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The Five Star Quarterly Review

★ ★ ★ ★ ★ Fall 2007

One Restaurant or One Thousand

Why Adopt Brand Strategy Management?

We've seen it before. A successful restaurant fades, as others step up and take the business.

What happened? Apparent symptoms indicate the restaurant lost its value, became obsolete and was passed by competitors. But, the real problem may be that leaders neglected their Brand.

This article intends to convince you to manage your business with a Brand Strategy perspective. The reason is simple. The restaurant's future depends on it. In this complex and competitive world, a disciplined and professionally managed Brand Strategy process can make the critical difference.

Brand Strategy. What is it? Why is it important? How do you get one?

Brand Strategy Management is both a mindset and a process. The underlying premise is to commit to a business culture of directing the Brand and its evolution through the lens of the guest. Conceiving a Brand is a start. Building the Brand, making it work and making it last requires commitment.

The Dictionary of Business and Management defines "Brand" as "a name, sign or symbol used to identify items or services of the seller and to differentiate them from goods of competitors." Walter Landor writes, "Simply put, a Brand is a promise. By identifying and authenticating a product or service, it delivers a pledge of satisfaction and quality."

A Brand is the internalized sum of perceptions that creates an identity in the mind of the consumer. Brand management is about sustaining what consumers value, creating competitive distinctiveness and fulfilling the promise the Brand has created. Every action that affects perception requires attention. The quality and awareness level of this identity determines whether a consumer will choose your restaurant when the moment of decision arrives.

Brand Strategy Management employs a plan to achieve evolutionary success and provide the basis for leaders to positively affect guest perceptions. It becomes the touchstone for all decisions affecting perception, a key training tool and an important control as responsibilities are delegated. It is the blueprint for consistency, success and longevity.

The CEO is accountable for the business's long term financial well

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Our Hospitality Team

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{ On the Scene - Tap House Grill - It's No Mere Beer Joint

Every journey begins with the first step. Paul Reder took his when he opened the first Tap House Grill in Bellevue, Washington in 2002. A mere five years later, Reder's journey has taken him to downtown Seattle and recognition as one of Puget Sound's *40 Under 40*. With no end in sight, the adventure continues on. . .

With two locations (one in downtown Bellevue, the other in downtown Seattle), the Tap House Grill features a unique dining experience for everyone. Call it progressive; call it urban; call it Northwest; call it what you'd like, this grill features some of the best steak, seafood, sushi, pasta, desserts, and let's not forget. . . BEER.

Guests can choose from 160 beers on tap. From Aktien Jubilaums Pilsner to North Coast Old Rasputin Imperial Stout, light or dark, the Tap House Grill reputedly offers the largest selection of draft beer in the Northwest. And if you consider yourself worthy, you might be ready for the Tap House Honor Society. This includes a selection of beers that aren't for the faint of heart.

So, take a break from your day - lunch, dinner, or happy hour - and visit the Tap House Grill at either of its locations. Sit back, sample one (or several) of the 160 beers on tap, and finish off the night with desserts from heaven or hell, depending on your dietary inclinations. Then stay a while in the cozy atmosphere and dream up the first steps of your next journey.

By: Melissa Benner
Clothier & Head, PS
Marketing Coordinator

{ New Auditing Standards - Ready to Weather the Storm?

The auditing storm has arrived, complete with a new set of standards that must be followed for auditing non-public companies. Many of the elements of the Sarbanes-Oxley Act, passed in 2002, have now trickled down to non-public entities. These new standards require that audits of non-public companies be performed much differently than in the past. Companies with fiscal years beginning after December 15, 2006 are subject to these new standards. The goal of the new audit requirements is to set standards in place that respond to the evolving needs of the profession, while maintaining the integrity of the audit process.

So what does this mean for an audited non-public company?
Some companies will see dramatic changes, while others may not see much change at all. The impact will vary depending on whether a documented and effectively designed internal control system has been in place, as tested by a prior engagement team. If a control system is in place, the non-public company may find only a small change in the audit process. However, if there is no documented internal control system, the changes to the audit process may be more significant. In either case, companies should plan their audit budgets accordingly to account for potential increases due to additional work that may be required.

One particular change that should be expected is the shift in a portion of the audit work regarding the understanding of the business, its environment, and its internal controls, to a time period prior to the fiscal year-end date of the company. As the new standards require certain understandings and risk assessments in order to plan the final audit procedures, the audit team will need to be on site more than once a year. Auditors will request the company to further clarify the organization's responsibilities regarding accounting functions, financial reporting and monitoring of all processes. Companies should anticipate the involvement of more experienced audit team personnel.

Inquiry alone is no longer sufficient.
When it comes to understanding the company and evaluating the design of its internal control system, the new standards mandate that inquiry only is no longer sufficient. No longer is it acceptable, in most cases, for the auditor to ask a question and accept a verbal response as evidence. A variety of additional procedures must be performed, including a walkthrough of the systems, observation of the actual procedure being performed or examination of relevant documentation.

Communication of deficiencies in internal control.
The new standards now require the communication to management and those charged with governance identified significant deficiencies and material weaknesses. In the past, many weaknesses in internal controls were informally communicated to management. In many cases, this meant a simple verbal discussion between management and the audit team. The new standards change this approach, requiring written communication within 60 days of the report release

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date. Management may wish, or be required by a third party, to prepare a written response to this letter addressing a corrective action over the deficiencies identified.

Deficiencies in the internal control system may be identified over the course of the audit. They can arise as the auditor obtains an understanding of the internal control system, assesses risks, performs further audit procedures and/or communicates with management. The deficiencies will be evaluated to determine whether they could result in a failure to prevent or detect, and correct, a misstatement of the financial statements. Once that determination is made, deficiencies are classified as control deficiencies, significant deficiencies or material weaknesses. Professional judgment is always used when evaluating the severity of the deficiency.

Constant communication is the key to success.
While the new standards mandate the most sweeping auditing changes in decades, the key to weathering the storm is constant and consistent communication between the audit team and the client. Remember, the standards affect both the audit approach and the client. We anticipate companies will find that they can come out ahead with better control systems resulting in further reliance on financial data. Companies can ensure success through effective communication, making implementation as efficient and smooth as possible.

By: Jason Filippini, CPA
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being. This responsibility extends to the health of the Brand Strategy, to champion its importance and to be the final word. Enduring Brand strength requires continual attention and occasional fine tuning as the landscape affecting restaurants changes. Proposed Strategy adjustments are to be contemplated deliberately considering evolving consumer expectations, new technologies and a shifting competitive environment. Brand evolution is essential, and the Brand Strategy is the compass for advancement.

A Brand Strategy is created through an analytical process involving market assessment, competitive evaluation, stakeholder vision and guest insight.

These findings become the foundation for shaping Brand perception, its promise, and how it should be nurtured. Defining a Brand is one thing. To be passionate about building, living and evolving a Brand Strategy is another. Effective Brand Strategy Management requires discipline, commitment and heart.

In the next issue we delve into the process of building a Brand Strategy and will focus on positioning, value proposition and concept personality.

By: Rick Giboney
Giboney Associates
Concept Strategy Specialist

{ Small Business & Work Opportunity Act of 2007

We would like to update you on a couple of recent federal tax law changes which may impact your 2007 tax planning. These changes were contained within the "Small Business and Work Opportunity Tax Act of 2007" signed into law on May 25th by President Bush.

- The Work Opportunity Tax Credit was scheduled to expire for individuals who begin work for an employer after December 31, 2007. The new law extends this expiration date to September 1, 2011, and makes changes to various definitions of a qualified employee.
- The limit on expensing the purchase of furniture, fixtures, and equipment was increased to $125,000 for 2007 (up from $112,000). The starting point for phasing-out the ability to claim this expense, was increased to $500,000 of such purchases (up from $450,000).
- For Tip Credits arising in 2007 and beyond, there has been an increase in the amount of Tip Credit that can be claimed. Based upon the technical explanation prepared by the *Joint Committee on Taxation*, in most (but not all) situations, taxpayers will be able to claim the full Tip Credit arising in 2007 tax year, and for each following year. Unfortunately, any unused Tip Credits accumulated in prior years, do not fall under the new Tip Credit rules. The old rules still apply to those credits.

Summary of Tip Credit changes:

For Individuals and Corporations, the Alternative Minimum Tax (AMT) no longer limits the amount of Tip Credit that can be claimed. AMT still limits any Tip Credits carrying forward from earlier years.

Another limitation is as follows: The current year Tip Credit cannot reduce your tax liability below 25% of your regular tax liability in excess of $25,000.

Here is an example, to help explain these new Tip Credit rules:

Assumptions:

- Assume regular 2007 federal tax liability (before credits) is $175,000.
- Assume 2007 AMT tax is otherwise calculated to be $150,000.
- Assume the 2007 Tip Credit is $70,000.
- Assume there are $200,000 of prior year Tip Credits carrying forward into 2007.

Application of new rules:

- The regular tax liability in excess of $25,000, is $150,000 ($175,000 regular tax liability - $25,000).
- 25% of that excess, is $37,500 ($150,000 x 25%). Therefore, at a minimum $37,500 of tax will still have to be paid.
- Since AMT does not limit the amount of allowable Tip Credit arising in 2007, the full 2007 Tip credit of $70,000 can be claimed.
- By claiming the $70,000 of current year Tip Credit, the tax liability is reduced to $105,000 ($175,000 regular tax liability - $70,000 of 2007 Tip Credits).
- Since this $105,000 of tax is less than the otherwise calculated 2007 AMT tax of $150,000, none of the prior year Tip Credits carrying forward into 2007 can be utilized to further reduce the 2007 tax liability.
- Total tax due for 2007 is $105,000, and the unused Tip Credits from prior years continue to carry forward into the future.

If you would like to discuss how these new rules affect your specific situation, please contact me at 206.622.1326 or at rfinafrock@c-h.com.

By: Richard A. Finafrock, CPA, CHAE
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Senior Tax Manager

On the Calendar

Sunday, October 28, 2007 to Tuesday, October 30, 2007 - Las Vegas, NV
The Restaurant Finance Monitor's 18th Annual Restaurant Finance & Development Conference held at Caesars Palace

Monday, October 29, 2007 - Bellevue, WA
The Washington Restaurant Association hosts the 2007 Chefs' Fest to Benefit East King County YWCA held at the Hyatt Regency

Thursday, November 15, 2007 - Seattle, WA
Greater Puget Sound Chapter of the Hospitality Financial and Technology Professionals Monthly Meeting hosted by the Tap House Grill in Seattle

Thursday, December 13, 2007 - Seattle, WA
Greater Puget Sound Chapter of the Hospitality Financial and Technology Professionals Monthly Meeting hosted by the Fairmont Olympic Hotel in Seattle

On the Bookshelf - Recommended Reading

Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant
By: W. Chan Kim and Renee Mauborgne

The Tipping Point: How Little Things Can Make a Big Difference
By: Malcolm Gladwell

Good to Great: Why Some Companies Make the Leap. . .and Others Don't
By: Jim Collins

Now Discover Your Strengths
By: Marcus Buckingham and Donald O. Clifton

Getting Them to Give a Damn: How to Get Your Front Line to Care about Your Bottom Line
By: Eric Chester

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