



The Franchise Disclosure Document (FDD)

The most important document that is a part of your franchising journey is the Franchise Disclosure Document (FDD). The FDD was put in place by the Federal Trade Commission Rule. The FTC Rule states that all franchisors must develop an FDD and provide it to all potential buyers.

FDD's provide validated information from the company to make a well-informed decision. The FDD is the foundation for any franchise agreements to comply with franchise laws and regulations. There are 23 sections "items" to the FDD that outline specific questions and details regarding the company.

Breaking up the FDD by item makes reading the document easier, especially when you know what you are looking for in each section.

Item 1 - Franchisor: Within this item, the franchisor must disclose corporate information about the history of the company, any affiliates, and parent companies of the franchisor.

Item 2 - Business Experience: This item gives information about the franchisors' management team and the operational history of the business.

Item 3 - Litigation: Item 3 discloses any litigation that previously or currently involves the franchisor, the parent company, predecessors, and/or individual management members listed in Item 2.

Item 4 - Bankruptcy: This item discloses any bankruptcy by the franchisor, founder, or management members.

Item 5 - Initial Fees: Within this item, the franchisor must disclose all upfront franchise fees that the franchisee must pay before opening the franchise location. This item commonly includes initial fees and other upfront fees such as fees for opening inventory and equipment.

Item 6 - Other Fees: This item discloses all other fees the franchisee must pay during the terms of the franchise agreement. This includes ongoing royalties, brand development funds, marketing, technology, training, renewal, and any other fee the franchisor requires.

Item 7 - Est. Initial Investment: The franchisor must include low to high estimates of potential costs for a franchise to establish and open. The estimate will include build-out costs to reserve capital for the first three months. This is meant to show an entire estimate of all costs.

Item 8 - Restrictions on sources of products or services: This item discloses the products and supplies the franchisee must buy from the franchisor and ongoing operational items. The franchisor must also disclose in the section the revenue and rebates the franchisor earned from selling source restricted supplies and products to other franchisees.

Item 9 - Franchisee obligations: Item 9 discloses all obligations as a franchisee under the franchise agreement. This includes all legal obligations and obligations upon terminating the franchise agreement.

Item 10 - Financing: Within this item, the franchisor discloses whether or not the franchisor offers financing to initial fees to be paid by the franchisor or in connection with the franchised business.

Item 11 - Franchisor's Assistance, Advert, Systems, Training: This discloses and details the assistance the franchisor gives the franchisee including advertising requirements, training, and technological resources the franchisee will be required to utilize.



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Item 12 - Territory: Item 12 defines whether the territory is protected, how the territory will be determined, and if the franchisor reserves rights to operate within the franchisee's territories.

Item 13 - Trademarks: Within this item, the franchisor will disclose information about the trademarks of the franchise systems. Whether or not they are registered with the United States Patent and Trademark Office, registration status, and if there have been trademark conflicts or disputes.

Item 14 - Patents, Copyrights and Property Information: This item details information about any patents, copyrights, and other proprietary information related to the franchise system.

Item 15 - Obligation to participate in day-to-day operations: The franchisor discloses what obligations, if any, the franchisee must have in day-to-day operations of the franchised business including if they must work in the franchised business on a full-time basis.

Item 16 - Restrictions on what can be sold by franchisee: Disclosed in this item is the franchisor's control on what a franchisee may or may not sell.

Item 17 - Renewal, termination, transfer & dispute resolution: Within this item, the franchisor must disclose the legal rights and obligations related to the renewal, termination, and transfer of the franchised business. This must also include a summary of legal disputes are resolved between the franchisor and franchisee.

Item 18 - Public figures: The franchisor discloses in this item if any public figures or celebrities are hired to promote the franchise system.

Item 19 - Financial performance representatives: Item 19 is where the franchisor discloses whether or not it is making any financial performance representations. This means if the franchisor provides information about sales or a specific level or range of actual or potential sales, income, gross profits, or net profits.

Item 20 - Outlets and franchisee information: Within this item, the franchisor must disclose the franchise and corporate outlets over the last three years and a projection of future openings in the next year.

Item 21 - Financial Statements: Item 21 discloses copies of the franchisor's financial statements.

Item 22 - Contracts: This item includes all the contracts that the franchisee must sign for the franchisor.

Item 23 - Receipts: The franchisor must include two copies of the receipt page. The franchisee must sign the receipt to prove proper disclosure and delivery of the FDD.

The FDD must be disclosed 14 days before signing the franchise agreement. The 14 day waiting period only starts on the day that the franchisee signs the FDD and does not count the day the last day that the franchisee signs the franchise agreement. Altogether it is a 16 day period if you count the first and last day. There is also a small seven-day waiting period that can be included in the 14 days if the franchisor knows the specifics for the franchisee, such as their specific territory. The franchisor can send the fully completed franchise agreement to the franchisee to sign, along with the FDD.

While the FDD provides an ample amount of information about your franchise what it won't include is the feedback of other franchise owners. This is a vital piece of knowledge that you should research before signing any agreements.