



Franchise Disclosure Document (FDD) Review Checklist:

10 Critical Points to Discuss with Your Attorney

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Disclaimer: This checklist is provided for educational and informational purposes only and is not a substitute for professional legal or financial advice. Before making any investment decision, you must engage a qualified franchise attorney to thoroughly review your FDD and franchise agreement.

Friend, welcome to the most critical step in franchise investment.

The Franchise Disclosure Document (FDD) you hold spans hundreds of pages, filled with complex legal jargon and financial data. Attempting to fully comprehend it on your own is like navigating a minefield without a map.

This checklist isn't meant to turn you into a lawyer — it's your roadmap. It will help you communicate effectively with your attorney and ensure you don't overlook any critical details that could impact your business for years to come.

How to use this checklist: During your meeting with your attorney, go through these questions one by one. In the "Notes & Concerns" section, record your attorney's responses and the page numbers of any clauses requiring special attention.

1. The "Full" Truth About Fees & Investment

Corresponding FDD Items: 5, 6, 7, 8

Core Questions:

Item 7 (Estimated Initial Investment): Does this form include "all" upfront costs? Are there potential "hidden costs" (e.g., travel expenses, additional licensing fees, full operational losses for the first 3-6 months)?

Item 5 (Initial Fees): Under what circumstances is the franchise fee refundable? Is installment payment possible?

Item 6 (Other Fees): Beyond fixed royalties and marketing fees, are there other recurring costs? (e.g., technology fees, software licensing fees, training fees, punitive penalties, etc.). Please list the triggering conditions and amounts for all fees.

Item 8 (Purchasing Restrictions): Am I required to purchase all items from headquarters or its designated suppliers? Are the prices from these designated suppliers competitive in the market? If I find cheaper products of equivalent quality, am I permitted to use them?

Notes & Red Flags:

2. The Franchisor's "Dark History" & Health

Corresponding FDD Items: Item 1, 2, 3, 4

Core Questions:

Item 1 (Company Background): Has the headquarters been acquired or merged in the past? Who is the current parent company, and what are their primary business operations and reputation?

Item 2 (Management Team Experience): How many years of experience do core executives (CEO, COO, etc.) have in franchising? Are they stable or frequently changing?

Item 3 (Litigation History): Has the company been involved in significant lawsuits with franchisees, suppliers, or government agencies, either currently or in the past? What were the primary causes of these lawsuits? (Particularly cases involving fraud or breach of contract).

Item 4 (Bankruptcy History): Has the company or any of its executives ever filed for bankruptcy?

Notes & Red Flags:

3. How big and secure is your "territory"?

Corresponding FDD Item: Item 12

Core Questions:

Protected Territory: Do I have a protected, exclusive operating territory?

Territory Definition: How is this territory defined? (e.g., X-kilometer radius, ZIP codes, population count). Is this definition clear and unambiguous?

Headquarters' Reserved Rights: Does headquarters retain the right to sell through other channels within my territory? (e.g., online sales, supermarket/airport kiosks, food trucks). Will revenue from these channels be shared with me?

Future Disputes: What is the resolution mechanism if territorial disputes arise in the future?

Notes & Red Flags:

4. The Profit Question: What Are They Really Saying?

Corresponding FDD Item: Item 19

Core Questions:

Is Item 19 Present: Does the FDD include a Financial Performance Statement (Item 19)? If not, why? This is a major red flag.

Data Source: Does Item 19's data represent all locations or only a subset? Are these company-owned or franchised stores? How long have these stores been open?

Key Metrics: Does the disclosure show Gross Sales, Gross Profit, or Net Profit? If only Gross Sales, you must estimate all costs yourself.

Footnotes & Assumptions: What critical assumptions are outlined in the footnotes and disclosures under Item 19? (e.g., data excludes owner wages, debt repayments, etc.)

Notes & Red Flags:

5. The Franchisee "Death Toll": Openings & Closures

Corresponding FDD Item: Item 20

Core Questions:

Franchise Count Table: Scrutinize the franchise count changes over the past three years.

Calculate attrition rate: How many stores "terminated contracts," "did not renew," or "were reclaimed by headquarters" annually? Divide this number by the total number of stores at the beginning of the year to obtain the average annual attrition rate. If this ratio consistently exceeds 5-10%, exercise extreme caution.

Number of Transfers: How many stores were transferred to new franchisees? A high number of transfers may indicate dissatisfaction or unprofitability among existing franchisees.

Contact Former Franchisees: Item 20 provides contact information for franchisees who left the system in the past year. Your attorney should advise you to contact several of them to understand their true reasons for leaving.

Notes & Red Flags:

6. Training & Support: Promise or Hot Air?

Corresponding FDD Item: Item 11

Key Questions:

Initial Training: How long is the initial training? Where is it conducted? What does it cover (operations, marketing, finance)? Who covers travel and accommodation expenses?

On-Site Support: When I open, how long will headquarters provide on-site support?

Ongoing Support: What ongoing support will I receive after opening? (e.g., regular operational consultant visits, updated marketing materials, 24/7 technical support hotline).

Advertising & Marketing: How does headquarters utilize the 2-3% marketing fund I contribute? Can I access detailed expenditure reports? Does headquarters provide guidance and resources for my local marketing efforts?

Notes & Red Flags:

7. Renewal, Transfer & Exit: What's My "Escape Plan"?

Corresponding FDD Item: Item 17

Core Questions:

Contract Term: What is the duration of the franchise agreement? (Typically 10 years).

Renewal Rights: Do I have the right to renew after the contract expires? What are the renewal conditions? (e.g., paying a high renewal fee, undertaking costly store renovations).

Transfer Rights: If I wish to sell my business, what is the process? Does headquarters have a right of first refusal? What are their requirements for buyer qualifications? What is the transfer fee?

Termination: Under what circumstances can headquarters unilaterally terminate my contract? (e.g., failing to meet performance targets, violating the operations manual). After termination, am I subject to a non-compete clause?

Notes & Red Flags:

8. Brand Standards & Innovation: How Much Freedom Do I Have?

Corresponding FDD Items: Item 9, 16

Core Questions:

Operating Manual: Must I strictly adhere to every provision in the operating manual? If I wish to implement localized innovations (e.g., introducing a regional specialty flavor), is this permitted?

Technology Systems: Am I required to use headquarters-specified POS systems, reservation software, or customer relationship management (CRM) systems? What are the costs for these systems?

Store Updates: Does headquarters require me to periodically renovate the store or upgrade equipment? How often? What are the estimated costs?

Pricing Authority: Do I have the right to set prices independently based on local market conditions, or must I follow headquarters' uniform pricing?

Notes & Red Flags:

9. Trademarks & Brand Protection

Corresponding FDD Item: Item 13

Core Questions:

Trademark Status: Is the brand's core trademark officially registered with the U.S. Patent and Trademark Office (USPTO) and currently in good standing?

Brand Protection: If another business infringes on the brand's trademark, is headquarters obligated to take legal action to protect the brand and my interests?

Notes & Red Flags:

10. The Devil in the Details: The Franchise Agreement Itself

Corresponding FDD Item: Item 22 (Attachment)

Core Questions:

FDD-Agreement Consistency: Are the terms in the franchise agreement fully consistent with the disclosures in the FDD?

Personal Guarantee: Am I required to provide an unlimited personal guarantee for the franchise's debts?

Dispute Resolution: If I have a dispute with headquarters, must it be resolved through arbitration? Is arbitration held in my location or at the distant headquarters?

Non-Compete Restrictions: After contract termination, for how long and within what geographic scope am I prohibited from competing with the brand? Is this restriction overly restrictive?

Notes & Red Flags:

Congratulations on completing your initial critical review!

This checklist is your starting point for due diligence. Next, be sure to:

- Talk to existing franchisees: FDD Item 20 provides their contact details.
- Create a detailed business plan: Use our website's [[Business Plan Generator](#)] tool.
- Conduct financial projections: Use our [[ROI Calculator](#)] tool.

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