

FREE GUIDE

Understanding the FDD: A Plain-English Guide

The 23 items of the Franchise Disclosure Document — what each one means and what to watch for

The FDD is the most important document in franchise buying. Federal law requires franchisors to give it to you at least 14 days before you sign or pay anything. This guide explains every item in plain language.

The Franchise Disclosure Document (FDD) is a legally mandated disclosure that every franchisor must provide to prospective buyers at least 14 calendar days before you sign any agreement or hand over any money. It is not a contract — it is a disclosure. But it describes, in binding legal detail, exactly what you are getting into.

The FDD contains exactly 23 items, each covering a specific aspect of the franchise relationship. Some items are routine. Others are where the real risks hide. This guide tells you which is which.

The 14-Day Rule

Federal law (the FTC Franchise Rule) requires you receive the FDD at least 14 calendar days before signing or paying. Never waive this period. Use every one of those 14 days to read and review — especially Items 3, 5, 6, 19, 20, and 21.

Item 1: The Franchisor and Its Affiliates

Background on the franchisor, its parent companies, and affiliates. Tells you who you're really doing business with — some franchise brands are owned by private equity firms or larger holding companies.

Watch for: Research the parent company, not just the brand. PE ownership can mean royalty rate changes or a sale during your franchise term.

Item 2: Business Experience

Biographies of the franchisor's key executives. Reveals how experienced the leadership team is and whether they have franchise industry backgrounds.

Watch for: High executive turnover (check past FDDs) is a warning sign. Look for at least 5 years of relevant experience in leadership.

Item 3: Litigation

ALL lawsuits, arbitrations, and government actions involving the franchisor and its executives in the last 10 years. This is one of the most important items.

Watch for: A few isolated disputes are normal. A pattern of lawsuits by franchisees — especially for fraud, misrepresentation, or earnings claims — is a serious red flag. Read every case summary.

Item 4: Bankruptcy

Discloses any bankruptcy filings by the franchisor or its principals in the last 10 years.

Watch for: Any bankruptcy in recent years deserves a deep explanation. Ask directly: What caused it? How was it resolved? What changed?

Item 5: Initial Fees

The initial franchise fee and any other fees you pay before opening. These are almost always non-refundable.

Watch for: Understand exactly what the initial fee covers. Does it include training? Site selection support? Software setup? Get specifics in writing.

Item 6: Other Fees

Every ongoing fee: royalties, marketing fund contributions, technology fees, renewal fees, transfer fees, audit fees, and more. This is the true ongoing cost of the franchise.

Watch for: Add up all the fee percentages. A 6% royalty + 3% marketing fund + 1% technology fee = 10% of gross revenue off the top, every month, forever.

Item 7: Estimated Initial Investment

The franchisor's estimate of total startup costs in a range. Includes build-out, equipment, initial inventory, working capital, and all fees.

Watch for: The HIGH end of the range is almost always more realistic. Add 10–15% as a contingency buffer. This is the number to show your lender.

Item 8: Restrictions on Sources of Products and Services

Lists anything you are required to buy from approved or designated suppliers — and whether the franchisor or its affiliates earn money from those purchases.

Watch for: Franchisor-mandated suppliers remove your ability to shop for better prices. Understand how much of your cost structure is locked in.

Item 9: Franchisee's Obligations

A table of every obligation the franchisee has, cross-referenced to the franchise agreement. Comprehensive but dense.

Watch for: Use this as a checklist for your attorney's review. Every row maps to a contract clause.

Item 10: Financing

Describes any financing the franchisor offers — for the initial fee, equipment, or other costs. Also discloses if the franchisor receives fees for referring you to lenders.

Watch for: Franchisor financing is sometimes convenient but often expensive. Compare rates to SBA lenders before accepting.

Item 11: Franchisor's Assistance, Advertising, Computer Systems, and Training

Describes what the franchisor actually provides: training programs, field support, marketing, technology, and ongoing assistance.

Watch for: This is where the gap between the sales pitch and reality often shows up. Ask current franchisees whether the support described here matches their actual experience.

Item 12: Territory

Defines your geographic territory — whether it's protected, how protection works, and what rights the franchisor retains in your area (including online sales).

Watch for: Unprotected territory is a major risk. Understand whether the franchisor can open company-owned units or sell directly online into your area.

Item 13: Trademarks

Lists the trademarks you're licensed to use and their registration status. Unregistered trademarks carry legal risk.

Watch for: If the core trademark isn't federally registered, ask why. You want to be operating under a legally protected brand.

Item 14: Patents, Copyrights, and Proprietary Information

Covers any patents or proprietary systems. Less relevant for most service franchises, important for product-based concepts.

Watch for: If the franchise's competitive advantage depends on a patent, check its expiration date. A patent expiring during your franchise term is a real issue.

Item 15: Obligation to Participate in the Actual Operation of the Franchise Business

States whether you must be the hands-on operator or can hire a manager to run day-to-day operations.

Watch for: Many franchisors require owner-operators. If you plan to be semi-absentee, confirm this is explicitly permitted in writing.

Item 16: Restrictions on What the Franchisee May Sell

Limits on products or services you can offer. Some franchisors prohibit you from selling anything not approved by the system.

Watch for: Understand the limits before you commit. Adding an unapproved product or service can be grounds for termination.

Item 17: Renewal, Termination, Transfer, and Dispute Resolution

One of the most critical items. Covers the franchisor's right to terminate your agreement, your renewal rights, transfer conditions, and how disputes are resolved.

Watch for: Read every termination trigger carefully. Understand what happens to your business — and your investment — if the franchisor terminates your agreement. Also note the required dispute resolution venue: some franchisors require arbitration in their home state.

Item 18: Public Figures

Discloses any celebrities or public figures associated with the franchise and what they're paid.

Watch for: Generally low-risk unless the entire brand identity is tied to one celebrity whose involvement could change.

Item 19: Financial Performance Representations

The most eagerly read item. Franchisors MAY (but are not required to) disclose unit revenue, earnings, or other financial performance data.

Watch for: If there is no Item 19, ask why. When there is one, determine: What % of units are included? Are these gross revenue or net income figures? Are median figures shown, or just averages? Always request the underlying data set.

Item 20: Outlets and Franchisee Information

Lists all current franchisees with contact information, and shows how many units opened, closed, and transferred in the last 3 years. The most actionable research item in the document.

Watch for: This list IS your research list. Call franchisees who are NOT on the reference list the franchisor gave you. High transfer and closure rates are warning signs.

Item 21: Financial Statements

The franchisor's audited financial statements for the last 3 years. Shows the financial health of the franchisor itself.

Watch for: A financially struggling franchisor is a risk to your investment. Look for consistent revenue growth, manageable debt, and positive cash flow. Have your accountant review this item.

Item 22: Contracts

Lists all the agreements you'll sign, with copies attached or referenced.

Watch for: Make sure you receive and review every listed contract — not just the franchise agreement. Training agreements, software agreements, and lease addenda all matter.

Item 23: Receipts

Two receipt pages you sign to confirm you received the FDD. One goes back to the franchisor; keep the other.

***Watch for:** Do not sign this until you have actually received and reviewed the full FDD. The date you sign starts the 14-day clock for the required waiting period.*

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