



UNIFIED SUPPLY CHAIN, THERE'S MORE THAT YOU SHOULD KNOW

Fourteen years ago, the DQOC was formed for the sole purpose of introducing product cost competition into the DQ franchise system. Since that time, we have helped save franchisees *more than \$1 billion*. In addition to lowering your costs, we've added to your bottom line with *cash dividends on everything you purchase* through your co-op system.

Over the years, as more and more franchisees turned to us for savings, IDQ/ADQ was forced to lower its prices to compete. Take the price of banana split dishes, for example. IDQ's distributor used to charge \$66.07 per case. DQOC offered the same product for only \$41.10. This forced IDQ to drop its price by \$25 just to keep franchisees from abandoning IDQ's distributors. Not surprisingly, IDQ/ADQ began looking for ways to cut DQOA/DQOC out of the supply chain and retain their profits – a path that eventually led to a courtroom battle that lasted six long years.

In the end, the franchisees of the Dairy Queen system won a \$50 million class action settlement. This victory has given us the ability to protect your rights in future disputes. Just as important, it has enabled us to bring you even more powerful savings. Before the settlement, you paid between 38-42% of your revenue for cost of goods. Since 2000, that amount has dropped to between 28-32%. For you, the typical DQ owner, *that amounts to about \$60,000 in savings each year*.

As everyone knows, no good deed goes unpunished. The members of the DQOA/DQOC are once again in the eye of the storm thanks to the formation of Unified Supply Chain, Inc., a wholly owned subsidiary of IDQ/ADQ. Like Concept Evolution, the USCI is noble in principle, and we intend to insure that it remains so in practice.

USCI was formed for the purpose of driving out the inefficiencies that “plague our supply chain,” a move that could positively affect your bottom line. We have already received many newsletters showcasing the benefits of this new system and how it has translated into lower margins and higher profits.

In fact, the renowned accounting firm of Deloitte & Touche has confirmed USCI's success in an “audit.” We saw the results for ourselves in a memo dated May 18, 2005. The news couldn't be better, right? Wrong. Especially when you take a look at what IDQ has conveniently forgotten to point out – like the fact that Deloitte & Touche didn't really perform an audit of USCI.

In a letter to the IDQ Board of Directors dated May 4, 2005, the accounting firm expressly states, **“We were not engaged to, and did not, conduct an audit...Had we performed additional procedures, other matters might have come to our attention...”**

Deloitte & Touche also states in no uncertain terms that *they only looked at ten individual days of product sales, and five select products for each of those ten days*. Had they looked at “other matters,” maybe they would have reported that IDQ is adding profit margins on top of product

costs for items such as freight, obsolescence, tooling, and the Instill program. Perhaps they would have detailed the distributor kickbacks that IDQ already receives .5% on all of the products you purchase, including purchases of your DQOC/Crown Select products.

The fact is, DQOA/DQOC can show you *fourteen years of open books* vs. IDQ's *ten days of market basket accounting*. DQOA/DQOC's books demonstrate bottom line savings to you of over \$1 billion, and dividend distributions that put hard dollars into your pockets.

Let IDQ/ADQ tout its .5% margin reductions. Since USCI's inception, DQOC has dropped your cost *another* 10% on items such as Barbeque Beef (14% + dividends), Jalapeno Bacon (35.9% + dividends), Mushroom Sauce (11.3% + dividends), Swiss Cheese (35.4% + dividends), Vanilla Syrup (20.4% + dividends) and Coffee Concentrate (21.8% + dividends) and we intend to keep on driving down prices through fair and open competition. Our work continues, as we have recently completed testimony in a second arbitration challenging IDQ as it tries to use the new structure of the USCI to cut you out of the supply chain and keep you out of the real decision-making processes which affect your cost of goods.

In past newsletters, we've told you how USCI contends that it no longer "sells" products to their own warehouses, and therefore can't "sell" to ours as required by the Collins Settlement. We've told you how IDQ's new franchise agreements manipulate language and definitions of "critical mass" to prevent new franchisees from taking advantage of our lower-cost suppliers. We've even shown you how they're using purchase quotas to keep those who purchase from DQOC off their advisory committees. In Arizona alone, USCI's new rules would leave only about 15 stores out of 103 that would be eligible to represent your rights.

All of these reasons are why we headed back to arbitration. We intended to prove that IDQ/ADQ is violating the terms of your hard won settlement. We want to make sure that you understand the realities of USCI, and how critical your support of DQOA/DQOC is to your profitable future.

It's the competition between IDQ/ADQ and your cooperative that assures you of the lowest cost of goods on food, dairy and distribution. Help us keep that competition healthy and strong by continuing to purchase Crown Select products from your DQOC distributor. Help us continue to protect your rights by joining DQOA. Your annual membership fee is a small price to pay to prevent IDQ/ADQ from profiting at your expense.

Together, we can protect our interests, preserve our livelihoods and continue the traditions of honesty and integrity that have defined the Dairy Queen family for decades.

It's the DQOC that has proven itself to you for 15 years.

In coming DQOA/DQOC News Alerts, we will detail IDQ/ADQ's intent to put the DQOC out of business and to prevent the DQOA from protecting your rights.