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8 Attorneys for Defendants D AND T RESTAURANTS, INC., a California Corporation; MCSURF,
9 INC., a California Corporation; BLADE ENTERPRISES III, Inc., a California Corporation; BLADE
10 ENTERPRISES IV, Inc., a California Corporation; BLADE ENTERPRISES V, Inc., a California
11 Corporation; BLADE ENTERPRISES VI, Inc., a California Corporation; BLADE ENTERPRISES VII,
12 Inc., a California Corporation; BLADE ENTERPRISES VIII, Inc., a California Corporation

13 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
14 **COUNTY OF LOS ANGELES**

15 EFRAIN VIVEROS, as an individual and on
16 behalf of all employees similarly situated,,
17
18 Plaintiff,

19 v.

20 D AND T RESTAURANTS, INC., a
21 California Corporation; MCSURF, INC., a
22 California Corporation; BLADE
23 ENTERPRISES III, Inc., a California
24 Corporation; BLADE ENTERPRISES IV,
25 Inc., a California Corporation; BLADE
26 ENTERPRISES V, Inc., a California
27 Corporation; BLADE ENTERPRISES VI,
28 Inc., a California Corporation; BLADE
ENTERPRISES VII, Inc., a California
Corporation; BLADE ENTERPRISES VIII,
Inc., a California Corporation; and DOES 1
through 50, inclusive,,
Defendants.

Case No. 23STCV10019

DECLARATION OF JIM HOWARD

Assigned to: Hon. Maren Nelson
Department: 17
Complaint Filed: May 4, 2023
Trial Date: None set

DECLARATION OF JIM HOWARD

I, Jim Howard, hereby declare as follows:

1. I am a Certified Public Accountant practicing in Mission Viejo, CA. I have provided accounting services to the Defendants D AND T RESTAURANTS, INC., a California Corporation; MCSURF, INC., a California Corporation; BLADE ENTERPRISES III, Inc., a California Corporation; BLADE ENTERPRISES IV, Inc., a California Corporation; BLADE ENTERPRISES V, Inc., a California Corporation; BLADE ENTERPRISES VI, Inc., a California Corporation; BLADE ENTERPRISES VII, Inc., a California Corporation; BLADE ENTERPRISES VIII, Inc., a California Corporation (collectively the "Defendants") for approximately/over 15 years.

2. I certify based on my knowledge of the Defendants' finances and accounts the following:

There are several factors that will limit the ability of the Defendants' ability to pay a settlement:

- a. In order, to be in compliance with their McDonald's Franchise Lease and License Agreement, McDonald's Corporation requires its franchisees to maintain certain levels of Operating Standards, Food Safety, Customer Service, Physical Plant and Equipment and Financial Viability Standards. Failure to comply with these requirements can result in the termination of the Franchise Agreement.
- b. To satisfy the Physical Plant and Equipment Standard, the Defendants will be required to make the following reinvestments between 2024 and 2026 totaling \$5,593,000: 3 side by side drive thru projects at an estimated cost of \$1,080,000, 6 lobby remodel projects at an estimated cost of \$2,100,000, 6 Service Area Optimization and equipment projects at an estimated cost of \$900,000, 14 interior media players at an estimated cost of \$140,000, ODMB 22 Boards at an estimated cost of \$773,000, 14 HLS equipment at an estimated cost of \$350,000, 2 Mac 7 equipment at an estimated cost of \$130,000 and 3 air conditioning units at an estimated cost of \$120,000.
- c. The minimum wage in California is increasing to \$20 per hours for the quick service restaurant industry. McDonald's Corporation estimates that this change, effective April, 2024, will reduce the annual cash flow of each restaurant by \$250,000. The total

1 impact on the Defendant's cash flow is estimated to be \$3,500,000 (14 x \$250,000.

2 d. To comply with McDonald's Financial Viability Standards, the Defendants are
3 required to maintain a minimum score of 6 on a 10-point scale to measure financial
4 viability based upon four financial metrics. These metrics are: (1) the cash flow
5 coverage ratio, which is designed to measure the Defendants' ability to generate cash
6 to cover debt service. This metric is calculated by starting with pre-debt cash flow,
7 subtracting actual G&A and draw and dividing the result by annual debt service. This
8 metric will be severely impacted by the minimum wage increase. (2) Estimated Net
9 Equity, which measures the net worth of the business. This metric is calculated by
10 starting with restaurant value (computed by starting with pre-debt cash flow less
11 standard G&A times 5.25) less net debt. This metric will also be negatively impacted
12 by the minimum wage increase. (3) Liability Turn Over Ratio which measures working
13 capital reserves and the ability to pay bills. This metric is calculated by dividing current
14 working capital by average annual sales. This metric will be impacted by cost of
15 required reinvestment and the cost of the settlement. (4) Leverage, which measures the
16 ability to obtain financing to grow and reinvest in the business. This metric is
17 calculated by dividing balance sheet debt by pre-debt cash flow less actual G&A and
18 Draw. This metric will also be negatively impacted by the minimum wage increase.

19 3. I have personal knowledge of the facts set forth herein. I could and would testify
20 competently thereto if called upon to do so.

21
22 I declare under penalty of perjury under the laws of the State of California, that the foregoing
23 is true and correct.

24 Executed on March 11, 2024, in Mission Viejo, California.

25
26 
27 Jim Howard
28

STATE OF CALIFORNIA)
) ss
COUNTY OF LOS ANGELES)

On the date indicated below, I served the document described as: **DECLARATION OF JIM HOWARD** on the interested parties in this action by sending a true copy thereof to interested parties as follows and as stated on the attached service list:

Attorneys for Defendants D AND T RESTAURANTS, INC., MCSURF, INC., BLADE ENTERPRISES III, Inc., BLADE ENTERPRISES IV, Inc., BLADE ENTERPRISES V, Inc., BLADE ENTERPRISES VI, Inc., BLADE ENTERPRISES VII, Inc., BLADE ENTERPRISES VIII, Inc.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct. Executed on March 13, 2024 at Glendale, California.

Thom

Signature