

Document Preview – This is only a portion of the entire, customizable document.

Checklist of Basic Franchise Agreement Terms

Franchise agreements vary from franchise to franchise. It would be impossible to identify every term and issue that should be considered in every situation. However, this checklist should be a valuable tool if you're interested in buying a franchise.

The checklist should be used in conjunction with the franchise agreement—the document that will set out all the terms and conditions that will govern your ownership of the franchise—which will be drafted by the franchisor. You can use this checklist either before you see the franchise agreement, in order to get an idea of what should be in it, or after you have a copy of the agreement, in order to review its terms.

In any event, while you can use the checklist to understand and review a franchise agreement, you shouldn't sign it until you've discussed your options with your attorney.

Issues Pertaining to the Franchise Cost Terms

- What does the initial franchise fee purchase?
- Does it include an "opening" inventory of products and supplies?
- What are the payment terms: amount, time of payment, lump sum or installment, financing arrangements, etc.?
- Does the franchisor offer any financing, or offer help in finding financing?
- Are there any deferred balances? If so, who finances and at what interest?
- Is any part or all of the initial fee refundable?
- Does the contract clearly distinguish between "total cost" and "initial fee," "initial cash required," or "initial costs," etc.?
- Are there periodic royalties? If so, how much are they and how are they determined?
- How and when are sales and royalties reported, and how are royalties paid?
- If royalty payments are in whole or part payment for services by the franchisor, what services will be provided?
- Are accounting/bookkeeping services included or available?
- How are advertising and promotion costs divided?
- Is a specified amount of working capital required of the franchisee to cover operating costs until profits can be made?
- Must premises be purchased or rented, and are there further conditions on either of these (from franchisor, selected site, etc.)?
- How and by whom will the building be financed, if purchased?
- Does the franchisee have to make a down payment for construction and/or equipment?

Issues Pertaining to the Franchise Location Terms

- Does the franchise apply to a specific geographical area? If so, are the boundaries clearly defined?
- Who has the right to select the site?

- Will other franchisees be permitted to compete in the same area, now or later?
- Is the territory an exclusive one, and is it permanent or subject to reduction or modification under certain conditions?
- Does the franchisee have a first refusal option as to any additional franchises in the original territory if it is not exclusive?
- Does the franchisee have a contractual right to the franchisor's latest products or innovations? If so, at what cost?
- Will the franchisee have the right to use his own property and/or buildings? If not, will the franchisor sell or lease his property to the franchisee?
- Who is responsible for obtaining zoning variances, if required?

Sample Preview