

5 Things Franchisors Hope You Don't Notice in Your FDD

A quick checklist before you sign anything.

Your Franchise Disclosure Document was written by **the franchisor's lawyers** - to protect the franchisor, not you. The FTC gives you 14 days to review it before you can legally sign, and nobody checks it for fairness before it reaches you. Most buyers skim it once and trust the numbers at face value. Here's how to read five of the most-overlooked sections the way an attorney would, and why reading them one at a time isn't the same as understanding them.

ITEM 03

Litigation History Buried in the Fine Print

Franchisors have to disclose lawsuits from other franchisees, but one lawsuit alone doesn't mean much. What matters is the pattern - is this normal for the industry, or unusually high? That's not something written down anywhere in the FDD itself.

YOUR FIRST MOVE: Have multiple franchisees sued over the same specific issue in the last five years?

ITEM 12

Territory Rights With Room to Shrink Later

Item 12 defines your protected territory. But many agreements still let the franchisor sell through online channels, national accounts, or other outside partners inside that same territory. How much that matters depends on your type of business - a carve-out that's harmless for one business can seriously hurt another.

YOUR FIRST MOVE: What online, national account, or third-party sales are excluded from my exclusivity?

ITEM 17

Renewal Terms That Reset the Deal

Renewal often depends on signing whatever the franchisor's current agreement looks like at that time, not the one you originally signed. That clause itself is common. What matters is how much this franchisor has changed its terms at past renewals, which means comparing this FDD against older versions.

YOUR FIRST MOVE: How has the standard franchise agreement changed at each of the last two renewal cycles?

ITEM 19

Earnings Claims Built on a Narrow Slice of Units

Franchisors don't have to include every location in their earnings claims. A number based only on their best-performing locations, or one that leaves out closed locations, can look very different from what a typical new location actually earns. Item 19 won't tell you which one you're looking at.

YOUR FIRST MOVE: What share of all current locations actually met this figure last year, not just the ones included in the average?

ITEM 20

The Turnover Math Most Buyers Never Run

Item 20 lists openings, closures, terminations, and non-renewals for the last three years. Add up the closures, terminations, and non-renewals, divide by the number of units at the start of the year, and you get a turnover rate. But the same rate can mean very different things. Steady, ongoing turnover reads differently than one bad year, and Item 20 doesn't do that part of the math for you.

Benchmark: Industry-wide turnover averages around 10% a year, and rates above 10-15% are usually worth asking about. But that threshold shifts by industry - a home services franchise and a restaurant franchise don't share the same normal range.

YOUR FIRST MOVE: Has the total unit count declined in either of the last two years, and if so, why?

THE PART A CHECKLIST CAN'T DO

Here's a simple example of the kind of connection most buyers never think to check.

ILLUSTRATIVE EXAMPLE · NOT A REAL FRANCHISOR

ITEM 19 A franchisor reports average annual revenue of \$420,000 across its locations. On its own: a solid, promising number.

ITEM 20 The same FDD shows 18 of 60 locations closed over the past three years. On its own: elevated, but not automatically a dealbreaker. Closure rates vary by industry.

Put together: if those closures were mostly newer or lower-performing locations, the \$420,000 average may only look strong because the weak locations already left. Neither number is wrong on its own. The risk only shows up when you read them side by side, which is not how most buyers read an FDD.

Item 7 isn't a guarantee

Startup cost estimates come from the franchisor, not an outside audit. Checking them means reading the litigation and turnover numbers elsewhere in the same document, and knowing what actually counts as inconsistent.

[ITEM 7 vs. ITEMS 3, 20](#)

Averages hide outliers

Industry-wide numbers say very little about the one brand you're buying. What matters is this franchisor's own Item 20 and 21 numbers, compared to what's normal for the category - something you won't find written down anywhere.

[ITEM 20, 21](#)

Missing isn't nothing

When Item 19 has no earnings claims, that's not a dead end, it's a different question. The next step is asking current franchisees directly for real numbers, then knowing what to do with what they send back.

[ITEM 19](#)

Answers need answers

A franchisor's answer to any question in this guide will usually sound reasonable on its own. Whether it actually holds up depends on comparisons this document alone can't give you.

[ALL 23 ITEMS](#)

Why this isn't a reading problem.

Everything in this guide is written in plain English. You can read every word of your FDD and still not know what you're really looking at. The risk usually isn't in any single clause - it's in how that clause compares to what's normal for this industry and this franchisor's own history. That comparison isn't in the document. It comes from having read hundreds of others.

NOT A HYPOTHETICAL

On public franchise-owner forums, the same regret shows up again and again: different brands, different years, different people, with no connection to each other. They all say the same thing in hindsight - they wish they'd understood what they were signing **before** they signed it, not after. One piece of advice franchise owners repeatedly give each other: get a real attorney to review the entire FDD first. It's advice that almost always comes too late to help the person giving it.

[SOURCE: UNHAPPYFRANCHISEE.COM - PUBLIC FRANCHISE OWNER FORUM](#)

Your FDD isn't 23 separate sections. It's one connected document.

Most buyers read it that way anyway: one item at a time, each one checked off and forgotten. The real risk usually lives in how the items connect, not in any one item by itself. A complete SMVRT Legal FDD review reads all 23 items together, performed by an independent licensed Texas attorney, and gives you a written risk report before you sign anything.

- + All 23 FDD items reviewed, not just the five above
- + Written risk report, organized by severity
- + 30-minute consultation call to walk through findings
- + 5 business day turnaround

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