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# Client Alert

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## FTC Announces Revised Monetary Exemptions Under Franchise Rule

The Federal Trade Commission (the "Commission") recently announced an amendment to its "Disclosure Requirements and Prohibitions Concerning Franchising" (16 C.F.R. Part 436) (the "Franchise Rule") revising the monetary limits for three of the listed exemptions. Under these exemptions, a company that would otherwise qualify as a "franchisor" as defined under the Franchise Rule is excused from the Rule's disclosure requirement if its offer and sale of franchises falls within one of these exceptions. The exemptions that were amended are:

1. **Minimum Payment Exemption.** This exemption will apply when the total of the required payments (or commitments to make a required payment) to the franchisor or affiliate from before to within six months after the franchisee commences operation of his or her business is less than \$500. Effective July 1, 2012, the monetary limit under this exemption will be increased from \$500 to \$540.
2. **Large Franchise Investment Exemption.** This exemption permits a franchisor to avoid the disclosure requirement when the franchisee's initial investment will be \$1 million or more, excluding the cost of unimproved land and any financing by the franchisor or its affiliate. Effective July 1, 2012, this exemption will be increased from \$1 million to \$1,084,900.
3. **Large Franchisee Exemption.** This exemption is limited to circumstances in which the franchise offer or sale is made to a large entity (such as an airport, casino, hospital, or university) that has been in business for at least five years and has a net worth of at least \$5 million. Effective July 1, 2012, this exemption will be increased from \$5 million to \$5,424,500.

Among the revisions that were made in the 2007 amendments to the Franchise Rule was the requirement for the Commission to raise the monetary thresholds for the above exemptions every four years to adjust for inflation. These inflationary adjustments are tied to the Consumer Price Index for all urban consumers published by the Department of Labor ("CPI"). According to the Commission, between 2007 and 2011 the annual average value of the CPI increased by 8.49 percent, which resulted in the above increases.

**If you have any questions about the Franchise Rule or the applicability of these or other exemptions to your business, please contact one of the following Armstrong Teasdale attorneys:**

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