INTERNATIONAL FRANCHISE ASSOCIATION
STATEMENT OF GUIDING PRINCIPLES

IFA INTERNATIONAL FRANCHISE ASSOCIATION

FRANCHISING® Building local businesses, one opportunity at a time.

For over fifty years the International Franchise Association has worked to educate franchisors and franchisees on beneficial methods and business practices to improve franchising.

Franchising is a dynamic and evolving method of expansion and business ownership. Beginning with the adoption in 1970 of the first franchise disclosure requirement in California; working with the Federal Trade Commission to achieve the first national franchise disclosure rule in 1979; continuing with our efforts that contributed to changes to the federal Franchise Rule in 2007; and ensuring an ongoing constructive dialogue between our leadership and federal and state regulators and government leaders, the IFA has continually worked for improvements to pre-investment franchise disclosure and franchise relations.

Through the considerable and continuing efforts of our association and its members, the IFA has contributed to the growth and stability of franchising in the United States. It is because of the historic and continuing efforts of the IFA and its members to improve pre-investment disclosure and advance beneficial franchising practices that franchising is one of the most important vehicles today for the creation of small businesses ownership and jobs in the United States.

This Statement of Guiding Principles has been promulgated for and has been adopted by the Board of Directors of the International Franchise Association in our continuing effort to advance improvements in franchise practices and to enhance franchise relations. As an association of franchisors, franchisees and suppliers we believe:

1. Franchising is a unique business model. It is in the interest of the franchisor, each franchisee, the suppliers to the franchise system and the consuming public that franchisors define, maintain and enforce Brand Standards throughout the franchise system.

2. It is the goal of every business that each stakeholder be successful and franchising is no different. Franchisors and franchisees need to be profitable to be successful. However, as in any business model, franchising is not immune to the risk of failure and neither the franchisor nor the franchisee is guaranteed economic success.

3. Franchisees should clearly understand the franchise business model before investing. It is the responsibility of each prospective franchisee to conduct a thorough due diligence of the franchise system, to retain competent legal and other advisors, and to fully understand the terms contained in the Franchise Disclosure Document before signing any Franchise Agreement.

4. Prospective franchisees have the prerogative, at the start of the franchise relationship, whether or not to enter into any particular franchise relationship. Prospective franchisees may also choose to not become franchisees of any franchise system.

5. While not transferring any equity in the franchisor's intellectual property to the franchisee, franchisees should have the opportunity to monetize any equity they may have developed in their business prior to the expiration or termination of the franchise agreement.

6. The licensor is the owner of its intellectual property, including without limit, its trademarks, trade secrets, methods and standards of operations. The Licensor has the right and also the obligation, under the law, to protect its intellectual property and to define the terms under which it licenses to others the use of its intellectual property. It is the terms contained in the Franchise Agreement that define the license granted to franchisees and which govern the relationship between the franchisor and franchisee.

7. Franchisors should clearly understand the franchise business model prior to choosing franchising as a method to expand their business concept. Franchisors should be knowledgeable and understand the financial, business and legal terms included in their Franchise Disclosure Document and Franchise Agreement.

8. The franchisor has the right, as owner of its intellectual property, to include or not include successor rights in the Franchise Agreement offered to prospective franchisees. The franchisor also has the right to establish the then current terms contained in the successor agreements it offers to franchisees. Franchisees may choose to negotiate, accept or reject any offer.

9. Clarity and transparency is essential for establishing and maintaining positive franchise relationships and for the goal of continuous improvements in the franchising environment. Franchisors and franchisees should maintain proactive business policies, communication practices and regularly consult with each other for the enhancement of franchise relations.

10. Subject to the requirements under the law, franchisors should focus primarily on the business requirements of managing and striving for improvements to their franchise system. Franchisors should support their franchisees and enforce Brand Standards necessary to enhance the economic performance for both the franchisees and the franchisor. It is the responsibility of franchisees to manage the day-to-day affairs of their businesses to meet the franchisor's Brand Standards.

11. Improved pre-investment disclosure will benefit both prospective franchisees and franchisors by enhancing the competition among franchisors for qualified franchisee candidates. By clearly communicating the terms contained in a franchise offering, prospective franchisees will be better able to evaluate and make investment choices among the wide range of franchise opportunities available to them and to choose from those that meet their goals, ambitions, financial and, other requirements.

12. Market Forces, and not government mandates and relationship laws, should create the climate for changes to Franchise Agreements and should drive improvements in franchising practices.