasehold improvements, furniture, fixtures or equipment in the ordinary course of business, impairment losses to reduce the carrying amount for assets held for sale to estimated fair value less costs to sell, remeasurement losses for assets held for sale reclassified back to held for use, gains or losses associated with sale-leaseback transactions, gains or losses associated with the sale of company-operated restaurants to franchisees and gains or losses from the write-off of right-of-use assets and operating lease liabilities related to the termination of leases.

Interest Expense

Interest expense consists primarily of interest expense on outstanding debt including finance lease obligations and other debt. Deferred financing costs and debt discount are amortized at cost over the life of the related debt.

Other Income

Other income consists of proceeds received on a legal settlement related to construction defects at a company-operated restaurant.

Provision (Benefit) for Income Taxes

Provision (benefit) for income taxes consists of federal and state current and deferred income tax expense.

Results of Operations

Comparison of Results of Operations for the Twelve Weeks Ended March 23, 2021 and Twelve Weeks Ended March 24, 2020

The following table presents operating results for the twelve weeks ended March 23, 2021 and twelve weeks ended March 24, 2020, in absolute terms and expressed as a percentage of total revenue (or company restaurant sales), as compared below:

	12 Weeks Ended				Increase / (Decrease)	
	March 23, 2021		March 24, 2020			
(Dollar amounts in thousands)	**($)**	**(%)**	**($)**	**(%)**	**($)**	**(%)**
Statement of Operations Data:						
Revenue:						
Company restaurant sales	$ 103,578	89.7 %	$ 100,333	91.4 %	$ 3,245	3.2 %
Franchise revenue	5,205	4.5	4,391	4.0	814	18.5
Franchise advertising contributions	3,825	3.3	3,211	2.9	614	19.1
Franchise sublease and other income	2,923	2.5	1,875	1.7	1,048	55.9
Total revenue	115,531	100.0	109,810	100.0	5,721	5.2
Operating expenses						
Restaurant operating expenses:						
Food and paper costs	26,652	25.7 (1)	28,295	28.2 (1)	(1,643)	(5.8)
Labor and related expenses	35,508	34.3 (1)	34,936	34.8 (1)	572	1.6
Occupancy and other operating expenses	24,842	24.0 (1)	24,408	24.3 (1)	434	1.8
Total restaurant operating expenses	87,002	84.0 (1)	87,639	87.3 (1)	(637)	(0.7)
General and administrative	11,261	9.7	9,866	9.0	1,395	14.1
Franchise advertising expenses	3,825	3.3	3,211	2.9	614	19.1
Depreciation and amortization	5,947	5.1	6,137	5.6	(190)	(3.1)
Occupancy and other-franchise subleases and other	2,878	2.5	1,595	1.5	1,283	80.4
Pre-opening costs	196	0.2	233	0.2	(37)	(15.9)
Impairment of goodwill	—	—	87,277	79.5	(87,277)	(100.0)
Impairment of trademarks	—	—	11,900	10.8	(11,900)	(100.0)
Impairment of long-lived assets	—	—	8,287	7.5	(8,287)	(100.0)
Restaurant closure charges, net	412	0.4	494	0.4	(82)	(16.6)
Loss on disposal of assets and adjustments to assets held for sale, net	2	—	122	0.1	(120)	(98.4)
Total operating expenses	111,523	96.5	216,761	197.4	(105,238)	(48.6)
Income (loss) from operations	4,008	3.5	(106,951)	(97.4)	110,959	*
Other expense, net						
Interest expense	721	0.6	1,508	1.4	(787)	(52.2)
Other income	(373)	(0.3)	—	—	(373)	*
Total other expense, net	348	0.3	1,508	1.4	(1,160)	(76.9)
Income (loss) from operations before provision (benefit) for income taxes	3,660	3.2	(108,459)	(98.8)	112,119	*
Provision (benefit) for income taxes	1,029	0.9	(5,991)	(5.5)	7,020	*
Net income (loss)	$ 2,631	2.3 %	$ (102,468)	(93.3)%	$ 105,099	*

(1) As a percentage of company restaurant sales.
* Immaterial/not meaningful

Company Restaurant Sales

Company restaurant sales increased $3.2 million, or 3.2%, for the twelve weeks ended March 23, 2021, primarily due to an increase in company-operated same store sales of 4.9%.

Franchise Revenue

Franchise revenue increased $0.8 million, or 18.5%, for the twelve weeks ended March 23, 2021, primarily due to an increase in franchise-operated same store sales of 14.0% as well as additional franchise-operated restaurants open during 2021 compared to 2020.

Franchise Advertising Contributions

Franchise advertising contributions increased $0.6 million, or 19.1%, for the twelve weeks ended March 23, 2021 and is directly related to franchise revenue.

Franchise Sublease and Other Income

Franchise sublease and other income increased $1.0 million, or 55.9%, for the twelve weeks ended March 23, 2021, primarily due to sublease income related to the sale of six company-operated restaurants to franchisees during 2020, in which we retained the leasehold interest to the real estate, as well as an increase in other income related to information technology hardware that we purchase from third party vendors and then sell to franchisees.

Food and Paper Costs

Food and paper costs decreased $1.6 million, or 5.8%, for the twelve weeks ended March 23, 2021 due to commodity deflation. As a percentage of company restaurant sales, food and paper costs were 25.7% for the twelve weeks ended March 23, 2021 compared to 28.2% for the twelve weeks ended March 24, 2020. This percentage decrease was the result of commodity deflation and menu price increases.

Labor and Related Expenses

Labor and related expenses increased $0.6 million, or 1.6%, for the twelve weeks ended March 23, 2021, primarily due to an increase in company restaurant sales and a California minimum wage increase on January 1, 2021, partially offset by the impact of labor efficiencies and a reduction in workers compensation expense based on lower payments and reserves related to underlying claims activity. As a percentage of company restaurant sales, labor and related expenses were 34.3% for the twelve weeks ended March 23, 2021 compared to 34.8% for the twelve weeks ended March 24, 2020. This percentage decrease resulted primarily from the impact of the same store sales increase including menu price increases, labor efficiencies and reduced workers compensation expense, partially offset by the impact of the increased California minimum wage discussed above.

Occupancy and Other Operating Expenses

Occupancy and other operating expenses increased $0.4 million, or 1.8%, for the twelve weeks ended March 23, 2021, primarily due to increased third party delivery fees and net expenses incurred for employees when not providing services due to COVID-19, mostly offset by reduced advertising, repairs and maintenance, supplies and services expense. As a percentage of company restaurant sales, occupancy and other operating expenses were 24.0% for the twelve weeks ended March 23, 2021 compared to 24.3% for the twelve weeks ended March 24, 2020. This percentage decrease was primarily related to the impact of the same store sales increase including menu price increases and reduced advertising, repairs and maintenance, supplies and services expense, partially offset by increased third party delivery fees and net expenses related to COVID-19.

General and Administrative Expenses

General and administrative expenses increased $1.4 million, or 14.1%, for the twelve weeks ended March 23, 2021, primarily due to higher management incentive compensation, legal fees and stock based compensation expense, partially offset by lower travel expense and executive transition costs. As a percentage of total revenue, general and administrative expense was 9.7% for the twelve weeks ended March 23, 2021 compared to 9.0% for the twelve weeks ended March 24, 2020. The increase as a percent of total revenue was primarily due to higher management incentive compensation, legal fees and stock based compensation expense, partially offset by the impact of higher revenue and lower executive transition and travel costs.

Franchise Advertising Expenses

Franchise advertising expenses increased $0.6 million, or 19.1%, for the twelve weeks ended March 23, 2021 and are directly related to franchise advertising expenses. These amounts offset against franchise advertising contributions included in revenue.

Depreciation and Amortization

Depreciation and amortization expenses were $5.9 million and $6.1 million for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively. The decrease primarily reflects lower depreciation expense related to fully depreciated assets. As a percentage of total revenue, depreciation and amortization expenses were 5.1% for the twelve weeks ended March 23, 2021 compared to 5.6% for the twelve weeks ended March 24, 2020. The decrease as a percent of total revenue was primarily due to lower depreciation expense related to fully depreciated assets and the impact of higher revenue.

Occupancy and Other – Franchise Sublease and Other

Occupancy and other – franchise sublease and other was $2.9 million and $1.6 million for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively. The increase is primarily due to sublease expense related to the sale of six company-operated restaurants to franchisees during 2020, in which the Company retained the leasehold interest to the real estate, as well as an increase in other expenses related to information technology hardware that we purchase from third party vendors and then sell to franchisees.

Pre-opening Costs

Pre-opening costs were $0.2 million for both the twelve weeks ended March 23, 2021 and March 24, 2020 due to a similar level of pre-opening activity compared to the prior year.

Impairment of Goodwill

No impairment charges were recorded during the twelve weeks ended March 23, 2021. The Company recorded a non-cash impairment charge of $87.3 million during the twelve weeks ended March 24, 2020 related to an interim goodwill impairment assessment performed during the first quarter of 2020 in response to changes in business, market and economic conditions resulting from the COVID-19 pandemic coupled with a sustained decline in the Company's stock price, which were indicators of potential goodwill impairment.

Impairment of Trademarks

No impairment charges were recorded during the twelve weeks ended March 23, 2021. The Company recorded a non-cash impairment charge of $11.9 million during the twelve weeks ended March 24, 2020 related to an interim trademark impairment assessment performed during the first quarter of 2020 in response to changes in business, market and economic conditions resulting from the COVID-19 pandemic coupled with a sustained decline in the Company's stock price, which were indicators of potential impairment.

Impairment of Long-Lived Assets

No impairment charges were recorded during the twelve weeks ended March 23, 2021. The Company recorded a non-cash impairment charge of $8.3 million during the twelve weeks ended March 24, 2020 related to the evaluation of long-lived assets underlying eight restaurants in California, Nevada and Georgia which had indicators of impairment.

Restaurant Closure Charges, Net

Restaurant closure charges, net, were $0.4 million and $0.5 million for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively. The decrease was due to lower rent and property tax expense related to previously closed restaurants.

Loss on Disposal of Assets and Adjustments to Assets Held for Sale, Net

Loss on disposal of assets and adjustments to assets held for sale, net was $2,000 and $0.1 million for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively. Current year net loss on disposal of assets and adjustments to assets held for sale primarily related to fixed asset write-offs. Prior year net loss on disposal of assets and adjustments to assets held for sale primarily related to losses on the sale of five company-operated restaurants, an adjustment of $0.5 million related to the reclassification of 14 company-operated restaurants from held for sale to held for use and losses on the closure of one company-operated restaurant, partially offset by a gain of $0.6 million from one sale-leaseback transaction.

Interest Expense

Interest expense was $0.7 million and $1.5 million for the twelve weeks ended March 23, 2021 and March 24, 2020, respectively. The decrease is primarily due to lower average outstanding balances and lower weighted average interest rates during the twelve weeks ended March 23, 2021 compared to the prior year.

Other Income

Other income was $0.4 million for the twelve weeks ended March 23, 2021 and consisted of proceeds from a legal settlement related to construction defect issues at a company-operated restaurant. There was no other income for the twelve weeks ended March 24, 2020.

Provision (Benefit) for Income Taxes

The effective income tax rates were 28.1% for the twelve weeks ended March 23, 2021 and 5.5% for the twelve weeks ended March 24, 2020. The provision (benefit) for income taxes consisted of income tax expense of $1.0 million for the twelve weeks ended March 23, 2021 and income tax benefit of $6.0 million for the twelve weeks ended March 24, 2020. The income tax expense for the twelve weeks ended March 23, 2021 is driven by our estimated annual effective income tax rate which primarily consists of statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits. The income tax benefit for the twelve weeks ended March 24, 2020 is primarily impacted by impairment of non-tax deductible goodwill of $87.3 million and reclassification of $3.5 million of goodwill from held for sale, as well as statutory federal and state tax rates based on apportioned income and the impact of non-tax deductible compensation to executives, partially offset by federal targeted job credits.

Liquidity and Capital Resources

Potential Impacts of Market Conditions on Capital Resources

We believe that cash from operations, together with our cash balance of $7.3 million and available borrowing capacity of $121.6 million at March 23, 2021, will be sufficient to meet ongoing debt service requirements, operating lease obligations, capital expenditures, working capital requirements and other needs for at least the next 12 months. In addition, share repurchases and our quarterly cash dividend may impact our available capital resources. Should our business take longer to recover from the COVID-19 pandemic than we currently anticipate, there are actions we can take to conserve liquidity.

Summary of Cash Flows

Our primary sources of liquidity and capital resources have been cash provided from operations, cash and cash equivalents, and our senior secured credit facilities. Our primary requirements for liquidity and capital are new restaurants, existing restaurant capital investments (primarily maintenance), investments in infrastructure and information technology, interest payments on debt, lease obligations, income tax payments, purchases under our share repurchase program, dividend payments, working capital and general corporate needs. The working capital requirements are not significant since customers pay for their purchases in cash or by payment card (credit or debit) at the time of sale. Thus, we are able to sell many inventory items before we have to pay suppliers for such items since we typically have payment terms for our food and paper suppliers. Our company-operated restaurants do not require significant inventories.

The following table presents summary cash flow information for the periods indicated (in thousands).

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Net cash provided by (used in)		
Operating activities	$ 6,610	$ 12,559
Investing activities	(4,530)	(5,708)
Financing activities	(2,682)	29,866
Net increase in cash	$ (602)	$ 36,717

Cash Flows Provided by Operating Activities

During the twelve weeks ended March 23, 2021, cash flows provided by operating activities were $6.6 million. The cash flows provided by operating activities resulted from net income of $2.6 million, non-cash adjustments for asset depreciation and amortization of $6.0 million, amortization of operating lease assets of $5.3 million, stock-based compensation of $1.4 million and deferred income taxes of $0.2 million, partially offset by net working capital requirements of $8.5 million and other income of $0.4 million.

During the twelve weeks ended March 24, 2020, cash flows provided by operating activities were $12.6 million. The cash flows provided by operating activities resulted from a net loss of $102.5 million, non-cash adjustments for goodwill impairment of $87.3 million, trademark impairment of $11.9 million, long-lived asset impairment of $8.3 million, asset depreciation and amortization of $6.3 million, amortization of operating lease assets of $5.1 million, stock-based compensation of $1.2 million, a loss on disposal of assets and adjustments to assets held for sale of $0.1 million and net working capital requirements of $5.0 million, partially offset by deferred income taxes of $10.1 million.

Cash Flows Used in Investing Activities

During the twelve weeks ended March 23, 2021, cash flows used in investing activities were $4.5 million, which was the result of purchase of property and equipment and other assets of $4.5 million. For the twelve weeks ended March 23, 2021, purchase of property and equipment was $3.6 million, including approximately $3.0 million to maintain or enhance our existing restaurants and information systems and for discretionary investment in equipment, technology and remodeled restaurants, as well as approximately $0.6 million for new restaurant construction. This was partially offset by proceeds received on a legal settlement related to construction defects at a company-operated restaurant of $0.4 million. Additionally, accrued capital expenditures decreased $0.5 million, resulting in net cash paid of $3.7 million related to the purchase of property and equipment during the twelve weeks ended March 23, 2021.

During the twelve weeks ended March 24, 2020, cash flows used in investing activities were $5.7 million, which were primarily the result of purchase of property and equipment and other assets of $8.3 million, partially offset by proceeds from the sale of five company-operated restaurants to a franchisee for $1.2 million and proceeds from the disposal of property and equipment for $1.4 million.

Cash Flows (Used in) Provided by Financing Activities

During the twelve weeks ended March 23, 2021, cash flows used in financing activities were $2.7 million. The cash flows used in financing activities were primarily the result of dividend payments of $1.5 million, the repurchase of 106,049 shares of our common stock for an aggregate purchase price of $0.9 million, payments of tax withholding of $0.2 million related to restricted stock vesting and payments on finance leases totaling $0.1 million. In addition, during the twelve weeks ended March 23, 2021, the Company borrowed $9.0 million on its revolving credit facility and made payments of $9.0 million on its revolving credit facility.

During the twelve weeks ended March 24, 2020, cash flows provided by financing activities were $29.9 million. The cash flows provided by financing activities were primarily the result of borrowing $40.0 million on the revolving credit facility, offset by payments on the revolving credit facility of $10.0 million and payments of tax withholding of $0.1 million related to restricted stock vesting.

Senior Credit Facility

During the fourth quarter of 2019, the Company refinanced the Senior Credit Facility, which provides for a $250 million five-year senior secured revolving facility. The Senior Credit Facility, as amended, includes a sub limit of $35 million for letters of credit. The Senior Credit Facility, as amended, will mature on September 19, 2024.

The Senior Credit Facility, as amended, contains certain financial covenants, including the maintenance of a consolidated total lease adjusted leverage ratio and a consolidated fixed charge coverage ratio. The Company was in compliance with the financial covenants as of March 23, 2021.

As of March 23, 2021, the weighted-average interest rate on the outstanding balance of the Senior Credit Facility was 1.87%. As of March 23, 2021, there were $115.0 million of borrowings under the Senior Credit Facility and letters of credit outstanding of $13.4 million. Unused borrowing capacity at March 23, 2021 was $121.6 million.

Stock Repurchase Program

In February 2016, the Board of Directors authorized a share repurchase program under which we may purchase up to $25.0 million in the aggregate of our common stock and warrants, which expires upon completion of the repurchase program, unless terminated earlier by the Board of Directors. On August 23, 2016, we announced that the Board of Directors increased the repurchase program by $25.0 million to $50.0 million. The Board of Directors authorized an additional increase for the repurchase program effective July 23, 2018 of another $25.0 million to a total of $75.0 million. Purchases under the program may be made in open market or privately negotiated transactions. During the twelve weeks ended March 23, 2021, the Company repurchased 106,049 shares of common stock for an average price per share of $8.92 for an aggregate cost of approximately $0.9 million, including incremental direct costs to acquire the shares. As of March 23, 2021, there was approximately $17.1 million remaining under the share repurchase program. All of the Company's outstanding warrants expired on June 30, 2020. We have no obligations to repurchase shares under the share repurchase program, and the timing and value of shares purchased, if any, will depend on our stock price, market conditions and other factors.

Construction Defect Issues

During the second quarter of 2020, we identified various construction defects related to three closed restaurants in Texas. During the fourth quarter of 2020, we identified a fourth closed restaurant with construction defects. We believe the issues are attributable to defective construction performed by the same general contractor for all four restaurants. We plan to undertake voluntary rehabilitation of the four properties, and while the full extent of voluntary rehabilitation costs are not yet known, we are pursuing legal remedies against the general contractor to recover future incurred costs.

Management's Use of Non-GAAP Financial Measures

A reconciliation of company restaurant sales to restaurant contribution is provided below (in thousands):

	12 Weeks Ended	
	March 23, 2021	**March 24, 2020**
Company restaurant sales	$ 103,578	$ 100,333
Restaurant operating expenses	87,002	87,639
Restaurant contribution	$ 16,576	$ 12,694
Restaurant contribution margin	16.0 %	12.7 %

A reconciliation of income (loss) from operations to restaurant contribution is provided below (in thousands):

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Income (loss) from operations	$ 4,008	$ (106,951)
Less:		
Franchise revenue	(5,205)	(4,391)
Franchise advertising contributions	(3,825)	(3,211)
Franchise sublease income and other	(2,923)	(1,875)
Plus:		
General and administrative	11,261	9,866
Franchise advertising expenses	3,825	3,211
Depreciation and amortization	5,947	6,137
Occupancy and other - franchise subleases and other	2,878	1,595
Pre-opening costs	196	233
Impairment of goodwill	—	87,277
Impairment of trademarks	—	11,900
Impairment of long-lived assets	—	8,287
Restaurant closure charges, net	412	494
Loss on disposal of assets and adjustments to assets held for sale, net	2	122
Restaurant contribution	$ 16,576	$ 12,694
Company restaurant sales	$ 103,578	$ 100,333
Restaurant contribution margin	16.0 %	12.7 %

The following table sets forth reconciliations of net income (loss) to EBITDA and Adjusted EBITDA (in thousands):

	12 Weeks Ended	
	March 23, 2021	March 24, 2020
Net income (loss)	$ 2,631	$ (102,468)
Non-GAAP adjustments:		
Provision (benefit) for income taxes	1,029	(5,991)
Interest expense	721	1,508
Depreciation and amortization	5,947	6,137
EBITDA	10,328	(100,814)
Stock-based compensation expense (a)	1,400	1,225
Loss on disposal of assets and adjustments to assets held for sale, net (b)	2	122
Impairment of goodwill (c)	—	87,277
Impairment of trademarks (d)	—	11,900
Impairment of long-lived assets (e)	—	8,287
Restaurant closure charges, net (f)	412	494
Amortization of favorable and unfavorable lease assets and liabilities, net (g)	(86)	(50)
Pre-opening costs (h)	196	233
Sublease income for closed restaurants (i)	(256)	(250)
Executive transition costs (j)	—	287
Other income (k)	(373)	—
Adjusted EBITDA	$ 11,623	$ 8,711

(a) Includes non-cash, stock-based compensation.
(b) Loss on disposal of assets and adjustments to assets held for sale, net includes adjustments to reduce the carrying amount for assets held for sale to estimated fair value less cost to sell, remeasurement losses for assets held for sale reclassified back to held for use, loss or gain on disposal of assets related to sales, retirements and replacement or write-off of leasehold improvements or equipment in the ordinary course of business, net gains or losses recorded associated with the sale of company-operated restaurants to franchisees, gains from the write-off of right-of-use assets and operating lease liabilities related to the termination of leases and net gains or losses recorded associated with sale-leaseback transactions.
(c) Includes non-cash charges related to impairment of goodwill.
(d) Includes non-cash charges related to impairment of trademarks.
(e) Includes non-cash charges related to impairment of long-lived assets.
(f) Restaurant closure costs include rent expense, non-lease executory costs, other direct costs associated with previously closed restaurants and future obligations associated with the closure of a restaurant.
(g) Includes amortization of favorable lease assets and unfavorable lease liabilities.
(h) Pre-opening costs consist of costs directly associated with the opening of new restaurants and incurred prior to opening, including restaurant labor, supplies, cash and non-cash rent expense and other related pre-opening costs. These are generally incurred over the three to five months prior to opening.
(i) Includes other sublease income related to closed restaurants that have been subleased to third parties.
(j) Includes costs associated with the transition of former Company executives, such as severance expense.
(k) During 2021, other income consists of a legal settlement related to construction defects at a company-operated restaurant.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to market risk from changes in interest rates on our Senior Credit Facility, which currently bears interest at variable rates. As of March 23, 2021, we had outstanding variable rate borrowings of $115.0 million. A 100 basis point increase in the effective interest rate applied to this borrowing would result in a pre-tax interest expense increase of approximately $1.2 million on an annualized basis.

Commodity Price Risk

We purchase certain products that are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions, potential cross-border taxes and tariffs and other factors which are not considered predictable or within our control. Although these products are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements used contain risk management techniques designed to minimize price volatility. In many cases, we believe we will be able to address material commodity cost increases by adjusting menu pricing or making other operational adjustments that increase productivity. However, increases in commodity prices, without adjustments to menu prices, could increase restaurant operating costs as a percentage of restaurant sales. We could also experience price volatility or shortages of key ingredients if our suppliers need to close or restrict operations due to the impact of the COVID-19 pandemic.

Inflation

Inflation has an impact on food, paper, construction, utility, labor and benefits, rent, general and administrative and other costs, all of which can materially impact operations. We have a substantial number of hourly employees who are paid wage rates based on the applicable federal, state or local minimum wage, and increases in the minimum wage will increase our labor costs.

On July 1, 2014, the State of California (where most of our restaurants are located) increased its minimum wage to $9.00 per hour (from $8.00 per hour), and it increased to $10.00 per hour on January 1, 2016. On March 31, 2016, the California Legislature passed legislation which was designed to raise the statewide minimum wage gradually until it reaches $15.00 per hour in 2022 and it was signed into law on April 4, 2016. Under the new California law, minimum wage increased to $10.50 per hour on January 1, 2017, increased to $11.00 per hour on January 1, 2018, increased to $12.00 per hour on January 1, 2019, increased to $13.00 per hour on January 1, 2020, increased to $14.00 per hour on January 1, 2021 and will then increase to $15.00 per hour on January 1, 2022. Based on our current number of restaurants in California, this is expected to impact 329 restaurants in California, of which 208 are company-operated and 121 are franchise-operated, excluding certain California restaurants with local minimum wage requirements that are accelerated compared to the California requirements.

In addition, in September 2015, the Los Angeles County Board of Supervisors approved increases to the minimum wage to $15.00 per hour by 2020 with the first phase of the wage increase to $10.50 effective on July 1, 2016, followed by an increase to $12.00 per hour on July 1, 2017, $13.25 per hour on July 1, 2018, $14.25 per hour on July 1, 2019 and finally to $15.00 per hour on July 1, 2020. Also, in June 2016, the Los Angeles City Council approved a paid sick leave ordinance to provide six days of paid sick leave per year, with carry-over of 72 hours, effective July 1, 2016. These local ordinances impacted 21 company-owned restaurants and 11 franchise-owned restaurants in the City of Los Angeles and in the unincorporated areas of the County of Los Angeles.

On March 14, 2016, the Pasadena City Council adopted an ordinance to increase Pasadena’s minimum wage. Beginning on July 1, 2016, employers with 26 or more employees must pay a minimum wage of $10.50 per hour to all employees who work at least 2 hours per week within Pasadena’s geographic bounds. The minimum wage increased to $12.00 per hour on July 1, 2017 and $13.25 per hour on July 1, 2018. This local ordinance impacted three company-operated restaurants.

On June 7, 2016, San Diego voters voted in favor of an ordinance to increase San Diego's minimum wage rate and allow employees working within the San Diego city limits to earn one hour of paid sick leave for every 30 hours worked. The San Diego City Council certified this minimum wage increase on July 11, 2016 with the increase taking effect on July 11, 2016. Under this ordinance, for any employee who works at least two hours within San Diego city limits, minimum wage increased to $10.50 per hour on July 11, 2016, $11.50 per hour on January 1, 2017, $12.00 per hour on January 1, 2019, $13.00 per hour on January 1, 2020, and the minimum wage rate will increase annually to an amount that corresponds to the prior year's increase, if any, in the cost of living. In addition, the ordinance provides up to five days of paid sick leave and allows unused sick leave to be carried over to the following year. This ordinance impacted five franchise-operated restaurants.

On July 1, 2016, the Santa Monica minimum wage rates increased to $10.50 per hour and allow employees working within the Santa Monica city limits to earn one hour of paid sick leave for every 30 hours worked. The minimum wage increased to $12.00 per hour on July 1, 2017, $13.25 per hour on July 1, 2018, $14.25 per hour on July 1, 2019 and $15.00 per hour on July 1, 2020. This local ordinance impacted one company-operated restaurant.

On November 8, 2016, Arizona voters voted in favor to increase the state minimum wage to $10.00 per hour effective January 1, 2017 (from $8.05 per hour) and to allow employees to earn one hour of paid sick leave for every 30 hours worked effective July 1, 2017. The minimum wage increased to $10.50 per hour in 2018, $11.00 per hour in 2019, $12.00 per hour in 2020, and $12.15 per hour on January 1, 2021. The law provides up to five days of paid sick leave per year. The law impacted 39 franchise-operated restaurants, excluding certain Arizona restaurants with local minimum wage requirements that are higher than the Arizona state requirements.

On January 1, 2021, the minimum wage in Flagstaff, Arizona increased to $15.00 per hour. It will then increase to $15.50 per hour or $2.00 per hour higher than the Arizona state minimum wage, whichever is higher, on January 1, 2022. Starting January 1, 2023, the minimum wage will increase based on the Consumer Price Index or will increase to $2.00 per hour higher than the Arizona state minimum wage, whichever is higher. This local ordinance in Flagstaff impacted two franchise-operated restaurants.

On June 13, 2019, the governor of Nevada signed a bill into law that increases the minimum wage to $8.00 per hour for employers that offer qualified health insurance and to $9.00 per hour for employers that do not offer qualified health insurance, effective July 1, 2020. The minimum wage will increase by $0.75 per hour each year until it reaches $11.00 per hour for employers that offer qualified health insurance and $12.00 per hour for employers that do not offer qualified health insurance in 2024. Additionally, it allows employees working within the state to accrue approximately 0.02 hours of paid leave for each hour worked, which translates to 40 hours of paid leave per year for full-time employees, effective January 1, 2020. This new law impacted 39 company-operated restaurants and nine franchise-operated restaurants.

Other municipalities may set minimum wages above the applicable federal or state standards. The federal minimum wage has been $7.25 per hour since July 24, 2009. Additional federally-mandated, state-mandated or locally mandated minimum wages may be raised in the future. Furthermore, on July 1, 2015, the Healthy Workplaces, Healthy Families Act of 2014 went into effect for California employees, which provides up to three days of paid sick leave for employees who work more than 30 days within a year.

Due to various federal, state and local regulations enacted in response to the COVID-19 pandemic, including enhanced sick leave benefits and relaxed eligibility requirements for unemployment benefits, the Company expects to incur additional labor and related expenses for the duration of the COVID-19 pandemic.

We may be unable to increase our menu prices in order to pass future increased labor costs on to our customers, in which case our margins would be negatively affected, which could have a material adverse effect on our business, financial condition and results of operations. In addition, if our menu prices are increased to cover increased labor costs, the higher prices could adversely affect sales and thereby reduce our margins and profitability.

Critical Accounting Policies and Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that such estimates have been based on reasonable and supportable assumptions and the resulting estimates are reasonable for use in the preparation of the consolidated financial statements. Actual results could differ from these estimates. Our significant estimates include estimates for impairment of goodwill, intangible assets and property and equipment, insurance reserves, restaurant closure reserves, stock-based compensation, contingent liabilities and income tax valuation allowances.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. Management believes that the critical accounting policies and estimates involve the most difficult management judgments due to the sensitivity of the methods and assumptions used. For a description of our critical accounting policies, refer to "Critical Accounting Policies and Use of Estimates" in Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 29, 2020 filed with the SEC on March 11, 2021. There have been no material changes in any of our critical accounting policies during the twelve weeks ended March 23, 2021.

Recently Issued Accounting Standards

See Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, of the notes to the accompanying unaudited consolidated financial statements, included elsewhere in this quarterly report on Form 10-Q, for a description of the recently issued accounting standards.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We have evaluated our disclosure controls and procedures which are based on assumptions. Additionally, even effective controls and procedures only provide reasonable assurance of achieving their objectives. Accordingly, we cannot guarantee that our controls and procedures will succeed or be adhered to in all circumstances.

Under the supervision and with the participation of our senior management, consisting of our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date").

Based on the above evaluation, the Company's management, including our chief executive officer and chief financial officer, concluded that as of the Evaluation Date our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the first fiscal quarter of 2021 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

See Note 15, *Commitments and Contingencies*, of the notes to the unaudited consolidated financial statements for a discussion of our legal matters.

Item 1A. Risk Factors

See "Item 1A. Risk Factors" included in the Annual Report on Form 10-K for the fiscal year ended December 29, 2020 filed with the SEC on March 11, 2021 for a discussion of our risk factors. There have been no material changes to our risk factors.

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

On March 7, 2016, we announced that our Board of Directors authorized a share repurchase program under which we may purchase up to $25.0 million in the aggregate of our common stock and warrants. On August 23, 2016, we announced the Board of Directors increased the repurchase program by $25.0 million to $50.0 million. The Board of Directors authorized an additional increase for the repurchase program effective July 23, 2018 of another $25.0 million to a total of $75.0 million. Purchases under the program may be made in open market or privately negotiated transactions and expires upon completion of the program, unless earlier terminated by our Board of Directors.

During the twelve weeks ended March 23, 2021, we repurchased 106,049 shares of common stock in open market transactions under the share repurchase program for an average price per share of $8.92 for an aggregate cost of approximately $0.9 million, including incremental direct costs to acquire the shares. As of March 23, 2021, there was approximately $17.1 million remaining under the share repurchase program. The amount and timing of additional share purchases, if any, will depend upon a number of factors, including the price and availability of our common stock and general market conditions.

The following table summarizes shares repurchased during the first fiscal quarter ended March 23, 2021. The average price paid per share does not include the cost of brokerage fees or the incremental direct costs to acquire the shares.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value that may yet be purchased under these programs
December 30, 2020 - January 26, 2021	130,566 [1]	$ 8.92	106,049	$ 17,148,983
January 27, 2021 - February 23, 2021	—	$ —	—	$ —
February 24, 2021 - March 23, 2021	—	$ —	—	$ —
Total	130,566			

[1] Includes 24,517 shares withheld upon vesting of restricted stock awards in satisfaction of withholding tax obligations pursuant to the 2015 Omnibus Incentive Plan during the period from December 30, 2020 to January 26, 2021. These shares do not reduce the repurchase authorization discussed above.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
32.2	Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
101.INS	Inline 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	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

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.

DEL TACO RESTAURANTS, INC.

Date: May 3, 2021

/s/ John D. Cappasola, Jr.

Name: John D. Cappasola, Jr.
Title: President and Chief Executive Officer
(principal executive officer)

/s/ Steven L. Brake

Name: Steven L. Brake
Title: Executive Vice President and Chief Financial Officer
(principal financial officer)

Exhibit 31.1

CERTIFICATIONS

I, John D. Cappasola, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Del Taco Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting 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: May 3, 2021

/s/ John D. Cappasola, Jr.
John D. Cappasola, Jr.
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATIONS

I, Steven L. Brake, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Del Taco Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting 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: May 3, 2021

/s/ Steven L. Brake

Steven L. Brake
Executive Vice President and Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION OF PERIOD REPORT

I, John D. Cappasola, Jr., President and Chief Executive Officer of Del Taco Restaurants, Inc. (the "Company"), certify, 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 my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 23, 2021 (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: May 3, 2021

/s/ John D. Cappasola, Jr.

John D. Cappasola, Jr.
President and Chief Executive Officer
(principal executive officer)

Exhibit 32.2

CERTIFICATION OF PERIOD REPORT

I, Steven L. Brake, Executive Vice President and Chief Financial Officer of Del Taco Restaurants, Inc. (the "Company"), certify, 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 my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 23, 2021 (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: May 3, 2021

/s/ Steven L. Brake

Steven L. Brake

Executive Vice President and Chief Financial Officer

(principal financial officer)