

ITEM 11

FRANCHISOR'S OBLIGATIONS

Except as listed below, KFCC need not provide any assistance, supervision or other services to you.

A. Before you open your KFC outlet KFCC will:

1. Furnish you with a description of the general area in which you may establish a KFC outlet (KFC Franchise Option Agreement, Section 1);
2. Notify you whether your proposed site and plot plans are acceptable (KFC Franchise Option Agreement, Section 2);
3. Furnish you with KFCC standards and specifications regarding building type, access requirements, furnishings and equipment (KFC Franchise Option Agreement, Section 3);
4. Countersign the KFC Franchise Agreement and related documents upon your completion of your obligations under the KFC Franchise Option Agreement (KFC Franchise Option Agreement, Section 4);
5. Upon your request, furnish you with a list of approved suppliers (KFC Franchise Agreement, Section 12);
6. Provide training and operating advice (KFC Franchise Agreement, Sections 5 and 7); and
7. Loan you one copy of the KFC Confidential Operating Manual, ("Standards Library"). The Standards Library contains KFCC's mandatory and suggested specifications, standards and operating procedures and may also include other information regarding your obligations under the Franchise Agreement. The Standards Library may be changed by KFCC. You must keep the Standards Library confidential and up-to-date and may not copy any part of it. The table of contents of the KFC Standards Library as of our last fiscal year, and the number of pages for each topic, is attached to this Offering Circular as Exhibit "H" (KFC Franchise Agreement, Section 5).

B. During the on-going operation of your KFC outlet, KFCC will:

1. Offer continuing training programs, as KFCC deems appropriate (KFC Franchise Agreement, Section 7);
2. Provide continuing services as KFCC deems advisable relating to furthering the KFC system and protecting the Marks, including refinement of products and equipment, informing you of quality control methods and research and development which KFCC believes may be beneficial to your operation, recommending business and accounting procedures which KFCC believes may be of value, and scheduling meetings for informing you of developments in processing and marketing approved products. KFCC may charge for optional services which KFCC elects to provide (KFC Franchise Agreement, Section 7);

3. Work to maintain sources of supply for items incorporating the trade secrets of KFCC which are essential for operating a KFC outlet (KFC Franchise Agreement, Section 7);
4. Notify you about the introduction of additional optional products (KFC Franchise Agreement, Section 3);
5. Notify you in writing prior to requiring that a product be sold at a KFC outlet (KFC Franchise Agreement, Section 5);
6. Notify you of the expiration of the Franchise Agreement (KFC Franchise Agreement, Section 3);
7. Not use or permit others to use in selling food products any of the Marks that you have the right to use under the Franchise Agreement within the smaller of a radius of one and one-half miles of your KFC outlet or an area around your KFC outlet containing 30,000 people, except for (a) special event sales, and (b) in some cases, food products (other than chicken in whole pieces) using the name or image of Colonel Sanders (KFC Franchise Agreement, Section 3);
8. Not use or permit the use of the name or image of Colonel Sanders to promote the sale of alcoholic or tobacco products, to sell poultry products other than Approved Products or with a quick service restaurant other than a KFC outlet (KFC Franchise Agreement, Section 3);
9. For 10-year periods renew your franchise if you comply with all of the renewal requirements of the Franchise Agreement, including signing a new KFC Franchise Agreement on the form KFCC is then issuing. The terms of that new Franchise Agreement may be different from those in the current Franchise Agreement, except that if at the time of your renewal you have a form of franchise agreement referred to as the Form 76(5P), there will be no increase in the royalty or advertising fees, and no change in the renewal or assignment provisions, or the protected territory (KFC Franchise Agreement, Section 4);
10. Not establish the prices charged by you for products or services you provide at your KFC outlet (KFC Franchise Agreement, Sections 5 and 10);
11. Not enforce against you any of KFCC's standards and requirements, including remodeling standards, if they exceed the standards enforced by KFCC for KFC outlets owned by KFCC or its affiliates. If KFCC or its affiliates does not have KFC outlets in the same area as yours, KFCC will compare your outlet with KFCC's or its affiliates in the nearest market in which KFCC owns KFC outlets. In comparing your outlet to KFCC's, our outlets in the market will be considered in their entirety so that you cannot deny your obligations based on a small number of KFCC outlets (KFC Franchise Agreement, Sections 5 and 6);
12. Notify you within 5 business days whether KFCC approves or disapproves advertising materials submitted to KFCC by you (KFC Franchise Agreement, Section 10);
13. If there is a dispute between two or more local advertising co-ops regarding area coverage, resolve the dispute in the exercise of our reasonable business judgment (KFC Franchise Agreement, Section 10);
14. If KFCC conducts an audit and determines that you have overpaid the required royalties, pay to you the amount of the overpayment if it exceeds \$50 (KFC Franchise Agreement, Section 11);
15. At your request, furnish you within 30 days with a list of approved suppliers and the then current standards regarding products required to be used in establishing or operating your KFC outlet (except for trade secrets) (KFC Franchise Agreement, Section 12);
16. At your request, consider additional proposed suppliers (See Item 8) (KFC Franchise Agreement, Section 12);
17. At your request, if your KFC outlet is condemned, approve or disapprove your request to relocate (KFC Franchise Agreement, Section 14);
18. At your request, approve or disapprove transfers and assignments (KFC Franchise Agreement, Section 16);

19. For some defaults under the Franchise Agreement, provide notice and a 30 or 10 day period to correct the specified defaults (KFC Franchise Agreement, Section 17);

20. Encourage the continuance of the KFC National Council and Advertising Cooperative, Inc. and respond in writing to matters submitted to KFCC (KFC Franchise Agreement, Section 18);

21. Not manage or control the day-to-day operations of your KFC outlet, or manage the business of the outlet, or hire, fire or discipline your employees (KFC Franchise Agreement, Section 20); and

22. Pay your costs if KFCC brings a lawsuit against you regarding the terms of the Franchise Agreement and you prevail entirely (KFC Franchise Agreement, Section 20).

Computer and Electronic Point-of-Sale Systems

You must keep books and records in a form satisfactory to KFCC. You must prepare complete records regarding all sales at your KFC outlet and all financial, operating, marketing and other aspects of your KFC outlet. You must maintain an accounting system that accurately reflects all aspects of the business at your KFC outlet, including books of account, tax returns, daily reports, statements of gross revenues, profit and loss statements and balance sheets. You must also submit to KFCC such other reports as may be reasonably requested concerning the business conducted at your KFC outlet.

All sales made at the KFC outlet must be recorded on cash registers. There are currently no computer or electronic point-of-sale systems that you must use in your KFC outlet. KFCC does not have independent access to the information and data that is electronically collected on the computer or electronic point-of-sale systems that you use in your KFC outlet. KFCC may require that a particular computer or electronic point-of-sale systems, or both, be used at KFC outlets in the future (KFC Franchise Agreement, Section 11).

New System Technologies: KFCC's new POS system includes Compris POS software with PAR XP or NCR 7454 or IBM SurePOS cash register hardware and the KFC Back of House PC with the KFC MERIT software. A KFCC franchisee who acquires a KFC company-operated restaurant that has installed Compris POS software with PAR XP, NCR 7454 or IBM SurePOS hardware systems, has the option to continue to use the Compris/Merit solution and we encourage the franchisee to keep the solution. If the franchisee continues to use the Compris/Merit solution they must also agree to pay KFCC a monthly fee based upon the costs for internal support services that are provided to all Compris / MERIT restaurants. The franchisee also will be required to sign and pay for a hardware maintenance contract with a KFCC approved hardware maintenance provider and any other approved vendors required by KFCC for those Systems. Compris POS software requires the MERIT system back office. KFCC currently uses the MERIT system back office, but may change systems in the future, in which case Franchisees will be given 6 months written notice to replace the MERIT system with the new KFCC system.

**2007 Ongoing Monthly Restaurant Technology
Service Costs Paid to Yum for Compris and MERIT**

	<u>YUM Service Costs per Store per Month</u>	
POS and Back Office		
<u>Monthly Charges</u>		
Account Mgmt.	\$ 12.50	Paid to YUM
Polling	\$ 10.00	Paid to YUM
Help Desk	\$ 100.00	Paid to YUM
Data Mgmt.	\$ 33.33	Paid to YUM
Misc. Projects	\$ 10.00	Paid to YUM
Software Maintenance	\$ 34.84	Includes Compris, QSR, Verifone, Ghost, Symantec and PC Anywhere paid to Yum who pays each vendor which ensure you receive our pricing
Hardware Maintenance Vendor		This cost varies with the 1.) brand of equipment, 2.) the amount of installed equipment, 3.) whether you choose On Site or Advance Exchange hardware

		maintenance and, 4.) by hardware Maintenance vendor.
Total	\$ 200.67	Paid to YUM

Training

Before you open your KFC outlet, you (or a principal) or your manager must attend and complete to KFCC's satisfaction the initial training program offered by KFCC on the operation of a KFC outlet (KFC Franchise Agreement, Section 5). At KFCC's direction, other employees of yours must attend and complete the training program to KFCC's satisfaction. You, your managers and other employees of yours must also attend such additional courses, programs and seminars as KFCC may require periodically. All training programs will be scheduled as needed and at KFCC's regional or divisional offices or other places as KFCC may designate, and may include written material and classroom instruction. If you, any manager or other employee of yours does not complete the training program to KFCC's satisfaction, KFCC may require that manager or employee be retrained or that another manager or employee be trained to operate the KFC outlet. The initial training will be provided at a cost to you (see chart below), which includes, course materials and related costs. You will also be responsible for salary, travel, hotel, meals and other expenses of attendance. KFCC does not currently require you to attend additional training. However, KFCC may offer additional training courses, seminars and programs and charge you for this additional training (and you must pay the associated travel and living expenses).

KFCC maintains a training staff for the purpose of ensuring operational excellence, developing personnel and conducting training classes. This staff consists of approximately twenty people and includes National Training Leader and Field Training Instructors. Training personnel are experienced in the subjects covered in the initial training program, in food service operations and in conducting training programs. The National Training Leader and Field Training Instructors coordinate training in KFC restaurants, as well as conduct some classroom training. KFCC may increase or decrease the number of training personnel, and change the required experience for these trainers.

Besides the initial training, KFCC may offer assistance in the areas of customer service, general outlet management, quality control, new product preparation and equipment maintenance. In addition, at this time, if you first sign the release and indemnity prepared by KFCC, KFCC will provide you with the training materials used in the areas of employee relations for your consideration and possible use. Currently, KFCC's initial training program is supervised by Dale Herb, whose relevant employment history is described in Item 2. KFCC may continue or discontinue any of this assistance and to charge you for additional assistance as provided in the Franchise Agreement.

The subjects covered in the initial training program are described below:

1st Time YUM Franchisee – Opening a KFC Restaurant

Training Required				
Who	What / Where	Why	Weeks	Cost
Franchisee or ARL (if Applicable) Required	KFC TM Training / DC Training Rest	Product & Procedures Equipment (Start-up, cleaning, Daily / Weekly maintenance) Packing & Bagging	2	

RGM and
AM or SS
(min 2/rest)

	Shift Mgmt Training (DC LAS) / DC Training Rest	DC Workshops: > Orientation > Getting Ready to Lead M1 – Customer Mania M2 – Cleanliness & Food Safety M3 - Safety & Security M4 – Emergency Situations M5 – Basic HR M6 – Product Quality M7 – Daily Inventory M8 – Shift Labor M9 – Cash Control M10 – Open, Shift Change/Close M11 – Putting It All Together	4	
Franchisee or ARL (if Applicable) Required RGM and AM or SS (min 2/rest)	Assistant Mgr Training (DC LAR 1) / DC Training Rest	M12 – Recognition M13 – Conducting 1:1 Training M14 – Evaluate Rest Processes M15 - Forecasting M16 - Food & Paper Costs M17 - Managing Labor M18 - Semi-Variable Costs M19 - Facilities & Equipment M20 - Basic Restaurant Finances DC LAR2 Workshops: > Build A Great Restaurant Roadmap High Impact Coaching	6	

Existing YUM Franchisee (any brand other than KFC) – 1st Time KFC Franchisee

Training Required				
Who	What / Where	Why	Weeks	Cost
Franchisee or ARL (if Applicable) Required RGM and AM or SS (min 2/rest)	KFC TM Training / DC Training Rest	Product & Procedures Equipment (Start-up, cleaning, Daily / Weekly maintenance) Packing & Bagging	2	\$2,200 / Trainee if trained separately (time & rests)
Franchisee or ARL (if Applicable) Required RGM and AM or SS (min 2/rest)	Assistant Mgr Training (DC LAR 1) / DC Training Rest	M12 – Recognition M13 – Conducting 1:1 Training M14 – Evaluate Rest Processes M15 - Forecasting M16 - Food & Paper Costs M17 - Managing Labor M18 - Semi-Variable Costs M19 - Facilities & Equipment M20 - Basic Restaurant Finances DC LAR2 Workshops: > Build a Great Restaurant Roadmap High Impact Coaching	6	OR \$3,000/ Fr. Opening if all 3 are trained at the same time in the same rest.

Training Labor: 30 Hrs/Week TM Product & Procedure Training, 20 Hrs/Week Shift Mgmt & Assistant Manager Training

Training Bonus: \$300/Trainee

Acronyms:

AM – Assistant Manager

ARL – Above Restaurant Leader

DC – Developing CHAMPIONS Training Program

DC LAS – Developing CHAMPIONS Leading a Shift Training Program for Hourly Managers

DC LAR 1 – Developing CHAMPIONS Leading a Restaurant Training Program for Assistant Managers

DC LAR 2 – Developing CHAMPIONS Leading a Restaurant Training Program for Restaurant General Managers
RGM – Restaurant General Manager
SS – Shift Supervisor (Hourly Manager)
TM – Team Member

Site Selection

You select the site for your KFC outlet. Although KFCC must approve your proposed site, approval does not imply that a KFC outlet can be successfully operated at the proposed site or that any particular volume of sales can be expected from the proposed location, but only that the site meets the minimum standards based on KFCC's past experience. KFCC relies heavily on your knowledge of the local market in selecting a proposed site. Before you lease or purchase a site for your KFC outlet, you must submit a completed Site Request/Deposit Form, along with a \$10,000 deposit (to be applied to the \$25,000 initial franchise fee) and such other information as KFCC reasonably requests, and receive KFCC's written approval of the proposed site. The proposed site and plot plans must be submitted to KFCC at the time you sign the Franchise Option Agreement and pay the \$15,000 balance of the initial franchise fee. KFCC will notify you whether the proposed site and plot plans are acceptable. Until you receive written approval from KFCC, you may not commence construction of the KFC outlet. The time limit for approval of the proposed site varies. If you and KFCC cannot agree on a site, you cannot build. The factors considered in approving proposed sites include general location and neighborhood, traffic patterns, parking facilities, size, ingress and egress, visibility, demographics and competitive locations. If KFCC approves the proposed site, you must materially commence building the outlet in accordance with KFCC standards within eight months, and the outlet must be open for business within one year, of the date of the Franchise Option Agreement.

If you fail to submit an acceptable site to KFCC for our approval or otherwise fail to comply with your obligations under the Franchise Option Agreement, KFCC may terminate that Agreement on thirty days written notice, unless you cure the default to the satisfaction of KFCC within those thirty days. If the Agreement is terminated for any reason, you are not entitled to any refund of the initial franchise fee, except that if you were unable, despite your best efforts, to build and open the outlet within one year because of building or zoning restrictions beyond your control, you will be entitled to a refund of one-half of the franchise fee. KFCC estimates the typical length of time between signing the Franchise Option Agreement and the opening of the KFC outlet to be approximately 12 months. Factors which may affect this time period include obtaining a lease for or purchasing the proposed site, acceptable financing arrangements, any required approvals and zoning or building permits, factors bearing on construction such as weather and labor, completing required training and your compliance with local laws and regulations (KFC Option Agreement, Sections 1, 2, 3, 5 and 6).

Advertising

National advertising is administered by the KFC National Council and Advertising Cooperative, Inc. ("National Co-op"). You must sign an Advertising Agreement (in the form attached as Exhibit O) with the National Co-op at the time you sign the KFC Franchise Agreement. You must contribute 2% of your gross revenues to the National Co-op on a monthly basis. The contribution rate may be changed by a vote of two-thirds of the members of the National Co-op, each of whom has one vote regardless of the number of their KFC outlets; however, you will not be required by KFCC to spend more than 5% of your gross revenues for advertising purposes. For KFC outlets owned by KFCC affiliates, KFCC currently contributes to the National Co-op at the same rate as you. KFCC also pays to the National Co-op contributions made by KFC licensed outlets operating pursuant to a KFC License Agreement.

By an affirmative vote of at least 2/3rds (76% actual) of the National Co-op members on November 10, 2000, the advertising fee was changed to 2.5% for calendar year 2001 to cover the cost of KFCC's 2001 media plan and marketing strategy. The 2.5% contribution rate was continued through calendar year 2002 by another affirmative vote of at least 2/3rds (79% actual) of the National Co-op members on November 20, 2001. The 2.5% contribution rate was continued through June 2004 by another affirmative vote of at least 2/3rds (71% actual) of the National Co-op members on November 15, 2002. The 2.5% contribution rate was continued through December 31, 2005 by another affirmative vote of at least 2/3rds of the National Co-op members on May 26, 2004. The 2.5% contribution rate was continued through June 30, 2007 by another affirmative vote of at least 2/3rds of the National Advertising Co-op members on December 29, 2005. The 2.5% contribution rate was continued through December 31, 2008 by another affirmative vote of at least 2/3rds of the National Advertising Co-op members in February of 2007. See Item 6.

The National Co-op has an Executive Director and staff for managing day-to-day responsibilities and is governed by a committee consisting of seventeen voting members, 13 of whom are franchisee representatives

and 4 are KFCC representatives. Twelve of the franchisee representatives are elected on a regional basis by franchisee members of the co-op in that region, on a one-franchisee, one-vote basis. The thirteenth franchisee member is the President of the Association of Kentucky Fried Chicken Franchisees, Inc. Under the National Co-op By-Laws, KFCC does not have the right to change the membership of the committee other than our representatives.

For the fiscal year ending January 31, 2007, the National Co-op used its funds (and earnings on these funds) as follows: general administration (4.0%); artwork and production costs (8.0%); broadcast expenses (2.0%); national media, including agency fees (82.0%); public relations (2.0%); research (1.0%) and taxes (1.0%). No marketing funds are used for the solicitation or the sale of franchises.

KFCC has the sole right to approve or disapprove all advertising using our Marks and the sole right to hire and fire the advertising and public relations agencies retained by the National Co-op.

An audit of the records of the National Co-op is performed annually by certified public accountants, and a copy of the audit is provided to each member of the committee, who also may, subject to and in accordance with law, inspect the books and records of the National Co-op. The National Co-op provides all of its members in good standing, within 90 days after the close of its fiscal year, an annual report describing the National Co-op's activities during that year, and condensed financial statements.

The National Co-op may elect to purchase advertisements that have been produced or paid for by KFCC. Except for reimbursement for travel and related expenses of KFCC's representatives on advertising committees (which are also reimbursed for franchisee members), contributions to the National Co-op are not used to defray expenses of KFCC. Any fees collected by the National Co-op which are not spent in the fiscal year in which they accrue may be carried forward and spent in later years.

In addition to contributions for national advertising, you must spend at least 3% of gross revenues (subject to adjustment based on the national advertising rate as described above) on local advertising, all in a manner and using media and materials approved in advance by KFCC. Your required expenditures for local advertising would include amounts paid to local advertising cooperatives ("local co-ops") approved by KFCC.

At KFCC's request, you must join and contribute to a local co-op for the marketing area in which your KFC outlet is located. The advertising contribution rates for local co-ops are established from time to time by the local co-op. For most local co-ops, each member is entitled to one vote regardless of the number of KFC outlets he owns within the marketing area covered by the local co-op. Beginning in 1994, in some instances local co-ops that have been formed have adopted a voting system in which each member has a total number of votes equal to the number of KFC outlets he owns in that marketing area.

You may be required to join more than one local co-op for your KFC outlet, but KFCC will not require you to do so if your total advertising contribution to local co-ops would exceed 3% of gross revenues solely because of your membership in more than one local co-op. However, the membership of some local co-ops has elected to require advertising contributions to the local co-op of more than 3%. Contributions to local co-ops must be made on a monthly basis.

You must abide by the reasonable determinations of the local co-op as to media coverage and allocation of advertising expenditures among the members' restaurants based on relative media coverage. Your obligations to join and participate in local co-ops do not depend on the participation of other franchisees within the same marketing area in the local co-ops. If there is a dispute between local co-ops regarding media coverage, KFCC will resolve the dispute in our judgment. KFCC may approve and disapprove local co-ops, which includes the right to require a local co-op to be formed, dissolved, or merged.

The local co-ops are generally managed by a Board of Directors or a similar type of governing body. Local co-ops usually retain agencies to help prepare and place advertising. KFCC recommends that local co-ops be organized as a corporation, but KFCC has not made that a requirement currently. KFCC does require that local co-ops adopt By-Laws for governing purposes, and these By-Laws should be available for your review. By-Laws used by local co-ops require the local co-ops to distribute periodic financial statements to their members.

Currently, for KFC outlets owned by KFCC's affiliates that are within marketing areas covered by an approved local co-op, KFCC contributes to the local co-op at the same rate as you. KFCC currently does not require licensees operating under a KFC License Agreement to join local co-ops.

Local co-ops may only use advertising materials that have been approved by KFCC as to form, content, quality, media and placement. Local co-ops may elect to purchase advertisements that have been produced or paid for by KFCC if KFCC elects to make any available.

If you do not spend 3% of your gross revenues for local advertising, you must, within 60 days following the close of your fiscal year, pay to the National Co-op (in addition to your other required payments to the National Co-op) the difference between 3% and the amount you actually spent on approved local advertising, unless you can demonstrate to KFCC's satisfaction that the shortfall could not be productively spent for local advertising using sound business judgment.

All advertising materials, except materials received from KFCC or the National Co-op, must be approved by KFCC regarding the type, contents, format and media in which the advertising is to be used. These materials must be submitted to KFCC at least 15 days prior to use, and we have 5 business days to approve or disapprove the materials and the proposed use. You must comply with KFCC's instructions regarding the use of advertising materials, including modifying or discontinuing the use of materials previously approved. KFCC will not establish the prices charged by you for the products or services you offer at your KFC outlet.

KFCC is not obligated to spend any amount on advertising in the area where your KFC outlet is located, or elsewhere. Neither KFCC, the National Co-op nor any local co-ops are obligated to make expenditures for you which are equivalent or proportionate to your advertising contributions or to ensure that you benefit directly or pro rata from advertising expenditures.

Neither KFCC nor, to our knowledge, the National Co-op or any local co-ops use any part of the advertising contributions for advertising that is principally a solicitation for the sale of franchises.

Your obligations to the National Co-op or any local co-op can be enforced by KFCC, the applicable co-op or any of that co-op's members. No action taken by the National Co-op or any local co-op will affect your obligations to KFCC.