

A FRANCHISEFINEPRINT FIELD GUIDE

Franchise Red Flags

21 warning signs hiding in their FDDs and how to spot them.

21 CHECKS • 4 SECTIONS • 1 PRINTABLE CHECKLIST

Franchise Fine Print

FRANCHISEFINEPRINT.COM

Read this before your next FDD.

An FDD, short for Franchise Disclosure Document, is the legal file every franchisor in America must hand you at least 14 days before you sign. It runs 200 to 800 pages and contains 23 numbered sections called Items. Buried in those Items are the clauses and numbers that decide whether you are buying a business or buying a trap.

The document was written to satisfy regulators, not to inform you. So the warning signs are all technically disclosed, and almost all of them are easy to miss. This guide marks the 21 places where trouble hides. For each one, you get where it lives in the document, what it looks like in the wild, and one concrete way to spot it.

A word about who we are, so you can judge the source. [FranchiseFinePrint](#) publishes an independent teardown of one franchise brand every week. We take no money from franchisors, brokers, or anyone else on the selling side. Readers pay us, so we work for readers. This guide is the checklist version of what we do full time.

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The Money Flags

1 The fantasy floor

WHERE IT HIDES • ITEM 7, INITIAL INVESTMENT

Item 7 shows a cost range. The low end is a unicorn. It usually assumes you convert an existing space, get a friendly lease, and open with about three months of working capital. Real build-outs run about 34 percent over the franchisor's estimate. If your budget only works at the bottom of the range, you do not have a budget yet.

☐ **HOW TO SPOT IT** Find the working capital row and ask how many months it is supposed to cover.

2 The fee stack

WHERE IT HIDES • ITEM 6, OTHER FEES

The franchise fee is the number in the brochure. Item 6 is where the rest live. Technology fees, training fees, audit fees, renewal fees, transfer fees, grand opening spend, and local marketing minimums can fill three to six pages of tables. Each row looks small on its own. Added together, they change your math.

☐ **HOW TO SPOT IT** Count the rows in Item 6, then total everything that repeats every year.

3 The rebate clause

WHERE IT HIDES • ITEM 8, REQUIRED PURCHASES

Some franchisors earn money on everything you are required to buy, through rebates and markups from the suppliers they choose for you. One award-winning Colorado franchisee sold nearly \$1 million a year and never turned a profit, because the rebates on her materials flowed to the parent company. The clause was in her FDD the whole time.

☐ **HOW TO SPOT IT** Search Item 8 for the words rebate, allowance, and revenue from franchisee purchases.

4 Royalties on sales, not profit

WHERE IT HIDES • ITEM 6, ROYALTY AND AD FEES

Royalties run 4 to 12 percent of your gross sales, taken off the top before you pay rent, payroll, or yourself. The franchisor gets paid whether you make money or not. Some agreements even set minimum royalty payments that you owe in months when sales are slow.

☐ **HOW TO SPOT IT** *Check for the word minimum anywhere near the royalty table.*

5 The ad fund black box

WHERE IT HIDES • ITEMS 6 AND 11, MARKETING FUND

You will pay 1 to 4 percent of sales into a national marketing fund. Read closely and you will usually find that the franchisor decides where that money goes, owes you no spending in your own market, and can use part of the fund to cover its own administrative costs.

☐ **HOW TO SPOT IT** *Look for whether the fund publishes audited statements, and who is allowed to see them.*

6 The remodel time bomb

WHERE IT HIDES • ITEMS 11 AND 17, UPGRADES

Many agreements let the franchisor require a remodel every five to seven years, at your expense, to their then-current standards. Refreshes commonly run \$100,000 to \$500,000. Most buyers never put that cost in their budget, and it lands right around the time the business finally feels stable.

☐ **HOW TO SPOT IT** *Search the agreement for remodel, refresh, upgrade, and then-current standards.*

THE MATH GETS DONE FOR YOU EVERY WEEK. A FranchiseFinePrint teardown models the real all-in cost of one brand, line by line, with the page numbers to prove it. This checklist shows you where to look. The teardowns show you what we found.

[Get the Teardowns →](#)

The Truth Flags

7 The blank earnings section

WHERE IT HIDES • ITEM 19, FINANCIAL PERFORMANCE

Item 19 is where a franchisor may show what its franchisees earn. It is optional. A brand can ask you for \$250,000 or more and legally tell you nothing about how its owners actually do. A blank Item 19 is not an oversight. It is a decision someone made.

☐ **HOW TO SPOT IT** *If Item 19 is missing or thin, ask the franchisor why, in writing, and keep the answer.*

8 Revenue without expenses

WHERE IT HIDES • ITEM 19, WHAT GOT LEFT OUT

Among franchisors who do fill out Item 19, only 56 percent include any expense information, and only 32 percent show a full profit-and-loss statement. The rest show sales figures that sound impressive and prove nothing, because revenue is not profit. A store can sell \$900,000 a year and lose money doing it.

☐ **HOW TO SPOT IT** *Search Item 19 for the word expenses. If it is not there, that silence is your answer.*

9 The curated average

WHERE IT HIDES • ITEM 19, THE FOOTNOTES

When numbers do appear, read who got counted. Averages get pulled up by a few big stores while the median goes missing. Company-owned locations get mixed in with franchised ones. Some tables quietly include only units open three years or more, which filters out everyone who struggled early or closed.

☐ **HOW TO SPOT IT** *Read the footnotes under every table and find out exactly which units were included.*

10 Closure laundering

WHERE IT HIDES • ITEM 20, OUTLET TABLES

Item 20 tracks openings and closings, but the categories can hide the exits. A failed location can show up as a transfer, a reacquisition, or ceased operations for other reasons instead of a closure. The table looks calm while operators head for the doors.

☐ **HOW TO SPOT IT** *Add closures, transfers, and reacquisitions together, then divide by total outlets. That is the real exit rate.*

11 Growth that is really churn

WHERE IT HIDES • ITEM 20, THE THREE-YEAR TREND

A system that opened 50 locations last year sounds healthy, until you notice that 38 closed and 22 transferred in the same period. Fast selling plus fast leaving means the brand is good at recruiting buyers, not at keeping owners. Three years of Item 20 data will show you which one you are looking at.

☐ **HOW TO SPOT IT** *Compare gross openings to net growth across all three years shown.*

12 A pattern in the lawsuits

WHERE IT HIDES • ITEM 3, LITIGATION

One lawsuit is the cost of doing business. Several franchisee suits alleging the same things, misrepresentation, hidden fees, broken promises, is a pattern. In 2026 the FTC reached a \$17 million settlement with a major fitness franchisor that had, among other things, kept its CEO's fraud lawsuits out of the disclosure entirely.

☐ **HOW TO SPOT IT** *Read what each suit alleges, not just how many there are.*

13

The franchisor's own books

WHERE IT HIDES • ITEM 21, THEIR FINANCIALS

The back of the FDD holds the franchisor's audited financial statements, and almost nobody reads them. Look for losses, going-concern language, and where the revenue comes from. A franchisor that earns mostly from selling new franchises, rather than from royalties on healthy stores, is running a recruiting operation instead of a support operation.

☐ **HOW TO SPOT IT** *Compare initial fee revenue to royalty revenue in their income statement.*

WE READ ITEM 20 SO YOU DO NOT HAVE TO. Every weekly teardown computes the real exit rate and checks the earnings table's footnotes. If the median is hiding, we say so, and we show the page it should have been on.

[Get the Teardowns →](#)

● SECTION THREE

The Exit Flags

14

The non-compete that outlives the business

WHERE IT HIDES • ITEM 17, COVENANTS

Walk away, or get terminated, and many agreements block you from working in the same trade for up to three years, sometimes within 25 miles. You learned the trade and you paid dearly to learn it, yet the agreement can stop you from using it to feed your family.

☐ **HOW TO SPOT IT** *Find the covenants row in Item 17's table and write down the years and the miles.*

15

Paying to quit

WHERE IT HIDES • ITEM 17, TERMINATION

Some agreements charge you to leave. Liquidated damages clauses can make you owe years of future royalties on a store that no longer exists, and some franchisors can refuse to let you close a money-losing location at all. Getting out is often harder than getting in.

☐ **HOW TO SPOT IT** *Search for liquidated damages and for any language about being required to continue operating.*

16

The resale trap

WHERE IT HIDES • ITEM 17, TRANSFERS

Selling your franchise usually requires the franchisor's approval of your buyer, a transfer fee of \$5,000 to \$25,000, and often a right of first refusal that lets the franchisor step in and take the deal you built. Every one of those conditions slows your exit and cuts your price.

☐ **HOW TO SPOT IT** *Read the transfer rows in Item 17 now, long before you ever need them.*

17

Renewal roulette

WHERE IT HIDES • ITEM 17, RENEWAL

Your 10-year agreement does not renew on your terms. It renews on the franchisor's then-current terms, which means the next contract can carry higher fees, a smaller territory, and brand new obligations. Ten years of building can end with a worse deal than the one you signed.

☐ **HOW TO SPOT IT** *Find the renewal row and circle the words then-current.*

Outside the Document

18 The number nobody quotes

WHERE IT HIDES • FEDERAL LOAN DATA, NOT IN THE FDD

The government keeps score. SBA loan records show how often buyers of a specific brand defaulted on their federally backed loans, and the data is public. No FDD has to mention it, no broker brings it up, and some brands with beautiful marketing have default numbers that would make a loan officer wince.

☐ **HOW TO SPOT IT** *This one takes real work to pull and read correctly. It is also the first thing we check.*

19 The hand-picked reference list

WHERE IT HIDES • THE VALIDATION PROCESS

The list of current franchisees you are invited to call is a marketing asset. The owners on it were chosen. The FDD itself hands you a better list, because Item 20's exhibits include franchisees who left the system, with contact information, and former owners answer questions differently than the ones headquarters picked.

☐ **HOW TO SPOT IT** *Call three owners who are not on the list you were given, including at least one who left.*

20 The semi-absentee promise

WHERE IT HIDES • THE SALES PITCH VS. ITEM 15

Run it in a few hours a week is a sales line, not a disclosure. In one spray foam system marketed as semi-absentee, roughly four of 80 franchisees reported turning a profit, while owners described pouring in savings and full-time hours. Item 15 tells you what participation the contract actually requires.

☐ **HOW TO SPOT IT** *Compare what the salesperson promised to what Item 15 requires, then ask real owners about their hours.*

21

Anyone rushing you

WHERE IT HIDES • EVERY CONVERSATION FROM HERE ON

The 14-day FDD window is a legal minimum, not a deadline. The fee goes up next month and territories are going fast are pressure lines aimed at your fear of missing out, and they work on quarter-million-dollar decisions the same way they work on late-night infomercials. A brand worth buying will still be worth buying after you have read all 400 pages.

☐ **HOW TO SPOT IT** *Ask for more time, in writing. The reaction will tell you more than the brochure did.*

WHAT A FULL TEARDOWN CHECKS

Every week, FranchiseFinePrint runs all 21 of these checks on one franchise brand, then goes further. We pull the brand's federal loan default data, compute the true exit rate from three years of Item 20 tables, model the real all-in cost with the overruns included, and translate the exit clauses into plain English. Every number comes with the page it was found on, so you can verify us, too.

ONE BRAND EVERY WEEK. PAID FOR BY READERS ONLY.

[Get the Teardowns →](#)

The Master Checklist

Brand name _____ FDD issue date _____ Pages _____

- | | |
|--|--|
| ☐ 1 • The fantasy floor
Item 7 • working capital months | ☐ 12 • A pattern in the lawsuits
Item 3 • what the suits allege |
| ☐ 2 • The fee stack
Item 6 • total the yearly rows | ☐ 13 • The franchisor's own books
Item 21 • fee revenue vs. royalty revenue |
| ☐ 3 • The rebate clause
Item 8 • rebates and allowances | ☐ 14 • The non-compete
Item 17 • years and miles |
| ☐ 4 • Royalties on sales, not profit
Item 6 • look for minimums | ☐ 15 • Paying to quit
Item 17 • liquidated damages |
| ☐ 5 • The ad fund black box
Items 6 and 11 • audited statements | ☐ 16 • The resale trap
Item 17 • transfer fee, first refusal |
| ☐ 6 • The remodel time bomb
Items 11 and 17 • then-current standards | ☐ 17 • Renewal roulette
Item 17 • then-current terms |
| ☐ 7 • The blank earnings section
Item 19 • optional by law | ☐ 18 • The number nobody quotes
SBA loan default data, public record |
| ☐ 8 • Revenue without expenses
Item 19 • search the word expenses | ☐ 19 • The hand-picked reference list
Call owners who are not on it |
| ☐ 9 • The curated average
Item 19 • read every footnote | ☐ 20 • The semi-absentee promise
The pitch vs. Item 15 |
| ☐ 10 • Closure laundering
Item 20 • closures + transfers + reacquired | ☐ 21 • Anyone rushing you
Ask for more time, in writing |
| ☐ 11 • Growth that is really churn
Item 20 • gross opens vs. net growth | |

PREFER THE VERSION WHERE THE HOMEWORK IS ALREADY DONE? Every week we run all 21 checks on one brand and publish what we find, with page numbers. Read the teardowns at franchisefineprint.com.

WHO RUNS THESE CHECKS FOR YOU EVERY WEEK

The work is already done.

You could run all 21 of these checks yourself, on every brand on your shortlist. Plan on three to five hours per FDD once you know where to look. Or you can read the version where the checking already happened.

Every week, FranchiseFinePrint publishes a full teardown of one franchise brand. We pull the FDD, run every check in this guide, pull the federal loan data, model the real all-in cost, compute the true exit rate, and translate the fine print into plain English. Every claim carries the page number it came from, so you can check our work, too.

We are paid by readers only. No franchisor money, no broker commissions, no sponsored rankings. When a brand looks like a trap, we say so, and nobody on the selling side can do a thing about it.

Read the Teardowns → [FRANCHISEFINEPRINT.COM](https://franchisefineprint.com)

WRITTEN FOR BUYERS. PAID FOR BY NOBODY ON THE SELLING SIDE.

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