

# The Newly Amended FTC Franchise Rule

Sandra J. Wall  
McDonald's Corporation

David W. Koch  
Plave Koch PLC

## What We'll Cover

Overview

Timing

Relation to State Law

Top Ten Changes

## Overview

Harmonize  
Federal and  
State Disclosure  
Requirements

Fix Perceived  
Flaws in UFOC  
Guidelines

Update for New  
Technology and  
Market  
Conditions

## Overview

Limit to  
Franchises to be  
Located in U.S.  
and Territories

NOT Changed:  
Disclosure Only,  
No Filing with  
FTC

NOT Changed:  
Does Not  
Regulate  
Franchise  
Relationship

## When Are Changes Effective?

Effective  
Date July 1,  
2007

1-Year  
Transition  
Period

As July 1,  
2008 – New  
Rule Only

## Relation to State Law

Currently, UFOC Format Satisfies FTC Rule (by policy)

Transition Period

- Can Follow Old Rule = Current UFOC Format

July 1, 2008

- Acceptance of UFOC Format Withdrawn

## Top Ten Changes

### 1. Timing of Delivery

“First personal meeting” trigger – GONE

14 Calendar Days

Earlier Upon Request

Contract Review Period – almost GONE

## Top Ten Changes

### 2. Affirmation of E-Disclosure

Actions that Constitute Delivery

Includes Email, Directions for Internet Access

Tangible Electronic Media

## Top Ten Changes

### 3. Brokers

Not Required in Item 2

“Franchise seller”

No Affirmative Obligations

Referral Services

## Top Ten Changes

### 4. Franchisor-Initiated Litigation

Against Franchisees

Involving Franchise Relationship

Previous FY Only

Abbreviated Information

## Top Ten Changes

### 5. Financial Performance Data

Remains Voluntary

Cost Info Alone Doesn't Trigger

"Directed at" Prospective Zees

Required Preambles

## Top Ten Changes

### 6. Item 20 Tables

Avoids Overlapping Categories

Adopts NASAA 5-Table Proposal

Protects Privacy of Former Franchisees

More Info About Resold Franchises

## Top Ten Changes

### 7. Confidentiality Clauses

New Requirement

Triggered by Any Type of Contract That Prohibits Discussion w/ Prosp. Zees

Prescribed Statement

Allowed to Explain Circumstances

## Top Ten Changes

### 8. Franchisee Associations

New Requirement

Name, Address, Phone, Email, Website  
of Sponsored Associations

Independent Associations, if Requested  
Annually

Permitted Disclaimer of Endorsement

## Top Ten Changes

### 9. Financial Statements

Parent Company Statements Required if Guarantor or Post-Sale Obligations

Must Be Audited

Permits Foreign Financial Statements That Satisfy SEC Criteria

Phase-In of Audits for Start-Up Franchisors

## Top Ten Changes

### 10. Sophisticated Investor Exemptions

Large Investment (> \$1 Million,  
Excluding Land)

Large Franchisee (5 Years Business  
Experience + Net Worth > \$5 Million)

Franchisor Insiders (Officers, Owners  
and Managers)

Phase-In of Audits for Start-Up  
Franchisors

## Guidance Going Forward

Original SBP Still  
Valid Unless  
Conflict

Informal FTC Staff  
Advisories Still  
Valid Unless  
Contradicted

Compliance Guide  
Will Replace  
Interpretive  
Guides

## Summary – Four Goals



# Thanks For Your Attention!

Sandra J. Wall  
McDonald's Corporation

David W. Koch  
Plave Koch PLC