DQOA

NEWS ALERT

January 26, 2007

IDQ/ADQ PLACES FRANCHISEES IN NO WIN SITUATION

Unintended or not IDQ/ADQ was so dedicated to securing a direct relationship with the previous DQOC supplier Pepsi that IDQ/ADQ left Pepsi users without protection should they choose to switch to Coke. Previously, both Coke and Pepsi were willing to buyout the remainder of a franchise's obligations to the competition in order to secure the additional account. However, IDQ encouraged both Coke and Pepsi not to solicit the DQ franchisees to switch. As a matter of fact, the entire contract process was designed to maintain the status quo.

One big problem which IDQ didn't anticipate, however, was that Pepsi didn't follow through with the backroom deals made between all three parties. Pepsi chose not to do a 7 year deal, but to keep franchisees under contract for as many as 11 or 12 years. Under "normal" circumstances IDQ would tell Pepsi, "NO, we reject your contract." But IDQ found itself in the difficult position of having already endorsed Pepsi and promising Pepsi that IDQ would assist in maintaining the status quo. In other words, no competition. So Pepsi felt comfortable coming in with their lousy contract, IDQ was unwilling to stop them, thanks to the newly signed endorsement agreement, and Coke has been warned to stay on the sidelines and not seek additional business. The end result is that DQ/Pepsi franchisees get the shaft. IDQ should know that backroom deals always come around to haunt you.

After the Dairy Queen Operators' Association warned franchisees not to sign unfair and unreasonable Pepsi contracts, IDQ attempted to negotiate a better deal from Pepsi. The result of these negotiations is unacceptable. Pepsi still offers an inferior contract and IDQ is obviously powerless to stop them.

1. Pepsi **WILL NOT** offer a contract to all operators with a maximum number of years limit.

2. For existing Pepsi customers, if you buy your own board, Pepsi is willing to make a change to the maximum contract term. So go out and spend $7,500 and Pepsi will gladly reduce your term.

3. Pepsi is still making it very clear that they are going after franchisees who terminate Pepsi contracts before expiration.

4. IDQ is still making it very clear that after February 15th, you will face financial penalties if you don't pay LSI.

5. IDQ, to force your hand, has not retracted its statement that your existing menu boards will not be supported past 2007.

To help summarize IDQ's recent negotiations with Pepsi, you should all find comfort in the following statement printed in the January 25th IDQ e-news, "If you have any questions concerning your current Pepsi-Cola contract, you should discuss those with Pepsi-Cola and your attorney or other advisors". Thanks for all your help IDQ!

For those franchisees stuck in an existing long term contract with Pepsi, and who are forced to buy their menu boards Coca-Cola is offering financing from Coca-Cola Finance Corporation to assist with the purchase. When your current Pepsi-Cola contract expires you will be required to convert to Coke (not sure if you'll get a conversion allowance) and Coca-Cola will pay you for the prorated portion of the menu board. Under this proposal, most stores, unless they are high gallonage stores, will not recover the full cost of the boards. Keep in mind, before IDQ meddled in these negotiations and attempted to maintain the status quo with no competition between soft drink companies, Coke would have normally stepped in and taken over Pepsi accounts and Pepsi would have stepped aside. Pepsi, however, was emboldened by the IDQ endorsement and the promise that IDQ would help maintain the near 50/50 split. So Pepsi is playing hardball and IDQ is powerless to stop them ("discuss with your attorney").

<u>What does the DQOA recommend?</u>

1. We certainly don't recommend any contractual involvement with Pepsi. However, we realize many of you are stuck.

2. Do not sign any Pepsi agreement that takes you beyond 7 years.

3. Give Coca-Cola a chance to cover your buy out penalty from Pepsi.

4. Assuming Coca-Cola will not cover the penalty, you have a few options:

    a. Continue with the existing Pepsi contract and pay cash for menu boards. Make sure Pepsi incorporates into your agreement a menu board allowance. Use Coca-Cola financing if needed. Switch to Coca-Cola upon expiration and receive a prorated portion of your menu board cost.

    b. Continue with your existing Pepsi contract until expiration and don't purchase a new board.

5. Force IDQ to provide P.O.P. support for your existing board.

IDQ took your choice of beverage away from you and under these circumstances, IDQ will have to make transparencies available for the new and old boards or face multiple suits in this regard.

The lack of franchisee involvement (either DQOA, FAC or SCAC) in negotiating these contracts is glaring. Because IDQ was so concerned about endorsing Pepsi and taking DQOA out of the picture, IDQ forgot the basic premise of a solid franchisor/franchisee relationship…**treat your franchisees fairly**. The promises made by IDQ to Pepsi backfired and franchisees will be paying for this poor judgment for years to come. Shame on you IDQ.

It's only appropriate that we end this News Alert with a quote from IDQ in the January 25th IDQ e-news, "We do not encourage any operator to take action contrary to the terms of an existing beverage agreement or other agreement". How appropriate. IDQ is not about to renege on any back room promises made to soft drink companies. Status quo. No competition.

NOTE:

As if the menu board fiasco wasn't bad enough, we have to wonder how much thought IDQ put into the new electronic LCD menu board technology that is just around the corner. Has this entire system bought itself into old technology for the next 7 to 12 years? The electronic LCD menu board is user friendly with exciting LCD capabilities. Media experts predict that this technology will be cheaper than the currently proposed board.

This possibly could be another thing IDQ will need to fix sooner rather than later.

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