

## U.S. Franchise Overview

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In the United States, franchising is regulated by the U.S. Federal Trade Commission (FTC) and by various state laws and agencies. The FTC franchise rule applies to all franchise sales in the U.S. State franchise laws, however, may apply if an offer or sale of a franchise is made in the state, the franchised business will be located in the state, or the franchisee is a resident of the state.

In general, U.S. franchise laws fall into three categories; franchise registration and disclosure laws, franchise relationship laws, and industry-specific franchise laws.

### **I. Franchise Registration and Disclosure Laws**

All franchises sold in the U.S. must comply with the FTC's franchise disclosure rules. Basically, the FTC rule sets forth the requirements for a disclosure document that each franchisor must draft and present to prospective franchisees, known as the Franchise Disclosure Document (FDD). Franchisors are not allowed to solicit or sign-up franchisees without a properly completed FDD.

Furthermore, several states have their own franchise investment requirements and laws, which require franchisors to provide additional disclosures to potential franchisees or impose additional registration requirements:

i) California, Hawaii, Illinois, Indiana, Maryland, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin prohibit the offer or sale of a franchise within their state until a franchisor registers its franchise with the state and receives approval of its disclosure document; and

ii) Michigan only requires a "notice" filing and Oregon does not require any filing.

### **II. Franchise Relationship Laws**

Various states have enacted franchise relationship laws. Franchise relationship laws deal with the ongoing relationship between franchisor and franchisees after the parties have signed a franchise agreement. In general, these laws limit the franchisor's freedom to terminate a franchise or to refuse to renew or to permit the transfer of a franchise without good cause.

### **III. Industry-Specific Laws**

There are various industry-specific franchise laws that regulate the relationship between a manufacturer and distributor. Some examples include laws governing automobile dealerships, gasoline service stations, farm and industrial equipment dealers, and alcoholic beverage distributorships. These industry-specific franchise laws share similar characteristics to franchise relationship laws, but provide more regulations for certain specific industries.

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