**FRANCHISING AGREEMENT CHECKLIST**

This checklist will help you think about the information you should obtain before entering into a franchise agreement. Find out as much information as you can about the franchise. Read all documents and agreements carefully, and do not sign anything without understanding it first. You may adapt it to reflect your business needs, type of clientele, products and service you offer. Seek independent advice from a lawyer, accountant or business adviser who has experience in franchising.

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| **Franchise Fees****And Royalties** | * What does the initial franchise fee purchase​ for?
* What are the payment terms: amount, time of payment, lump sum or installment, financing arrangements, etc.?
* Does it include an opening stock of products and supplies?
* Does the franchisor offer any financing, or offer help in finding financing?
* Are there periodic royalties? If so, how much are they and how are they determined?
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| **Term and Renewal** | * Initial term: how long?
* Will the franchisee have the right to renew? How long?
* Are additional fees required?
* Can franchisor amend franchise agreement, royalties and other terms and conditions on renewal?
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| **Territory** | * Exclusive or non- exclusive
* Will other franchisees be permitted to compete in the same area?
* Does the franchisee have a first refusal option as to any additional franchises in the original territory if it is not exclusive?
* Are boundaries clearly defined?
* Does franchisee have to own business premises?
* Does franchisee have to lease business premises? Will franchisee hold head lease or will franchisor hold head lease and franchisee sublease from franchisor?
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| **Operating Practices** | * Will strict compliance with franchisor’s specifications and the operating manual be required? (e.g. hours of operation, standards in dealing with public and/or on premises conditions and decoration, minimum levels of working capital and/or stock, etc.)
* Is there a definition of sales and specific targets to be met?
* Should inventory, supplies and equipment be purchased from the franchisor or franchisor-approved suppliers?
* Does the franchise agreement bind the franchisee to a minimum purchase quota?
* Is the franchisee required to be directly involved in the business/ to work full time?
* Reports, records, financial statements and audits. How often must reports be submitted? Does franchisor have full access to franchisees books?
* Are accounting/bookkeeping services included or available?
* Any specific requirements on advertising? How are advertising and promotion costs divided?
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| **Trademarks** | * Is the franchisor the absolute owner of trade marks?
* Is the franchisee obliged to prominently display trademarks of the franchisor and use franchisor’s signage?
* Are all trademarks, trade names, or other marks fully identifiable and distinct, and are they clear of any possible interference or cancellation owing to any pending litigation?
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| **Insurance and Indemnity** | * Does the franchisor have a group insurance plan? If not, what coverage will be required, at what limits and costs?
* Should the franchisor approve the insurance and does he require a copy of the insurance?
* Should the franchisee indemnify the franchisor with respect to the operation of the franchised business?
* Is a personal guarantee required? Which conditions?
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| **Termination** | * Definition of events of default.
* Can franchise agreement be terminated immediately or is franchisor obliged to give notice of default and provide the franchisee with a reasonable period of time to remedy?
* Does the franchisor have absolute privilege of terminating the franchise agreement if certain conditions have not been met, either during the term or at the end?
* Under what conditions (illness, etc.) can the franchisee terminate the franchise? In such cases, do termination obligations differ?
* In case of death or incapacitation of the franchisee, can franchised business be passed on to spouse, children or other heirs on death? If so, any fee to be paid or agreements to be signed?
* Does franchisor have right to buy back the franchised business? If so, at what price?
* Does franchisor have right of first refusal to purchase franchised business? At what price?
* Is the franchisee allowed to mortgage or pledge assets the franchise agreement without franchisor’s consent?
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| **Non-Competition/****Confidentiality** | * Non-competition agreement is valid both during and after termination of franchise agreement?
* For how long after franchise agreement terminated?
* In what territory?
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| **Miscellaneous**  | * Are there state laws governing franchisor/franchisee relationships, including contract provisions, financing arrangements and terminations? If so, does the contract meet all requirements?
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