

Background Questionnaire for Franchise Disclosure Document

As a franchisor, you will be required—either by federal or state laws—to prepare and use a franchise disclosure document when offering a franchise for sale. This disclosure document incorporates certain required information concerning such items as:

- The description of your business to be franchised;
- Your business’s litigation and bankruptcy history;
- Your background and that of your principals as franchisors; and
- The extent of the support you plan to give your franchisees.

To help you gather this information and other important facts and figures for your disclosure document, complete the background questionnaire in this appendix. When you have filled out this questionnaire, you will not only have learned more about you and your business, you also will have helped facilitate the disclosure document process. By saving time on this critical information gathering, you could even possibly reduce your attorney fees for preparing the first draft of your disclosure document.

When answering the questions, be sure to attach additional sheets if needed. Questions 1–17 should cover only the last 10 years.

1. a. Franchisor’s name, principal business address (home office in the United States), and telephone number (if a franchise corporation is to be formed, insert the name of the proposed new corporation; the business address cannot be a post office): _____

- b. Name, principal business address, and telephone number of international home office: _____

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2. If the franchisor had a predecessor, i.e., a person from whom the franchisor acquired, during the past 10 years, or will acquire—directly or indirectly—the major portion of the franchisor’s assets, give the name, address, and telephone number of the predecessor. _____

3. If the proposed franchisor has an affiliate—defined as a corporation or entity other than a natural person—controlled by, controlling, or under common control with the franchisor that is offering franchises in any line of business or is providing products or services to the franchisee of the franchisor, give the name, address, and telephone number. _____

4. The name under which the franchisor does or intends to do business: _____

5. The name, address, and telephone number of person who will be listed as agent for service of process:

6. State of incorporation or business organization and the type of business organization (corporation, partnership, sole proprietorship): _____

7. a. Does the franchisor operate a business of the type being franchised? Yes No

If yes, give a brief description of the location and type of business:

b. Does or has the franchisor sold or granted franchises? Yes No

If yes, please describe when, where, and to whom: _____

8. List the franchisor’s other business activities: _____

9. Please give a brief description of the business to be conducted by the franchisees:

10. Describe briefly the general market for the product or service to be offered by the franchisee. Is it a relatively new product or service, or is the market fairly saturated? Will the goods or services be seasonal, or offered primarily to a certain group of purchasers? _____

11. Are there any regulations specific to the industry in which your franchise business will operate? (Include any special licenses or legal restriction on operations set by statutes.) _____

12. Give a brief description of the competition that your franchisees will face:

13. Give the prior business experience of the franchisor, including: 1) the length of time the franchisor has conducted a business of the type to be operated by the franchisee; and 2) the length of time the franchisor has offered franchises for the same type of business as that to be operated by the franchisee and in which states the franchises were offered. _____

14. Describe whether the franchisor has offered franchises in any other lines of business, including:

a. A description of each other line of business: _____

b. The number of franchises sold in each other line of business: _____

c. The length of time the franchisor has offered each other franchise: _____

15. Briefly describe the business experience of any predecessor and/or affiliate of the franchisor, including: 1) the length of time each predecessor or affiliate has conducted a business of the type to be operated by the franchisee; and 2) the length of time each predecessor and affiliate has offered franchises for the same type of business as that to be operated by the franchisee. _____

16. Describe whether or not each predecessor and affiliate offered franchises in another line of business and, if so, include:

a. The description of each other line of business: _____

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b. The number of franchises sold in each other line of business: _____

c. The length of time each predecessor and affiliate offered each other franchise: _____

17. List by name and position all of the directors of the corporation, or general partners of the partnership, or trustees of the trust, and include each person's principal occupation and employers during the past five years, with the beginning date and departure date for each job so designated, as well as the location of the job.

Director, General Partner, Trustee (strike inapplicable words): _____

Director, General Partner, Trustee (strike inapplicable words): _____

Director, General Partner, Trustee (strike inapplicable words): _____

Director, General Partner, Trustee (strike inapplicable words): _____

18. List by name and present position the principal officers and other executives who will have management responsibility relating to the franchises offered by this disclosure document. (Include jobs for the last five years, with beginning and departure dates.)

Chief executive officer: _____

Chief operating officer: _____

President: _____

Treasurer or chief financial officer: _____

Franchise marketing officer: _____

Franchise training officer: _____

Franchise operations officer: _____

Director: _____

Director: _____

Director: _____

Other employees or consultants having management responsibilities:

19. Does the franchisor have a franchise broker, i.e., an independent firm that specializes in selling franchises?

Yes No

If yes, please briefly state the names, addresses, and telephone numbers of the franchise broker's directors, principal officers, and executives with management responsibilities to market or service the franchisor, including their beginning and departure dates of employment for the past five years:

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20. State whether or not the franchisor, its predecessor, a person identified in Item 2, or an affiliate operating franchises under the franchisor’s principal trademark has been involved in any of the following:

- a. Please state whether or not there is an administrative, criminal, or material civil action pending against that person(s), entity, or entities alleging a violation of a franchise, antitrust, or securities law, fraud, unfair or deceptive practices, or comparable allegations. In addition, include actions other than ordinary routine litigation incidental to the business that are significant in the context of the number of franchisees and the size, nature, or financial condition of the franchise system or its business operations.
 Yes No

If yes, disclose the names of the parties and the forum, nature, and current status of pending action:

- b. Please state whether or not such person(s), entity, or entities have, during the 10-year period immediately before the date of this questionnaire, been convicted of a felony or pleaded nolo contendere to a felony charge, or been held liable in a civil action by final judgment, or been the subject of a material action involving a violation of franchise, antitrust or securities law, fraud, unfair deceptive practices, or comparable allegations. Yes No

If yes, disclose the names of the parties and the forum and date of conviction or the date the judgment was entered, penalty or damages assessed, and/or terms of the settlement, including the name of the court and the number of the action: _____

- c. Please state whether or not the above-named person(s), entity, or entities are subject to a currently effective injunctive or restrictive order or decree relating to the franchise or under a federal, state, or Canadian franchise, securities, antitrust, trade regulation, or trade practice law resulting from a concluded or pending action or proceeding brought by a public agency. Yes No

If yes, disclose the names of the person, the public agency and court, a summary of the allegations found by the agency or court and the date, nature, terms, and conditions of the order or decree: _____

(Note: For the purposes of the aforementioned, “franchisor” includes the franchisor, its predecessors, persons identified in Item 2, and affiliates offering franchises under the franchisor’s principal trademarks. The definition of an “action” includes any complaints, cross-claims, counterclaims, or third-party claims in a judicial proceeding and their equivalent in administrative action or arbitration proceeding. The franchisor may disclose its counterclaims. Please omit actions that were dismissed by final judgment without liability of injury of an adverse order against the franchisor. The definition of “material” is an action or an aggregate of actions that a reasonable prospective franchisee would consider important in making a decision about the franchise business. It should also be noted that settlement of action does not diminish its materiality if the franchisor agrees to pay material consideration or agrees to be bound by obligations that are materially adverse to the franchisor’s interest. Also note that “held liable”

includes a finding by final judgment in judicial binding arbitration or administrative proceeding that the franchisor, as a result of claims or counterclaims, must pay money or other consideration, must reduce an indebtedness by the amount of the award, cannot enforce its rights, or must take action adverse to its interest. Give the title of each action, and state the case numbers or citations along with the filing date, the opposing party’s name, and the opposing party’s relationship with the franchisor. “Relationship” includes competitor, supplier, lessor, franchisee, former franchisee, or class of franchisees. You should also summarize the relief sought or obtained. “Conviction” involves the title of the action and state citation in parentheses with the title underlined. Include the name of the person convicted or held liable and state the crime or violation and date of conviction as well as disclose any sentence or penalty.)

21. Please state whether the franchisor, its affiliates, predecessor, officers, or general partner during the 10-year period immediately before the date of this questionnaire:

- a. Filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code? Yes No
- b. Obtained a discharge of its debts under the Bankruptcy Code? Yes No
- c. Was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or obtained a discharge of its debts under the Bankruptcy Code within one year after the officer or general partner of the franchisor held the position in the company or partnership? Yes No

If yes, disclose the name of the person or company that was the debtor under Bankruptcy Code, date of the action, and the material facts, including the name of the party that filed or had filed against it. If the debtor was an affiliate of the franchisor, state the relationship. If the debtor in the bankruptcy proceeding is unaffiliated with the franchisor, state the name, address, and principal business of the bankrupt company: _____

- d. Did the entity referred to in subparagraph c) file bankruptcy or reorganization under the bankruptcy law? Yes No

If so, identify the date of original filing, the bankruptcy court, the case name and number, the date the debtor obtained a discharge in bankruptcy (including a discharge under Chapter 7), and confirmation of any plans of reorganization under Chapters 11 and 13 of the Bankruptcy Code:

(Note: Cases, actions, or other proceedings under the laws of foreign nations relating to bankruptcy proceedings should be included in answers where responses are required.)

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22. a. State what you think would be the initial franchise fee (includes all fees and payments for services or goods received from the franchisor before the business opens) and how you arrived at this figure: _____

b. State whether or not the initial franchise fee includes all fees and payments, whether payable in a lump sum or installments before the franchisee’s business opens. If no, please describe fees not included: ____

c. Is the initial franchise fee uniform? Yes No

If no, disclose the formula or range of initial fees paid in the previous fiscal year, if any, before the application date and the factors that determined the amount of these initial fees: _____

d. If the initial franchise fee is payable in installments, disclose the installment payment terms in this portion of the questionnaire as well as in the following portion, which is dedicated to information regarding Item 10 of the disclosure document, i.e., the financial arrangements. _____

23. Other Fees:

Name of Fee	Amount	Due Date	Remarks ¹
Royalty			
Advertising Fund			
Cooperative Advertising			
Local Advertising			
Additional Promotional Fees			
Initial Training			
Additional Training			
Transfer Fee			
Renewal Fee			
Audit Fee			

¹Be sure to indicate, in the Remarks column, answers to each of the following questions:

Is the fee imposed and collected by franchisor?

Is the fee non-refundable?

At what point in time does interest begin?

Are the fees collected by the franchisor? If no, indicate those that are and those that are not and who collects the ones that are not collected by the franchisor.

Are all of the fees listed in the above chart non-refundable? If no, which fees are refundable?

Will the franchisor-owned outlets (company-owned office) have voting power on any fees imposed by cooperatives? If yes, disclose a range for the fee.

(Note: When listing fees, as in the above chart, please remember that fees are royalty, lease negotiation, construction and remodeling, additional training, advertising, additional assistance, audit and accounting, inventory, transfer, and renewal fees. These are fees that are paid either to you as franchisor or your affiliate or fees that you or an affiliate collect in whole or part on behalf of the third party.)

24. *Initial Investment:* Disclose the following the expenditures, including high and low estimates where appropriate, to the best of your ability. For each expenditure applicable to your franchise operation, include the amount or estimated amount, method of payment, when payment is due, and to whom payment is to be made:

Non-refundable initial franchise fee: _____

Area development option fee: _____

Leasehold improvements: _____

Equipment, furnishings, and fixtures: _____

Signage: _____

Blueprints, plans, permits: _____

Rent: _____

Initial inventory and operating supplies: _____

Security deposits: _____

Insurance: _____

Initial advertising and promotions: _____

Miscellaneous (travel and living expenses while training, permits, organizational expenses, etc.): _____

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Additional funds necessary to commence or continue operation for three months: _____

Other expenses: _____

Now, add up all of the expenses listed above: _____

Total estimated expenses = \$_____ to \$_____

(Note: If a specific amount is not ascertainable, use a low/high estimated range based on your current experience. If a building is involved, describe the probable location of the building—such as a strip shopping mall, downtown, or rural—when filling out the chart pertaining to real estate and improvement. If you or an affiliate finance a part of the initial investment, state the expenditures that you will finance, the required down payment, the annual percentage interest rate and rate factors, and the estimated loan repayments. Please make descriptions brief. Also, remember to answer this question again when referring to Item 10 of the disclosure document regarding financing.)

25. Disclose any obligations you wish to impose on the franchisee to purchase or lease from you or your designee or from suppliers approved by you as franchisor or under your specifications: _____

For each obligation, disclose:

- a. The required goods, services, supplies, fixtures, equipment, inventory, computer hardware or software, or real estate relating to establishing or operating the franchise business: _____

- b. The manner in which you issue and modify specifications or grants and revoke approval for suppliers:

- c. Whether and for what categories of goods and services you as franchisor or your affiliates are approved suppliers or the only approved suppliers: _____

- d. Whether you as the franchisor or your affiliates will or may derive revenue or other material consideration as a result of required purchases or leases from you or your designee or your approved supplier and, if so, the precise basis: _____

e. If you require such purchases by the franchisee from you, your designee, or your approved supplier, estimate the proportion of these required purchases and leases to all purchases and leases by the franchisee of goods and services in establishing and operating a franchise business. In other words, if you require the franchisee to purchase \$100 worth of equipment from you and the franchisee will purchase and lease other goods and services from other sources for \$1,000, your estimated percentage proportion would be 10 percent (100 divided by 1,000): _____ percent.

26. Is there or will there be a purchasing or distribution cooperative? Yes No

If yes, please describe: _____

 (Note: Do not include goods and services provided as part of the franchise without a separate charge, for example, a fee for initial training when the cost is included in the franchise fee. Do not include fees disclosed in your previous responses.)

27. Will you require the franchisee to follow specifications and standards? Yes No

If yes, please describe what the standards will apply to such items as procedures, construction, premises, software, hardware, or uniforms, and also how you would formulate and modify these specifications: _____

28. Disclose whether your specification standards are issued by you to franchisees, subfranchisors, or approved suppliers, and how and when they are updated: _____

29. Describe how your suppliers are evaluated and approved or disapproved by you: _____

30. Will your criteria for suppliers be available to the franchisees? Yes No

31. State the fees, if any, that a franchisee must pay you and the procedures he or she must follow to secure your approval of his or her suppliers as well as how your approval would be removed: _____

32. State the time period that it will take you to approve or disapprove a supplier: _____

33. Does a designated supplier make payments to you as franchisor because of transactions with your franchisees? Yes No

If yes, disclose the basis for the payment and specify a percentage or flat amount that supplier will pay to you:

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(Note: When answering this question, please remember that purchases of similar goods or services by you at a lower price than available to your resale to the franchisee is a payment to you when you pass on the goods or services at a higher price to your franchisee.)

34. Do you negotiate purchase arrangements with suppliers, including price terms for the benefit of franchisees?
 Yes No

35. Do you provide material benefits (for example, renew or granting additional franchises) to a franchisee based on a franchisee's use of designated or approved sources? Yes No

If yes, please describe: _____

36. The following items A–Y include obligations that many franchisors impose upon franchisees. Please state after each obligation whether or not you desire at this time to impose such an obligation on your franchisees.

a. Site selection and acquisition/lease: Yes No

b. Pre-opening purchases/lease: Yes No

c. Site development and other pre-opening requirements: Yes No

d. Initial and ongoing training: Yes No

e. Opening obligations: Yes No

f. Fees (including royalty, advertising, transfer, renewal): Yes No

g. Compliance with standards and policies/operating manual: Yes No

h. Trademarks and proprietary information obligations: Yes No

i. Restrictions on products and services offered: Yes No

j. Warranty and other consumer service requirements: Yes No

k. Territorial development and sales quota: Yes No

l. Ongoing products and service purchases: Yes No

m. Maintenance, appearance, and remodeling requirements: Yes No

n. Insurance requirements: Yes No

o. Advertising requirements: Yes No

p. Indemnification: Yes No

q. Owner's participation/management staffing: Yes No

r. Records and reports: Yes No

s. Inspections and audits: Yes No

t. Transfers: Yes No

u. Renewals: Yes No

- v. Post-termination obligations: Yes No
- w. Non-competition covenants: Yes No
- x. Dispute resolution, such as arbitration with FAM or the American Arbitration Association: Yes No
- y. Others: Yes No

If yes, describe other obligations you will impose upon your franchisees: _____

(Note: These obligations will be listed in the disclosure document and cross- referenced to the sections in the disclosure document and franchise agreement.)

37. *Financing:* Do you intend to finance your franchisee, including its initial franchise fee or its monetary requirements for equipment, etc.? (Remember: financing includes leasing and installment contracts. Payments due you within 90 days on an open account need not be disclosed.) Yes No

If yes, describe the written arrangements between you, your affiliate, and any lender for the lender to offer financing to the franchisee. Any arrangement by which you, as franchisor, or your affiliate receive a benefit from a lender for franchisee financing is an “indirect offer of financing,” since any benefit received from a lender is indirect financing, and it must be disclosed. (For example, if you as franchisor guarantee a note, lease, or obligation of a franchisee, it is an “indirect offer of financing.”) _____

If you intend to offer financing to franchisees, please complete a summary of financing available that includes each item that can be financed and for each item: amount financed, down payment, term, APR, monthly payment, prepay penalty (if any), security required, and any other significant terms of the financing: _____

38. *Franchisor’s Obligations:* Please describe your obligations you intend at this time to include in your agreement in assisting your client prior to opening:

Prior to Opening: The following is a list of some obligations you may impose on yourself, if you choose, and that will require a brief description:

- a. Will you locate a site for the franchised business and negotiate the purchase or lease of this site for the franchisee? Yes No
 If yes, will you own the premises and lease it to the franchisee? Yes No
- b. Will you conform the premises to local ordinances and building codes and obtain the required permits? Yes No

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c. Will you construct, remodel, or decorate the premises for the franchised business?
 Yes No

d. Will you purchase or lease equipment, signs, fixtures, opening inventory, and supplies for the franchisee?
 Yes No

If yes, will you provide these items directly? Yes No

If no, will you merely provide the names of approved suppliers? Yes No

Do you have written specifications for these items? Yes No

Do you deliver or install these items? Yes No

e. Do you hire and train employees for the franchisee? Yes No

f. List any other obligations you wish to impose on yourself prior to the franchisee's opening:

After Opening: The following is a list of questions about your obligations during the operation of the franchised business that you may feel should be in your agreement.

a. Do you offer products or services to the franchisee to offer to its customers during the term of the agreement? Yes No

b. Do you hire and train employees of the franchisee during the term of the agreement?
 Yes No

c. Do you make improvements and developments in the franchised business during the term of the agreement? Yes No

d. Do you do pricing during the term of the agreement? Yes No

e. Do you do administrative, bookkeeping, accounting, and inventory control procedures during the term of the agreement? Yes No

f. Do you handle or troubleshoot operating problems encountered by the franchisee during the term of the agreement? Yes No

g. Do you desire an advertising program that will feature the product or service offered by your franchisee?
 Yes No

If yes, provide the information elicited in the following 10 sections.

1. In which media do you intend to disseminate the advertising (for example, print, radio, or television)?

2. Is the coverage of the media local, regional, or national in scope? _____

3. What is the source of the advertising (e.g., in-house advertising department, a national or regional advertising agency)? _____

4. Under what conditions you will permit the franchisees to use their own advertising material? _____

5. If there is an advertising council composed of franchisees that advises you on advertising policies, indicate:
 - a. How members of the council are selected;
 - b. Whether the council serves in an advisory capacity only or has operational or decision-making power;
 - c. Whether you as franchisor have the power to form, change, or dissolve the advertising council.

6. If, during the term of the agreement you feel the franchisee must participate in a local or regional advertising cooperative, indicate
 - a. How the area or membership of the cooperative is defined: _____

 - b. How the franchisee's contribution to the cooperative is calculated: _____

 - c. Who is responsible for administration of the cooperative (e.g., franchisor, franchisees, advertising agency): _____

 - d. Whether cooperatives must operate from written governing documents and whether the documents are available for review by the franchisee: _____

 - e. Whether cooperatives must prepare annual or periodic financial statements and whether the statements are available for review by the franchisee: _____

 - f. Whether the franchisor has the power to require cooperatives to be formed, changed, dissolved, or merged: _____

7. If applicable, for each advertising fund not described in above subpart (6), indicate:
 - a. Who contributes to each fund (e.g., franchisees, franchisor-owned units, outside vendors, or suppliers): _____

 - b. Whether the franchisor-owned units must contribute to the fund and, if so, whether it is on the same basis as franchisees: _____

 - c. How much the franchisee must contribute to the advertising fund(s) and whether other franchisees are required to contribute at a different rate (it is not necessary to disclose the specific rates):

d. Who administers the fund(s): _____

e. Whether the fund is audited and when, and whether financial statements of the fund are available for review by the franchisee: _____

f. If you already have a fund, please provide the following for the most recently concluded fiscal year: a) the percentage spent on production: _____ percent; b) the percentage spent on media: _____ percent; c) the percentage spent on administrative expenses: _____ percent; and d) the percentage spent on other (define: _____: _____ percent; _____: _____ percent). Your total should equal 100 percent.

g. Whether you or an affiliate receives payment for providing goods or services to an advertising fund.
 Yes No

If yes, describe: _____

8. Will you as franchisor be obligated to spend any amount on advertising in the area or territory where the franchisee is located? Yes No

If yes, describe: _____

9. If all advertising fees are not spent in the fiscal year in which they accrue, explain how you will use the remaining amounts: _____

Will the franchisees receive a periodic accounting of how advertising fees are spent?
 Yes No

If yes, how frequent is the accounting? _____

10. Disclose the percentage of advertising funds, if any, used for advertising that is principally a solicitation for the sale of franchises: _____

39. If your franchise agreement will require the franchisee to buy or use an electronic cash register or computer system, provide a general description of the systems in nontechnical language. Include in your description an identification of each hardware component and software program by brand, type, and principal functions

and whether or not it is your proprietary property or that of an affiliate or a third party: _____

40. Do you, an affiliate, or a third party have a contractual obligation to provide ongoing maintenance, repair, upgrades, or updates to the hardware and software sold to your franchisee? Yes No

41. Disclose the current annual cost of any optional or required maintenance and support contracts, upgrades, and updates: _____

42. If the hardware component or software program is the proprietary property of a third party and no compatible equivalent is available, identify the third party by name, business address, and telephone number: _____

43. If the hardware component or software program is not proprietary, identify compatible equivalent components or programs that perform the same functions and indicate whether you as franchisor have approved them: _____

44. State whether the franchisee has any contractual obligation to upgrade or update any hardware component or software program during the term of the franchise and, if so, whether there are any contractual limitations on the frequency and cost of the obligation: _____

45. For each electronic cash register system or software program, describe how it will be used in the franchisee's business and the types of business information or data that will be collected and generated: _____

46. State whether you, as the franchisor, will have independent access to the information and data set forth above and, if so, whether there are any contractual limitations on the franchisor's right to access the information and data: _____

47. Attach a copy of the table of contents of your operating manual, which will be provided to the franchisee as of the franchisor's last fiscal year end or a more recent date. Please indicate the number of pages devoted to each subject listed in the table of contents and the total number of pages in the manual as of this date.

(*Note:* An alternative disclosure can be accomplished if the prospective franchisee is allowed to view the manual before the purchase of the franchise.)

Franchisor's Methods for Selecting the Location of the Franchisee's Business

48. Do you select the site or approve an area within which the franchisee selects a site? Yes No

If yes, describe: _____

49. Describe how and whether you must approve a franchisee's selected site: _____

50. List the factors that you as franchisor consider in selecting or approving sites (for example, general location and neighborhood, traffic patterns, parking, size, physical characteristics of existing buildings, and lease terms): _____

51. Define the time limit for you as franchisor to locate or to approve or disapprove the site: _____

Describe the consequences if the franchisor and franchisee cannot agree on a site:

52. Indicate the typical length of time (a range is permissible) between the signing of the franchise agreement or the first payment of consideration for the franchise and the opening of the franchisee's business: _____

53. Describe any factors that may affect the time period of opening, such as a delay in obtaining a lease, financing or building permits, zoning and local ordinances, weather conditions, shortages, or delays in the installation of equipment, fixtures, and signs: _____

Training Program of the Franchisor

54. Describe the location, duration, and general outline of the training program: _____

55. How often will the training program be conducted after the pre-opening training program and who is required to attend? _____

56. List the names and experience of your instructors, in number of years and subjects: _____

57. List charges to be made to the franchisee and indicate who must pay travel and living expenses of the enrollees in the training program: _____

58. For all non-mandatory training programs, if available, state the percentage of new franchisees who enrolled in these non-mandatory training programs during the preceding 12 months:

59. State whether or not any additional training programs and/or refresher courses are required. Yes No

If yes, please describe: _____

Territory

60. Describe any exclusive territory granted to the franchisee and how its boundaries were determined—by population, zip code, or other method: _____

61. Have you established or will you establish any franchisee who may use your trademark in another franchisee's territory? Yes No

If yes, explain: _____

62. Have you established or may you establish a company-owned outlet or other channels of distribution using your name in a franchisee's territory? Yes No

If yes, explain: _____

63. Describe the minimum area granted to the franchisee and how it is determined—by specific miles, specific population, or any other means: _____

64. Will the franchise be granted for a specific location or a location to be approved by the franchisor?

Yes No

65. State the conditions under which you will approve the relocation of the franchised business or the establishment of additional franchised outlets: _____

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66. Describe restrictions on you as a franchisor regarding operating company-owned stores or granting franchised outlets for a similar or competitive business within the defined area: _____

(Note: It is not a good policy to allow any company-owned stores or franchised outlets for a similar or competitive business within a franchisee's territory.)

67. Will you restrict franchisees from soliciting or accepting orders outside of the defined territories?

Yes No

If yes, describe these restrictions: _____

68. Describe any restrictions on you as franchisor from soliciting or accepting orders inside the franchisee's defined territory: _____

69. State any compensation that you as franchisor may pay to a franchisee for soliciting or accepting orders inside the franchisee's defined territory, if any: _____

70. Describe the franchisee's options, rights of first refusal, or similar rights to acquire additional franchises within his or her territory or contiguous territories: _____

Trademarks

71. Describe your principal trademarks, which means the primary trademarks, service marks, names, logos, and symbols to be used by the franchisee to identify the franchised business:

72. State the date and identification number of each trademark registration or registration application with the United States Patent and Trademark Office: _____

73. Have you filed all required affidavits? Yes No

74. Has any registration been renewed? Yes No

75. State whether the principal marks are registered on the Principal or Supplemental Register of the U.S. Patent and Trademark Office: _____

76. State whether or not an "Intent to Use" application or an application based on actual use has been filed with the U.S. Patent and Trademark Office. If so, list the trademark in question and the serial number of the application: _____

77. Disclose any currently effective material determinations of the Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of your state, or any court; pending infringement, opposition, or cancellation; and pending material litigation involving the principal trademarks, including the name of the principal trademarks, a brief summary of such opposition, and the current status: _____

78. Describe any litigation affecting your trademarks if it could significantly affect the ownership or use of the trademarks: _____

79. Disclose any agreements currently in effect that significantly limit the rights of you as franchisor to use or license other franchisees to use the trademark in a manner material to the franchise: _____

80. State whether you as franchisor will protect the franchisee's right to use the trademarks and protect the franchisee against claims or infringements or unfair competition arising out of your use of them. Yes No

If no, indicate what, if any, protection will be given to the franchisee: _____

81. Do you wish to have the franchisee obligated to notify you in case of any claims? Yes No

82. Do you want the franchise agreement to require you as franchisor to take affirmative action when notified of these uses or claims? Yes No

83. Do you want to have the right to control administrative proceedings or litigation? Yes No

84. Do you wish to include a clause that would require the franchisee to modify or discontinue use of the trademark as a result of a proceeding or settlement or any other obstacles that you encounter? Yes No

85. Do you know of any superior prior right or any infringing use that could materially affect the franchisee's use of the principal trademarks in this state or in the state in which the franchised business is to be located? Yes No

If yes, describe. _____

Patents, Copyrights, and Proprietary Information

86. If you as franchisor own any rights in patents or copyrights that are material to the franchise, describe these patents and copyrights and their relationship to the franchise. Include their duration and whether you as franchisor can and intend to renew the copyrights. If you are claiming proprietary rights in confidential

information or trade secrets, describe their general subject matter and the terms and conditions for use by the franchisee: _____

87. If you have any patents, give the patent number, issue date, and title for each patent. If you have any patent applications pending, give the serial number, filing date, and title for each application: _____

88. If you know of any infringements or any actions affecting any patent or copyright, describe:

Obligation to Participate in the Actual Operation of the Franchise Business

89. Will you require personal, on-premises supervision? Yes No

If not, will you recommend on-site supervision by the franchisee? Yes No

90. State any limitations on whom the franchisee can hire as an on-premises supervisor: _____

91. Will the on-premises supervisor be required to successfully complete your training program? Yes No

92. If the franchisee is a business entity, state the amount of equity interest that the on-premises supervisor must have in the franchise, if any: _____ percent.

93. Do you wish to require the franchisee to place restrictions on its manager, including maintaining trade secrets, non-competition, etc.? Yes No

If yes, describe: _____

Restrictions on What the Franchisee May Sell

94. Do you want the franchisee to be obligated to sell only goods and services that you approve? Yes No

95. Do you want the franchisee to sell only goods and services that you authorize? Yes No

96. Do you want to retain the right to change the types of authorized goods and services? Yes No

If so, are there any limits on your right to make such changes? Yes No

If so, what are they? _____

97. Do you wish the franchisee to be restricted regarding customers? Yes No

If yes, describe the restrictions: _____

Renewal, Termination, Transfer, and Dispute Resolution

98. The following are areas that require answers, if you can provide them at this time:

- a. Desired length of term of the franchise agreement: _____
- b. Renewal or extension of the term: _____
- c. Do you wish requirements for franchisee to renew or extend? Yes No
- d. Will you allow the franchisee to terminate other than with good cause? Yes No
- e. Do you want provisions by which you can terminate without cause? Yes No
- f. Do you want provisions by which you can terminate the agreement with cause? Yes No
- g. Do you want obligations on the franchisee on termination or non-renewal? Yes No
- h. Do you want the right to assign the agreement? Yes No
- i. Do you want a transfer fee in the event the franchisee desires to transfer? Yes No
 If yes, what fee do you think is reasonable? \$_____
- j. Do you want approval of any transfer of the franchisee? Yes No
- k. Do you want a right of first refusal to acquire the franchise business upon any transfer? Yes No
- l. Do you want a general option to purchase the franchise business at any time? Yes No
- m. Do you want a non-compete covenant during the term of the franchise? Yes No
- n. Do you want a non-compete covenant after the franchise is terminated or expires? Yes No
 If yes, indicate the miles, the restrictions, and the years the non-compete covenant would be in effect:

- o. Do you desire an arbitration clause? Yes No
- p. Do you desire a mediation clause? Yes No
- q. Do you want to specify a state in which any legal action should be brought? Yes No
 If so, name the state: _____
- r. Do you want the law of your state to apply? Yes No
 If so, name the state: _____

Note: Your answers to the questions in part 98 will be placed in a table, summarized, and cross-referenced to the franchise agreement.

Public Figures

99. Will you be using a public figure to promote the franchise, i.e., a person whose name or physical appearance is generally known to the public in the geographic area where the franchisor will be located? Yes No

If yes, please disclose the name, compensation to be paid, the person's position and duties in your business structure, and the amount of his or her investment, if any, in your franchise:

Financial Performance Representations

100. Do you intend to make representations regarding financial performance to your franchisees? Yes No

If so, describe such claims and the reasonable basis in writing that can be presented to the authorities as evidence that these earnings claims have a reasonable basis: _____

Outlets and Franchisee Information

101. Do you have any franchises at this time? Yes No

If so, describe them: _____

102. Do you have any of your own outlets at this time? Yes No

If so, list them, including name, address, telephone number, and years in business:

103. If you have any franchisees, provide a complete list including names, addresses, and telephone numbers:

104. Estimate the number of franchises to be sold throughout the United States during the one-year period after the close of the franchisor's most recent fiscal year: _____

105. If any franchises have closed, cancelled, not renewed, been reacquired, or otherwise ceased to do business, list each of them with the name and last known address and telephone number of every franchisee: _____

106. Summarize the status of franchise centers and company-owned outlets for the last three fiscal years. For each year, list all franchise openings, transfers, cancellations or terminations, non-renewals, and the total number of franchises centers operating at year end. For each franchise center listed, provide the state in which the franchise center operations. For each year, also list all company-owned centers opened during the year, closed during the year, and operating at year end and the state for each center. _____

Year: 20__

Year: 20__

Year: 20__

Financial Statements

107. You will be required to provide financial statements audited by an independent certified public accountant. The audited financials should include the balance sheet of the franchise corporation for the last two fiscal years before the application date or, if less than two years, the actual time that your franchise entity has been in business. In addition, you must include a Statement of Operations of stockholders' equity and of cash flow for each of the franchisor's last three fiscal years or, if less than three fiscal years, the time it has been in business. If the most recent balance sheet and statement of operations date from more than 90 days before the application date, then you must also submit an unaudited balance sheet and a Statement of Operations as of the date within 90 days of the application date.

