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FRANCHISE

How to Read a Franchise Disclosure Document Like a Pro

By Scott Tischler · July 28, 2026 · 9 min read

The **Franchise Disclosure Document**, or FDD, is the single most important document you will read before buying a franchise. It is a legally required disclosure that the franchisor must give you at least **14 calendar days** before you sign anything or pay any money. Read correctly, it tells you almost everything you need to know about the business, the people behind it, and whether the numbers can actually work for you. Read carelessly, it becomes a stack of legalese you skim on the way to a signature you regret.

I've spent years as an entrepreneur and investor evaluating franchise systems, and I can tell you the FDD rewards the people who slow down. Most buyers read the glossy brochure closely and the FDD barely at all. The professionals do the opposite. This guide walks you through how to read it the way experienced buyers and their advisors do.

One note up front: this is educational, not legal or financial advice. Franchise outcomes vary enormously, and nothing here substitutes for a qualified franchise attorney and an accountant reviewing your specific deal.

What the FDD actually is

The FDD is a standardized document required under the **FTC Franchise Rule**, with additional requirements in certain "franchise registration" states. Every FDD contains the same **23 numbered Items**, in the same order, no matter what industry the franchise is in. That standardization is a gift: once you know what lives in each Item, you can navigate any FDD in the country and compare two systems side by side.

The document also includes exhibits at the back — the actual **franchise agreement**, financial statements, lists of current and former franchisees, and any operations-manual table of contents the franchisor chooses to include. The Items summarize; the exhibits are where the binding legal language lives. Both matter.

A common mistake is treating the FDD as marketing. It is not. It is a disclosure drafted by the franchisor's lawyers to be legally accurate and legally protective. When something is worded carefully, assume the wording is deliberate.

The Items that matter most

You should read all 23 Items, but a handful carry most of the decision-making weight. Here is where I spend the majority of my time.

Item	What it covers	Why it matters
Item 1	The franchisor, its parents and affiliates, business background	Tells you who you're really dealing with and how long they've done it
Item 3	Litigation history	Patterns of lawsuits — especially franchisor-vs-franchisee — are a major signal
Item 4	Bankruptcy history	Prior bankruptcies of the company or key people
Items 5–7	Initial franchise fee, other fees, estimated initial investment	The all-in cost to open and operate through the ramp-up period
Item 9	Franchisee obligations	A map of everything you're contractually on the hook for
Item 11	Franchisor's assistance, training, systems	What support you actually receive for your money
Item 12	Territory	Whether you get protected exclusivity — and what "protected" really means
Item 17	Renewal, termination, transfer, dispute resolution	Your exit rights and what happens when things go wrong
Item 19	Financial performance representations	The only place the franchisor may make earnings claims
Item 20	Outlet and franchisee information	The turnover data that reveals system health
Item 21	Audited financial statements	Whether the franchisor itself is financially sound

Item 19: read it, and read what it doesn't say

Item 19 is the financial performance representations section, and it is often the first place buyers turn — for good reason. It is the ***only*** place in the entire FDD where a franchisor is permitted to make claims about how much money franchisees make. If a salesperson quotes you an earnings figure that isn't in Item 19, that's a red flag on its own.

Here's the catch: franchisors are not required to include an Item 19 at all. If the section says, in effect, "we do not make any financial performance representations," you are being told nothing about profitability — and you should ask yourself why a healthy, profitable system would choose to disclose nothing.

When an Item 19 does exist, read the fine print harder than the headline number. Ask: Is this **revenue or profit**? (Revenue tells you very little.) What subset of outlets is included — top performers, company-owned units, or the full system? What percentage of franchisees actually met or exceeded the stated average? Averages hide a lot; a handful of high performers can pull an average well above what a typical unit earns.

Item 20: the outlet data tells the truth

Item 20 contains tables of outlet counts and franchisee turnover, and in my experience it is the most honest section in the document because it's just numbers. Look at the multi-year trend: How many units opened, closed, were transferred, or were terminated each year? A system that opens 50 units and closes 40 is telling you something the marketing never will.

Pay special attention to **transfers and terminations**. High transfer rates can mean franchisees are trying to get out. Item 20 also lists contact information for current franchisees and, critically, for franchisees who **left the system in the past year**. Those departed owners are among the most valuable people you can talk to.

Items 5–7: the real cost of getting in and getting going

Items 5, 6, and 7 together give you the money picture. **Item 5** is the initial franchise fee. **Item 6** is the ongoing fees — royalties, marketing or ad-fund contributions, technology fees, and every other recurring charge. **Item 7** is the estimated initial investment, usually shown as a low-to-high range covering everything from build-out to a few months of working capital.

Two disciplines here. First, **budget to the high end of the Item 7 range, then add a cushion** — the range is an estimate and ramp-up almost always takes longer than hoped. Second, model the Item 6 royalties against realistic revenue. A royalty that sounds small as a percentage can be brutal on thin margins in the early months when you have little sales volume but full fixed costs.

Item 3: litigation is a pattern, not a headline

Item 3 discloses the franchisor's litigation history. One lawsuit means little; any large company has some. What you're hunting for is a **pattern** — repeated suits by franchisees against the franchisor, claims about misrepresented earnings, or fights over territory and terminations. That pattern is a window into how the franchisor treats its owners when money is on the line.

Item 9: the obligations map

Item 9 is a cross-reference table of every obligation you take on as a franchisee, pointing to where each is spelled out in the franchise agreement. It's easy to skim because it's just a table, but it's one of the most efficient reads in the whole document. Use it as your checklist for what you must do, buy, report, and pay — and then follow the references into the agreement itself for the exact language.

Red flags to watch for

No single item below is automatically disqualifying, but each deserves a hard question and, often, a conversation with your attorney.

- **No Item 19, or a vague one.** Silence on earnings, or numbers so hedged they say nothing, is a caution sign.
- **Heavy closures or transfers in Item 20.** Units churning out faster than they open is the clearest warning in the document.
- **A pattern of franchisee litigation in Item 3**, especially around earnings claims or terminations.
- **Weak or shaky Item 21 financials.** If the franchisor itself isn't solvent, the support system you're paying for may not survive.
- **Broad franchisor discretion in Item 17** — easy termination for them, hard exit for you, mandatory arbitration in a distant venue.
- **Fees buried in Item 6** you didn't expect: technology fees, mandatory remodels, minimum ad spend, transfer fees.
- **Thin or generic Item 11 support** that doesn't match the promises made in the sales process.

Questions to ask existing franchisees

The FDD gives you the roster in Item 20. Use it. Validating the document against real owners is the step that separates serious buyers from hopeful ones. Call a wide sample — not just the two references the franchisor hand-picks — and include some who recently left. Ask open questions and let them talk.

- Did your **actual initial investment** land inside the Item 7 range, or did it run over?
- How long until you reached breakeven, and then a livable profit?
- Do the **Item 19 numbers** match your real experience?
- How responsive is the franchisor when you have a problem?
- Are there fees or required purchases that surprised you?

- Knowing what you know now, **would you buy this franchise again?**

That last question, asked to a dozen owners, tells you more than any brochure.

How to use an attorney and an accountant

Buying a franchise without professional review is like performing surgery on yourself because you read the manual. Bring in specialists — and use the mandatory **14-day review period** for exactly this.

A **franchise attorney** — ideally one who reviews FDDs for a living, not a general-practice lawyer — will read the franchise agreement against the Items, flag one-sided terms in Item 17, explain your renewal and termination realities, and tell you which provisions are negotiable (fewer than you'd hope, but not none). An **accountant or CPA** should build a realistic financial model: your projected profit-and-loss using conservative revenue, the full Item 6 fee load, and enough working capital to survive a slow ramp. They should also review the Item 21 audited statements to judge the franchisor's own health.

The few thousand dollars this review costs is trivial against a six-figure investment and years of your life. I've never once regretted paying for good advice before signing, and I've watched people deeply regret skipping it.

The bottom line

The FDD is designed to give you the information you need to make a sound decision — but only if you read it as a document, not a formality. Spend your time in **Items 19 and 20** for the economics and system health, **Items 5 through 7** for the true cost, **Item 3** for the litigation pattern, and **Item 17** for your exit rights. Validate all of it against real franchisees. Then let a franchise attorney and an accountant pressure-test the deal before you commit.

Do that, and you'll read an FDD the way the professionals do — and you'll walk away from far more deals than you sign, which is exactly the point.

Key takeaways

- The FDD is standardized into 23 Items and must be given to you at least 14 days before you sign or pay — use that window for professional review.
- Item 19 is the only place a franchisor may make earnings claims; if it's absent or vague, you're being told little about profitability.

- Item 20's outlet and turnover data is the most honest section — heavy closures and transfers are the clearest warning sign.
- Items 5–7 reveal the true all-in cost; budget to the high end of the Item 7 range and model Item 6 fees against conservative revenue.
- Always validate the document by calling a wide sample of current and former franchisees, including owners who recently left.
- Never buy without a franchise attorney and an accountant reviewing your specific deal — outcomes vary widely and the review cost is trivial by comparison.

Frequently asked questions

What is a Franchise Disclosure Document?

The FDD is a legally required disclosure that a franchisor must give a prospective buyer under the FTC Franchise Rule. It contains 23 standardized Items covering the company's background, fees, obligations, litigation, and financial performance. It's the primary document you use to evaluate whether a franchise is a sound investment.

How long do I have to review the FDD before signing?

Federal law requires the franchisor to provide the FDD at least 14 calendar days before you sign any binding agreement or pay any money. Use that period to read every Item, call existing franchisees, and have an attorney and accountant review the deal. Do not let anyone pressure you into signing early.

Which FDD item is most important for understanding earnings?

Item 19, the financial performance representations, is the only section where a franchisor may legally make earnings claims. Read it carefully to determine whether figures are revenue or profit, which outlets are included, and what share of franchisees actually achieved the stated results. If there is no Item 19, you're getting no disclosed earnings information at all.

What are the biggest red flags in an FDD?

Watch for an absent or vague Item 19, heavy unit closures or transfers in Item 20, a pattern of franchisee lawsuits in Item 3, weak franchisor financials in Item 21, and one-sided termination or arbitration terms in Item 17. No single flag is automatically disqualifying, but each warrants a hard question and professional review.

Should I hire a lawyer to review a franchise agreement?

Yes. A franchise-specific attorney will read the franchise agreement against the FDD Items, explain your renewal, termination, and dispute-resolution realities, and identify one-sided terms. Pairing them with an accountant who builds a realistic financial model is standard practice for serious buyers, and the cost is small relative to the investment.

How do I talk to existing franchisees, and what should I ask?

Item 20 of the FDD lists current franchisees and those who left in the past year — call a wide sample rather than only the franchisor's chosen references. Ask whether their real costs matched Item 7, how long they took to reach profit, whether Item 19 numbers held true, and whether they'd buy the franchise again. Departed owners are often the most candid and valuable sources.

Does a strong FDD guarantee the franchise will succeed?

No. A well-prepared FDD reduces surprises and reveals system health, but franchise outcomes vary enormously based on your market, execution, capital, and management. The document is a tool for informed decision-making, not a guarantee of returns — which is exactly why independent review by qualified professionals is essential.

Can any terms in the franchise agreement be negotiated?

Some can, but fewer than most buyers expect — franchisors keep agreements uniform to protect the system. A franchise attorney can tell you which provisions in your specific deal are realistically negotiable and which are fixed. Knowing the difference before you ask keeps your energy focused on the terms that actually matter.

About the author. Scott Tischler is the Founder & Chairman of AIrecommend.ai and a practitioner-authority on AI search and Answer Engine Optimization. With 20+ years in marketing technology — including American Express, MetLife, and UBS — and executive study at Wharton, Harvard, Yale, and Oxford, he helps businesses become the ones AI recommends.