



# NEWS ALERT

June 10, 2004

This is the third in a series of News Alerts that deal with specific language that you will find in the DQ System Bulletins and System Memos that appear to be intended to undermine many of your rights and privileges as a Dairy Queen franchisee. We hope that you will take time to make note of these matters and join and support the DQOA/DQOC in its effort to secure change that would better protect your interests as a DQ franchisee.

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All DQ franchisees should become thoroughly familiar with System Memo dated February 18, 2004 “Dairy Queen® Concept Evolution (Menu and Design Unification)”. The DQOA/DQOC has excerpted certain sections of this “memo” for your benefit. (See below)

TO: Direct Licensees of American Dairy Queen Corporation (ADQ)  
FROM: Chuck Chapman, Executive VP of Development  
DATE: February 18, 2004  
SUBJECT: Dairy Queen® Concept Evolution (Menu and Design Unification)

### *Excerpted Page 2*

**Concept Evolution Goal**—Unified Food System and Unified Treat System In order to reduce consumer confusion and to improve the viability of DQ concepts, we plan to unify our food-centric concepts under one building design and menu, and unify our treat-centric concepts under another building design and menu.

**Unified Food System Goal**– Unified Building Design and Unified Menu Under our unified food umbrella, we are looking to have a consistent and highly appealing building design across all food locations that clearly communicates to consumers that these restaurants are in the food and treat business. Moreover, we would like to have a consistent food and treat menu that consumers desire and that drives repeat business. This consistent menu will allow us to leverage our size to create national food advertising, and to lower food cost by using our scale to influence suppliers.

## **Unified Food-Centric Building Design –The DQ Grill & Chill Image**

Effective January 1, 2004, the building design component of the Grill & Chill test has been concluded.

As a result, the Grill & Chill building design will be the approved building design and standard for DQ food restaurants (new build, re-franchise, replacement locations, relocations, conversions, and facility upgrades). We have clear results that indicate that the Grill & Chill building design creates the potential for a significant increase for food awareness at DQ. Both current customers and non-customers recognize the building as a “restaurant” and, as a result, we have the potential for significantly increased food sales.

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#### **Is the classic Red, White and Blue (RWB) building design no longer available?**

As of January 2004, the RWB classic image is no longer authorized for DQ/B new stores (new replacement or relocation) or conversions. A clear result of the DQ Grill & Chill test is that there is substantially higher food awareness than with the RWB image. Note that for the foreseeable future, replacement elements will be available for those restaurants that need to complete repair and maintenance items to their RWB facilities. The RWB design is still currently available (although it will be replaced by the Cornerstone design when finalized) for Dairy Queen/limited Brazier and DQ soft serve-only freestanding buildings.

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#### **If I am a non-system food location, can I have the DQ Grill & Chill image?**

Given our goal of a unified food design and food menu, we need these locations to follow our treat design.

#### **If I want to convert my facility and menu to DQ Grill & Chill, what changes will I be required to make to my Franchise Agreement?**

If you have a Brazier agreement, there will be no changes to your service fees. The terms of your current agreement will remain in full force and effect, and will be supplemented by a short DQ Grill & Chill Amendment. [Underline added for emphasis.] This amendment brings in the new trademarks and makes specific changes relating to the critical items identified as part of the Project Octane Test (advertising, EPOS/polling, electronic funds transfer, approved products and equipment, periodic modernization, and for older agreements hours/days of operation and insurance.) The advertising commitment for DQ Grill & Chill is 6% of gross sales, although ADQ may reduce that amount for a period of time, as is the case with all DQ Grill & Chill restaurants that are currently paying advertising at the 5% level.

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**I like things as they are today, and I really don't want to make any changes. Is that a problem?**

ADQ recognizes that some franchisees, after having carefully considered the alternatives available for their businesses, will determine that doing nothing at the present time is right for them. I encourage franchisees to make sure that decisions not to evolve or re-invest are based on economic and competitive analysis, and not on a mere lack of desire to invest. Accepting a mediocre or below-average facility can result in a steady decline of sales and profitability.

**Please note that ADQ does need to reserve its right to enforce the remodeling or modernization requirements that exist in various franchise agreements. ADQ may in the future implement a modernization program based on these requirements. [Bold intended for emphasis.]**

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**Is it true that if I transfer my store, the buyer is required to sign an agreement stating that any future transfer must include conversion to a DQ Grill & Chill restaurant?**

No. We do not have any agreement like this as part of the transfer process. If your existing Franchise Agreement contains remodeling or modernizations requirements that relate to a transfer, ADQ may, in the future, implement a program based on these requirements.

DQOA members who find themselves in a contractual dispute or difference of interpretation with IDQ are asked to contact the DQOA office (952) 556-5511. There may be other franchisees in your similar circumstances.

Dear DQ Franchisee,

It's an exciting time to become a part of the Dairy Queen Operators' Association and Cooperative. The DQOA/DQOC is in its 33<sup>rd</sup> year of service as the only independent voice for Dairy Queen Franchisees throughout the United States. Our Cooperative recently distributed a 2003 patronage dividend totaling more than \$2 million to members who purchase DQOC products – our biggest dividend to a single member this year was \$5,094.60. And that's on top of the thousands of dollars of avoided cost through DQOC's competitive pricing. It's savings like this that makes being a member such an easy and important choice for you.

More than ever, your DQOA/DQOC membership is vital to your business success. In addition to enhancing your bottom line, your Association is working diligently to change business practices and strategies of IDQ that threaten your equity in your DQ stores. With your membership, you will receive valuable information and insights that explain, in plain language, what these changes are all about and how they threaten your business. Your Association is committed to constructively negotiating necessary changes with IDQ that will ensure a healthy and growing DQ system, more royalty income for IDQ, and a sound future for all DQ Franchises. Your membership support and involvement is essential to this effort.

When you join the DQOA/DQOC you win, because:

- DQOA/DQOC is your advocate; watching over your franchise interests and helping protect your equity in your DQ store.
- DQOA/DQOC works constructively with IDQ management to negotiate business strategies and practices that are in your best interest.
- The association helps lower your cost of goods by maintaining healthy competition with IDQ's single-source suppliers of DQ products.
- You'll get independent information and insights about issues affecting your franchise.
- Access to additional benefits such as an annual convention with your fellow DQ Franchisees and programs offering business and health insurance, uniforms, equipment and parts at member rates, long distance calling, travel discounts and much more.

Stay tuned this year for a new and improved Bottomline newsletter, offering you valuable insights on how to get the most from your DQOA membership and keep your DQ business booming.

We invite you to contact the DQOA office to request a membership application. We know you will find that being a DQOA/DQOC member is an invaluable step to keep up the value of your DQ business. Please contact us at 952-556-5511.

Sincerely,

*Rick Brandes,*  
President DQOA/DQOC