

**NEXT
GENERATION
PROCESS**



McDonald's Franchising

NEXT GENERATION PROCESS

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INTRODUCTION

The selection of prospective McDonald's owner/operators has considerable impact on the future of the McDonald's System. McDonald's gives careful consideration to the selection of those individuals who will join the System and contribute to all of our future successes. This booklet provides an overview of McDonald's Next Generation evaluation and qualification process.

Next Generation candidates are defined as the sons and daughters of owner/operators including sons-in-law, daughters-in-law and step-children. In this booklet Next Generation candidates are referred to as "Candidates." The information contained herein is intended to:

- Describe McDonald's expectations and requirements for a Candidate to become an approved owner/operator;
- Outline the Candidate development program;
- Outline the parent's responsibilities during the program
- Discuss certain financial and estate planning issues that may be pertinent to the owner/operator intending to transfer restaurant ownership to an approved Candidate.

McDONALD'S NEXT GENERATION PHILOSOPHY

McDonald's supports our owner/operators desire to bring their sons and daughters into the family business. Historically, we have enjoyed great success with Candidates joining the family business. The development of new owner/operators who have literally grown up in McDonald's is beneficial, not only for the owner/operators and their organizations, but for the System overall.

One of our shared program goals is to prepare Candidates to assume responsibility and control of the business in an orderly fashion upon the retirement or death of the owner/operator. We believe that each Candidate should have a plan to assume complete ownership of the restaurant(s) on which they are approved. It is our expectation that the parent owner/operator continues to devote full time and best efforts to the restaurant business upon approval of their Candidate and for as long as the restaurants are jointly owned.

McDonald's is committed to assisting with the development of those 'qualifiable' Candidates who wish to become approved owner/operators and join their parents in business. The parent owner/operator is responsible for the training and development of the Candidate.

All potential owner/operators including external applicants, Company employees, franchisee employees and Candidates must possess the necessary characteristics and qualities along with demonstrating certain skills and proficiencies prior to becoming a McDonald's owner/operator. McDonald's will not compromise our qualification standards merely because an individual is a son or daughter of an owner/operator.

ENTERING THE NEXT GENERATION PROGRAM

General Qualifications

The qualifications for a Candidate to become an approved owner/operator are essentially the same as those used to evaluate an outside applicant who is interested in joining the System. Prior to approving an individual to become a McDonald's owner/operator, a Candidate must demonstrate maturity, sound business judgment, a history of success, entrepreneurial spirit, strong interpersonal skills, along with personal characteristics including honesty, integrity, sincerity, ambition, initiative, leadership and a commitment to personally devote full time and best efforts to the day-to-day operation of the McDonald's restaurant business.

When evaluating prospective franchisees, McDonald's takes into consideration many factors including personal traits, skills and competencies. The screening and selection process includes a thorough background check and a series of personal interviews with Candidates and their parents. McDonald's will take into consideration the Candidate's personal behavior and performance, as these are indications of the Candidate's judgment, character and competence.

During the initial evaluation process, we typically find that a number of prospective Candidates lack business maturity and business experience. These Candidates may become qualified in the future, although the qualification process may extend over several years.

In some situations, we find that certain sons and daughters of owner/operators do not meet our qualifications given their past and/or current behaviors and performance. In our view, these candidates do not have the essential traits necessary to become McDonald's owner/operators. These candidates will not be allowed to enter the Next Generation process. Applicants who do not meet our qualifications are welcome to work in the family business.

A minimum requirement of the Next Generation program is that a Candidate will become an approved owner/operator only if the parent's organization remains eligible for growth and rewrite. In other words, McDonald's will not grant approved Operator status to Candidates within an organization that fails to meet the National Franchising Standards.

Financial Qualifications

Currently, McDonald's financial requirement for a prospective franchisee is a minimum of \$500,000 in unencumbered liquid assets (typically excluding home equity). McDonald's does *not* make this same requirement for those Candidates who desire to join their parent's business. However, McDonald's will evaluate each Candidate's ability to manage their personal finances. McDonald's will obtain a credit report and verify each Candidate's assets as part of the screening process, and again at the completion of the development program and prior to the final approval of the Candidate.

McDonald's will review any proposed restaurant sale transaction. Each transaction will be evaluated and either approved or disapproved based upon the financial merits of the transaction and the compliance with McDonald's policies and procedures.

If a Candidate is seeking to become an approved owner/operator outside of the family business, McDonald's requires the Candidate to meet the same minimum requirements as described above. In other words, any Candidate who desires to become an owner/operator outside the parent's organization must have a minimum of \$500,000 in unencumbered liquid assets and an impressive personal financial management history.

Operational/Business Qualifications

Each Candidate must, at a minimum, have been a restaurant manager and achieved a consistent level of impressive operations. Additionally, McDonald's insists that the Candidate demonstrate that he or she is fully capable of operating a highly successful restaurant business. Being able to deliver exceptional QSC&V in the restaurant through daily involvement is a critical element to becoming a successful owner/operator.

The Candidate must demonstrate expertise in managing the business and the restaurant operations. Specifically, we expect the candidate to manage a restaurant while executing a business plan and achieve above average results. The Candidate will be expected to demonstrate exceptional execution of the 12 restaurant systems. The Candidate should demonstrate leadership with well above average results in their market in the areas of:

- Sales and guest counts
- ROIP results
- Mystery shops & Customer Satisfaction Opportunity
- People-Support and execution of the People Migration Strategy, i.e., BHOT, Benefits, Hiring to Win, Orientations & Training
- Customer Recovery
- Restaurant Financials (P&L management)
- Community Involvement

The Candidate is expected to demonstrate leadership and possess the behaviors of a leading edge Owner/Operator. The candidate must clearly display maturity, business acumen and a genuine commitment to our brand. We expect our future Owner/Operators to be champions of people with strong interpersonal skills and the ability to build loyalty and trust through effective people practices. Personal behavior is a reflection of judgment, integrity and competence. All aspects of a Candidate's character and background including subjective elements will be considered when reviewing qualifications.

While managing a restaurant and becoming operationally qualified is critical in the evaluation of a Candidate, it is one of many components of the qualification process. In addition to the completion of all required training, the Candidate must also exceed the following minimum standards as described in the National Franchising Standards:

Operations

- The ability to personally deliver an acceptable level of operations (at least 80 on all graded visits), based on graded ROIP visits and food safety audits.

Customer Satisfaction

- Demonstrating the ability to improve customer satisfaction.
- Demonstrating the ability to build the business through involvement in marketing and related activities.

People

- Demonstrate the ability to recruit, develop, train and retain qualified people.

Operator Involvement

- Provide leadership and constructive involvement within the organization.
- Demonstrate a positive and contributive attitude.

Financial

- Demonstrate the ability to operate a financially viable business and make capital investment decisions.

The Candidate must demonstrate business acumen through:

- Strong self-confidence
- Effective communication
- Making sound business decisions
- Maturity and judgment
- Integrity and honesty
- Strong personal financial management and ability to manage personal wealth
- Development and implementation of a strong business plan

Many sons and daughters of owner/operators have not yet acquired the business experience generally required of outside applicants. By virtue of ongoing interaction with the Candidate within the parent's organization, the Field Service staff is best qualified to determine the merits of the Candidate and evaluate the contributions he/she makes to the success of the parent's organization. A Candidate must have the support and recommendation of Field Service to be considered for entry into the Next Generation Program.

Some Candidates may have business experience outside of the McDonald's System. The Franchising Manager will consider this experience when evaluating the Candidate's business acumen.

PROCESS

Application Overview

All prospective McDonald's owner/operators must complete the standard McDonald's application for franchise. This is available at www.aboutmcdonalds.com. The application provides McDonald's with the Candidate's personal background and information including education, work and business experience, assets, liabilities and references. Additionally McDonald's will obtain a credit report for each applicant.

Application Process

Candidate Responsibilities	Parent Responsibilities	McDonald's Responsibilities
Notify Field Service Manager of desire to enter program	Assist Candidate in application preparation	Review application
Obtain application at www.aboutmcdonalds.com	Remain eligible for growth and rewrite	Obtain credit report
Submit the application		Conduct initial interview

Initial Interview with Franchising Manager

The Franchising Manager or Field Service Manager will conduct an initial interview which is typically attended by the Candidate and her/his parent(s) as well as the Field Service Manager. The purpose of this meeting is for all parties to gain an understanding of the Candidate's qualifications and discuss the parent owner/operators' plan to develop the Candidate to become an approved owner/operator. During this initial meeting, the program requirements and approval process will be described. Additionally, the Franchising Manager will evaluate the Candidate's role and involvement in the parent's organization and determine the Candidate's level of business experience. The initial meeting typically takes place in one of the Operator's restaurants or other mutually agreed on location.

Initial Interview

Candidate Responsibilities	Parent Responsibilities	McDonald's Responsibilities
		Evaluate candidate qualifications
Discuss and outline development plans with parent prior to interview	Discuss and outline development plans	Describe program expectations
Discuss future ownership plans with parent prior to interview	Discuss and outline future ownership plans	Communicate Candidate qualifications to QSC VP
		Communicate next steps to Candidate

QSC VP Interview – Overview

Prior to entry into the Next Generation program (consistent with external applicants), the Candidate will be interviewed by the QSC VP. The QSC VP will take into consideration the Candidate's qualifications as provided by Franchising and Field Service.

The QSC VP will determine if the Candidate has the potential to become a McDonald's owner/operator. A number of factors will be considered, including the parents' willingness and ability to develop the Candidate. The Candidate and the parent should be prepared to outline the development plan and discuss expected business results.

Additionally, the QSC VP interview will include a discussion with the parent as to program expectations as well as the future ownership plans for the organization. The interview with the QSC VP will likely take place at the restaurant in which the Candidate will train.

Based upon McDonald's evaluation, the Candidate will be:

QUALIFIED NOW – These individuals have achieved exceptional results over a number of years within the parent's organization and have demonstrated that they possess all the necessary skills, competencies and qualities that McDonald's seeks in an owner/operator. Very few Next Generation applicants are considered to be "qualified" now upon the initial evaluation process.

NOT YET QUALIFIED BUT QUALIFIABLE – The majority of Next Generation applicants fit into this category. These individuals generally have not yet gained the necessary training, business experience, supervisory experience and maturity required for qualification.

Franchising, along with Field Service will work with the Candidate and the parent owner/operator to formulate an appropriate development plan for these individuals.

UNQUALIFIED AND NOT QUALIFIABLE – Some individuals will not qualify for entry into the Next Generation program. These Candidates typically lack the personal traits and characteristics necessary to become a McDonald's owner/operator. These individuals are welcome to work in the parent's business; however they will not be invited to enter the Next Generation training program.

Those Candidates who qualify for entry into the Next Generation training program must acquire at least 20% ownership in one *traditional* restaurant prior to beginning the training program. (Satellite locations are not traditional locations; ownership in satellite locations is not included in 20% minimum ownership requirement). This ownership requirement must be met prior to entry into the Next Generation program.

TRAINING

Training Overview

McDonald's Next Generation Operator training program is very demanding. The future success of the System depends on our having highly motivated, well trained, capable owner/operators. Candidates must demonstrate the execution of both a development plan and a business plan in addition to achieving strong and sustained business results. McDonald's also insists that future owner/operators display appropriate leadership, good business judgment, positive working relationship and excellent character.

Monthly calendars and quarterly updates to Franchising and Field Service enable McDonald's to monitor and provide feedback to the Candidate regarding the progress in the program. In the event that program requirements are not being met, McDonald's may opt to remove the Candidate from the training program. Some Candidates may not complete the training program and will not become approved owner/operators.

The training program includes three main elements: Operational, Financial and Business Management. The training program is designed to give the Candidate the opportunity to demonstrate their ability to achieve strong results in each area.

A sample Development Plan is contained in the Appendix of this booklet.

The Candidate is responsible for working through a development plan and becoming qualified. The parent owner/operator is responsible for providing appropriate atmosphere, guidance and oversight to ensure that the Candidate gains the necessary skills and competencies to become a McDonald's owner/operator.

McDonald's Franchising and Field Service departments are prepared to assist the Candidate throughout the training process.

The length of the training program will vary. Typically, a Next Generation Candidate will need several years to accomplish the program requirements. Each Candidate enters the program with different skills and competencies. The most experienced Candidates may be able to complete the program in less time than a Candidate who enters the program upon meeting only the minimum qualifications. The expected length of the training program will be outlined during the development planning meeting with Franchising and Field Service. Approved owner/operator status is awarded based on the demonstration of the required competencies – rather than time in the program.

Training Process

Each development program will be designed to meet the individual Candidate needs. Projected completion time will vary depending on the skills and experience of the Candidate. Additionally, the program completion is dependant upon the Candidate and parent working together to achieve the program requirements. The parent must provide the Candidate with the guidance and opportunity to demonstrate skills and achieve exceptional business results.

An initial meeting to review the development program will take place with Franchising, Field Service, the Candidate and the parent owner/operator. This meeting will include a discussion and agreement of general roles, responsibilities and expectations of the Candidate and parent owner/operator. An individualized development plan including expected timelines will be established during this meeting.

The Candidate must provide quarterly written updates to the Franchising Manager and Field Service documenting the progress toward accomplishing the goals and objectives of the development program. Field Service and Franchising will provide appropriate feedback to the Candidate and the parent owner/operator regarding the completion of the program objectives.

Throughout the development program, periodic meetings will take place at the restaurant with the Candidate and the Field Service Manager. A written summary of the Candidate's progress and accomplishments will be provided for the Franchising Manager with a copy to the Candidate file. This record of the Candidate's progress is important to both the Candidate and McDonald's as it provides for continuity in the event of personnel changes within the Region.

In all likelihood, during the Candidate’s training program there will be changes in regional personnel, ranging from the Business Consultant to the QSC VP. In these instances, the Candidate and the Region should schedule a meeting with the outgoing and incoming employees so that all may gain an understanding and agreement of the Candidate’s progress in the training program. The Candidate should not have to repeat any part of the program due to Company employee changes.

Training		
Candidate Responsibilities	Parent Responsibilities	McDonald’s Responsibilities
Prepare Development Plan draft	Review development plan	Monitor program progress Maintain Candidate file
Discuss roles, responsibilities and program expectations with parent(s)	Provide on-going guidance and direction to Candidate	Provide Candidate and parent with feedback as needed
Develop/Execute Business Plan	Provide Candidate with opportunity to make and be responsible for business decisions	Field Service meet with Candidate quarterly
Provide quarterly (written) updates to McDonald’s (Field Service & Franchising)	Provide quarterly (written) updates to McDonald’s	Annual review with Field Service Director
Participate in parent(s) Business Reviews	Remain eligible for Growth/Rewrite	
Attend/Participate ROA, Co-Op’s conventions, NABIT, etc.		

The Training Roadmap is attached in the Appendix.

APPROVAL

Approval Overview

Upon completion of development requirements, the QSC VP will determine the Candidate’s readiness for approved owner/operator status. Approved owner/operator status will be granted when McDonald’s determines that the Candidate has demonstrated the necessary traits and competencies needed to become a successful McDonald’s owner/operator. Approved owner/operator status gives the Candidate the right to acquire 100% of the restaurant (subject to financial review), on which he/she is approved. In addition to joining the highly respected McDonald’s owner/operator community, newly approved owner/operators enjoy all the rights and assume all the responsibilities of an owner/operator as provided for in the Franchise Agreement.

Generally, newly approved Candidates receive approval to own and operate one restaurant at a time, regardless of the number of restaurants owned by the parent.

Approval Process

Training Certifications

All Candidates must have completed the McDonald's development program in its entirety, including all regional and national training classes, the Financial Development Training Program and additional required training as indicated on the Training Roadmap.

Upon completion of and after demonstrating all of the necessary skills contained in the training requirements (operational, financial and business), the Field Service Manager will inform the QSC VP and the Franchising Manager that the Candidate has met the training requirements. The QSC VP will conduct a final interview with the Candidate to verify that the development objectives have been met. This interview typically takes place at the restaurant and gives the Candidate an opportunity to display his/her accomplishments.

Approval

Candidate Responsibilities	Parent Responsibilities	McDonald's Responsibilities
Successful completion of training requirements	Provide guidance and assistance	Field Service determines operations and business results
Sustained demonstration of skills/proficiencies required of an owner/operator	Provide business atmosphere that encourages Candidate to achieve strong results	Franchising/Field Service monitor Candidate's progress
Achieve impressive business results		Franchising and Field Service make final recommendation to QSC VP

QSC VP Interview – Overview

The Candidate will meet with the QSC VP for a certification interview. This interview typically takes place in the restaurant. After the interview, the QSC VP will make the final decision as to whether the Candidate is qualified to become an approved owner/operator. The QSC VP will confirm that the Candidate possesses the necessary maturity, self-confidence, judgment, and attitude and the achievement of significant business results. The Candidate must be prepared to discuss their achievements and results of their development program and business plan. Meeting the five National Franchising Standards, *Operations, People, Financial, Customer Satisfaction and Owner/Operator Involvement* are minimum requirements of the program and will be addressed during the interview.

The QSC VP will notify the Franchising Manager of his or her decision and the decision will be communicated to the Candidate.

Official approval is granted only upon receipt of the fully executed Approved Owner/Operator Agreement. The newly approved Next Generation Operator service date will coincide with the date on which the Approved Operator Agreement is executed.

A copy of the Approved Owner/Operator Agreement is included in this booklet.

QSC VP Interview for Final Approval Consideration

Candidate Responsibilities	Parent Responsibilities	McDonald's Responsibilities
Prepare to discuss development program	Discuss proposed future ownership plan with Candidate	Franchising Manager arranges for Candidate interview with QSC VP
Prepare to discuss proposed future ownership plans		QSC VP communicates decision to approve Candidate
		Franchising Manager provides notification to Home Office Franchising

Approved Owner/Operator Status Granted

Upon entering the Next Generation program, the Candidate must have a minimum of 20% ownership in at least one of the parent's traditional restaurants. Upon final approval and written notice by the QSC VP, McDonald's will prepare the Approved Owner/Operator Agreement. The Approved Owner/Operator Agreement is an amendment to the Franchise Agreement and must be signed by the parent owner/operator and the newly approved owner/operator. A fully executed agreement will be kept on file at McDonald's and a copy sent to the newly approved owner/operator.

A newly approved owner/operator is typically granted approval for one restaurant. Approved status on additional restaurants will be discussed in the next section of this booklet.

Responsibilities: Documentation

Candidate Responsibilities	Parent Responsibilities	McDonald's Responsibilities
Identify with parent the restaurant on which Candidate will be approved	Identify with Candidate the restaurant on which Candidate will be approved	Prepare Approved Owner/Operator Agreement
Sign and return Approved Owner/Operator Agreement	Sign and return Approved Owner/Operator Agreement	

APPROVAL AND GROWTH INTO ADDITIONAL RESTAURANTS

Additional restaurants create a new challenge, and proper training is necessary to prepare the Candidate to meet that challenge. To be considered for approval on additional restaurants, Next Generation owner/operators must demonstrate the ability to achieve exceptional results across a number of restaurants. Each owner/operator organization has unique circumstances; therefore growth into additional restaurants will depend on a number of factors. The Next Generation owner/operator and the parent owner/operator are responsible for developing an appropriate development plan for expanding the Next Generation operator's span of control and influence within the organization. This plan should be discussed with the QSC VP during the annual business review.

If the Next Generation owner/operator owns and operates his/her restaurant separate from the parent's organization and, owns 100% of his/her restaurant, then additional growth will be based on meeting the National Franchising Standards.

If the Next Generation owner/operator remains with the parent's organization, the following is considered when granting additional restaurant approval. When making a determination to grant approval on additional restaurant(s), the QSC VP must be confident that the Next Generation owner/operator has demonstrated impressive results in operating the restaurant(s) on which they are currently approved. Additionally, the Next Generation owner/operator must demonstrate the ability to operate additional restaurants and deliver outstanding results across the organization. The owner/operator organization and the Next Generation owner/operator must meet the National Franchising Standards in order to be considered for growth into additional restaurants.

The decision to approve the Next Generation owner/operator on additional restaurants is significant as this approval on additional restaurant(s) means that the newly approved owner/operator may purchase 100% of the restaurant(s) (subject to financial review) on which they are approved.

The Next Generation owner/operator must demonstrate that they have full responsibility for all business results and decisions. As an example, the Next Generation owner/operator must have demonstrated excellent business judgment in areas such as reinvesting in the restaurant facility, competitive menu pricing, aggressive marketing and strong people development.

In the event a Next Generation owner/operator owns 20% of the restaurant on which he or she is approved, acts as the manager and has little say into pricing, reinvestment and other business decisions, it would be difficult for the QSC VP to grant approval on any additional restaurants. However, a different result could be reached if the Next Generation owner/operator owned 100% of the restaurant he/she is approved on, and acted as the supervisor of multiple restaurants, all with outstanding results and he/she is an integral part of all business decisions regarding those restaurants. In the latter case, a QSC VP may be comfortable granting additional approval status on one or more restaurants.

If the QSC VP grants approved owner/operator status on additional restaurants, the Next Generation owner/operator must own at least 20% of each restaurant on which approved status is being granted. An Approved Owner/Operator Agreement must be prepared and executed for those additional restaurants.

FINANCIAL/ESTATE PLANNING

McDonald's has published a booklet titled, "Basic Estate and Business Planning," which is available for the owner/operator's estate advisor to review prior to making any ownership transfers. That booklet outlines many estate planning considerations for the owner/operator. The booklet is available on AccessMCD.

The following should be taken into consideration when preparing an estate plan:

- Upon the death/permanent disability of the parent owner/operator any non-involved (unapproved) siblings will be required to sell their ownership interest to an approved owner/operator (typically the approved Next Generation owner/operator). As a point of clarity, McDonald's must grant approval for all ownership changes.
- Consider transferring ownership to the Next Generation approved owner/operator prior to retirement or death of the parent owner/operator. By making transfers prior to retirement or death, the parent owner/operator may be able to structure the transfer in a manner that could reduce estate taxes.
- Take advantage of certain events that may provide an opportunity to make a transfer when the restaurant may have a lower value. This may be prior to a major remodel, rebuild, relocation, or at the time when a new restaurant is offered to the parent owner/operator.
- The multiple-restaurant owner/operator with more than one approved Next Generation owner/operator should move toward transferring ownership in individual restaurants to each Next Generation approved owner/operator rather than having each child own a small percentage of all restaurants. Upon the death or retirement of the parent owner/operator, McDonald's typically does not allow joint ownership by siblings.
- McDonald's will not consent to the formation of sibling partnerships regardless of approved Operator status. While McDonald's will allow ownership by a parent Operator and their children, we will not approve the formation of new operator entities made up of siblings. Joint ownership is limited to Approved Operators and their children. In the event an owner/operator has more than one child who is working toward approved owner/operator status, careful planning and consideration must be given to all ownership transfers.
- Upon the death of the parent owner/operator, the approved Next Generation owner/operator of a multiple-restaurant owner/operator may find it necessary to sell one or more restaurants if funds are needed to pay estate taxes, to pay siblings their share of the parent's estate, or to buy out non-involved siblings who have an interest in the restaurant business. The Next Generation approved owner/operator who wishes to purchase restaurants from the estate will be allowed to do so only after McDonald's reviews and approves the financial merits of the transactions, and he or she is in compliance with McDonald's franchising policies and procedures.



FREQUENTLY ASKED QUESTIONS

The following are questions often asked about the Next Generation approval process. These questions and answers are designed to provide an understanding of McDonald's approach regarding this important issue. Please contact your Franchising Manager if you have additional questions.

1. Question: *Are Next Generation Candidates held to the same financial requirements as outside candidates?*

Answer: McDonald's does not place the same unencumbered fund requirements on a Candidate entering the parent's business as it does on external candidates. However, if for example, a parent is selling 100% of a restaurant to the Candidate, the Candidate must have sufficient necessary financial resources to own and operate the business, which includes the ability to make capital investments as necessary. McDonald's will only approve restaurant transactions that provide sufficient cash flow with financing arrangements of 7 years or less.

2. Question: *Does the Company view the Next Generation Candidate's qualifications differently for single restaurant situations as opposed to multiple-restaurant situations?*

Answer: Yes. The qualifications for owning and operating one McDonald's restaurant are different than the qualifications for operating multiple restaurants. McDonald's concern is the proper operation of the restaurants; the Next Generation owner/operator who may be qualified to operate one restaurant may not initially possess the qualities necessary to operate multiple restaurants. McDonald's will review each situation on a case-by-case basis. (See Approval and Growth into Additional Restaurants on page 11.)

3. Question: *If my son or daughter has been a long term restaurant manager, can I assume that he or she will be granted approved owner/operator status?*

Answer: No. The requirements for being an owner/operator are far greater than those of a restaurant manager. All approved owner/operators must be qualified restaurant managers in addition to accomplishing all requirements of the Candidate qualification process.

4. Question: *My parent's organization has been deemed ineligible for growth and rewrite. May I train in another restaurant?*

Answer: No. The parent owner/operators are sponsors of the Candidate and are responsible for training. If the organization does not meet McDonald's standards, the parents should devote appropriate time and energy toward improving performance to assure the proper atmosphere for training.

5. Question: *Although my parents support my desire to become an approved owner/operator, they have a difficult time giving me operating control of the business. Will this hinder my ability to become approved?*

Answer: Yes. It is the parent's responsibility to provide the Candidate the opportunity and environment to demonstrate the ability to run the business (operations, financial, business results and business judgment).

6. Question: *Am I required to obtain an ownership interest in the restaurant prior to entering the training program?*

Answer: Yes. A minimum of 20% ownership interest in one traditional restaurant (excludes satellites) is a requirement before an Operators' son or daughter can enter the program. The Financial/Estate Planning section of this booklet describes some strategies for the Next Generation approved owner/operator and his or her parents to provide for a transfer of ownership.

7. Question: *If I disagree with the QSC VP's decision on allowing my son or daughter into the program or on approval, is there an appeal process?*

Answer: Yes. The issue should be elevated to the region's General Manager.

8. Question: *How can I bring long-term management people into my business?*

Answer: McDonald's allows an owner/operator to transfer, via gift or sale, up to 25% equity to a long-term "key" employee. McDonald's "Key Employee" designation allows an owner/operator to transfer equity to a qualified employee as a method to retain or reward an individual who is crucial to the long-term success of the organization. The transfer must be approved in writing by the QSC VP. This transfer of partial ownership does not convey any "owner/operator" status to the employee. The approved owner/operator remains obligated by the Franchise Agreement to devote full time and best efforts to the operation of the restaurant business. A buy-back or repurchase agreement is mandatory in the event that the employee leaves the organization for any reason. This requirement is imposed to ensure that the owner/operator is not faced with a former employee retaining a minority ownership interest. Owner/operator employees who desire to become a McDonald's owner/operator must apply to McDonald's Franchising Department. For further information please refer to the Franchising link on www.aboutmcdonalds.com.

9. Question: *I have been in the program for a several years, how long should it take to complete the program and become approved?*

Answer: The granting of approved owner/operator status is based on demonstrating the required competencies – rather than time in the program. Candidates enter the training program at different experience levels and each Candidate is evaluated on restaurant and business results. If you are unsure as to the expectations of the program, please discuss your situation with your region's Director of Field Service, Franchising Manager or the QSC VP.

10. Question: *My Field Service Manager just got promoted and is moving to a different region, what should I do?*

Answer: You and the region should schedule a meeting with the outgoing and incoming employees to gain understanding and agreement as to your progress in the program. You should not have to repeat any part of the program due to Company employee changes.

APPENDIX

APPROVED OWNER/OPERATOR AGREEMENT

This Approved Owner/Operator Agreement, dated _____ (“Agreement”), is between **McDonald’s USA, LLC**, a Delaware limited liability company (“McDonald’s”); and _____ (“Operator”).

Background

A. McDonald’s or its predecessor in interest issued to Operator or its predecessor(s) in interest a License Agreement or Franchise Agreement and an Operator’s Lease, both dated _____ (“Franchise”), for the McDonald’s restaurant located at _____ [L/C: _____] (“Restaurant”).

B. Operator and _____ (“Grantee”) request that McDonald’s grant approved owner/operator status to Grantee.

Agreement

The parties, intending to be legally bound and for good and valuable consideration, agree as follows:

1. The effective date of this Agreement is _____ (“Effective Date”).
2. On the Effective Date, McDonald’s grants approved owner/operator status to Grantee for the Restaurant.
3. Grantee assumes personal liability for the performance of the Franchise.
4. Operator is not released from any obligations to McDonald’s by this Agreement. Operator remains personally liable for the performance of the Franchise.
5. _____ must continue to, and Grantee must, personally devote full time and best efforts to the operation of the Restaurant business.
6. Operator acknowledges that one of the reasons McDonald’s is granting approved owner/operator status to Grantee is that Operator agrees to remain personally liable for the performance of the Franchise.

The parties have signed this Agreement evidencing that they have read, understand, and are bound by the terms of this Agreement.

McDonald’s USA, LLC

Operator

By: _____

Authorized Representative

Grantee

Date Signed by Grantee

NAME

Development Plan Summary

Date: _____

ACTIVITY	Estimated time frame	Projected Start Date	Projected Completion Date
ServSafe Course and Certification	2-4 weeks	_____	_____
Shift Management Program (MDP I)	6-8 months	_____	_____
Systems Management Program (MDP II)	8-16 months	_____	_____
ISP Training – Food & Labor Optimization	On-going	_____	_____
Attend Nabit Sessions	On-going	_____	_____
Restaurant Leadership Program (MDP III)	8-12 months	_____	_____
Attend ROLP (Oak Brook)	1 week	_____	_____
Manage a restaurant a minimum of 1 year	1 year	_____	_____
Complete Business Plan	1-2 years	_____	_____
<ul style="list-style-type: none">• Restaurant specific targets• Marketing Plan• Detailed People Plan w/class projections• Execute plan, continuous improvements• Towards business growth and results			
Financial Skills Workbook	6 months	_____	_____
Financial Skills Diskettes	2 months	_____	_____
Review/understand the “back office” In your organization	4 months	_____	_____
Review/understand the role of the CPA in your organization	2 months	_____	_____
Business Management Program (MDP IV)	8-12 months	_____	_____
Attend BLP (Oak Brook)	1 week	_____	_____
Meet w/regional controller for financial knowledge assessment	2 hours	_____	_____
Department Head Orientations	1 day	_____	_____
Benchmark w/Operator	½ day	_____	_____
<ul style="list-style-type: none">• Objective:			
Benchmark w/Operator	½ day	_____	_____
<ul style="list-style-type: none">• Objective:			
Benchmark w/McOpCo	1 day	_____	_____
<ul style="list-style-type: none">• Objective:			
Attend McD Business Meetings Co-Op, ROA, Conventions	On-going	_____	_____
Meet with FSM / Director of FS Confirmation of Program Completion	½ day	_____	_____
Meet with VP of QSC for Operations Appvl	½ day	_____	_____

Time frames are estimates only. The program is skills based.

- *Quarterly updates are required. An email update should be sent to the Field Service Manager and the Franchising Manager.*
- *Quarterly updates are due April 25th (Jan.-March), July 25th (April-June), Oct. 25th (July-Sept.), January 25th (Oct.-Dec.).*
- *Failure to provide updates may risk participation in the program.*

TRAINING SUMMARY – [Date]

Candidate: _____

State your results and whether you met your goals in each of the below areas. Also state your goals for the next quarter and how you will measure them.

OPERATIONS

Talk about activities such as running your shift, 12 systems mgmt, drive thru, danger zone management, your involvement in ROIP, recent ROIP scores and opportunities, plans for reaching your targets, how your scores compare to regional norms, how you utilize the tools available to you for getting the best results in Quality, Service and Cleanliness, etc.

CUSTOMER SATISFACTION

Discuss customer service incidents that you have experienced and how you deal with them. Discuss marketing opportunities. Discuss the competitors in your area and how they affect your business. Discuss your sales and guest counts, your 800 # calls and your customer recovery plan. Don't forget to talk about your customer compliments!

PEOPLE

Discuss your hiring practices, how you develop, train and motivate your crew and management, how many HU managers you have versus how many are required for your organization, and how many shift certified managers you have versus how many are required for your organization. Discuss rewards and incentives, classes that are being attended and how they are prepared for.

FINANCIAL

Discuss your food (base vs. actual) costs, tracking inventory and waste, and labor costs. Compare your P&L to regional norms, identify areas of opportunity and discuss your plan to improve. Discuss reinvestment necessary to meet NRBES or build the business and your involvement in or responsibility for making reinvestment decisions.

OPERATOR INVOLVEMENT

Discuss your involvement in the local community, NABIT and Seed Store Training, regional meetings, Co-op meetings, and conventions such as Worldwide or CROA. Discuss any meetings you have had with field service.

MCDONALD'S CLASSES

	<u>Date Completed</u>	<u>Awards?</u>
• ServSafe		
• BSMC		
• ASMC		
• EMPC		
• ROLP		
• BLP		
• ISP		
• Others (list)		

OTHER AWARDS (delete if none)

Examples –

- Outstanding Restaurant Mgr.

TRAINING ITEMS COMPLETED (if not listed elsewhere in your recap)

Samples –

- Dept Head orientation with _____ completed on _____
- Post BLP Business Plan submitted on _____
 - Financial skills verification with _____ completed on _____

NEXT GENERATION HIGHLIGHTS

Minimum prerequisites for Program

- Organization is eligible for Growth & Rewrite
- Application submitted/Positive Credit History
- Minimum 20% ownership in a restaurant
- Candidate is dedicating full time/best efforts to the business
- Candidate demonstrates Leadership behaviors:
- Teamwork, resource and information sharing, embrace change, visionary, excellent communicator, values diversity, accountable, problem solver, values people and their development, involvement in marketing, strong self-confidence, the ability to make sound business decisions, a positive contributive attitude, financial management including capital investment decisions, maturity and judgment and the ability to satisfy both internal and external customers

General Training Path*

- Written development plan/monthly updates
- Restaurant Mgmt. Curriculum through BLP
- Develop and execute a business plan
- Financial Development Training Program
- Financial knowledge verification with Controller
- Department Heads Orientations
- Final interview with VP of QSC

Roles & Responsibilities

Candidate

- Execute a development plan
- Execute a business plan, achieve excellent results
- Monthly updates to Field Service and Franchising as to progress on development and business plans

Parents

- Coach, support and provide appropriate training atmosphere
- Provide quarterly updates to Field Service and Franchising as to Candidate's progress
- Verify Candidate's achievement of program requirements

Field Service

- Participate in an orientation meeting
- Visit applicant during the normal course of business with the organization
- Communicate to Franchising as appropriate
- Provide recommendation for Operations approval to the VP of QSC

Franchising

- Provide direction for the development plan
- Assist in coordinating financial verification with the Controller
- Assist in coordinating Department Head orientations
- Track progress and milestones
- Assist in coordinating final interview with the VP of QSC for Operations approval

* In addition to these general requirements, individual candidates may be asked to complete additional training based on development needs.



Next Generation Highlights

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**In addition to these general requirements, individual candidates may be asked to complete additional training based on development needs.*

McDonald's Next Generation/Spouse Candidate Road Map


Shift Management

Management Curriculum Road Map* ServSafe BSM / ASM  Shift Mgt. 6-8 Months	Shift Verification by Field Service and/or Franchising  1-2 Days	Development Plan Established 	Monthly Updates to Franchising & Field Service Ongoing	Quarterly Updates to Franchising & Field Service by the Parent/Spouse Operator Ongoing
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Systems Management

Management Curriculum Road Map* EMP  Systems Mgt. 8-16 Months	Participate in NABIT Seed Store Training Sessions Ongoing	Participate in ROIP Process Systems Day FOR SOR 4 Days	Financial Skills Workbook Key Learning #1 Food/Paper Controls 4-8 Hours	Financial Skills Workbook Key Learning #2 Labor Costs 4-8 Hours	ISP User Videos Store Systems CBT 24 Hours	ISP Application Telxon Stat / QCR Schedules R2D2 	Regional ISP Training Classes •Beginner •Food Cost •Scheduling 2-4 Days	Financial Skills Workbook Key Learning #3 Vendor Costs 4-8 Hours	Financial Skills Workbook Key Learning #4 Insurance 4-8 Hours
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Restaurant Management Program

Management* Curriculum Road Map  Restaurant Mgt. 8-12 Months	Financial Skills Workbook Key Learning #5 Line Item Controls 4-8 Hours	Financial Skills Workbook Key Learning #6 Fees & Refunds 4-8 Hours	ROLP 1 Week	Store Manager Prepare and Execute a Business Plan Minimum 1 Year
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Business Management Program

Management* Curriculum Road Map  Business Mgt. 8-12 Months	Financial Skills Workbook Key Learning #7 Support for Owner-Operators 4-8 Hours	Financial Skills Workbook Key Learning #8 Financial Health DISKETTES 24 Hours	Financial Skills Workbook Key Learning #9 Professional Support 4-8 Hours	Financial Skills Workbook Key Learning #10 Preparing for Purchase 24 Hours	Financial Skills Workbook Key Learning #11 Return on Investment (ROI) 4-8 Hours	Financial Skills Workbook Key Learning #12 Projections, Budgets and Plans 4-8 Hours	Financial Skills Workbook Key Learning #13 Financing 4-8 Hours	Financial Skills Workbook Key Learning #14 Accounting/ Paperwork 4-8 Hours	Financial Skills Workbook Key Learning #15 Tax Liability 4-8 Hours	BLP 1 Week
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Preparing for Approval

Business Planning Part 2 Complete a Business Plan People Plan Marketing Plan  1 Month	Financial Knowledge Verification with Regional Controller  2-4 Hours	Department Head Orientations 1-2 Days	Meet with 2-3 Owner-Operators to Benchmark a Specific System or Initiative 2 Days	Interview your Accountant Understand roles & responsibilities 1-2 Days	Attend Regional Business Mtgs. ie, CO-OP, ROA, Conventions Ongoing	Program Completion Verification by Franchising & Field Service  2-4 Hours	Operations Approval VP of QSC  1-2 Hours
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Map Legend

 Candidate activity	 HU Classes
 Self Study	 Franchising/F.S.
 Regional Classes	 Verification

* The above training is targeted towards Next Generation/Spouse Candidates and are minimum requirements, supplementing the Management "Curriculum Road Map"

* In addition to these minimum requirements, individual candidates may be asked to complete additional activities, ie. Benchmark with a Owner-Operator on their "Back-Office"

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