

Tavern on the Green: An Entrepreneur's Struggle to keep her Family's Business

Lynn Ruggieri JD, CPA
Roger Williams University

Paul W. Thurston Ph.D.
Siena College

Scott P. Mackey Ph.D.
Roger Williams University

Kristin Cavoores
Roger Williams University

ABSTRACT

Jennifer Oz LeRoy received the request for proposals (RFP) from the New York City Department of Parks and Recreation in February 2009. The Tavern on the Green had been run by her father for more than 30 years. Her father left management responsibility to Jennifer after his death in 2001, when she was only 22 years old. Under Jennifer's leadership the Tavern grew to be the second highest grossing restaurant in the United States and a New York institution. Revenues, however, declined significantly with the news that city leaders were reluctant to renew the license as they had for her father. Jennifer faced a difficult decision given the Tavern's declining revenues. Should she press forward with operations and submit a proposal to Parks to keep her beloved Tavern with her family for the next 20 years or was it time to walk away? She knew that the city wanted a significant increase in rent and substantial capital improvements to the property that would move the Tavern away from its Oz inspired theme back towards its origins as a sheep fold. The choice was difficult. Her father had transformed the Tavern into a New York City icon. She followed in his footsteps and put her heart and soul into the business carrying on his legacy. She wondered whether Parks would attract many bidders. Did she stand a chance? What would her father would want her to do?

Keywords: Entrepreneurship, Going concern, Viability, Family Business, Business Direction

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INTRODUCTION

The February 2009 request for proposals (RFP) left little doubt that The New York City Department of Parks and Recreation (Parks) was seeking a new proprietor for the restaurant Tavern on the Green (Tavern). The LeRoy family operated the Central Park landmark restaurant for more than 30 years under lease to Parks, which owned the land, building, furnishings and equipment. The Tavern was transformed and reopened with much fanfare by Warner LeRoy in 1976, and had been managed after his death in 2001 by his daughter Jennifer Oz LeRoy. Jennifer's middle name, and the inspiration for the Tavern's distinctive décor, was in tribute to Warner LeRoy's father, who directed and produced the classic film, *The Wizard of Oz*. The RFP sought substantial capital improvements that respected the design and architectural intent of the original building, took advantage of the views provided by Central Park, offered improved synergy with the park, included separate kitchens for the restaurant and catering sides of the business, integrated green building technology, and retained the iconic dining venue with a design that was sensitive to the historic architecture. Parks was also insisting that any new vendor retain the 400-plus union employees that currently worked at the restaurant (Parks, 2009).

The RFP indicated that Parks would evaluate submitted proposals based on the rental fee, plans for capital improvement, planned operations, and the proposer's operating experience and financial capability. Warner LeRoy had registered the Tavern on the Green name in 1981 with the U.S. Patent and Trademark Office for restaurant services. The RFP confirmed that if the successful bidder wished to maintain the name, they should pursue permission from the LeRoy estate (Parks, 2009). Jennifer's father had transformed the Tavern into a New York City icon with a Hollywood flair that was all his own. She followed in his footsteps and put her heart and soul into the business where she had worked since she was a teenager (LeRoy, 2009). The lease that her father held for 30 years with the Parks Department would expire in December 2009. The Tavern had been her father's pride and joy. What would he want her to do?

THE TAVERN'S HISTORY – FROM SHEEPFOLD TO THE EMERALD CITY

The Victorian Gothic structure was built in 1870 to house 200 South Down sheep that grazed in Central Park's meadow. The building housed sheep until 1934 when the Parks Commissioner decided it would be better suited as a restaurant. The original Tavern on the Green opened on October 20, 1934 with a coachman in full regalia at the door. New Yorkers welcomed the Tavern, and it quickly became an important part of the city's social life. From the beginning, the restaurant was managed under license with Parks. In 1943, it was transformed into a year-round restaurant. The restaurant's popularity continued to increase and in the late 1950's the building underwent a significant renovation and expansion. During its early years, the Tavern was known for its spacious dance floor that offered nightly dancing to live music, surrounded by elm trees and dazzling lights.

The Tavern was operated by a variety of management companies until 1974 when it was closed. If not for the vision of Warner LeRoy, the Tavern's run may have ended. Jennifer described her father's challenge: "When Warner LeRoy announced his plan to renovate Tavern on the Green in 1974, people thought he was crazy" (LeRoy, 2009). New York City in the mid 1970's was amid a fiscal economic crisis. The city was on the verge of bankruptcy due to the decline of manufacturing and the middle-class exodus to the suburbs. Crime and unemployment rates were increasing as city services were cut back. The city did not have the funds to allocate to

the Central Park area. The grounds became overgrown, and the building was vandalized. Warner LeRoy saw something that no one else did, and embarked on a mission to rejuvenate the old restaurant. It took two years and ten million dollars to create his signature Tavern on the Green, which was described as: "...a magical wonderland, a place of whimsy and fantasy, which would defy the conventional rules of design and taste" (LeRoy, 2009). The people of New York flocked to the newly renovated Tavern. The Tavern grew to serve more than a half million guests annually and business thrived.

FACILITIES AND FARE

The 27,000-square foot restaurant with six elaborately designed dining rooms accommodated 1,500 people. The Crystal room was the most elegant with its 19th century chandeliers. Diners gazed into the gardens of topiary animals through window panes that descended from floor to ceiling. In the evening the topiaries and trees were aglow with thousands of miniature crystal lights. The Chestnut room with its wood beam ceilings, brass chandeliers and scenes from Mervyn LeRoy's 1949 movie *Little Women* had the inviting warmth of a mountaintop ski resort. The Rafters banquet room featured two emerald and crystal chandeliers above a five by seven-foot etched mirror on a carousel. The glass-encased Terrace room provided a view of the park and the restaurant's private gardens. The Park room with its fifty-two-foot mural of Central Park was designed for smaller parties and overlooked the fountain. The Elm room, received its name from the tree it was built around.

Warner LeRoy's Tavern on the Green was as much about the experience as it was the food. In a 1976 interview LeRoy said, "A restaurant is a fantasy, a kind of living theater in which diners are the most important members of the cast" (Asimov, 2001). The Central Park location played a role in creating the fantasy. The setting and décor established the restaurant as a popular location for New York's most prestigious events including Broadway openings and international film premieres. Prominent actors, musicians, politicians, and writers flocked to the restaurant to see and be seen. Tourists made up a large percentage of the visitors. A 1988 renovation expanded the popular Tavern store which carried an assortment of private label merchandise and apparel including t-shirts, sweatshirts, jackets, and chocolate gift sets.

The regionally based menu, with some seasonal and international dishes, appealed to a wide clientele. Popular dishes included roast prime rib, native oysters and lobster bisque. Appetizers ranged from \$11.00 to \$17.00 and entrees ranged from \$22.00 to \$42.00. According to Gault Millau, an influential restaurant guide, "The menus have been put together with great care, and range from simple to elaborate, trendy to traditional ... It would be the rare diner who could not find something appealing here" (Tavern, 2009). The restaurant served as the finish line for the New York City Marathon, and each year the Tavern hosted a pre-race party which served 4,500 pounds of pasta and 2,100 gallons of sauce. Jennifer described this experience in the context of the lease renewal: "There may be other bidders for the Tavern lease who have experience, expertise and success in the restaurant business, but we believe that no other restaurateur can equal what we have to offer: a skilled staff who can welcome 3,500 on Thanksgiving, Christmas, and other holidays; who can prepare and serve a pasta dinner for 20,000 the night before the Marathon, and welcome 35,000 runners the following day at the finish line; a maintenance crew familiar with every inch of our fragile building; an expert horticulturist and landscape team who tend the trees and flowers" (LeRoy, 2009).

THE FOUNDER, WARNER LEROY

Warner LeRoy was the son of Hollywood producer, Mervyn LeRoy, director of *The Wizard of Oz*; and grandson of Warner Brothers Studios founder Harry Warner famed for *Looney Tunes*. LeRoy grew up on the back lots of Warner Brothers Studios and was surrounded by Hollywood elite. It was normal for him to come home from school and see Frank Sinatra or Judy Garland singing at the piano. He even inherited Dorothy's terrier, Toto from the movie.

After graduating from Stanford University, LeRoy worked as an assistant writer-director in New York City. It was here that he realized his passion was the restaurant industry. He opened Maxwell's Plum in 1966, a New York City restaurant with stained-glass ceilings and walls, tiffany lamps, ceramic animals, etched glass, and crystal. The restaurant was an immediate success, serving more than 1,200 customers each day. Maxwell's Plum was the first restaurant to have a formal dining room, bar and casual sidewalk café in a single location. The food earned rave reviews and a four-star rating from *The New York Times*. Maxwell's Plum catered to more than half a million people each year, and was, for more than 20 years, one of the most successful restaurants in the United States.

LeRoy signed a lease with Parks on December 20, 1973 for the Tavern on the Green. He immediately embarked upon a \$10 million renovation which included glass enclosures for the Crystal and Terrace rooms overlooking Central Park, copper and gold-leaf weathervanes created from original 18th century molds, hand-carved wall scones, stained glass, 45 chandeliers, and 14 sandblasted and etched mirrors that he designed himself. The building was transformed from a two-room structure into six rooms, each with a different theme. The restored Tavern re-opened on August 31, 1976. In 1985, Parks did not put the lease out for bid, but instead extended the lease to LeRoy for 25 years. The lease, scheduled to end December 31, 2009, is summarized in Exhibit 1.

THE TRANSFER OF LEADERSHIP

Warner LeRoy's death at age 65 came as a shock to his family. LeRoy left ownership of the family owned business, including the Russian Tea Room and the Tavern on the Green, equally to his four children. Bridget, the eldest at 37, was a writer and mother of three. Carolyn, 29, had previously worked as the Tavern general manager but left to attend graduate school. Max, 25, had worked for his father as the bar manager at the Russian Tea Room, but moved to California in November 2000 to pursue the family's other passion – film. Jennifer the youngest at 22, had dropped out of Fordham University to work for her father, and was serving as the Russian Tea Room's director of operations (Gordon, 2001). LeRoy knew Jennifer shared his passion for the restaurant industry, and even though she was his youngest, he appointed her Chief Executor Officer, and gave her complete control of the family business (see excerpts of his Last Will and testament in Exhibit 2). The will stipulated that so long as Jennifer was willing to manage the business, she would be paid an annual salary of \$250,000, which was contingent on sufficient income to distribute \$100,000 to each of the four children.

The biggest surprise to his four children was how little the estate was worth. Much of the \$48 million estimated estate value was based on the valuation of the restaurants. LeRoy's 8,200 square foot apartment and modern art collection would have to be sold to pay off his \$31 million in debts and estimated \$11 million estate tax. Carolyn, who was handling the estate, said the family's best-case scenario, assuming the apartment sold at the listing price, was to break even.

(Gordon, 2001). The children were not penniless. LeRoy had established trust funds in the \$1 million range for each of them. This still put a lot of pressure on Jennifer and her ability to keep the restaurants profitable. Jennifer's mother, Kay, was confident in her daughter's ability to rise to this challenge. "You couldn't imagine this happening to a girl of 22, but it's happened. I think Jenny is a perfect mixture of daunted and determined" (Gordon, 2001). Jennifer's aunt, Linda LeRoy Janklow, was more cautious. "Clearly, Warner didn't think he was going to die and leave a 22-year-old with this much responsibility. He would have been thrilled if all of them were in it. I know Jenny must be frightened, although she never says that. She's lost her father, who was her mainstay. Her siblings aren't jealous, but they're concerned because there's so much pressure on her." (Gordon, 2001).

GROWING PAINS FOR A YOUNG ENTREPRENEUR

Jennifer began working at the Tavern at the age of 18. She washed dishes, carried crates of produce, rolled 3,000 pats of butter for the daily dinner service, cooked and worked the grill. She shadowed the kitchen expediter, who oversaw organizing orders by table, as he directed the assembly of the thousands of meals prepared each day. After three months Jennifer was promoted to expediter and, through hard work, she slowly gained the respect of her colleagues. She had confidence from her experience at the Tavern and began work at the Russian Tea Room and was quickly promoted to Director of Operations. With this new job came 16 hour days and increased responsibility. The pressure was invigorating and promised her a fulfilling career. "Whether it was the elevator or the air conditioning, it was my job to make sure everything was working properly and ready for that daily curtain to rise. When I first started working in restaurants, I honestly didn't know how I would feel about the business, but I have fallen in love with the chaos and the intensity of restaurants" (LeRoy, 2011). When Jennifer took charge of the family business, many expected her to fail. Gary Coyle, who was executive chef of Tavern on the Green at the time, described Jennifer as someone who was young, never finished college and never went to business school (Fickenscher, 2009).

The Russian Tea Room presented Jennifer her first big challenge. Warner LeRoy bought The Russian Tea Room in 1996 for \$6.5 million, shut it down, gutted the building, and spent four years and \$20 million on restoration. The restaurant reopened in 2000 to little acclaim. In the year prior to LeRoy's death the restaurant grossed \$17 million, which was far below the break-even estimate. To reverse the Tea Room's problems, Jennifer turned to the people she trusted most, her brother and her mother. Her brother Max moved back from California and promised to give Jennifer a year. Her mother Kay took over the two stores at the restaurants. Despite their efforts, Jennifer was forced to close the Russian Tea Room just 17 months after her father's death. A combination of declining revenue caused by the failing economy and the aftermath of the September 11 terrorist attack, along with the construction debt, doomed the enterprise. The restaurant filed for bankruptcy in the summer of 2002.

The experience with the Tea Room may have influenced Jennifer's early actions with the Tavern. Her father, known for his excesses, provided a generous profit-sharing plan for top managers. Jennifer took a more fiscally conservative approach. Shortly after she took over, she restructured the bonus program and fired several top executives, including the managing director, president, and executive chef. Jennifer appointed Michael Desiderio, who had been running the Russian Tea Room, chief of operations. Jennifer did, however, continue with her father's penchant for renovations. She refurbished the massive 13,000 square foot kitchen, installed an

employee cafeteria, and further enlarged the Tavern store. By 2007, Tavern on the Green was the highest grossing independently owned restaurant in the country, with annual gross revenues of nearly \$38 million, and more than half a million visitors each year.

The Tavern store featured designer lines and Jennifer's own line of fashion accessories called JENNY OZ which included crystal accented accessories and apparel. In 2008 Jennifer and her mother, Kay LeRoy, published a book titled *The Tavern on the Green* which, as Jennifer stated, is a fun filled book of recipes intertwined with the history of the Tavern and personal memories: "The Tavern is the premier celebration restaurant in New York that serves as the fairy-tale backdrop for milestone occasions. More than 700,000 guests fill its breathtaking rooms each year. The Tavern sparkles inside and out, 365 days a year, beguiling patrons and passersby with its otherworldly aura" (LeRoy, 2008). Jennifer also considered a variety of expansion possibilities. She opened a restaurant in Wellington Florida, developed a retail line of gourmet sauces, and explored a large-scale restaurant in San Francisco.

Wellington held the possibility to combine her two passions – restaurants and horses in the same locale. Wellington was the home to numerous horse show events including the Winter Equestrian Festival, one of the largest equestrian events in the country. Jennifer was an accomplished equestrian and owned nine horses. Two of her horses, Yellow Brick Road and Courage were in memory of her grandfather's most famous film, *The Wizard of Oz*. Jennifer formed Wellington Tavern Partners, LLC a partnership with several others, and invested \$1 million in renovations. The Tavern on the Green Café opened mid-way through the horse season in November 2006. The restaurant featured a lounge with six television screens, each broadcasting a different ring at the horse show, and a viewing deck overlooking the Grand Prix ring. The décor was like the original New York City Tavern with extravagant chandeliers from the 1800's. Jennifer had high hopes of bringing the unique charm of the New York restaurant to Wellington. The community, however, was only busy during the Winter Equestrian Festival which operated only five months out of the year. Jennifer spent the first winter managing the new restaurant with the hope that the area would eventually grow to support year-long operations. By early 2007 Jennifer's first venture outside the New York market experienced problems. The most significant issue was parking. The restaurant was originally a private club with few members. Jennifer had obtained a special use permit for additional parking but residents appealed the issuance. The town planning board held that the permit should not have been issued which forced Jennifer to close the restaurant.

In mid-2007 Tavern on the Green announced a partnership with the National Center for Missing & Exploited Children (NCMEC) to launch an exclusive line of branded sauces, marinades, and dipping oils. A new company, TavernDirect.com, was responsible for manufacturing, distributing and marketing these gourmet food products, with the goal of donating 25 percent of its profits to NCMEC. Twelve products were initially available, including three signature sauces: the 1870 Steak Sauce, marking the year the Tavern was built; the Central Park Signature Dipping Oil; and the Chandelier Chardonnay Marinade. Products ranged in cost from \$7.99 to \$10.00 for individual bottles and \$33.95 for a box of the three signature products. Gift sets that included wine were also available starting at \$49.95. Jennifer believed the relationship to be a real win-win situation. "Extending our brand name for a cause is the right thing for us to do. By supporting such a worthwhile organization, we have a chance to create a measurable change in the lives of many children and families across the country" (LeRoy, 2008).

In September 2007, the U.S. Equal Employment Opportunity Commission (EEOC) filed a lawsuit against the Tavern for "severe and pervasive harassment" including, one manager's

grabbing of an employee's breasts and buttocks and his repeated use of racial slurs and lewd sexual references. The complaint filed against Tavern on the Green revolved largely around allegations against the restaurant's director of operations. According to the complaint, the manager engaged in "repeated sexual touching" of restaurant hostesses. Other allegations included: sexual harassment of other female employees; the use of racial epithets against black employees; and the harassment of Hispanic employees. The manager denied the allegations and left the Tavern in 2005. That year, he was arrested on misdemeanor charges of sexual abuse and forcible touching. In 2008, the EEOC announced the settlement of \$2.2 million to be paid by Tavern on the Green to at least 50 victims (US District Court, 2008).

San Francisco was known as the food capital of the west coast. Jennifer thought it was the perfect location for the next Tavern on The Green. In mid-2008 Jennifer entered a partnership agreement with two others to create a restaurant in the middle of San Francisco's business and hospitality district overlooking the Yerba Buena Gardens. The planned restaurant, with 30,000 square feet of space and a 13,000-square foot terrace overlooking the park, would have been one of the largest in San Francisco. Jennifer saw the San Francisco opening as a homecoming of sorts, as her grandfather, was born and raised in San Francisco. However, the project did not go beyond the discussion stage because the potential partners had been concerned about the Tavern lease with Parks, which would expire in 2009.

Warner LeRoy was the consummate operator, with ongoing relationships with the political brokers in the city. Those skills, however, did not seem to have passed to his daughter. In February 2008 Jennifer hosted a diner at the Tavern to rededicate the Pavilion room that boasted a 167-foot panoramic mural of Central Park which took an entire year to complete. Noticeably missing from the event were city officials. Warner LeRoy had sufficient political clout to extend his original lease in 1985 for an additional 25 years. This was despite the rocky relationship he created with the City Hall and the Central Park Conservancy when LeRoy had skirted the Landmarks Preservation Commission and built the Crystal Room.

It was unclear why Parks did not offer Jennifer a similar deal or release the RFP earlier than it did. This would have given the Tavern management an opportunity for an orderly transition. Shelley Clark, Tavern on the Green's longtime spokeswoman stated: "Why didn't they do it the year before, when a lot of people had expected it? Why didn't they issue it in 2008, so that a decision could have been made so there could have been a smooth transition?" (Collins, 2009). Rumors suggested that Parks and the Mayor's office were concerned about the LeRoy family finances and Jennifer's business savvy (Collins, 2009). The City may also have been trying to rectify the slight with the Crystal Room. Under the capital improvements section of the RFP, Parks specifically requested plans that retained the dining venue provided by the Crystal Room, but that would provide an alternative that was more sensitive to the historic architecture.

THE DECISION

Jennifer knew that Parks wanted a new proprietor, but she was still optimistic about her chances. The restaurant was a tremendous responsibility and a great deal of work with very long days. "When all those guys see what it's like, they may not want it. Tavern is tremendously complicated, with a 10,000-square foot kitchen and 600 employees. It may be one of the biggest grossing restaurants in America but it costs a fortune to run and it doesn't make that much profit. Last year it cost \$35 million to gross \$38 million" (Green 2008). According to Desiderio, the Tavern spends nearly \$1 million just to maintain the building so it could withstand the 650,000

customers that visit each year. He described the restaurant's electricity bill as "overwhelming," mentioning specifically, "those 600,000 tree lights outside" and unlike most restaurants, "the Tavern paid union wages and benefits" (Collins 2009). Jennifer wondered whether Parks would attract many bidders. Jennifer's likely competitor was Dean Poll, proprietor of Central Park's Loeb Boathouse, and fellow lessee to Parks since early 2000. Poll had restored the Boathouse in a way that satisfied the Conservancy's vision for Central Park. Before reopening the Boathouse for business in 2002 Poll completed a \$6.4 million renovation. After the renovation visitors enjoyed a meal in any season with overhead heating extending the pleasure of dining on the deck overlooking the Lake. Visitors rented rowboats or took rides in a Venetian gondola. The Boathouse restaurant and banquet facility seated 165. Jennifer wondered whether Poll could put together a winning proposal and fulfill the Parks' requirement to retain the 400-plus Tavern union employees.

Tavern's revenues were declining. Jennifer attributed much of the recent downturn to the 2008 financial crisis and Parks' reluctance to renew the license as it had for her father in 1985. The Tavern was consistently among the top grossing restaurants in the United States. Revenues grew under Jennifer's leadership from \$32 million in 2001 to a high of nearly \$38 million in 2007 (see Exhibit 3). In 2008, however, Tavern revenues dropped to \$36M, and with all the uncertainty associated with the RFP, 2009 revenues were projected to drop to \$27 million. The Tavern derived more than half of its sales from high margin banquets and corporate events, which declined with the recession. According Desiderio, the Tavern also had more difficulty booking weddings and other events given the uncertainty over the Parks license. (Collins, 2009).

Jennifer had to make decisions about the Tavern's future as well as those of the related enterprises. Her father had the foresight to register the "Tavern on the Green" name in 1981 with the U.S. Patent and Trademark Office for restaurant services. This was confirmed in the Parks RFP. One option was she could scale back Tavern operations, and minimize the losses through the end of 2009 when the current lease expired. This might preserve some capital for a new Tavern in a different location and lessened the risk for her siblings and Tavern creditors. Her other option was to press forward with operations and submit a proposal to Parks to keep her beloved Tavern with her family for the next 20 years. She knew that the city wanted a significant increase in rent and a substantial capital improvement to move away from her father's over-the-top design. She anticipated that the renovations to the Tavern on the Green required by the RFP would cost \$8.5 million. This was probably the most difficult part of the proposal for Jennifer to accept. Her father had transformed the Tavern into a New York City icon with a Hollywood flair that was all his own. She followed in his footsteps and put her heart and soul into the business carrying on his legacy. She loved the "over-the-top" character that was her father's Tavern on the Green. It appeared the city wanted something that was just the opposite. Was it possible to create a synergy between the past and present? Could she develop a proposal that restored the historic nature of the building and incorporated the elements for which the Tavern had become famous? Could she just walk away? What should she do? What would her father want her to do?

INSTRUCTOR'S MANUAL

CASE SYNOPSIS

It was February 2009 and Jennifer Oz LeRoy just received the request for proposal (RFP) from the New York City Department of Parks and Recreation (Parks). The RFP left little doubt that Parks was seeking a new proprietor and a new direction for Tavern on the Green. The Central Park landmark had been operated for more than 30 years by her family. The Tavern was transformed and reopened by her father Warner LeRoy in 1976. LeRoy left management responsibility to Jennifer after his death in 2001 when she was only 22 years old. Under Jennifer's leadership the Tavern's revenues grew from \$32 million in 2001 to a high of nearly \$38 million in 2007. At that time, the Tavern was the second highest grossing restaurant in the United States. In 2009, however, Tavern revenues were projected to drop over \$10 million to \$27 million and the company was expecting losses for the fiscal year 2009 as well as the first quarter (Oct – Dec) of fiscal year 2010. Jennifer attributed much of the problem to the 2008 financial crisis and Parks' reluctance to renew the license as it had for her father in 1985. The Tavern derived more than half of its sales from higher margin banquets and corporate events which declined with the recession. The Tavern also had more difficulty booking weddings and other events given the uncertainty over the Parks license.

Jennifer faced a difficult decision given the Tavern's declining revenues. Her father had the foresight to register the "Tavern on the Green" name in 1981 with the U.S. Patent and Trademark Office for restaurant services. This was confirmed in the Parks RFP. One option was to scale back Tavern operations to minimize losses through the end of 2009 when the current lease expired. This could have preserved some capital for a new Tavern in a different location and might have lessened the risk for her siblings and Tavern creditors. Jennifer's other option was to press forward with operations and submit a proposal to Parks to keep her beloved Tavern with her family for the next 20 years. She knew that the city wanted a significant increase in rent and a substantial capital improvement to move away from her father's elaborate design. The choice was difficult. Her father had transformed the Tavern into a New York City icon with a Hollywood flair that was uniquely his. Jennifer grew up just a few blocks from the Tavern. She followed in his footsteps and put her heart and soul into the business carrying on his legacy. Could she just walk away? She wondered whether Parks would attract many bidders and what her father would want her to do?

APPROPRIATE COURSES – USE

This case was designed for use in either undergraduate or graduate courses in business strategy or entrepreneurship. The case could also be effectively used in courses with a focus on management, finance or accounting. The case focuses on the decisions and options available to the entrepreneur after a transfer of ownership.

LEARNING OBJECTIVES

Students should be able to:

1. Identify the variety of stakeholders that exist for a family business, describe the stakeholders basic and sometimes conflicting interests, and determine the level of salience each stakeholder should have with the family business' leadership.
2. Employ management and leadership theories to address a leader's level of commitment to the organization, and potential to successfully lead the organization.
3. Evaluate the focus and direction of the business.
4. Estimate additional capital requirements and describe financing options for raising the capital.
5. Evaluate the present and future business viability: What is the bid that Jennifer can afford to submit and is the Tavern a going concern?
6. Develop a recommendation for the business to address the new requirements of the Request for Proposal (RFP), especially with respect to the impact on future profitability.

CONCEPTUAL FOUNDATIONS

The information in the case is based on public comments made in print and digital media by the protagonist, and a book written by her while she oversaw the family business. The information was also derived from the Last Will and Testament of Warner LeRoy, the New York City Department of Parks and Recreation RFP, the lease between New York City and the Tavern, the Tavern on the Green LP proposal and the competing proposals submitted to New York City. Gross receipts and rent paid by Tavern on the Green for 2003-2008 were provided in the request for proposal. Costs of sales, payroll and benefits, and operating expenses were estimated based on data submitted in the proposal.

SUGGESTED CLASSROOM TEACHING PLAN

Some theory needs to be presented to students prior to analyzing the case. We suggest instructors present the models for Stakeholder Analyses, Bases for Family Successor Commitment, and Entrepreneurship depicted in Exhibits IM-1, 2, 3, and 4 prior to the assignment of the case. Depending on the students' proficiency with financial analysis, the instructor may also wish to review these topics.

We suggest giving students a few days to read the case and answer the discussion questions individually in a short paper. The day the assignment is due, instructors could facilitate a discussion leading to a very clear description of the problems faced by the Tavern on the Green. We suggest instructors then organize the students into teams, and ask them to come up with specific recommendations for Jennifer LeRoy. Team proposals could be prepared in the form of an oral presentation or written proposal. The case has been classroom tested with most students advocating for pursuing all means to keep the Tavern while some determined that the business could not absorb the increase in rent under any circumstance. Students also enjoyed a discussion of the case from the point of view of New York City. They found that the greed of the city to dramatically increase the rent resulted in the city losing all the rent. The Tavern went from a successful business to a vacant building. The students felt that the city should have worked

with Jennifer. The students gained an appreciation for the complexity and difficulties in making business decisions and the emotional impact of losing a family business.

There are two important concepts that can help Jennifer with her decisions regarding the RFP. The first involves systematically creating a long-term financial plan and the second, evaluating the business as a “going concern.” Both tie-in to the target of the financial plan (growth or profitability goals). The chapter on Long-Term Financial Planning and Growth of Fundamentals of Corporate Finance by Ross, Westerfield, and Jordan (Ross, 2010) discusses creating a long-term financial plan based on the unifying concept that the goal of a business is to create value for the owners. The basic elements of a company’s financial policy are:

1. The firm’s need for investment in new assets: here it is clear from the City RFP that Jennifer will need at least \$8.5 million in capital to make the upgrades and improvements required by the city.
2. The degree of financial leverage the firm chooses to employ: this decision is one that is secondary to Jennifer’s decision about whether the Tavern is likely to be profitable, “a going concern”, given the increased rent requirements of the City.
3. The amount of cash the firm thinks is necessary and appropriate to pay shareholders: this is where Jennifer (and any other potential owners) must focus attention and decide what level of profitability is acceptable for operating the Tavern.
4. The amount of liquidity and working capital the firm needs on an ongoing basis: this is another decision that is secondary to answering Jennifer’s most basic question of can she meet the City’s requirements while still operating with an acceptable level of profitability.

A lack of effective long-range planning is a commonly cited reason for financial distress and failure. (Ross 2010). Jennifer has been involved in other ventures and did not plan on the lease expiration or the capital improvements required by Parks. What financial goal should Jennifer set? Should the goal be based on growth, profitability, or some combination of both? Her first and most important decision is whether the Tavern on the Green can continue to operate under the new requirements of the City, especially regarding the substantial increase in rent. Her financial plan must address an acceptable level (and measure) of profitability in conjunction with the rent increase. She can review past profitability results and factor in the new cost increase for the Tavern: the new Rent.

While there are several alternative approaches to accomplishing this, we introduce the Percentage of Sales Approach in conjunction with Plug variables. The Percentage of Sales Approach assumes that costs (and resulting profitability) remain constant as sales levels change, and it can be used to quickly evaluate the impact of critical changes in revenues and costs in conjunction with profitability goals. RWJ outlines the Percentage of Sales Approach as well as the use of Plug variables which are essentially variables that may be changed to meet various financial goals.

The authors advocate the use of the Percentage of Sales Approach based on Jennifer’s sales forecast for 2009 of \$27,000,000. Normally, Jennifer should consider varying the sales estimates to include a worst, best, and good scenario, but the focus here is on evaluating if the business can sustain the City’s new rent requirement. Answering this critical question involves constructing a pro forma Income Statement using the maximum level of the City’s new Rent requirements (the greater of \$1.1M or 16% of sales which for a sales level of \$27,000,000 is the 16% of Sales

requirement) to see if the results are profitable. Based on these results, we then suggest that Jennifer use rent as the Plug variable with three levels of profitability (EBITDA):

- 1) the average of the Tavern's historical profitability,
- 2) the Industry average profitability for similar sized restaurants in the New York City area,
- 3) the Break-Even level of profitability (EBITDA equals zero) to estimate the maximum Rent that the business can sustain with zero profitability.

Based on the results of these analyses, Jennifer will be able to make her critical decision of whether to continue operating the Tavern, to try to sell the business, to refocus on one or more of her related ventures, or to exit the business entirely. Independent restaurants have an ownership turnover rate of almost 60% in the first three years of operation (Andringa 2016).

QUESTIONS AND ANALYSIS

1. Identify stakeholders and their basic interests related to Tavern on the Green.
2. Does Jennifer have the commitment necessary to successfully run the Tavern?
3. Use the model proposed by Timmons and Spinelli (2009), and the desired qualities described by Chakravarthy and Lorange's (2008) to assess the opportunity presented by the RFP, and Jennifer's ability to acquire necessary resources and develop her management team.
4. Can the Tavern be a profitable business venture given the new rent and the projected Sales figures?
5. Can Jennifer improve her cost structure to help her meet the new rent level?
6. What is the bid that Jennifer can afford to submit and remain a going concern?
7. What recommendations would you make to Jennifer and why?

DISCUSSION QUESTIONS

1. Identify stakeholders and their basic interests related to Tavern on the Green.

An important first step in the analysis was to focus on the conflicting demands and influences of the many stakeholders involved in the Tavern. Two approaches for stakeholder analysis provided insightful information to the case (depicted in Exhibit IM-1). The three-circle model of family businesses developed by Gersick, Davis, Hampton and Lansberg (1997) suggested that stakeholders could be placed in any one of seven sectors formed by the overlapping subsystems. Stakeholders with multiple connections tended to have more influence in the business. Family members included Jennifer and her three siblings (Bridget, Carolyn and Maximillian) as well as their mother, Kay LeRoy and their aunt, Linda LeRoy Janklow. Owners included the four children of Warner LeRoy and the City of New York. The city owned the land, building, and much of the equipment and furnishings. At the time of the decision Jennifer believed that the family owned the trademark to the name. Business stakeholders included Jennifer and the chief operations officer Michael Desiderio, restaurant employees, suppliers, customers and creditors. The City of New York also moved into the Business sector when they issued the RFP and engaged in the decision on the new lease. Jennifer was the sole occupant of the center (sector 7) having been included in each of the three subsystems. Her siblings (sector 4) and the city in (sector 5) had multiple connections.

The stakeholder model offered by Mitchell, Agle and Wood (1997) provided a method of describing stakeholders' relative salience according to their power to influence decisions, legitimacy of their demands, and the urgency with which they will voice their concerns.

Strength on multiple attributes increased salience. Those with just power and legitimacy were dominant; those with legitimacy and urgency were dependent; and those with power and urgency were demanding. Stakeholders that had power, legitimacy, and urgency were called definitive stakeholders. The process of stakeholder analysis and salience determination was quite subjective, but often informative.

The process was most informative when the analysis was completed from a particular stakeholder's point of view. For example, from Jennifer's perspective her siblings collectively fell in the dominant category. They had legitimate claims to the business, and likely possessed the power to invoke their will, if they chose to act together. Although Jennifer's mother Kay LeRoy had no formal power or legitimacy associated with the Tavern, she may have had some sense of urgency depending on her personal influence on Jennifer and any demands she may have had on Jennifer's attention. Other stakeholders that could be identified as demanding included the partnership groups in San Francisco, California and Wellington, Florida, as well as the relationship with the National Center for Missing & Exploited Children for the Tavern branded food line. Dean Poll, proprietor of Central Park Boathouse LLC could be categorized as a dangerous stakeholder as the competitor with eyes on the license renewal.

During the old lease, Jennifer probably thought the City of New York, Central Park Conservancy and Parks were dormant stakeholders. They had power in that they were the licensor and owned the land and building, but had no real legitimacy or urgency in the business until the license to operate ceased. The city clearly became Jennifer's definitive stakeholder when they chose to solicit alternatives for the license to operate the Tavern. However, they may have been definitive earlier, or at least dominant. Their decision not to release an RFP earlier limited Jennifer's alternatives. If she had focused more on her relationship with Parks and the Conservancy, she might have been able to extend the current contract like her father had done in 1985 or signed a new contract before the current license expired.

Business owners and managers routinely find themselves in situations where their attentive resources are insufficient to satisfy the demands of the various stakeholders. Effective managers allocate their time in ways to immediately satisfy definitive stakeholders and keep dominant, dependent and dangerous stakeholders at bay. For example, the Tavern's creditors had a legitimate right to Jennifer's attention. Jennifer had a wide range of choices as to when and how the attention was given provided the creditors were being paid. Customers also had legitimate rights for attention. They had a certain level of power to choose to leave, not return and provide feedback to others and, could easily develop a sense of urgency if they believed they had been wronged in any way. Effective businesses kept customers in the discretionary category, and away from being a draw on the manager's attention, by catering to their legitimate rights to quality product, prompt and friendly service and a welcoming atmosphere. The same was true for the Tavern employees. Things like sexual misconduct by management caused employees to move from discretionary to definitive.

2. Does Jennifer have the commitment necessary to successfully run the Tavern?

Sharma and Irving's (2005) Four Bases of Family Successor Commitment: Antecedents and Consequences (depicted in Exhibit IM-2) provided a framework for evaluating Jennifer's commitment to the challenge left her by her father. Sharma and Irving argue that because the success of a family business lied in the commitment of the successor it was important to assess both the level and type of commitment the successor possessed.

The model purported that all four types of commitment could increase the likelihood of deciding to pursue a career in the family business; however, only affective commitment had a strong positive relationship with the discretionary behaviors that are required for organizational success. Sharma and Irving proposed that compared to affective commitment, normative and calculative commitment would have weaker relations with discretionary behaviors on the part of successors, and that imperative commitment may even reduce the likelihood of successors exerting efforts beyond the call of duty.

Affective commitment was based on a strong belief in and acceptance of the organization's goals, combined with a desire to contribute to these goals, and the confidence in one's ability to do so. The successor "wants to" pursue such a career. Normative commitment was based on feelings of obligation to pursue a career in the family business. By pursuing a career with the family firm, the successor attempted to foster and maintain good relationships with the senior generation. Successors with high levels of normative commitment felt that they "ought to" pursue such a career. Calculative commitment was based on successors' perceptions of substantial opportunity costs and threatened losses if they did not pursue a career in the family business. Successors with high levels of calculative commitment felt that they "had to" pursue such a career. Imperative commitment was based on a feeling of self-doubt and uncertainty of the ability to successfully pursue a career outside the family business. Individuals with high levels of imperative commitment perceived that they lacked alternatives to a career in the family business. The underlying mind-set in this case was a "need to" pursue such a career. The eight antecedents to the commitment types were used to gain an understanding of the level and type of commitment that motivated Jennifer.

Jennifer likely had a high level of affective commitment to the Tavern. According to Sharma and Irving, family successors would exhibit higher levels of affective commitment to a career in the family business when their individual identity and their career interests were strongly aligned with the firm. LeRoy, in his will, noted Jennifer's "special interest in the Tavern" and Jennifer seemed content with her roles as daughter and as manager. She worked with her father in many aspects of the Tavern's operations and made her own contributions, namely the rhinestone line which she designed for the Tavern store as well as acting as Director of Operations. She appeared to handle the two roles well. Jennifer's career interests also appeared to be aligned with the family business. Research on family business successors indicated that individuals who perceived a fit between their career interests and opportunities available in their family firm, tended to devote their energies to the organization. Jennifer fell in love with the business and considered it her life. She dedicated time working in the trenches so she could learn every aspect of the business and was willing to put in long hours for the success of the business. Jennifer wanted to grow and expand the business and capitalize on her father's vision of the restaurant being like the theatre. She was also looking to expand the Tavern business to other locations. Her personal goals for expanding the Tavern's reach may have created some role conflict with the demands of ensuring the continuing operations of the Tavern.

The evidence given in the case provided a less compelling argument for normative commitment. According to Shamir and Irving, normative commitment was based on an individual's perception that they had an obligation to pursue work in the family business. The evidence in the case suggested that Jennifer accepted the responsibility because she felt it was her destiny rather than an obligation. She desired to work in the family business from a young age and learn everything about it. She was excited about working in the business from the bottom up. Family business successors exhibited high levels of normative commitment when

doing so was consistent with the prevailing familial norms regarding their expected role based on gender or birth-order, compounded by a history of multiple generations in their family business. Neither of these normative pressures appeared to be operating. LeRoy chose Jennifer because of her “interest” and his conviction that she was “best suited to represent the family’s interests in the ownership and operation, not because of her gender or birth order. LeRoy’s last will and testament expressly stated that the operation would continue “as Jennifer is willing”.

Shamir and Irving suggested calculative commitment was based on the perceived cost of leaving the business. Successors exhibited higher levels of calculative commitment when they perceived their family business to be of significant financial value and when they believed that there would be significant social costs of not choosing the family business. Individuals chose to remain because they felt it was the best course of action to ensure a stake in the business. The evidence did not appear to match up with these factors. Jennifer was one of four siblings who shared in the bulk of their father’s \$48M estate. She was wealthy in her own right, and could have walked away from the family business. Further, LeRoy’s Will had a clause stipulating a ceiling of \$250K for Jennifer’s annual salary and a minimum annual profit sharing among the four siblings of \$400K. Jennifer may have fared better financially if she had walked away from the venture.

Jennifer was also unlikely to be operating under imperative commitment. Shamir and Irving suggested that successors with limited exposure to alternate career paths outside their family business and those who perceived they lacked externally marketable skills would choose the family business because they felt they need to stay to be successful. Even though she had not attended college, she had developed a wealth of experience working with her father, and could have gone in different directions. Her preparation would have been applicable to a variety of careers in the services industries.

The analysis of the four bases of commitment provided insight into Jennifer’s motivation for accepting the challenge given her by LeRoy. Jennifer likely had high levels of affective commitment to the Tavern on the Green that was moderated only by her desire to make the enterprise larger than her father’s dreams. Astute students may rely on this evaluation when providing their recommendation to pursue the license renewal. Emotional and inspirational pitches that resonate with Jennifer and her father’s shared goals would likely be more influential than a rational approach that emphasized risk or factors that were simply beyond her control.

3. Use the model proposed by Timmons and Spinelli (2009), and the desired entrepreneurial qualities described by Chakravarthy and Lorange’s (2008) to assess the opportunity presented by the RFP, and Jennifer’s ability to acquire the necessary resources and develop her management team.

Timmons and Spinelli (2009) analyzed successful entrepreneurs and developed a model of the driving factors that dominate the highly entrepreneurial process (see Exhibit IM-3). The model is based on the entrepreneur who searches and finds the opportunity, assembles a team and secures the resources to start a business that begins with opportunity. The success depends on the fit and balance among these. Founders and investors use these factors to analyze the risks and determine what changes can be made to improve a venture’s chance of success. At the center of the framework is a business plan, in which the three basic components are integrated into a strategy for business. The parts must fit together well: a successful venture must have a competent management team, and the members need access to appropriate resources. Chakravarthy and Lorange’s (2008) group the desired qualities of an entrepreneur-manager into

three major categories: skills, personal traits, and professional experience (see Exhibit IM-4). The models complement each other, and can be used to assess Jennifer's situation.

Market demand is the key ingredient to measuring an opportunity. Market demand can be evaluated by considering the amount it costs a business to acquire customers, and, perhaps more importantly, how long it takes a business to recoup these costs once that customer is on board. Also considered is market share, growth potential and is the customer reachable? Opportunity requires an entrepreneur to focus on market readiness and consumer trends. The model holds that a sound business opportunity is important to attract competent and qualified people who can gain access to critical resources that are needed to make the business plan successful. Once the entrepreneur identifies an opportunity, he/she works to start a business by putting together the team and gathering the required resources. The nature of the opportunity determines the size and shape of the team. The model places special importance on the team and considers an expert team indispensable for success. A knowledgeable and competent team can unlock a higher potential with any opportunity and manage the pressures related to growth. The model discounts the popular notion that entrepreneurs first need to have resources in place to succeed, but rather stresses an understanding and marshalling of resources. Successful entrepreneurs devise creative and stingy strategies to gain control of resources. The size and type of opportunity determine the level and extent of resources required. The role of the entrepreneur includes building a good resource base to draw from when required and drawing up a business plan that balances the available resources with the opportunity and the potential of the team (Timmons and Spinelli 2009).

Students will conclude that the Tavern provides a good opportunity. The Tavern is well known in New York City and is a popular tourist destination. It is also a central meeting space for the movie and theatre business. Banquets and weddings are frequently held at the Tavern and business is steady throughout the year. The restaurant has been extremely successful for many years and there is no reason for it not to continue to be successful. The recent downturn in catering income can be attributed to the insecurity surrounding the lease. Once resolved, income should return to previous levels. Students will also recognize that Jennifer has some weakness when it comes to building and delegating to a competent team. While she pursued expansion opportunities in Wellington, Florida, the manager left in charge embroiled the business in a sexual harassment suit which cost the organization \$2 M in a settlement not including legal fees. Jennifer also appeared to be distracted by other activities, including the Florida and California expansions, a jewelry line in the Tavern Store, a website selling sauces and writing a book. A good management team might provide her some sound guidance. Students will also recognize that Jennifer has had some difficulty generating the resources needed for current operations and to support the changes that the RFP has requested. She needs a significant influx of cash to address the improvements and green technology required by the city and Jennifer does not have the required financing in place. To continue operations, students will likely judge that Jennifer will need to formulate a business plan to take advantage of the opportunity, and will also need to quickly develop or recruit a team of experts.

In terms of skills, students will recognize that Jennifer certainly sees the big picture when it comes to expanding the Tavern name and brand. She has taken the initiative and attempted to expand the Tavern to both the south and the west, and used the Tavern brand to launch retail products. Students will likely have a less favorable assessment of her skills to communicate and market the strategy, especially when it comes to communicate the value proposition to her siblings and gain sufficient resources. Students will also provide an unfavorable assessment on

her skills to assemble and motivate a team of experts. When she needed help, she turned to her brother who gave her a year to help with the business and to her mother who provided financial support and took over operations of the store. The problem is that Jennifer is not relying on experts in the profession. She appears to over-rely on family members who do not have relevant expertise in running a restaurant.

In terms of personal traits, Jennifer has shown a propensity to take risks. Jennifer, however, may be too exuberant here. The opening of the Wellington Tavern lacked foresight for the zoning and parking troubles. She also overestimated the restaurant's ability to sustain year-long operations, when the busy season only lasted five months. Students will give Jennifer credit for both her passion and inner fire. There is no doubt Jennifer is passionate about the Tavern and her father knew it, which is why he left management to her. As Jennifer herself said, she fell in love with the intensity and chaos of the restaurant business. Jennifer also demonstrated a high level of skill in action orientation, with the things she did accomplish, but the lack of time dedicated to planning likely hurt her chances to keep the Tavern. She never thought the city would put the lease up for bid. She did not anticipate her rivals for the lease. She did not establish funds or plan for a possible increase in rent. Some of this could be attributed to a high sense of self-confidence. Entrepreneurial projects are risky and can fail. It is important that the entrepreneur-manager learns from her mistakes and either makes mid-course corrections or pulls the plug. Jennifer made a costly mistake by not being prepared when she opened the Wellington Tavern. She did not research the permits needed for parking and as a result had to close the restaurant and lost all the money she invested in it. This should have taught her to research all aspects of the business, including zoning requirements and lease agreements. It is not clear that Jennifer has learned from her mistakes.

As far as professional experience and tenure, students will likely say that Jennifer was lacking, especially compared to her father. Jennifer did not convey the same level of trust that her father had from Parks or the political leadership of the city. Long tenure and varied experience gives the entrepreneur-manager information and access to the company's network of resource holders and power brokers. Entrepreneurs seldom have all the resources they need to deliver on their goals so they must borrow them from elsewhere in the organization. It takes time to know who the best sources are for these resources. Here Jennifer is lacking simply because of her age. She does have experience in all the facets of the restaurant, having worked her way through the ranks but she does not have her father's skills in networking or her father's access to power brokers. Her father could extend the lease term easily where Jennifer could not. The City did not deal with her as they did with her father. A venture capitalist, when deciding to invest, would be looking at the track record of the manager and here Jennifer has a weakness.

Summary – What stands out in both the Timmons model and Entrepreneur-manager model is that she tried to accomplish everything herself. She needs at least an expert negotiator to work with the city. Her biggest advantage is that she employs hundreds at a working union wage and with that there are higher taxes paid by both the Tavern and the employees to the city. This should be used as a negotiating tool with the city. The competitor restaurants pay a higher rent but they pay a lower wage. The Tavern's payments to the city include not only rent but taxes from higher salaries. The city clearly thinks this is important because continued union employees is a stipulation in the RFP. Jennifer needs a negotiator that can stress the importance that with higher wages there are higher taxes paid to the city and this should be factored in when considering the Tavern's payments to the city of New York.

4. Is the Tavern a profitable business venture given the new rent and the projected sales figures?

Some students may feel that the Tavern is a personal quest on the part of Jennifer. This question is designed to help students analyze the business opportunity of continuing the Tavern with the new rent expense using an entrepreneurship model. The City insists on increasing the rent to equal that paid by Loeb's Boathouse which may be insurmountable at its current level of operations. As a percentage of Sales, this would equal an increase in rent from 3.5% to 16% - a roughly 400% increase in the current rent. The Industry Average of rent as a percentage of Sales is approximately 6%.

Industry statistics are a valuable tool when analyzing expenses. The utilization of this technique has been developed and illustrated by Moncarz and Kron whose work focuses on using industry statistics as a management tool to isolate problem areas requiring managerial attention to prevent potential business failure. (Moncarz & Kron 1995). An analysis of the rent costs paid to the City by the Tavern and its competitors are shown as a percentage of sales, in IM-5.

Tavern has been enjoying significantly lower rent levels than its competitors. The City has imposed a requirement on the Tavern to pay a rent level equal to that of Loeb's Boathouse (the greater of \$1.1M or 16% of sales, which for the sales level predicted for 2009, results in Rent equal to 16% of Sales). The sales figure estimated by Jennifer represents a decrease in sales of 26% which she has stated is due to prevailing poor economic conditions and loss of banquet functions due to the uncertainty of the lease. The historical financial results for the Tavern are presented in IM-6 in both dollar amounts and as a percentage of sales.

The Percentage of Sales Approach, with data from the Tavern RFP, was used to create the results shown in IM-7. This gives Jennifer a context of how the Tavern has performed in the past as well as a target level of profitability – the profitability measure used here is EBITDA, Earnings Before Interest, Taxes, Depreciation, and Amortization. EBITDA is a useful performance measure because it focuses on profitability without including the effects of financing the business (the choice of and sources of capital), accounting method effects (amortization choices and schedules), or tax regulation effects.

The pro forma Income Statement for the Tavern for 2009 is shown in IM-7 (first column) using Jennifer's estimate of sales, the average percentage of sales results from IM-5 and the required rent expense equal to 16% of sales. The conclusion is that increasing the Rent to 16% of sales results in a negative operating result (as measured by EBITDA) of nearly \$1.2M. Clearly, this is not a viable result. In the three columns to the right of the Proposed Rent results, we have used rent as the Plug variable to meet three profitability (EBITDA) criteria: 1) the historical Tavern average profitability, 2) the Industry average profitability for similar size restaurants in New York City, and 3) the Break-Even profitability (zero operating profit). This depicts the amount of rent the Tavern can pay and still achieve the desired profitability.

IM -8 shows the results of the rent comparison in IM-5 for profitability (EBITDA) and rent, both expressed as a percentage of sales. The labels refer to the three target EBITDA figures presented in IM -7 using the rent level as the Plug variable – that is, the rent is calculated based on a target EBITDA result. This allows Jennifer to see that given her past operating cost structure the rent level proposed by the City is far too high. She makes no operating profit at a rent level of about 12% of sales, and that for her to reach the Industry average profitability of 4.1% of sales (EBITDA/Sales) her rent can increase from about \$1.275M (historic average) to about \$2M (column 3 in IM-7), or about \$725,000 annually. This provides her with a perspective with which she can both view her business operations and negotiate rent with the City in her RFP.

Jennifer must decide what level of profitability she is willing to accept in continuing to operate the Tavern on the Green. If she is to successfully raise the \$8.5M in additional capital for the required improvements, she must show potential investors stronger financial figures.

5. Can Jennifer improve her cost structure to help her meet the new rent level?

IM-7 shows the Break-Even rent level (the Plug variable) for the Tavern to have zero operating profitability. This rent amount is: \$3,164,603

(1) Break-Even Rent = Gross Receipts – Cost of Sales - Payroll & Benefits – Operating Expenses = \$3,164,603, which is 11.7% of Gross Receipts (Sales).

The question is if Jennifer can make some cost-saving changes to meet two constraints: 1) the new rent (16% of sales), and 2) an acceptable operating profit level (EBITDA). The cost savings variables are: Cost of Sales, Payroll & Benefits, and Operating Expenses. The calculation resulting in EBITDA is shown below for clarity:

(2) Operating Profit (EBITDA) = Gross Receipts – Cost of Sales – Payroll & Benefits – Operating Expenses – Rent.

If she treats the cost variables as one Plug variable with Gross Receipts and rent fixed, she can calculate the cost saving Plug variable to meet her Operating Profit goal. She has two reasonable Operating Profit values: 1) the Tavern historical average of roughly \$3M and the Industry average of 4.1% of Sales, or about \$1M.

(3) Estimate 1 of Savings Plug: $EBITDA = \$3,000,000 = \$27,000,000 - Savings\ Plug1 - 0.16 \times \$27,000,000$, which reduces to:
 $Savings\ Plug1 = \$27,000,000(1 - 0.16) - \$3,000,000$
 $Savings\ Plug1 = \$19,680,000$

(4) Estimate 2 of Savings Plug with target EBITDA = \$1,000,000:
 $Savings\ Plug2 = \$27,000,000(1 - 0.16) - \$1,000,000$
 $Savings\ Plug1 = \$21,680,000$

(5) Historical Costs (averages of Cost of Sales + Payroll & Benefits + Operating Expenses) = \$32,127,490

(6) This represents a dollar savings of roughly \$10 to \$12M in cost savings.

(7) As a percentage of historical costs this represents a savings of about 33% to 39%.

The cost savings of this level (at least a 33% savings) will require Jennifer to make drastic changes to her current operations. Is this reasonable to expect, especially given the specifications of the City of using Union employees and retaining most of these employees? Cost savings on this level are unlikely to be attainable within the constraints of the City and without ruining the high level of customer expectations for their experience at the Tavern. Percentage of sales figures for similar size restaurants within the New York City area are shown in IM-9 along with the corresponding figures for the Tavern.

There are major differences between Tavern and averages provided by (Bizminer.com) for similar restaurants. Negative values for the difference figures shown are areas where the

Tavern's costs are less than the Industry Average, while positive values represent areas where the Tavern's expenses/revenues are higher than those of similar restaurants. The two major areas in which the Tavern shows cost savings versus the Industry are: 1) Cost of Sales and 2) Operating Expenses. The area where the Tavern's costs are significantly higher than those of the Industry is Payroll & Benefits – it is also important to note that the Tavern's average Gross Profit is significantly higher than that of the Industry.

The conclusion one can draw from the data in IM-9 is that the Operating Profit (EBITDA) for the Tavern has been 3.5% higher than that of the Industry and this is approximately the same as the difference in total rent, 2.5%. The Tavern has been enjoying relatively low operational expenses and high profitability despite its higher-than-average Payroll & Benefits costs. It is therefore unlikely that Jennifer will be able to achieve the \$10 to \$12 million in cost savings necessary for her to remain at reasonable profitability levels (EBITDA) while supporting the increased rent that the City is requiring. This is especially true considering her drastic reduction in Gross Profit projection for 2009 and into 2010 (a reduction of about \$7M).

6. What is the bid that Jennifer can afford to submit and is the Tavern a going concern?

As stated Jennifer's EBITA average for the previous five years is 8.2%. If Jennifer drops down to the industry average EBITA of 4.1% the maximum bid she can submit is a rent increase to 7.6%, an increase of over 100% from the current rent expense. However, the additional issue here is the major capital renovations required by the City in the amount of \$8.5 million. Jennifer would have to borrow the funds for the capital improvements. However, Jennifer does not own the facility, the city does, so an increase in capital improvements will not equate to an increase in assets. Investors or lenders would be looking to future profits as security for the loan investment. A basic amortization of debt in the amount of \$8.5 million for a twenty-year term at an interest rate of 3% shows an additional \$45,500 monthly payment of interest and principal that the business would need to pay. The interest expense for the first year of the debt would total \$202,500 which would increase her costs in addition to the rent increase.

Investors and creditors will look to the audited financial statements for the Tavern when deciding to invest or loan the Tavern capital. Financial statements are prepared under Generally Accepted Accounting Principles (GAAP) and are prepared under the presumption that the reporting organization will continue to operate as a going concern. Going concern is roughly defined as an accounting assumption that an entity has the resources needed to continue to operate indefinitely. The going concern basis of accounting is critical to financial reporting and must be disclosed in the notes to the financial statements. The FASB (Financial Accounting Standards Board) provides a going concern assessment period of one year from the date of the financial statements. If there is substantial doubt management must disclose the going concern problems and mitigating plans in the notes to the financial statements. The chapter on Activities Required in Completing a Quality Audit of Auditing a Risk-Based Approach to Conducting a Quality Audit by Johnstone Gramling and Rittenberg (Johnstone, 2013) states that auditors must carefully analyze all factors that indicate a possible going concern issue and determine if management has a plan to address them. Potential indicators of going concern problems include

- Negative trends, such as recurring losses, working capital deficiencies, negative cash flows from operating activities and adverse key financial ratios
- Internal matters, such as loss of key personnel, employee strikes, outdated facilities and products, and non-economic long-term commitments

- External matters, such as new or pending legislation, loss of a key franchise or patent, loss of a principal customer or supplier and uninsured or underinsured casualty loss
- Other miscellaneous matters, such as default on a loan, inability to pay dividends, restructuring of debt, violation of laws and regulations, and inability to buy from suppliers on credit
- Significant changes in the competitive market and the competitiveness of the client's products

In the case of the Tavern financial statements and consideration of the factors listed above the Tavern would have to disclose the possibility that it will not be able to continue as a going concern. If Jennifer is going to try to borrow the funds necessary for the capital renovations she must provide lending institutions audited financial statements. An auditor would conclude that there is significant doubt that the entity could continue as a going concern. There is the significant loss of banquet customers which is causing a projected net loss in the upcoming year. The Tavern will also have a deficiency of working capital if the rent increases to 16%. The lease for the facility terminates at the close of the year. There is no guarantee that the business will be able to continue without winning the lease from the City and Jennifer is unable to pay what the City is looking for in terms of rent and there is also uncertainty about her ability to raise the capital needed for required renovations.

7. Develop a recommendation for the business to address the new requirements of the Request for Proposal (RFP), especially with respect to the impact on future profitability.

As discussed previously, Jennifer has a gross profit percentage of 76% which is significantly higher than higher industry standard which indicates that she is effectively managing her Cost of Sales and her revenues are high. The problem, besides the increase in rent, lies in her Payroll & Benefits. Jennifer had indicated that there are significant costs to maintaining the Tavern citing the enormous number of lights and the horticulture staff as examples. Her payroll is significantly higher than the Industry Average at roughly one half of revenues. She had stated that there is a union that represents the over 400 workers and that they are paid a higher than normal wage. It is also often the case for unionized employees to enjoy higher benefits than non-unionized works.

This case demonstrates the complexity of risk that entrepreneurs face. Barney (2001) notes that a firm "is said to be risky when its future value cannot be characterized by a single point, but rather must be characterized by a probability of possible outcomes. "Jennifer clearly does not have the funds to place a bid on the lease as it stands. In addition to the increase in rent demanded by the City and the forecasted drastic decrease in revenues, the Parks is also requiring major costly renovations/improvements. Her only option if she wants to bid is a significant influx of cash. The fact that the lack of the entity's ability to continue as a going concern must be disclosed in the financial statements will hinder her ability to borrow capital (Debt).

There are several options available, one of which was to scale back Tavern operations and therefore minimize losses through the end of 2009 when the current lease expires. This could preserve some capital for a new Tavern in a different location and might decrease the risk for her siblings and Tavern creditors. This choice, however, would have been difficult for Jennifer to accept given her family connections and her desire to continue the legacy of her father.

Another option is to press forward with operations and submit a proposal to Parks to keep her beloved Tavern with her family for the next 20 years. She knew that the City wanted more

rent and a substantial capital improvement to move away from her father's over-the-top design. She could submit a bid at 7.5% (of Sales) for rent explaining that it would be a 100% increase to the City and make a case that she has the experience to run the Tavern since revenues increased under her leadership. She could try to convince the City that it would be risky for them to switch owners because customers were loyal to the Tavern.

Astute students may rely on her commitment when providing their recommendation to pursue the license renewal. Emotional and inspirational pitches that resonate with Jennifer and her father's shared goals would likely be more influential than a rational approach that emphasized risk or factors that were simply beyond her control. But even if she were to win the lease it is unlikely that she would remain in business very long with the proposed increase in rent that the City wants in conjunction with the economically depressed economic environment.

EPILOGUE

Three proposals were submitted to Parks. Jennifer's Tavern on the Green LP proposed \$8.5 million in capital improvements and estimated nearly \$91 million in fees to Parks with \$38.5M guaranteed. Dean Poll proposed \$25M in capital improvements and estimated \$57 million in fees. The third proposal was offered by Seth Greenberg of Sterling Group Management. In August 2009, after several days, Parks awarded the 20-year lease to rival Dean Poll stating that Poll's bid was dramatically more detailed and achievable.

Tavern on the Green closed its doors, completing 34 years of operation by the LeRoy family. Not long after losing the bid, Jennifer announced that LeRoy Adventures, LLC, was filing for Chapter 11 bankruptcy protection. Nearly \$8 million was owed to creditors including \$1.9 million to Jennifer's mother Kay LeRoy who lent the company money in the last year of operations to purchase food and make payroll.

Poll immediately ran into disagreements with the powerful union that represented Tavern employees. Negotiations broke down, and Poll walked away from the contract to operate the facility and the doors remained closed for over a year. In October 2010, the city partially reopened the Tavern as an outdoor food court and visitor's center. Four gourmet food vendors moved into the courtyard with service from trucks from 10 a.m. to 10 p.m. Each vendor paid between \$50,000 and \$100,000 for the year. The visitor center and food court closed in June 2012 as the city planned a nearly \$10 million renovation at taxpayer expense.

In March 2010 the United States District Court for the Southern District of New York, ruled that the trade name was owned by the City of New York and not Warner LeRoy because the City had leased a restaurant in that location called Tavern on the Green since 1934. Parks signed a new lease with the Philadelphia-based Emerald Green Group in 2013. The choice was controversial because the proprietor's sister was married to a former deputy mayor. The new facility, once renovated, seated 300 diners and employed 120 people, a fraction of the Tavern that was run by the LeRoy family. The owners projected revenues of \$17.5 million in 2014 and projected \$38.7 million in fees over a 20-year lease.

Jennifer appealed the District Court decision and in June 2015 Jennifer Oz LeRoy won the rights to the Tavern on the Green trademark outside of New York and is currently planning to open a Tavern on the Green in Wellington, Fla., near Palm Beach, and a line of Tavern on the Green products. The 350-seat restaurant will accommodate equestrian activities and is scheduled to open in fall of 2016.

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Exhibit 1 City Parks Department Lease Agreement

The Commissioner grants a license to operate on property of the City a concession for the conducting, management and operation of a cabaret and the sale of food and beverage. The license shall be operated in the Borough of Manhattan, City of New York in the areas and or buildings described as follows: The TAVERN-ON-THE-GREEN, located in Central Park near West 67th Street. The Licensee shall pay the following Annual License Fees for each year of operation authorized under this License:

<u>Fiscal Years</u>	<u>Annual Fee</u>	<u>Annual Percentage Fee</u>
1984–1987	\$ 500,000	2.5% of Gross Receipts in excess of \$20,000,000
1987–1992	\$ 600,000	2.5% of Gross Receipts in excess of \$24,000,000
1992–1997	\$ 700,000	3.5% of Gross Receipts in excess of \$20,000,000
1997- 2002	\$ 800,000	2.5% of Gross Receipts in excess of \$22,857,143
2002- 2009	\$1,000,000	3.5% of Gross Receipts in excess of \$28,571,429

It is expressly understood that no land, building, space, improvement, or equipment is leased to Licensee, but that during the term of the license, Licensee shall have the use of the licensed premises for the purpose provided. The Licensee shall have the right to occupy the premises assigned to it and operate the licensed premises and to continue in possession to the terms of the agreement.

Source: Lease Agreement between LeRoy Adventures Inc. and the City of New York Department of Parks and recreation. Contract No. 052-M, May 16, 1985.

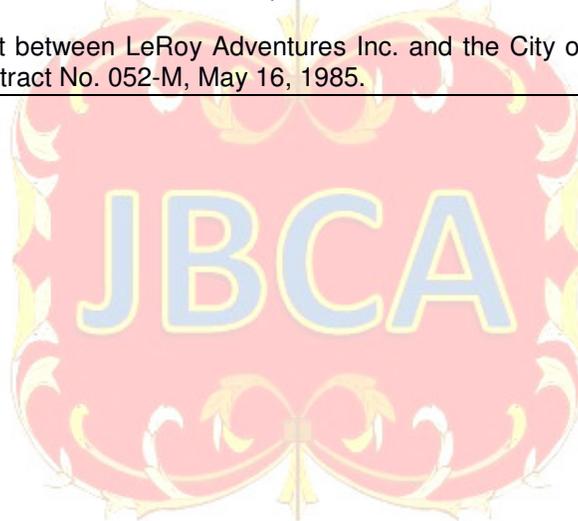


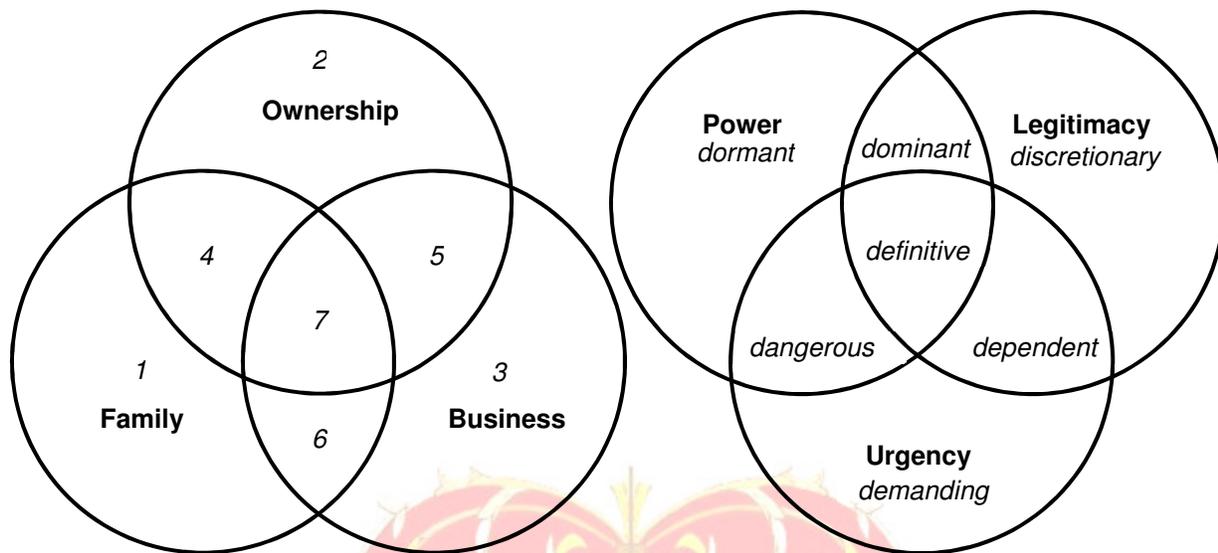
Exhibit 2 Excerpts from last will and testament for Warner Lewis LeRoy, 11/2/2000

- a) Notwithstanding any other provisions of this, my Last Will and Testament to the contrary, because of Jennifer's special interest in Tavern on the Green ... and because of my conviction that she is best suited to represent the family's interests in the ownership and operation of the Restaurants, I direct my Executors and Trustees to continue the operation of the Restaurants for as long as Jennifer is willing to do so and to take all steps necessary to continue the operations of the restaurants under the supervision of Jennifer as Chief Executive Officer.
- b) So long as Jennifer is willing to act as CEO of the Restaurants and does so act, she will be paid the annual sum of \$250,000 as her combined compensation ... provided that after payments to her of said compensation, there is available for distribution to Bridget, Carolyn, Maximilian and Jennifer (my children) operating net income determined in accordance with generally accepted accounting principles consistently applied in an amount not less than \$400,000 per annum. In any year in which the amount available for distribution to my children is less than \$400,000, Jennifer's compensation from the Restaurants shall be reduced by the amount necessary to enable the distribution to my children ... If Jennifer's compensation from the Restaurants in any year is so reduced, it may not be increased in future years to make up the shortfall ...
- c) If for any reason the steps I have taken and those to be taken are not adequate to implement the directions set forth above, then I direct my Executors and Trustees to take any and all steps, including but not limited to placing the interest of my children held by my Executors and/or Trustees in the Restaurants in voting trusts or similar vehicles and entering into or authorizing the execution of employment agreements and any other instruments which may be required to implement my directions. Jennifer shall have complete operating control. If other members of the family wish to be included in operations of the Restaurants this shall be at Jennifer's discretion but it is my wish and I request that she give them every opportunity to participate and if they do participate they shall be paid such reasonable compensation as Jennifer shall determine is fair and reasonable. None of this should be construed as any preference for Jennifer over my other children, all of whom I love equally, but rather as a practical solution which I believe will benefit the family. Unfortunately, there can only be one boss. If the family, with Jennifer's consent, thinks the Restaurants or any of them should be sold, then the proceeds shall become part of my Residuary ...



Exhibit 3 Selected Financial Data						
Fiscal Year	2003	2004	2005	2006	2007	2008
Gross Receipts	34,478,647	37,062,177	37,282,399	35,452,952	37,982,874	36,240,800
Cost of Sales	8,274,875	8,894,922	8,947,776	8,508,708	9,115,890	8,697,792
Gross Profit	26,203,772	28,167,255	28,334,623	26,944,244	28,866,984	27,543,008
Payroll & Benefits	16,447,865	16,706,218	16,278,240	16,545,295	16,798,287	16,624,080
Operating Expenses	6,723,932	6,853,109	6,864,120	6,772,648	6,899,144	6,812,040
Base Rent	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Variable Rent	206,753	297,176	304,884	240,853	329,401	268,428
EBITA	1,825,222	3,310,751	3,887,379	2,385,447	3,840,153	2,838,460
Tavern on the Green						
Operating Year	Annual Minimum Fee	Reported Gross Receipts		Rent Paid		
2002-2003	\$1,000,000	\$34,478,647		\$1,206,754		
2003-2004	\$1,000,000	\$37,062,177		\$1,297,176		
2004-2005	\$1,000,000	\$37,282,399		\$1,304,884		
2005-2006	\$1,000,000	\$35,452,952		\$1,240,853		
2006-2007	\$1,000,000	\$37,982,874		\$1,329,401		
2007-2008	\$1,000,000	\$36,240,800		\$1,268,428		
Loeb Boathouse						
Minimum annual fee of \$1.1 million vs. 16% of gross receipts						
2007 Gross Receipts	\$15,973,575	2007 Rent Paid	\$2,555,772			
Lease Term 10/1/2000 to 10/31/2021						
Terrace on The Park, Flushing Meadows Corona Park						
Minimum annual fee of \$2 million vs. 20% of gross receipts						
2007 Gross Receipts	\$9,399,629	2007 Rent Paid	\$2,000,000			
Lease term 6/30/1998 to 3/31/2020						
Battery Gardens, Battery Park						
Minimum annual fee of \$250,000 vs. 10% of gross receipts						
2007 Gross Receipts	\$7,596,806	2007 Rent Paid	\$759,680			
Lease terms 1/16/2004 to 1/7/2020						
<p><i>Notes: Gross receipts and rent paid by the Tavern on the Green from 2003 - 2009 were provided in the Parks Request for Proposal, NY Parks Department February 2, 2009. The Tavern paid base rent of \$1M, plus variable rent of 3.5% of gross receipts in excess of \$28.6M.</i></p>						

Exhibit IM-1 Two Approaches to Stakeholders Analysis



Note. Three-Circle Model of Family Businesses on left (Gersick, Davis, McCollom, Hampton, & Lansberg, 1997); and Model of Stakeholder Salience on right (Mitchell, Agle, & Wood, 1997).

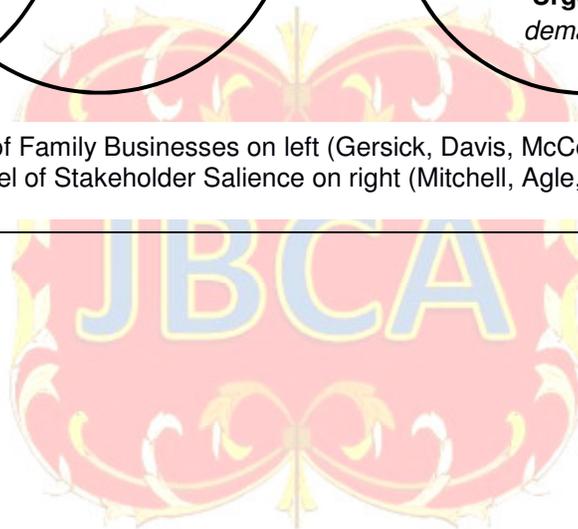
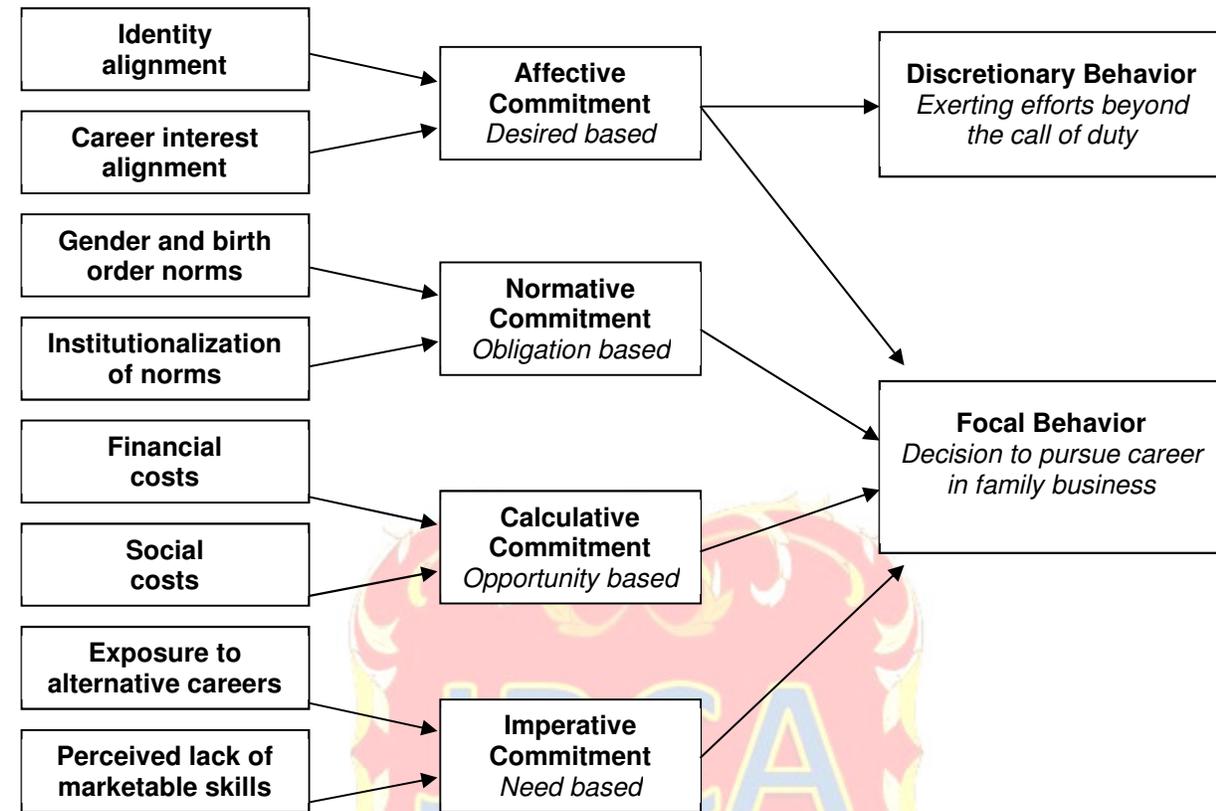
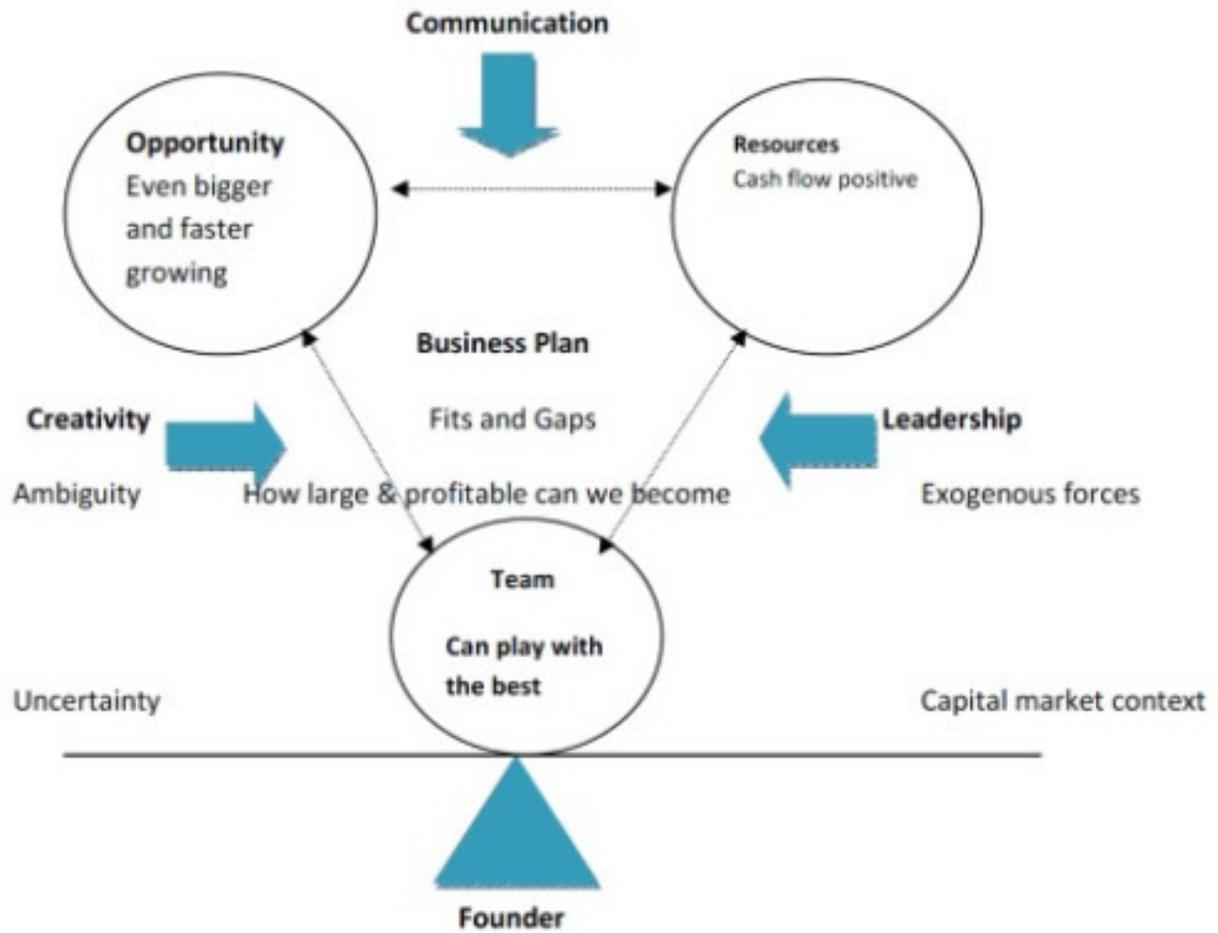


Exhibit IM-2 Four Bases of Family Business Successor Commitment: Antecedents and Consequences



Note. Exhibit adapted from Sharma and Irving (2004), Four Bases of Family Business Successor Commitment: Antecedents and Consequences, Entrepreneurship Theory and Practice, Volume 29, Issue 1, pages 13-33. All paths reflect a positive relationship between antecedents and consequences.

Exhibit IM-3 Timmons Model of Entrepreneurship



Source: (Timmons and Spinelli, 2009).

Exhibit IM-4 Qualities of an Entrepreneur-manager

1. Skills
 - See the big picture and shape strategy
 - Communicate and market the strategy
 - Manage the stakeholders, gain support and mobilize resources
 - Assemble and motivate a team of experts
2. Personal Traits
 - Propensity to take risks
 - Passion and inner fire
 - Action orientation
 - Self-confidence
3. Professional Experience
 - Established track record – freedom and trust
 - Long tenure and varied experience

Source: (Chakravarthy and Lorange 2008).

Exhibit IM-5 Rent Comparison

Rent Comparison	Tavern	Battery	Terrace	Loebs Boathouse
Rent Paid	1,329,401	759,680	2,000,000	2,555,772
Gross Sales	37,982,874	7,596,806	9,399,629	15,973,577
Rent (% of Sales)	3.5%	10.0%	21.3%	16.0%

Exhibit IM-6 Tavern Historical Financial Results						
Fiscal Year	2003	2004	2005	2006	2007	2008
Gross Receipts (Sales)	34,478,647	37,062,177	37,282,399	35,452,952	37,982,874	36,240,800
Cost of Sales	8,274,875	8,894,922	8,947,776	8,508,708	9,115,890	8,697,792
Gross Profit	26,203,772	28,167,255	28,334,623	26,944,244	28,866,984	27,543,008
Payroll & Benefits	16,447,865	16,706,218	16,278,240	16,545,295	16,798,287	16,624,080
Operating Expenses	6,723,932	6,853,109	6,864,120	6,772,648	6,899,144	6,812,040
Base Rent	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Rent 3.5% of Gross receipts	206,753	297,176	304,884	240,853	329,401	268,428
EBITDA	1,825,222	3,310,751	3,887,379	2,385,447	3,840,153	2,838,460
Total Rent Paid	1,206,753	1,297,176	1,304,884	1,240,853	1,329,401	1,268,428
Cost of Sales	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Gross Profit	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Payroll & Benefits	47.7%	45.1%	43.7%	46.7%	44.2%	45.9%
Operating Expenses	19.5%	18.5%	18.4%	19.1%	18.2%	18.8%
Total Rent	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
EBITDA	5.3%	8.9%	10.4%	6.7%	10.1%	7.8%

Exhibit IM-7 Pro Forma Income Statement for 2009 and Various Profitability Targets

Scenarios	Proposed Rent	Target EBITDA with Rent as Plug Variable		
	2009	Tavern Avg = 8.2%	Industry Avg = 4.1%	Break-Even = 0
Gross Receipts (Sales)	27,000,000	27,000,000	27,000,000	27,000,000
Cost of Sales	6,480,000	6,480,000	6,480,000	6,480,000
Gross Profit	20,520,000	20,520,000	20,520,000	20,520,000
Payroll & Benefits	12,294,366	12,294,366	12,294,366	12,294,366
Operating Expenses	5,061,031	5,061,031	5,061,031	5,061,031
Rent	4,320,000	950,603	2,057,603	3,164,603
EBITDA	(1,155,397)	2,214,000	1,107,000	0
EBITDA (% of Sales)	-4.3%	8.2%	4.1%	0.0%
Total Rent Paid (% of Sales)	16.0%	3.5%	7.6%	11.7%

Note. We have expressed the rent paid (Total rent Paid) and the resulting EBITDA as a percentage of sales to more easily understand the results. These results are also shown graphically below in IM-8.

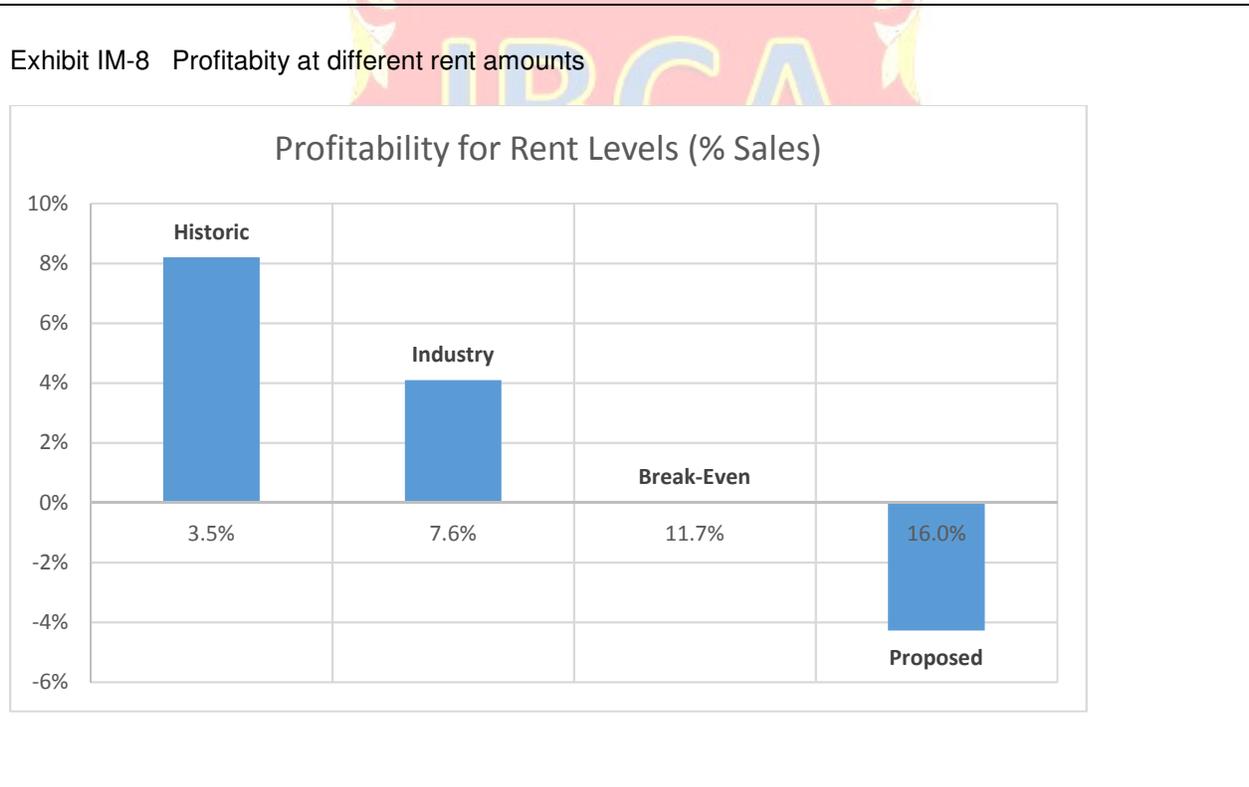


Exhibit IM 9 - Tavern Data vs. Industry Averages

	Tavern Avg	Industry Avg	Difference
Cost of Sales	24.0%	45.2%	-21.2%
Gross Profit	76.0%	55.0%	21.0%
Payroll & Benefits	45.5%	21.6%	24.0%
Operating Expenses	18.7%	53.0%	-34.2%
Total Rent	3.5%	6.0%	-2.5%
EBITDA	7.6%	4.1%	3.5%

Note. Payroll & Benefits Industry Average = Officers compensation + Salary + Benefits

