



NEWS ALERT

February 9, 2005

This is the first in a series of four News Alerts.

Those attending the DQOA/DQOC annual meeting in Phoenix, Arizona, January 3-9, 2005, suggested that we educate the DQ system with regard to the current possibility of a Unified Purchasing Program for the U.S. DQ stores. The following "News Alerts" will detail the history and current status of this effort.

The negotiating committee of the DQOA/DQOC (Kevin Allen, Rick Brandes, Mike Leeper, Gary Ignasiak and Harris Cooper), met with IDQ President Chuck Mooty and CFO Jim Simpson three times starting in the summer of 2003. The goal: To attain the lowest sustainable delivered cost of products to the DQ franchisees. The first two meetings achieved the following eleven points, which Chuck Mooty stated he could live with.

Point #1

Structure- A separate entity with a Board of Directors made up of DQOA/DQOC directors and IDQ officers- The DQOA/DQOC suggests a board of 6 directors- 4 DQOA/DQOC and 2 IDQ.

This entity would be the policy and audit entity for the DQ franchisee community that will endorse policy for the purchasing and distribution of product at the lowest sustainable delivered cost of products to the franchisee. This entity will also have the responsibility for the audit with full transparency, of all endorsed policy and procedures of the entity; i.e. product bidding, vendor selection, distribution selection, distributor margins, etc. The President of IDQ will direct the IDQ purchasing and distribution decision in accordance with these endorsements and will have sole control of this division.

The policy of no supplier rebates, or sheltered income or other forms of remuneration in kind or otherwise shall be paramount to this program and fully auditable.

Point #2

Existing DQOA/DQOC suppliers shall remain as approved at the time of the signing of this agreement for a period of two (2) years. Thereafter suppliers will be selected per the entity endorsed required bid process. Note: Crown Select toppings and Crown Select cones will remain permanently as suppliers to the DQ system.

Agreements- Third party agreements with suppliers, IDQ and the entity being parties thereto.

Point 3

Existing DQOC distributors shall remain in place for a period of 2 years from the date of an agreement being signed. Thereafter the distributors will be recommended to the DQ franchisees in accordance with a distributor plan endorsed by this entity. DQ franchisees will select from their recommendations per area.

Distributor agreements will be three party agreements between distributor, IDQ and the entity.

Note: Blended pricing for delivery will be important to DQ franchisee support.

Point 4

The term of this agreement will be 10 years with automatic rolling provisions.

Point 5

Mutual cancellation is available at any time during this agreement with the parties returning to the Collins status at the time of the signing of this agreement.

Point 6

Termination for cause; i.e. fraud (other predetermined items) will cause the parties to return to the Collins status at the time of this agreement.

The standing arbitrator (per Collins) will then assess appropriate damages for the cause.

Point 7

Dispute Resolution- The standing arbitration program that is currently in place under Collins is binding and will prevail. Note: The standing arbitrator shall be able to award damages should that be deemed appropriate.

Point 8

Default Contingency- The standing penalty for default by IDQ to this agreement causing termination for cause as reviewed by and agreed upon the standing arbitrator shall be the payment of \$10 million to the DQOA/DQOC by IDQ.

Point 9

Cost Plus- IDQ wishes to replace \$17 million, which includes profits from current buy and sell; warehouse fees; mix fees; and meat fees. IDQ proposes to start at cost plus 5% dropping % per year to 3%. This weaning would be 8 years and a 3% cost plus program.

The DQOA/DQOC recommends the following:

- 1) All IDQ fees for warehouse, mix and meat be discontinued upon the signing of this agreement.
- 2) That the starting point year one be 5%.
- 3) That year 2 be 5% with _% being paid to the DQOA/DQOC for dues for all DQ franchisees because all would become DQOA/DQOC members by purchasing product. The Board of Directors of the DQOA/DQOC would be embellished in accordance with the recommendation of the entity board.
- 4) That year 3 and thereafter IDQ's plus would be reduced by _% per year to a point of 2% with no cap or budgeting process for IDQ purchasing and distribution.
- 5) The final program at the end of 7 years would be cost a plus 2% for IDQ without cap plus _% for the DQOA/DQOC.

Point 10

Financing with IDQ monies- If IDQ monies are utilized in a buy and sell, said money cost will be added to the cost plus in that term. These monies are to be utilized and charged to the DQ franchisees if it improves the cost to the DQ franchisee beyond the cost of the borrowing. Should IDQ determine that it is in the best interest of IDQ to use funds in a buy and sell regardless of savings to the DQ franchisee, this shall be a business judgment of IDQ and no charges shall inure to the DQ franchisees.

Point 11

This agreement is contingent upon an endorsable "encroachment policy" by the DQOA/DQOC.

During the second meeting, in August 2003, Mr. Mooty advised that he was bringing on board a person to run the purchasing and distribution area "soon", a person with "impeccable credentials" that the DQOA/DQOC would find impressive.

A September 2003 meeting was scheduled, and the representatives of the DQOA/DQOC attended with the intention of beginning to reduce the above eleven points to writing. We were optimistic and excited about the prospect of the DQ system coming together in this effort.

Much to our dismay, the meeting produced "at its inception" an introduction to John Gainor, the new Executive Vice President Supply Chain. Mr. Mooty and Mr. Gainor advised that IDQ had no intention of going forward with our previously negotiated eleven points for unification. The negotiating committee and the DQOA/DQOC directors were disappointed, to say the least.

The word "trust", which Mr. Mooty uses often, came to mind...

To be continued next News Alert.


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