

RISKS OF VIOLATING FRANCHISE LAWS

The FTC receives hundreds of complaints each year relating to franchise offerings and thousands of complaints regarding business opportunity offerings.

A violation of federal franchise laws can bring civil fines of up to \$11,000 per violation, per day, regardless of the innocent intentions of the business owner. Fines have been levied as high as \$870,000. The courts also have the power to freeze the franchisor's assets, issue permanent bans on offering franchises, and even impose jail sentences. Similar remedies exist under the laws of many states.

Furthermore, your franchisees may have the right, called rescission, to cancel their agreements with you, and you could be ordered to refund all previous payments made to you by that franchisee. You could also be required to provide monetary remedies to any investors harmed by your violation. Consumer damage awards have been as high as \$4.9 million. Even more scary is the fact that individuals who direct and control the franchisor's activities (typically those listed in Item 2 of the FDD) can be held personally liable for these fines and damages and can be sentenced to jail time.

It is obviously very important to make sure that you have your offering documents prepared by someone who is experienced in the area of franchise law. It is also important that you take the time to understand the disclosure rules, including the various documents and timetables. Believe it or not, the process of compliance is not as complicated as it may first appear.

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