



**National
Franchise
Sales**

Franchise Connection

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Newsletter for Franchisees, and Small Chain Owners

Alan Gallup

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Dividing the Financial Pie

By: Jim Rohn

I believe real-life economics must be one of the most glaring omissions in our educational system. I say this because in my travels to lecture throughout the world, I constantly run into otherwise well-educated people -- doctors, lawyers, top corporate personnel, even entrepreneurs -- who haven't the vaguest idea as to how to manage their finances.

So if you will indulge me, I would like to share a simple formula of how money should be allocated for the creation of wealth.

Taxes –

Yes, I did say taxes. I realize that the topic of taxes may seem like a strange place to begin the discussion of creating wealth. And yet throughout our lives, whether young or old, we must learn the necessity of paying taxes. And as soon as they have any money at all, our children, too, must learn that when they spend money they immediately become consumers. And all consumers of goods and services, no matter how young, must pay taxes. Why?

Because we have all agreed to live as a society, and for that society to function properly, there are some things we cannot do for ourselves alone. For example, we cannot each build a piece of the street. The machinery would be too expensive, and it would take too long to learn how to use it. So we have a government. And a government is made up of people who do things for us that we cannot or do not want to do ourselves. Because the streets, the sidewalks, the police, and the fire department must all be paid for, we've agreed to add some money each time we buy something and give it to the government.

We then move on to federal taxes. Here is a good way to explain federal taxes. I call it "The Care and Feeding of the Goose

that Lays the Golden Eggs." It's so important to feed the goose -- not to abuse the goose or tear off its wings -- but to feed and care for it.

What's that you say? The goose eats too much? That's probably true. But then, don't we all eat too much? If so, let not one appetite accuse another. If you step on the scales and you're ten pounds too heavy, you've got to say, "Yes, the government and I are each about ten pounds too heavy. Looks like we both eat too much." No question about it. Every appetite must be disciplined -- yours, mine, and the government's. Hey, we could all go on a diet!

My mentor, Mr. Shoaff urged me early on to become a happy taxpayer. Now, I must admit it took a while, but I finally did become a happy taxpayer. Part of this transformation occurred when I began to understand the function of taxes and that it is right for everyone to pay his or her fair share.

I finally decided I didn't mind picking up my share of the tab for defense. It's so necessary for our safety as a country to keep the international bullies away. Some people say, "Why bother with all that expensive equipment? They won't come over here." Obviously, those people haven't been reading their history books.

Others say, "We're not about to pick up the tab for defense." Well then, I suggest they go to a place which doesn't offer defense as part of the package. If one is going to enjoy the benefits, one should pay a share.

Now, let me add this: Don't pay more than you should. By all means take advantage of the incentives. They were given to you as a reward for channeling your money into areas the government thinks help the economy.

All I'm saying is that when everything has been computed, all legitimate deductions have been taken, and you reach that last line on your income tax form, whatever the amount, pay it. And pay with happiness, knowing that you're

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The Right Number

By: Alan Gallup
National Franchise Sales

I recently had a conversation with a large multi-unit franchisee. In that conversation, he told me that he had just completed an acquisition of 6 more units. When I asked where they were located, and about the transaction, I was surprised to learn that volumes were below average and that these would be this franchisee's first units in this market. This meant that he was unfamiliar with the market, would need to add overhead (a supervisor), but most importantly, I did not see how the units could cash flow for him.

When I asked, without commenting on the transaction, why did he make the acquisition? he replied "For the numbers". Now I was really perplexed. So I responded "what numbers?" What I meant, but did not say was "how can you possibly make money there."

He responded cheerfully "This gives me 100 units!"

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CHINESE PROVERB

Tell me, I'll forget
Show me, I might remember
Involve me, I'll understand

Needless to say, for once, I was speechless. Here we had a giant multi-unit franchisee for a successful national brand who was focusing on the wrong number!

He was so caught up in meeting his goals for the number of units, he had lost sight of **The Right Number** - cash flow.

Arguably, accountants will tell you that other numbers are important too. Numbers such as Return on Investment, Return on Cash, Cash Flow Coverage Ratio, Debt to Equity Ratio, etc. But clearly the right number to focus on is cash flow. You can't spend a ratio. You can't deposit an ROI, last time I went to the bank, they only took cash.

Every time there is change in the economic climate, businesses are lost, and so is opportunity. In each cycle, the operators that have managed their businesses to optimize cash flow, either through good operations, proper debt management, or grooming the inventory of units they operate, are the operators that not only survive, but manage to seize opportunities and prosper.

"MAKE TIME FOR OPPORTUNITIES"

(Continued from page 1) ...*Dividing the Financial Pie*

feeding the goose that lays the golden eggs - the golden eggs of freedom, safety, justice, and free enterprise. Some goose! Some eggs!

The 70/30 Rule -

After you pay your fair share of taxes, you must learn to live on seventy percent of your after-tax income. This is important because of the way you'll allocate your remaining thirty percent. The seventy percent you will spend on necessities and luxuries. The thirty percent? Let's allocate it in the following ways:

1) Charity

Of the thirty percent not spent, one-third should go to charity. Charity is the act of giving back to the community that which you have received in order to help those who need assistance. I believe that contributing ten percent of your after-tax income is a good amount to strive for. (You may choose a larger or smaller amount -- it's your plan.)

The act of giving should be taught early in life. The best time to teach a child the act of charity is when he gets his first dollar. Take him on a visual tour. Take him on a tour of a place where people are truly helpless so that he learns compassion. If a child understands, he won't have any trouble

parting with a dime. Children have big hearts.

There is another reason why the act of giving should be taught early and when the amounts are small: It's pretty easy to take a dime out of a dollar. But it's considerably harder to give away a hundred thousand dollars out of a million. You say, "Oh, if I had a million I'd have no trouble giving a hundred thousand." I'm not so sure. A hundred thousand is a lot of money. We'd better start you early so you'll develop the habit before the big money comes your way.

2) Capital Investment

With your next ten percent of your after-tax income you're going to create wealth. This is money you'll use to buy, fix, manufacture, or sell. The key is to engage in commerce, even if only on a part-time basis.

So how do you go about creating wealth with the ten percent of your income you set aside for that purpose? There are lots of ways. Let your imagination roam. Take a close look at those skills you developed at work or through your hobbies; you may be able to convert these into a profitable enterprise.

In addition, you can also learn to buy a product at wholesale and sell it for retail. Or you can purchase a piece of property and improve it. And if you're fortunate enough to work

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Franchisee Profile on Farouk Diab

By: Claudia Rivas
National Franchise Sales

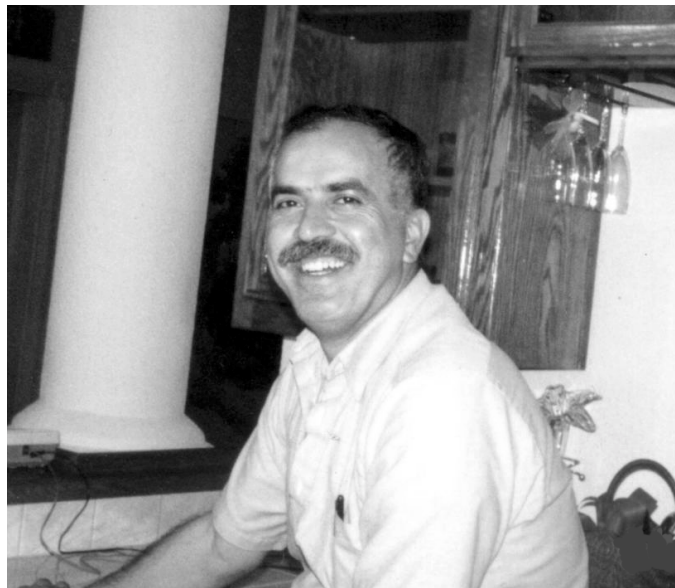
Farouk Diab, a multi-unit Wienerschnitzel franchisee for over 20 years, has taken the expression "When opportunity knocks..." literally, and in doing so has catapulted himself into a lifestyle of success which continues due to his stamina and dedication for hard work.

Farouk began as a farm boy in Haifa, Israel. His family's way of life was to work the land and to live contently in that profession within their city. Unfortunately this is not what Farouk had in mind. Farouk believed that an education was key in encountering new and exciting opportunities. His family saw only their tradition in farming and did not believe there were other choices to be had. Farouk's brothers told him to continue farming, attempting to convince him that there was no other option for him. At around that same time, the Israeli government was placing new restrictions on Palestinians by prohibiting education. Farouk wanted what both his family and his country denied. In order to reach his goals Farouk decided to leave his homeland.

Farouk first went to work in Ilat-Israel. He worked and lived there for nearly a year before he had saved up enough money to leave. Farouk had a cousin in San Jose, California who was willing to give him a hand, and at the age of 18 Farouk found himself in the United States.

Once in California, Farouk began going to school. He initially went to San Jose City College but soon after began attending Gavilan College in Gilroy, California. Farouk studied Engineering because he knew it was a profession in demand in Israel and in the back of his mind he always thought about returning home to work. He knew a profession in Engineering would be highly regarded and incredibly helpful to his country.

Unfortunately school tuition drained Farouk of his hard earned savings and with his last \$20 he began looking for a job. Farouk landed his first job as a janitor at a Wienerschnitzel in San Jose. He remained in that position for a few months and was shortly thereafter moved up to handle drinks. Slowly he moved up from drinks to french fries and then to hot dogs. At



"If there is a will, there is a way"

this time Farouk was working and attending school at the same time. His advancement at work was a big thrill for him. His supervisors were impressed with him and gave him the opportunity to become a manager. Farouk was then faced with a decision. Work full time and forget about school, or continue going to school, decline advancement and a potentially viable future in Wienerschnitzel? By that time, Farouk had begun to doubt his initial decision to return home and he felt that the opportunity to work as Manager was too good to pass up. And so, Farouk decided to advance as Manager and set the wheels in motion towards a life within the Wienerschnitzel franchise.

Farouk was well liked by his supervisor who felt Farouk was a motivated, good worker with lots of energy. In time due to Farouk's incredible work ethic and performance, he was offered the opportunity to train in a Los Angeles location. Farouk did well with the training and he was given Wienerschnitzel #134 in San Jose, California, to run. Farouk oversaw everything for the store, working and living there full time, and within 9 months he had increased their sales from around 20K to 40K.

Shortly thereafter Wienerschnitzel Corporate built a new store and they offered Farouk the opportunity to run it. He took the opportunity and upon seeing how well he was doing, he decided he wanted a store of his own and began looking into becoming a franchisee.

Alan Gallup, then a Director with Galardi Group, Inc., assisted Farouk in obtaining his first store in Manteca, California under a partnership with his cousin. Farouk began running the store with his cousin but after several months he became

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Interesting Facts about Farouk Diab

- **By the end of this year, will have a total of 12 stores.**
- **Currently the largest franchisee at Galardi Group.**
- **Travels between up to 200 miles a day visiting stores**
- **Favorite Wienerschnitzel item: All Beef Chili Cheese Dog**

...continued from page 3

Franchisee Profile : Farouk Diab

unhappy with the business and its progress. Farouk offered his cousin the opportunity to buy him out or sell it all to him. His cousin decided to buy. Farouk then found himself without a store.

Jim Rice a franchisee in Stockton heard about Farouk's recent availability. Mr. Rice was informed over Farouk's work over the years and so offered Farouk the chance to purchase a few stores he had in Stockton. In January of 1982 Farouk purchased the two stores from him and since then has only proved to grow and succeed in every venture he attempts.

Farouk has converted concepts, for example a Hamburger Castle into a Wienerschnitzel, which has had great success, as well as a bank building into a Wienerschnitzel in 1988. He's purchased several Wienerschnitzel's, opened and runs a Hamburger Stand Restaurant, co-owns a Coco's Restaurant, and is in the process of building a new Wienerschnitzel in Tracy, California.

Although Farouk constantly keeps busy with the operations of his stores, he always keeps the future in mind and keeps a set of goals to accomplish by his side. Apart from building a new store from scratch in Tracy, CA, Farouk also plans to convert a Mexican restaurant into a Wienerschnitzel sometime this year and is looking into a possible new location in West Sacramento.

Farouk Diab never expected to be in the restaurant business but it has been the cause behind his invariable success and he believes it has truly been an "American Dream". Yet that which Farouk has attained and which all Americans long to obtain did not simply fall into his lap. It is attributed to Farouk's hard work and his state of mind. Farouk believes, "If there is a will, there is a way" as long as there is hard work and the desire is in your heart. Farouk has always been a very hyper-active person who becomes bored easily and he has directed that energy towards his innate characteristics of commitment, will, and determination; never taking "no" for an

answer.

And yet Farouk does not take ALL the credit. He credits Alan Gallup for giving him a push in the industry. Farouk said, "Alan was the right guide. He gave me inspiration and pushed me." Farouk also gives a lot of credit to his wife. He explains that as a young couple they did not have any money while he pursued his business dreams and yet she supported him with whatever he wanted to do, never a word otherwise. She simply said, "Do what you have to do, make a good future". She was very supportive and Farouk believes that it destroys your goals to have someone in your life that does not support you. She was always behind Farouk, with whatever he did and whatever risk they had to take.

Alan Gallup has said about Farouk that "[he] is one of those rare individuals that sets an example for success for everyone. But, as proud of his accomplishments in business as he is, he deserves even greater credit for helping family and friends from his homeland. Farouk knows all too well what it is like to be a foreigner in a strange land, not really understanding the culture. But Farouk has taken his experiences here as a teenage immigrant, and used them to teach and help dozens of others. Serving as a mentor, employer, or perhaps just as a teacher from the school of hard knocks, Farouk has directly helped more new immigrants find their way in business and in life, than anyone I know".

Farouk now lives in his castle-like home, another accomplished goal, in Stockton, CA with his wife and 6 children. His oldest daughter is Manager at one of his stores; she is very enthusiastic and involved in the business, hoping to study commercial interior design at Sacramento State. Farouk says he would love to see his children attain success. He wants his children to work and have high goals. Farouk's only advice in reaching those goals is to "read your goal every morning. I don't care what stops you in the way. If you have the will to succeed, you will."

INTERESTING FACTS



Wienerschnitzel celebrates 40 years of hot dog sales. Here are some stats they've compiled:

- Every year, Americans consume about 60 hot dogs each.
- 550 hot dogs are eaten every second of the day in the United States.
- Wienerschnitzel sells 84 million hot dogs each year, enough to cross the United States three times. The highest volume of sales is during the Fourth of July weekend, naturally.



(Continued from page 2) ... *Dividing the Financial Pie*

at a place where you're rewarded for additional productivity, you can work for more income and use this income to invest in an ownership position through the purchase of stocks.

Use this ten percent to purchase your equipment, products, or equity -- and get started. There is no telling what genius lies sleeping inside you waiting to be awakened by the spark of opportunity.

Here is an exciting thought! Why not work full time on your job and part time on your fortune? Why not, indeed? And what a feeling you'll have when you can honestly say, "I'm working to become wealthy. I'm not just working to pay my bills." When you have a wealth plan, you'll be so motivated that you'll have a hard time going to bed at night.

3) Savings

The last ten percent should be allotted to savings. I consider this to be one of the most exciting parts of your wealth plan because it can offer you peace of mind by preparing you for the "winters" of life. And through the magic of compounding interest, greatly aided by the new tax-free retirement programs available to every working person in this country, you can accumulate a princely sum over the years.

Let me give you the definition of "rich" and "poor."

Poor people spend their money and save what's left. Rich people save their money and spend what's left.

Twenty years ago, two people each earned a thousand dollars a month and they each earned the same increases over the years. One had the philosophy of spending money and saving what's left; the other had the philosophy of saving first and spending what's left. Today, if you knew both, you'd call one poor and the other wealthy.

So, I'm asking you to not only be a happy taxpayer, but to also remember that giving, investing and saving, like any form of discipline, has a subtle effect. At the end of the day, a week, a month, the results are hardly noticeable. But let five years lapse, and the differences become pronounced. At the end of ten years, the differences are dramatic.

And it all starts with the same amount of money -- just a different philosophy.

To Your Success, Jim Rohn

This article was submitted by Jim Rohn, America's Foremost Business Philosopher. To subscribe to the Free Jim Rohn Weekly E-zine go to www.jimrohn.com or send a blank email to <mailto:subscribe@jimrohn.com> Copyright © 1999 Jim Rohn International. All rights reserved worldwide.

CALIFORNIA LIMITED LIABILITY COMPANIES (LLC'S)

BY: William H. Dunn, Attorney at Law

INTRODUCTION: The Beverly-Killea Limited Liability Company Act authorizing LLC's in California became law on 9/30/94. All other states now have approved LLC's. An LLC is a pass-through tax entity like a partnership, but provides limited liability for the owners like a corporation.

DESCRIPTION: A California LLC must have one (as of January 1, 2000) or more owners who are called "members" and who may be individual or any other legal entities. In California, an LLC may not render professional services which require a state license or certification. An LLC is formed by filing Articles of Organization (LLC-1 form) with the Secretary of State (SOS) with a \$70 filing fee. Its name must include "LLC", which may be spelled out or abbreviated, and the name must be cleared by the SOS as not being similar to any existing LLC name. The Articles must provide that the LLC is being managed either by the member(s), or by one or more managers, who need not be members. Before or after filing the Articles, the member(s) must enter into an oral or written Operating Agreement, which shall at a minimum state the intent of member(s) to organize an LLC, and may include other provisions similar to those contained in a partnership agreement or a corporations articles, bylaws and organizational minutes. The LLC must pay an initial \$800 fee within 3 1/2 months of filing the LLC-1, and thereafter a minimum \$800 annually to the Franchise Tax Board (FTB). For gross

income above \$250,000, this tax increases in steps to a maximum of \$9,337 (as of 1/1/2000) if the gross income is above \$5 million (which is still usually less than the 1.5% tax the FTB assesses on the net income of an "S" corporation).

ADVANTAGES: In contrast to a corporation, an LLC (1) may be taxed like a partnership with no entity level tax, (2) may provide for special allocation or profit and loss and rights to manage the LLC not in proportion to ownership, (3) can avoid a double tax on liquidation, and any tax on unreasonable accumulation of earnings or persona holding income. In contrast to an "S" corporation, (4) there are no restrictions on the number or type of members or on different classes of ownership interest, (5) No member is liable for the LLC's obligations, as is the general partner of either a general or limited partnership.

MERGER: An LLC may merge with other business entities with the LLC as either the surviving or disappearing entity and may convert to other entities except (currently) a corporation.

CONCLUSION: Because of the advantage of one level of tax over a C Corporation, the advantage of the flexibility over an S Corporation, and the advantage of no personal liability over a partnership, the LLC has become an increasingly popular vehicle for the ownership of businesses in California.

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YOUR FRANCHISE CONNECTION

Michael Ingram, Vice President of National Franchise Sales began his career in the franchise restaurant business soon after graduating from San Diego State University with a B.S. degree in Business Management and a minor in Health Science.

Prior to joining National Franchise Sales, Ingram spent 11 years in the restaurant business, beginning as a Director of Operations in Sizzler Restaurants. This led him to become a multi-unit franchisee with Sizzler. In 1997, Ingram joined National Franchise Sales where he has advised hundreds of buyers and sellers on the resale of franchised businesses. His background in business combined with his knowledge of acquisitions and divestitures has made him a well known and respected professional in the franchise industry.



Michael Ingram
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