

THE LUCQUES GROUP

In further explanation of the 3.5%.....

We at the Lucques Group believe that Americans should have affordable health care and insurance. Our 3.5% Healthy L.A. surcharge is in no way meant to condemn the Affordable Care Act or to make any sort of a political statement. We thought long and hard before adding this charge and we would like to further explain it.

The restaurant business is one of large revenue and small profit. In fact, of every dollar that restaurants bring in, an average of 95 cents goes right out the door to all the costs involved in running the business. Many months, even very popular and busy restaurants are actually running at a loss—the profit margin is that slim. Restaurants require an unusually high ratio of labor to revenue, which means that we have a higher number of full time employees than other businesses with similar revenues—as a result we have more full time employees to cover per dollar of revenue (when compared to other types of businesses). Many of us who run restaurants have been struggling with the question of how we will be able to provide fully paid health insurance to all our full time employees.

Up until now, we at The Lucques Group have been offering full health insurance to our managers in the front and the back of the house. Unlike most restaurants we have also been providing access to health insurance to our full time employees, providing a portion of the premium. Unfortunately, we had a low rate of participation in this scenario because many employees did not feel they could afford to pay the rest of the premium—instead they chose to go without health care. With the new healthcare mandate, we are required to cover 100% of all full-time employees' premiums, which our current pricing structure simply cannot support.

The question we get most frequently is “why not just bury the cost in the pricing?” While we could have hidden this new large expense in significantly higher menu costs, when we looked at the numbers we felt that this would have burdened our customers more than necessary. You see, many of the costs associated with running the restaurant are based on our revenues. Our rent is calculated a percent of our gross sales. Other expenses, like our liability and other insurance policies are calculated this way as well. So not only would we need to increase our prices to cover the insurance, we would need to add on an even steeper increase to cover these other costs resulting from the increase in revenue. The increase passed along to our customers would have been much higher than the 3.5%. Keep in mind that the 3% charge adds \$3.50 to every \$100 on a check. We would have had to add far more than that to each menu item if we were to try to cover both the insurance cost and the substantial related costs mentioned above in our pricing alone. We decided this would be bad for us and bad for our guests.

By creating a separate surcharge for the health care, we are able to keep this expense out of our revenue and out of our overall operating costs. The separate line item results in less of an increase in pricing to our guests and the staff gets fully funded insurance policies. Because we can track this surcharge directly and can keep the transactions segregated and make it all transparent to our customers.

So you see, this surcharge has actually more to do with providing a benefit to our staff, accounting and price control than with any political statement. We simply wanted to be upfront and transparent with our guests and minimize the overall impact on our diners.

I hope this helps explain this surcharge more completely and clarifies our reasoning behind it. We thought long and hard about the options and what we thought was the best way to handle it. We understand that it may not make sense to everyone but we are sincere in saying that we are trying very hard to do the right thing for all involved—our staff, our investors and our guests.

Please note that this is not a mandatory charge and that we are more than happy to remove the charge from a guest's bill if requested.

If you have any questions, please feel free to reach out to me.

Yours Sincerely,

Caroline Styne
The Lucques Group