



INDEPENDENT POINT OF SALE KIT

INFORMATION / RECOMMENDATION

DQOA'S REQUEST TO IDQ:

October 15, 2007

Dear Mr. Mooty,

As you are aware, a large number of DQ franchisees have asked the DQOA to manufacture for sale to them a P.O.S. Kit. I have questions in this regard:

1. Previously written materials from IDQ state that any such material must mirror the IDQ kit. However recent material states, "For use at NMF participating locations only." Please explain whether we are to duplicate the IDQ P.O.S. Kit or to make separate materials.
2. Certain transparencies in the P.O.S. Kit do not contain the "NMF only" legend. Does this mean that stores who are non-NMF stores can use these transparencies?
3. At a recent DMA meeting your staff stated that existing P.O.S. materials could be used until the "swish" appeared on P.O.S. materials. Is this correct? What materials are approved for use until the "swish" is available?
4. A question has been raised about the cost of the P.O.S. that Texas utilizes. They are non-system food stores to the same extent as all others, however they receive their DQ P.O.S. Kit for a fraction of the cost of full system stores. a) What does Texas pay to the NMF per kit and b) will you offer to sell to the other NSF stores their kits at the same price?

Thank you for your prompt response.

Sincerely,

Harris Cooper
Executive Director

IDQ'S RESPONSE TO DQOA:

October 18, 2007

Dear Mr. Cooper:

I am responding to your letter to Chuck Mooty dated October 15, 2007. Josh, Sue Culver, you and I met to discuss this topic just over a year ago. I've looked at my notes from that meeting and the letters we exchanged leading to that meeting. You will recall our concern that alternative POP materials will be detrimental to the system and most individual franchisees and DQOA members.

Your letter mentions previous writings from IDQ stating that alternative materials must mirror the IDQ kit. I'm not sure what you are referring to, but that is not our position and was not part of the discussion when

we met in September of 2006. Alternative materials may be created following the same basic layout as NMF materials, or they may use a different layout. We do think a level of consistency would be preferable.

Your letter references the word "duplicate" in connection with the NMF materials. Although I believe you understand this point, I want to emphasize that there can be no mechanical duplication or similar use of the actual NMF materials or photography. Alternative materials would need to be created by shooting new original photography.

Other than items funded by Coke and Pepsi, NMF materials are subject to a restriction that they are for use only in an NMF participating location. This is true whether or not a particular NMF transparency or other item contains the "NMF only" legend. Most NMF materials created in the last few years contain this legend as part of the copyright line, although the legend may be obscured when the materials are displayed.

In the meeting last year we discussed the fact that alternative materials must be of appropriate quality and must meet some basic guidelines. They must depict approved products, showing correct product preparation methods and proper use of trademarks.

Most 2007 NMF materials and those created for 2008 and beyond will contain the new master brand logo, although materials incorporating a photo of packaging may still have the old logo. This move to the new logo will require a definite transition period as we address all of the various logo applications and work throughout the system. On your last point, Texas operators pay for soft-serve NMF materials on a basis equivalent to other operators with a soft-serve only or non-system food operation.

If you have any further questions, please feel free to contact me.

Sincerely,

INTERNATIONAL DAIRY QUEEN, INC.
O. Michael Rinke
Vice President and Assistant General Counsel

IDQ'S CORRESPONDENCE TO A MICHIGAN DQ FRANCHISEE:

October 26, 2007

[Franchisee],

Here are the answers to your NMF/POP questions along with additional information that you should find helpful in making your 2008 NMF participation decision.

Question #1

"I currently have POP materials from 2007, 2006, 2005, 2004 and beyond. Can you please let me know what of these materials can be used in 2008 without being a member of the NMF."

Answer #1: If you choose against NMF participation for 2008, you may continue to use past year's NMF produced POP materials you received while an NMF participant provided the POP is used only in the store it was originally assigned/eligible to be used in; depicts currently approved menu items for your store menu type and your region/DMA; and is in good condition.

Question #2 "Also, I may need to produce some pictures of soft serve items for use in my new menus. How do you want me to do this? Can I purchase the pictures from you and then print them?"

Answer #2: If you choose against NMF participation for 2008 and have interest in producing your own POP/merchandising materials, you would need to create and source those materials entirely on your own. This would entail hiring a photographer to shoot your own new photography, hiring a designer to layout a design and contract a printer to print your material. Materials produced on your own would have to be of comparable quality to those produced by NMF. Prior to final production, your materials must be submitted to ADQ for approval. All materials produced must have proper trademark protection identification. Additionally, non-NMF locations have no access rights to product images produced by/for NMF such as for purposes of developing new POP materials.

Additional Information:

If you choose against NMF participation in 2008, please note the following:

- Almost all '07 core menu transparencies will change in '08 due to new learning and menu management/menu optimization decisions. This means that new menu items are going to be added and some current menu items are going to be dropped from the core menu. Non-NMF operators will not receive the new POP materials and therefore will not have new menu item support. In addition, these operators would likely, then, be merchandising certain menu items that have been discontinued from the core menu and/or DMA non-core menu.
- Non-NMF stores will not have new menu board transparency support for all new '08 products including Chicken Wrap, Iron Grilled Sandwiches, *Blizzard*® of the Month, Waffle Treats and *Peanut Buster*® Parfait.
- Because of weather related durability factors it is likely that most POP for the drive-thru menu boards will be produced again in '08 as part of the '08 NMF materials. Any stores not participating in NMF in '08 would miss out on receiving these new materials. If a store's transparencies (inside or drive-thru) degrade to a point of being below Facility PRIDE standards the operator would need to remove them. Any replacements would be at the operators' sole expense and must conform to the previously described requirements.
- If an operator joins NMF in '09, they will not receive any core menu board transparencies sent out in '08 that are not being replaced in '09. This could result in an inconsistent look and incorrect content being displayed.
- An option is available to order/create your own transparencies on a web site: www.velocityotw.com hosted by the Howard Company. IDQ provided The Howard Company with templates to create type/text only transparencies. The type style, size, color and arrangements are similar to NMF transparencies except they contain no pictures.
- Materials produced with NMF resources, such as POP, are provided only to current NMF participating locations and may not be used in any way by non-NMF locations; except as described in Answer #1 above. NMF materials can never be transferred, assigned, "shared" or displayed in any way in non-NMF locations; except as described in Answer #1 above.

[Franchisee], if you have further questions please contact me.

Sincerely,

American Dairy Queen Corporation
Dave Pierro
Director of Marketing & New Media

INFORMATION / RECOMMENDATION:

IDQ's previous positions regarding the info contained in this News Alert caused the franchisees to lose trust, and once again demonstrates the lack of full transparency between IDQ and its franchisees.

It should not have been necessary for the DQOA to provide this information. IDQ should have been willing to provide non-system food stores with the appropriate numerical information in a positive manner that all non-system food stores could review with full trust and confidence and make a conscious decision in this matter.

The following information, conclusions and comments are provided for the benefit of the whole system, not only for the benefit of NSF locations.

As reported previously, many of you who are not required to participate in the NMF by your Franchise Agreement, and are DQOA/DQOC members, asked that your Board consider making available for your use for 2008 and in future years, various point of sale kits utilized in this system. The following information has been gathered in this regard.

In order to produce professional quality point of sale materials that meet DQOA's and IDQ's standards, the DQOA is estimating the need to create approximately 100 different food and treat items. The treat items will consist of permanent menu items and those products that correspond with the 2008 Dairy Queen treat marketing calendar. Food items needed for Dairy Queen non-system food stores will be created as well. This process would include concept design, layout production, art direction, photography, photo retouching, collating, printing and shipping. DQOA's best estimate to design, produce and print the P.O.S. kit components for the soft serve only location with drive thru is approximately \$3,500 (example below).

Example # 1 (soft serve only location with drive-thru)

<u>Component Size</u>	<u>Component Type</u>	<u>Annual Quantity</u>
26" W x 25 5/8" H	Transparency	13
17" W x 25 5/8" H	Transparency	11
22" W x 28" H	Posters	24
11" W x 14" H	Posters	12
11 1/2" W x 16 3/8" H	Counter Mat Inserts	12
50" W x 36" H	Window Cling	12
8" W x 6 1/2" H	Register Topper	12

Reflecting upon our best estimate above and considering the following:

- Your store being part of the Dairy Queen system.
- The following items that you would receive for \$7,500.00 or 2.25%:
 - a. National media purchases for t.v., radio and FSI.
 - b. Cost of producing creative for t.v., radio and FSI.
 - c. Product research/development/testing.
 - d. P.O.P. materials.
 - e. Website development.
 - f. Crew training materials.
 - g. Other, including consumer relations, public relations, FAC expenses, etc.

The additional financial risk required of your DQOA, plus the added personnel (1 person) at appropriate pay scale, comes to the responsible conclusion that we recommend that if you are an NSF store, you should join and participate in the 2008 NMF Fund.