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FTC Secures \$17 Million Settlement Against Xponential Fitness for Franchise Rule Disclosure Violations

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The Federal Trade Commission (FTC) has secured a significant settlement against Xponential Fitness, Inc. and its affiliates, which sell franchises for popular fitness studio brands, in connection with alleged violations of the FTC's Franchise Rule (16 C.F.R. Part 436) and Section 5 of the FTC Act. The case centered on defective franchise disclosure documents (FDD) issued by the franchisors in violation of the Franchise Rule.

According to the FTC, \$17 million will be returned to franchisees as a result and this is one of the largest amounts ever returned to franchisees for alleged violations of the Franchise Rule. This settlement represents one of the most substantial FTC enforcement actions targeting franchise disclosure violations in recent years and carries significant implications for franchisors across all industries. It serves as a reminder that franchise sales program checks and balances, and attention to the modest details of a robust compliance system, are essential to avoiding the potentially severe consequences of system Franchise Rule compliance failures.

Suggested Actions for Franchisors

In light of this enforcement action described below and the factual basis for the action, franchisors should consider the following steps:

1. **Conduct a Comprehensive FDD Audit:** Review all FDD disclosure Items for accuracy and completeness, with particular attention to diligence on factual bases for the statements in the FDD, including litigation history, bankruptcy disclosures, and franchisee contact information.
2. **Review Sales Processes:** Ensure that franchise sellers and all administrative staff are trained on Franchise Rule requirements and that all representations made during the sales process are consistent with FDD disclosures.
3. **Implement Robust Recordkeeping:** Maintain documentation of FDD delivery, Item 23 franchisee acknowledgments, and the timing of all communications with prospective franchisees that affect the waiting periods under the Franchise Rule.
4. **Update Compliance Training:** Ensure that all executive, sales, administrative, and other personnel involved in franchise sales understand the simple rules of disclosure, the prohibitions against misrepresentations, and the consequences of non-compliance.
5. **Establish Quarterly Update Protocols:** The Franchise Rule requires quarterly revisions reflecting any material changes to the disclosures. State franchise registration statutes require an update whenever a material fact changes. Franchisors should establish formal, internal processes for identifying and documenting such changes as and when needed.

One of the important factors in setting penalties is the regulator's evaluation of the corporate culture of the franchisor's organization. Because these issues affected a number of franchisors in the corporate family, the issues were not deemed to be an aberration or irregularity. The perception of the culture undoubtedly affected the desire to levy a penalty that would force a change in the corporate culture, and signal to the market that casual adherence to the Franchise Rule will not be tolerated.

Conclusion

The FTC's settlement with Xponential Fitness serves as a stark reminder that franchise disclosure obligations carry significant consequences when violated. The \$17 million settlement, combined with extensive injunctive relief and ongoing compliance monitoring, demonstrates the FTC's commitment to protecting prospective franchisees from deceptive practices that violate the Franchise Rule. Franchisors should view this action as an opportunity to evaluate and strengthen their own disclosure and compliance practices before becoming the subject of similar scrutiny.

The Allegations

According to the FTC's Complaint, Xponential Fitness engaged in unfair or deceptive acts or practices in the sale and marketing of franchises in violation of Section 5 of the FTC Act¹ and the Franchise Rule. While the defendants neither admitted nor denied the allegations as part of the settlement, the stipulated Order (the Order) entered into by the parties addresses a comprehensive range of disclosure-related misconduct, involving the FDD issued by several of its brands, including:

- Misrepresenting the time typically required to open a franchise [Items 7 and 11 of the FDD];
- Failing to disclose key details regarding the involvement of franchisor executives in significant lawsuits and bankruptcy proceedings [Items 3 and 4 of the FDD];
- Misreporting the names and contact information of franchisees that shuttered their operations in the last year [Item 20 of the FDD]; and
- Failing to provide complete, accurate, and timely Franchise Disclosure Documents to prospective franchisees.

Key Terms of the Settlement

Monetary Judgment

The March 18, 2026, stipulated Order imposes a \$17 million monetary judgment against all defendants, jointly and severally. The payment schedule includes an initial payment and quarterly payments thereafter during the 12 months after the Order is entered by a court. If the defendants fail to make any required payment when due, the entire remaining judgment becomes immediately due and payable.

Permanent Injunction Against Misrepresentations

The Order permanently enjoins defendants from misrepresenting, expressly or by implication, any material fact in connection with promoting or offering franchises for sale, including misrepresentations concerning:

- The name, position, and business experience of the franchisor's directors, trustees, general partners, principal officers, and management personnel [Item 2 of the FDD];
- Whether the franchisor or its principals have pending administrative, criminal, or material civil actions alleging franchise, antitrust, or securities law violations, or allegations of fraud or unfair and deceptive practices [Item 3 of the FDD];
- Whether any officer or management personnel has filed for bankruptcy or obtained a discharge of debts within the preceding ten years [Item 4 of the FDD];
- The typical length of time between signing a franchise agreement and opening the franchisee's business [Item 11 of the FDD];
- The number or identity of current franchisees, or franchisees whose outlets were terminated, cancelled, not renewed, or otherwise ceased operations during the most recently completed fiscal year [Item 20 of the FDD]; and
- Contact information for current and former franchisees [Item 20 of the FDD].

Franchise Rule Compliance

The Order permanently requires the defendants to comply with all provisions of the Franchise Rule, including the obligation to provide each prospective franchisee with a complete and accurate Franchise Disclosure Document (FDD).

Consumer Redress

Settlement proceeds may be used for consumer relief, including redress to affected franchisees and attendant administrative expenses. If direct redress is impracticable or funds remain after redress, the FTC may apply remaining amounts for related consumer information remedies.

Compliance and Monitoring Provisions

The Order imposes extensive ongoing compliance obligations, including:

- **Order Acknowledgments:** Each defendant must submit an acknowledgment of receipt within seven days and deliver copies to all principals, officers, directors, and managerial employees within seven days for current personnel.
- **Compliance Reporting:** Annual compliance reports sworn under penalty of perjury, plus notification of any material changes within 14 days for ten years.
- **Recordkeeping:** Creation and retention of accounting records, personnel records, franchisee complaints and refund requests, compliance documentation, advertising materials, and FDDs for specified periods.
- **FTC Monitoring:** The FTC retains authority to conduct compliance monitoring, including requiring additional reports, depositions, and document production within 14 days of request.
- **Retention of Jurisdiction:** The Court retains jurisdiction for purposes of construction, modification, and enforcement of the Order.

Implications for the Franchising Industry Heightened Enforcement Focus

The Xponential Fitness settlement signals the FTC's continued and intensified focus on Franchise Rule compliance. The magnitude of the monetary judgment – \$17 million – underscores that the FTC is prepared to pursue substantial penalties for disclosure failures. Franchisors should expect enhanced scrutiny of their FDD practices and sales processes. Interestingly, the individuals named in Item 2 of each affected FDD were not named as defendants.

Critical Disclosure Areas

The specific categories of misrepresentations addressed in the Order highlight the disclosure items most susceptible to enforcement action:

6. **Item 2 (Business Experience):** Franchisors must ensure accurate and complete disclosure of management personnel's backgrounds, positions, and employment histories.
7. **Item 3 (Litigation):** Pending and past litigation, including administrative actions, criminal matters, and material civil actions involving franchise law violations or fraud allegations, must be fully disclosed.
8. **Item 4 (Bankruptcy):** Any bankruptcy filings by the franchisor or its principals within the relevant look-back period require disclosure.

9. **Item 20 (Outlets and Franchisee Information):** The number, identity, and contact information for current and former franchisees – particularly those whose relationships terminated or were not renewed – must be accurately stated.

Our franchise team has years of experience in evaluating compliance programs and assisting with the specification and training of compliance strategies. Please contact us if you would like to explore an independent review or training session.

For questions regarding Franchise Rule compliance or assistance with FDD review and preparation, please contact [Joel R. Buckberg](#) and [William W. Fagan III](#).

¹ 15 U.S.C. §45.