



The Ultimate FDD Review Checklist

Introduction:

This checklist is designed to guide you through the most critical items of the Franchise Disclosure Document (FDD). The FDD is a complex legal document. While this checklist is not a substitute for professional legal advice, it will ensure you don't overlook the key information that will determine your success. As you review each item, take detailed notes and write down any questions you need to ask the franchisor or your attorney.

Disclaimer: This checklist is for informational purposes only and does not constitute legal advice. We strongly recommend hiring a qualified franchise attorney to conduct a full review of the FDD before you sign any agreement.

Item 1: The Franchisor and any Parents, Predecessors, and Affiliates

What it is: The franchisor's corporate background, including its history and business structure.

Your Mission / Key Questions:

How long has the company been in business? How long has it been franchising? (Look for signals of experience.)

Does it have a complex structure of parent companies or affiliates? This could affect decision-making power in the future.

Does the company have a history of bankruptcy or major restructuring?

My Notes:

Item 3: Litigation

What it is: A disclosure of significant, relevant lawsuits the franchisor has been involved in, especially with its franchisees.

Your Mission / Key Questions:

Is the franchisor frequently in legal battles with its franchisees?

What are the core reasons for the lawsuits? (e.g., fraud, breach of contract, failure to provide promised support.)

What were the outcomes? (Look for patterns of systemic problems.)

My Notes:

Item 5 & 6: Initial Fees and Other Fees

What it is: Item 5 details the initial, upfront franchise fee. Item 6 is a comprehensive chart of all the other fees you'll be required to pay throughout your contract (royalties, advertising, software, training, etc.).

Your Mission / Key Questions:

Under what conditions is the initial franchise fee non-refundable?

What is the basis for the Royalty Fee calculation? Is it based on gross sales or net sales?

Read every single "Other Fee." Are there any that seem unreasonable or vague?

Are there hidden costs like mandatory system upgrade fees or conference attendance fees?

My Notes:

Item 7: Estimated Initial Investment

What it is: A table outlining the full estimated cost to open your franchise, from rent and construction to opening inventory and working capital.

Your Mission / Key Questions:

What assumptions are the low-end and high-end estimates based on? (e.g., location, size of the unit.)

How many months of operating expenses does the "Additional Funds" or "Working Capital" line item cover? (6-12 months is recommended.)

Cross-reference this table with the "real numbers" you get from speaking with existing franchisees.

My Notes:

Item 19: Financial Performance Representations (FPR)

What it is: The most anticipated section of the FDD. The franchisor may disclose data about the sales or profits of existing franchise outlets. Note: Making this disclosure is optional for the franchisor.

Your Mission / Key Questions:

If the franchisor does not provide an Item 19, why not? This is a major red flag.

Is the data based on all outlets, or just a select group of top performers?

Is the data presented as an average (mean) or a median? (Median is often a more realistic representation.)

Is it just Gross Sales, or does it provide a more detailed breakdown of costs and profitability?

My Notes:

Item 20: Outlets and Franchisee Information

What it is: Tables showing the changes in the number of franchise outlets over the past three years (opened, closed, transferred, etc.), along with contact information for all current and recently departed franchisees.

Your Mission / Key Questions:

Calculate the annual "franchisee turnover rate" (closures / total outlets). Is this rate increasing?

Why were some franchise agreements "terminated" by the franchisor?

This is your golden contact list! Plan to call at least 5-10 franchisees from this list, especially new ones and those who have left the system.

My Notes: