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Understanding the Franchise Disclosure Document (FDD)

The purpose of the FDD, formerly the UFOC (Uniform Franchise Offering Circular) is to provide you, the prospective franchisee, with information on the franchisor, the franchise system, and the agreements you will need to sign so you can make informed decisions.

In addition to the disclosure portion of the document, the FDD includes copies of the franchise agreement and other agreements you will be required to sign, together with the franchisor's financial statements.

Under the guidelines set by the North American Securities Administrators Association (NASAA), franchisors are required to provide specific information about the franchisor, the franchise system, and the relationship between the franchisor and franchisee. Although the Federal Trade Commission (FTC) has its own form of disclosure, it accepts the NASAA format in lieu of its own.

Almost universally, franchisors today use the NASAA-adopted FDD format. Under proposed revisions to the FTC rule, the FTC will scrap the FTC disclosure format in favor of the FDD disclosure format.

What appears in the FDD? In a nutshell, it includes information on the franchisor, the company's key staff, management's experience in franchise management, the franchisor's bankruptcy and litigation history, and the initial and ongoing fees involved in opening and running a franchise.

Also included is information on the required investment, purchases you will be required to make from the franchisor or from approved suppliers, and territory rights you will be granted. You will also find information about your legal responsibilities as a franchisee and the responsibility of the franchisor to you.

In addition, the FDD presents information about the company-owned locations and the franchisees in the system, including the number of franchises opened, the number closed and transferred, and most important, a list of existing and former franchisees with their contact information.

It's important that you fully understand the franchise agreement and any other agreements you need to sign. If you don't understand what you're signing, you may find yourself locked into a business relationship that doesn't wear well for you.

Your franchise coach will help you review the FDD, point by point, so you're completely comfortable with the franchise information being presented to you.