



The A.R.T. of Franchising

An Important Franchising Update from the firm of Jackson Walker L.L.P.

January 19, 2012

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The A.R.T. of Franchising Advice - Reminders - Tips

Dear Franchisor,

I hope you enjoy this edition of Jackson Walker's *ART of Franchising* newsletter. As always, our intention is to provide you with timely and easy-to-read franchise *advice, reminders and tips*, so that, as industry leaders, your knowledge of franchising will be continually expanding.

Today's Advice

As the new year begins, once again you will be re-examining your franchise sales or recruitment efforts. Perhaps one way to develop more effective sales or recruitment strategies is to get into the "head" of your prospective Franchisees. What are Franchisees looking for in a business? What do they expect from a Franchisor?

In order of importance, Franchisees most frequently mention the following reasons they chose a franchise rather than start their own business:

1. The experience or expertise of the Franchisor.
2. Public recognition, advertising, and goodwill associated with the Franchisor.
3. The support services of a larger organization.
4. The perception that investment in a franchise involves less risk than starting one's own business.

Reasonable or not, these are expectations many Franchisees will be focused upon. Being aware of these expectations, and highlighting your strengths in these areas, will go a long way to improving the quality of your franchise sales or recruitment approach.

Today's Reminder

With the new year upon us, it is again time to begin thinking of the annual update to your Franchise Disclosure Document ("FDD"). Under the Federal Trade Commission Franchise Rule, your annual update must be finalized on or before April 30, 2011, or 120 days after your fiscal year end. The following are things you can begin working on in order to streamline the updating process:

- Begin working with your CPA to obtain your audited financial statements. This can take longer than expected, and it helps to begin the conversation earlier rather than later.
- If you have brought on additional principal officers or individuals that have management responsibility related to the sale or operation of franchises, be prepared to provide biographical information on these individuals to your attorney for updates to Item 2.
- If there has been any recent litigation, be prepared to share

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- this information with your attorney for updates to Item 3.
- If you wish to alter your royalty or advertising fee structure, this will result in updates not only to your FDD, but also to your Franchise Agreement. Be prepared to discuss this in detail with your attorney.
 - Make sure to review your start-up costs in Item 7, and provide your attorney with any changes.
 - Be prepared to provide your attorney with very specific information regarding any and all revenue derived from supplier rebates or from sales directly to franchisees.
 - Be prepared to provide your attorney with any changes to your computer system/point of sale system specifications and costs.
 - If your FDD contains a Financial Performance Representation (formerly know as an earnings claim), or you wish to include one, prepare the necessary information for your attorney to update or include in Item 19.
 - Be prepared to assist your attorney with the completion of the tables in Item 20, and to provide an updated list of current and past franchisees.

This is not an exhaustive list of necessary updates, however, having this information readily available for your attorney will not only expedite the updating process, but also save your attorney time and effort, resulting in reduced legal cost.

Today's Tip

Lastly, going through the annual updating process is a very good opportunity to re-acquaint yourself and your sales people with the contents of your FDD. Remember, your FDD must be accurate and not be missing any important information about you, your franchise company or the franchise opportunity. Knowing fully the content of your FDD is critical because in any franchise sales or recruitment process, information provided to a prospect must be completely consistent with the information found in your FDD.

The annual updating process is also an opportunity to review and make revisions to your Franchise Agreement. You may wish to revise your fee structure, add additional fees, or add additional protective language, among other things. And, like your FDD, it is very important that you know what your Franchise Agreement says, so you can make sure you are meeting your obligations and make sure you are holding your franchisees to their obligations.

We welcome your comments and suggestions. Please send to wbunch@jw.com or mmiller@jw.com.

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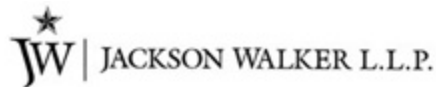
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