

FRANCHISE DISCLOSURE DOCUMENT

DECORATING DEN SYSTEMS, INC.

8659 Commerce Drive

Easton, MD 21601

(410) 822-9001

www.decoratingden.com



As a franchisee, you will operate a business using the “DECORATING DEN INTERIORS[®] System.” If we approve, you may elect to operate a full-product line interior decorating franchise (the “Full Product Line Franchise” or the “FPL Franchise”), or you may elect to operate a limited product franchise specializing in window treatments and window fashions only (the “Window Treatment Specialist Franchise” or the “WTS Franchise”).

The total investment necessary to begin operation of a FPL Franchise is \$54,960 to \$63,290. This includes \$39,900 that must be paid to the franchisor or affiliate. The total investment necessary to begin operation of a WTS Franchise is \$23,330 to \$26,290. This includes \$14,900 that must be paid to the franchisor or affiliate.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Franchise Administration Department at 8659 Commerce Drive, Easton, MD 21601; telephone (410) 822-9001.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as “A Consumer's Guide to Buying a Franchise,” which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

FTC - DDSI Unit Offering

Issuance Date: March 30, 2012 (amended July 15, 2012)

STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the franchise administrator listed in Exhibit H for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1) THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY MEDIATION AND BY ARBITRATION ONLY IN MARYLAND. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE WITH DECORATING DEN SYSTEMS, INC. IN MARYLAND THAN IN YOUR OWN STATE.

2) THE FRANCHISE AGREEMENT STATES THAT MARYLAND LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

3) THE FRANCHISE AGREEMENT PROVIDES THAT FAILURE TO MEET CERTAIN MINIMUM SALES LEVELS MAY LEAD TO TERMINATION OF THE FRANCHISE AGREEMENT OR OTHER ACTION BY THE FRANCHISOR.

4) FRANCHISEES DO NOT RECEIVE AN EXCLUSIVE TERRITORY. WE AND OUR AFFILIATES MAY ESTABLISH OTHER FRANCHISES AND COMPANY OWNED LOCATIONS ANYWHERE, AND MAY ESTABLISH OTHER CHANNELS OF DISTRIBUTION AND SELL OR DISTRIBUTE ANY PRODUCT OR SERVICE TO THE GENERAL PUBLIC, FROM ANY LOCATION, UNDER THE SAME AND/OR DIFFERENT TRADEMARK, IN COMPETITION WITH YOUR FRANCHISE.

5) IT IS IMPORTANT TO NOTE THE COMPANY HAS SUSTAINED OPERATING LOSSES OVER THE PAST 3 YEARS AND HAS USED SIGNIFICANT AMOUNTS OF WORKING CAPITAL OVER THIS PERIOD. YOU MAY WANT TO TAKE THIS INTO CONSIDERATION WHEN MAKING A DECISION TO PURCHASE THIS FRANCHISE. YOU ARE ENCOURAGED TO CONSIDER THIS POINT IN THE FULL CONTEXT OF THE FINANCIAL INFORMATION APPEARING AT EXHIBIT D.

6) THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or for referring you to us. You should be sure to do your own investigation of this franchise.

California (DDSI Unit Offering)

California Registration Effective Date: April 30, 2012 (amended July 19, 2012)

THE INFORMATION AND NOTICES APPEARING ON THE FOLLOWING THREE PAGES APPLY ONLY TO FRANCHISES TO BE LOCATED IN THE STATE OF MICHIGAN AND ARE REQUIRED BY MICHIGAN LAW.

IF YOU ARE NOT LOCATED IN MICHIGAN, THE FOLLOWING THREE PAGES OF INFORMATION DO NOT APPLY TO YOU.

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**NOTICE FOR PROSPECTIVE FRANCHISEES WHO
LIVE IN MICHIGAN OR WHOSE FRANCHISES WILL
OPERATE IN MICHIGAN**

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU:

(A) A PROHIBITION ON THE RIGHT OF A FRANCHISEE TO JOIN AN ASSOCIATION OF FRANCHISEES.

(B) A REQUIREMENT THAT A FRANCHISEE ASSENT TO A RELEASE, ASSIGNMENT, NOVATION, WAIVER, OR ESTOPPEL WHICH DEPRIVES A FRANCHISEE OF RIGHTS AND PROTECTIONS PROVIDED IN THIS ACT. THIS SHALL NOT PRECLUDE A FRANCHISEE, AFTER ENTERING INTO A FRANCHISE AGREEMENT, FROM SETTling ANY AND ALL CLAIMS.

(C) A PROVISION THAT PERMITS A FRANCHISOR TO TERMINATE A FRANCHISE PRIOR TO THE EXPIRATION OF ITS TERM EXCEPT FOR GOOD CAUSE. GOOD CAUSE SHALL INCLUDE THE FAILURE OF THE FRANCHISEE TO COMPLY WITH ANY LAWFUL PROVISIONS OF THE FRANCHISE AGREEMENT AND TO CURE SUCH FAILURE AFTER BEING GIVEN WRITTEN NOTICE THEREOF AND A REASONABLE OPPORTUNITY, WHICH IN NO EVENT NEED BE MORE THAN 30 DAYS, TO CURE SUCH FAILURE.

(D) A PROVISION THAT PERMITS A FRANCHISOR TO REFUSE TO RENEW A FRANCHISE WITHOUT FAIRLY COMPENSATING THE FRANCHISEE BY REPURCHASE OR OTHER MEANS FOR THE FAIR MARKET VALUE, AT THE TIME OF EXPIRATION, OF THE FRANCHISEE'S INVENTORY, SUPPLIES, EQUIPMENT, FIXTURES, AND FURNISHINGS. PERSONALIZED MATERIALS WHICH HAVE NO VALUE TO THE FRANCHISOR AND INVENTORY, SUPPLIES, EQUIPMENT, FIXTURES, AND FURNISHINGS NOT REASONABLY REQUIRED IN THE CONDUCT OF THE FRANCHISED BUSINESS ARE NOT SUBJECT TO COMPENSATION. THIS SUBSECTION APPLIES ONLY IF: (i) THE TERM OF THE FRANCHISE IS LESS THAN 5 YEARS; AND (ii) THE FRANCHISEE IS PROHIBITED BY THE FRANCHISE OR OTHER AGREEMENT FROM CONTINUING TO CONDUCT SUBSTANTIALLY THE SAME BUSINESS UNDER ANOTHER TRADEMARK, SERVICE MARK, TRADE NAME, LOGOTYPE, ADVERTISING, OR OTHER COMMERCIAL SYMBOL IN THE SAME AREA SUBSEQUENT TO THE EXPIRATION OF

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