



MEMORANDUM

To:	Clients of Holmes Lofstrom, PC
Date:	May 15, 2017
Subject:	Changes to Accounting Standards That May Impact Franchisors

We want to bring to your attention certain changes to accounting standards that may have a significant impact upon franchisors.

We have recently reviewed industry publications that advise of changes in the Federal Accounting Standards Board ("FASB") guidelines pertaining to revenue recognition. Under current practices, franchisors routinely recognize initial franchise fees for financial statement purposes when their pre-opening obligations to franchisees have been satisfied.

Revised guidelines scheduled to be in effect for non-public companies for reporting periods after 12/15/18 may require that some or all initial franchise fees be recognized over the term of the agreement, depending on the franchisor's various performance obligations. As the financial statements contained in a FDD span a 3 year period, it is unclear to us whether the revised guidelines will have retroactive implications once they become effective. Recognition of Area Development Fees may be impacted, as well.

Holmes Lofstrom is not an accounting firm and does not purport to have any expertise in this area.

However, the key takeaway from articles we have read is that franchisors would be well advised to contact their auditors now to get a better understanding of the revised FASB guidelines and of how, and to what extent, they are anticipated to impact a franchisor's balance sheet. Franchisors may learn that unbundling or restructuring fees paid by a franchisee could help minimize any negative consequence.

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