



THE MOST PROFITABLE FRANCHISE

Before You Sign

*The Questions Franchise Salespeople Hope You
Do Not Ask*

A FIELD GUIDE TO READING A FRANCHISE DISCLOSURE DOCUMENT

Before You Sign

The Questions Franchise Salespeople Hope You Do Not Ask

A plain-English field guide to the eight parts of a Franchise Disclosure Document that decide whether you get hurt.

THEMOSTPROFITABLEFRANCHISE.COM

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Published by the team at Digilu, an independent, buyer-side guide at themostprofitablefranchise.com.

This book teaches the honesty of what a franchise discloses, not how much you will earn. It is not investment, legal, tax, or financial advice. It publishes no profit rankings and no income projections, and reports any earnings figures only as a franchisor discloses them. Always read the complete Franchise Disclosure Document, and the franchise agreement, with an independent franchise attorney and an accountant before you sign anything or pay any money.

Under the FTC Franchise Rule, a franchisor must give you the complete disclosure document at least 14 calendar days before you sign a binding agreement or pay any money. Use that time.

All sample disclosure language in this book is illustrative and does not describe any real franchise.

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The one question they hope you do not ask

Everyone judges a franchise by one number: how profitable is it. The franchises that ruin people looked the most profitable on paper. The truth is not in the pitch. It is in the Franchise Disclosure Document, a roughly 200-page legal file most buyers skim and few read with the right questions in hand.

A franchise salesperson is paid to move you toward a signature. That is their job, and many are decent people. But there are questions they hope you do not bring to your attorney, because the honest answers live in items most buyers never reach. This book is those questions.

It does not rank franchises by profit, because no honest source can. It does something more useful. It teaches you to judge how openly a franchisor discloses the seven things that carry almost all of the risk: what it really costs, who is suing, how many owners quit, what support is actually promised, whether your territory is protected, how much control you keep, and what the earnings claim is really saying. Read those honestly and you have read the franchise.

Each chapter is short on purpose. It tells you what the item is, what an honest version looks like next to a dishonest one, how to read it, and the exact questions to ask your attorney and the owners who went before you. Every chapter also links to a free, evidence-only checker on the website, where you can paste a clip of your own document and see the single biggest issue in it.

The chapters run in order of exposure, most at stake first. Start with the earnings claim in Item 19, the most gamed page in the

document. Then keep going. The whole point is to walk into the room already knowing the questions.

The earnings claim

\$\$\$\$\$ Exposure 5 of 5

Item 19 is the only place in the entire disclosure document where a franchisor may state what its outlets earn. It is called the Financial Performance Representation. A franchisor is allowed to make no earnings claim at all, and roughly a third make none, which is legal but means they will not stand behind any number in writing. When they do make one, it is the most gamed page in the document.

AN HONEST ONE

- Leads with a median, not just an average
- Shows how many owners actually hit the number
- Counts the weak and closed units too
- Names the period, the sample, and the excluded costs

A DISHONEST ONE

- One high average from a hand-picked group
- No count of who actually reached it
- Quietly drops the units that failed
- Vague dates, vague sample, hidden costs

How to read it

A median, not just an average. An average is dragged up by a few exceptional units. The median, the middle outlet, is closer to a typical result. If you see only an average, the median is almost certainly lower, and you should ask for it.

How many actually hit it. A real disclosure says what number and percentage of owners reached the figure. Without that, an average is just a ceiling that a handful of units touched.

Which units are counted. Watch for figures drawn only from mature units, company stores, or top performers, with everyone else left out of the sample.

Failures included or hidden. Reporting only units still open quietly removes the ones that closed, and makes the number look healthier than reality. This is survivorship bias.

Gross sales or net profit. An Item 19 figure is usually gross sales, the money that comes in. Treating it as profit, the money you keep, is the most expensive misread in the document.

WHAT IT LOOKS LIKE

HONEST

“Of the 214 outlets open the full year, the 158 that met our inclusion criteria had median gross sales of \$612,000. 71 of those 158 (45%) met or exceeded it. These are gross sales, not profit, and exclude units that closed.”

It leads with a median, says how many hit it, defines the sample, and admits it is sales, not profit.

WATCH OUT

“Our top-performing locations have averaged over \$1.4 million in annual sales.”

A single high average from cherry-picked top performers, no count of who reached it, and sales standing in for profit.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Do these figures exclude the units that closed or were reacquired in Item 20?

- What is the written basis for this representation, and may I have it?

ASK CURRENT AND FORMER OWNERS

- What did you actually net in your first and second year?
- Did your results match this figure, and what did it leave out?

Run the free check on your own Item 19

Paste a clip of your own Item 19 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostraprofitablefranchise.com/guide/reading-item-19/

CHAPTER 2 • ITEM 21

Franchisor financial health

\$\$\$\$\$ Exposure 4 of 5

Item 21 holds the franchisor's own audited financial statements. It tells you whether the company selling you a system is itself sound, and where its money actually comes from. A franchisor can describe itself in glowing terms everywhere else in the document. Here the numbers describe it for you.

AN HONEST ONE

- A clean auditor's opinion
- Positive net worth
- Revenue mostly from royalties on operating units
- Several years of statements to compare

A DISHONEST ONE

- A going-concern note
- Negative net worth, a deficit
- Revenue mostly from selling new franchises
- A single thin year, hard to compare

How to read it

The auditor's opinion. Read it first. A going-concern note means the auditor has substantial doubt the company can stay in business. It is one of the most serious signals in the entire disclosure document.

Net worth. The balance sheet shows what the company owns minus what it owes. A negative number, a deficit, means it owes more than it holds.

Where the money comes from. If most revenue is initial franchise fees rather than royalties, the franchisor earns by selling franchises, not by running them. That tells you whose success it actually depends on.

WHAT IT LOOKS LIKE

HONEST

"In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company. Total stockholders' equity was \$8.4 million. Royalty revenue was \$14.0 million."

A clean opinion, positive net worth, and revenue that comes from royalties on operating units.

WATCH OUT

"These conditions raise substantial doubt about the Company's ability to continue as a going concern. Total stockholders' deficit was \$(1.2) million. Initial franchise fees were \$3.1 million; royalties \$480,000."

A going-concern note, a deficit, and revenue that comes mostly from selling franchises, not running them.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Is going-concern language present, and what is the plan to address it?

- What share of revenue is initial franchise fees versus royalties?

ASK CURRENT AND FORMER OWNERS

- Has the brand and its support felt stable, or strained?

Run the free check on your own Item 21

Paste a clip of your own Item 21 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostraprofitablefranchise.com/guide/franchisor-financial-health-item-21/

CHAPTER 3 · ITEMS 5, 6 AND 7

What it really costs

\$\$\$\$\$ Exposure 4 of 5

Items 5, 6 and 7 are the price of admission and the price of staying open. Item 5 is the initial franchise fee. Item 6 is the table of ongoing fees. Item 7 is the estimated total investment to open, category by category, with a low column and a high column. The number on the brochure is almost never the real number.

AN HONEST ONE

- Every category given a real range
- A realistic working-capital window
- Named exclusions, like your living costs
- Ongoing fees listed with how each is calculated

A DISHONEST ONE

- A suspiciously low additional-funds line
- Costs pushed to varies or to third parties
- Non-refundable money with unclear triggers
- A stack of fees that add up quietly

How to read it

Working capital to break even. The additional-funds line is meant to cover the months of operating losses before the unit sustains itself. Read how many months it assumes. A three-month figure where owners actually needed twelve is the gap that empties bank accounts.

What the estimate leaves out. Item 7 rarely includes your own living expenses, the loan payments on the money you borrowed, financing costs, or the cost of an opening delay. Build your own budget from the high end, add a contingency, and add several months of household costs.

The ongoing fee load. Item 6 fees are charged on sales, not profit, so they are owed even in a bad month. Add the royalty, the marketing fund, and any technology or other fees, and see what the model owes before it pays you.

WHAT IT LOOKS LIKE

HONEST

“Additional funds, 6 months: \$80,000 to \$140,000. This covers operating losses through approximately month six and does not include the owner’s living expenses or loan payments.”

A realistic working-capital window, and it names what is excluded.

WATCH OUT

“Additional funds, 3 months: \$15,000 to \$25,000. Other costs vary by location.”

A three-month window, a number too small for the model, and costs pushed to varies.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Is the initial fee refundable, and under what exact conditions?
- Which Item 7 figures are estimates, and which are fixed?

ASK CURRENT AND FORMER OWNERS

- What did it actually cost you to open, all in?
- How many months until you broke even?

Run the free check on your own Items 5, 6 and 7

Paste a clip of your own Items 5, 6 and 7 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostprofitablefranchise.com/guide/franchise-costs-items-5-7/

Who stayed, who quit

\$\$\$\$\$ Exposure 4 of 5

Item 20 is the closest thing the disclosure document has to a built-in honesty test. It counts, by year, how the outlet number moved: opened, closed, terminated, not renewed, reacquired, and transferred. Then it hands you the contact list for current and former franchisees. Every other section is the franchisor describing itself. This one is a count of what happened to the people who went before you.

AN HONEST ONE

- Low closures and terminations for its size
- Transfers that look like healthy resales
- Growth from owners who stay
- A full former-franchisee contact list

A DISHONEST ONE

- Heavy ceased operations or terminations
- High transfers that may be distress sales
- Growth only from replacing owners who left
- Net growth that hides the churn

How to read it

Read exits as a share of the base. A handful of closures in a 2,000-unit system is background. The same count in a 40-unit system is a serious story. Always read the negatives against the units that existed at the start of the year.

Net growth can hide churn. A system can grow by seven units while a third of the base turns over, because new openings paper over the losses. Count the exits, not the net change.

What each exit means. Ceased operations is the bluntest failure signal. Terminations say the relationship broke down. Non-renewals by profitable owners are quietly telling. Transfers can be a healthy cash-out or a distress sale, and the price tells you which.

WHAT IT LOOKS LIKE

HONEST

“Outlets at start of year: 420.
Opened: 28. Ceased operations: 6.
Transfers: 9. Outlets at end of year:
433.”

Strong net growth on low exits: few closures and transfers relative to the base.

WATCH OUT

“Outlets at start of year: 100.
Opened: 25. Ceased operations: 18.
Transfers: 20. Outlets at end of year:
107.”

Net plus seven on the surface, but roughly a third of the base turned over. Count the exits, not the net.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Do the Item 19 figures exclude the units that closed or were reacquired here?
- Can I see the closure and transfer numbers for my specific region?

ASK CURRENT AND FORMER OWNERS

- Why did you close or sell?
- What would you do differently, and what surprised you?

Run the free check on your own Item 20

Paste a clip of your own Item 20 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostprofitablefranchise.com/guide/owner-turnover-item-20/

CHAPTER 5 · ITEM 3

Litigation history

\$\$\$\$\$ Exposure 3 of 5

Item 3 discloses the lawsuits the franchisor and its officers have been involved in. The count matters less than the pattern. Allegations are not findings, and one dispute is noise. But a pattern of similar claims, especially franchisees suing over how the franchise was sold, is a signal worth reading closely.

AN HONEST ONE

- Few actions, mostly routine
- The franchisor collecting unpaid bills
- Older matters, resolved
- Nothing about earnings claims

A DISHONEST ONE

- Franchisees repeatedly suing the franchisor
- Claims of false earnings projections
- The same allegation across many cases
- Recent and unresolved

How to read it

Direction. Franchisees suing the franchisor is a different signal than the franchisor collecting an unpaid bill. Note who is suing whom before anything else.

Nature. Earnings-claim, fraud, and misrepresentation cases are the ones to read closely. They speak directly to how the franchise was sold to people like you.

Recurrence. The same allegation repeating across separate cases is a pattern. Allegations are not proof of anything, but a repeated pattern is the signal to ask about.

WHAT IT LOOKS LIKE

HONEST

“The Company brought one action against a former franchisee for unpaid royalties. Judgment was entered for the Company.”

The franchisor collecting an unpaid bill: routine, and pointed the ordinary way.

WATCH OUT

“Three former franchisees in separate actions alleged the Company made false revenue projections before they signed. Two settled; one is pending.”

Franchisees suing, over earnings claims, with the same allegation repeating. Allegations are not findings, but the pattern is the signal.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Are any matters about earnings claims or how the franchise was sold?
- Are any still pending, and what is the exposure?

ASK CURRENT AND FORMER OWNERS

- Did the way the franchise was sold to you match how it actually runs?

Run the free check on your own Item 3

Paste a clip of your own Item 3 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostraprofitablefranchise.com/guide/litigation-item-3/

CHAPTER 6 · ITEM 9

The control you keep

\$\$\$\$\$ Exposure 3 of 5

Item 9 is a map to where your obligations live in the franchise agreement: required purchases, standards, transfer, renewal, non-competes, and termination. It is where you learn how much of your own business you actually control, and how much the franchisor can change after you sign.

AN HONEST ONE

- Standards with notice before changes
- A sense of what changes can cost
- Clear transfer and renewal terms
- A bounded non-compete

A DISHONEST ONE

- Sole discretion to change required standards
- Required purchases only from the franchisor
- Transfer and renewal left vague
- A broad, open-ended non-compete

How to read it

Sole discretion. Language that lets the franchisor change required standards or purchases on its own, without notice or a cap, means the real cost of the franchise can move after you sign.

Required purchases. If you must buy from the franchisor or a short list of approved suppliers, that pricing is part of your cost for the life of the agreement, not a one-time line.

Transfer, renewal, termination. Read how you exit, how you continue, and what counts as a default. Renewal often requires signing the then-current agreement, which can differ from the one you signed.

WHAT IT LOOKS LIKE

HONEST

“Franchisee must operate per the standards in the Manual. We will give 60 days notice of any change requiring a capital expenditure over \$5,000.”

Standards apply, but with notice and a sense of the cost of changes.

WATCH OUT

“Franchisee must comply with all standards, specifications, and procedures, as modified by us from time to time in our sole discretion.”

As modified from time to time in our sole discretion, with no notice and no cap on what a change can cost you.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Which required standards can change at sole discretion, and with what notice?
- What are the exact triggers for termination, and the cure period?

ASK CURRENT AND FORMER OWNERS

- Did a required change ever cost you money you did not expect?

Run the free check on your own Item 9

Paste a clip of your own Item 9 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostraprofitablefranchise.com/guide/control-and-obligations-item-9/

CHAPTER 7 • ITEM 11

Support promised

\$\$\$\$\$ Exposure 3 of 5

Item 11 describes the training and support the franchisor provides. The whole chapter turns on two words. What the franchisor will do is a commitment you can hold it to. What it may do is a brochure line that commits it to nothing at all.

AN HONEST ONE

- Will, with numbers: hours, days, visits
- Committed opening assistance
- Defined technology and marketing
- Field support you can hold them to

A DISHONEST ONE

- May provide, as we deem appropriate
- Training with no hours named
- Support that is all optional
- Vague technology and marketing

How to read it

Will versus may. Mark every will and every may. The will lines are your enforceable support. The may lines are not, no matter how warm they sound.

Is it quantified. Real commitments have numbers: training hours, days on site at opening, field visits per year. Vague support is unmeasurable, which means unenforceable.

Who actually delivers it. In master or area-developer systems, a regional party may provide the support, not the franchisor. Confirm who is on the hook before you rely on it.

WHAT IT LOOKS LIKE

HONEST

“We will provide 80 hours of initial training and a minimum of four field visits per year, and a representative will be on site for three days at your opening.”

Will, with numbers: hours, visits, and on-site days you can hold them to.

WATCH OUT

“We may provide such training, field assistance, and opening support as we deem appropriate from time to time.”

May and as we deem appropriate commit the franchisor to nothing at all.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Which support obligations use will, and which use may?
- What are the measurable, enforceable commitments in this item?

ASK CURRENT AND FORMER OWNERS

- What support did you actually receive, and what did you expect that never came?

Run the free check on your own Item 11

Paste a clip of your own Item 11 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostraprofitablefranchise.com/guide/support-item-11/

CHAPTER 8 · ITEM 12

Territory protection

\$\$\$\$\$ Exposure 3 of 5

Item 12 says whether you get a protected territory, how it is drawn, and what the franchisor reserves the right to do inside it. The grant of a territory is the headline that makes you feel safe. The reserved rights underneath it are the actual story, and they are where almost all of the value is won or lost.

AN HONEST ONE

- A defined, exclusive area
- Boundaries in writing: map, radius, or ZIP codes
- A promise not to open or grant inside it
- Limits on the franchisor's own sales in

A DISHONEST ONE

- Non-exclusive, or no territory at all
- Kept only if you hit a quota
- Online and alternate channels reserved
- The franchisor can redraw it

How to read it

Exclusive or not. The chapter turns on one sentence, the one that uses exclusive or non-exclusive. Find it first, and read everything else in its light.

Reserved rights. The most common erosion is a clause letting the franchisor sell into your area through its website, national accounts, grocery, or other channels, usually with no credit to you. A single broad sentence can undo the whole protection.

Conditional protection. Watch for a territory you keep only if you hit sales quotas. That ties your protection to a slow year, exactly when new competition next door would hurt the most.

WHAT IT LOOKS LIKE

HONEST

“You receive an exclusive territory defined by the ZIP codes in Exhibit C. We will not open or grant another franchise within it during the term.”

Exclusive, drawn in writing, with a clear promise not to open inside it.

WATCH OUT

“Your territory is exclusive. We reserve the right to sell through the internet, national accounts, and other channels anywhere, including within your territory.”

The word exclusive stays on the page while a broad reserved-rights clause hollows it out.

Illustrative wording, not a real franchise.

The questions to ask

ASK YOUR ATTORNEY

- Is the territory exclusive, and what reserved rights cut into it?
- Can the territory shrink or convert to non-exclusive, and on what trigger?

ASK CURRENT AND FORMER OWNERS

- Has the brand ever competed with you in your own area, online or otherwise?

Run the free check on your own Item 12

Paste a clip of your own Item 12 into the free, evidence-only checker. It points out the single biggest issue, what is missing, and the exact questions to ask. No score, no guessing.

themostprofitablefranchise.com/guide/territory-item-12/

The FDD Review Checklist

Bring this to your disclosure document. It lists the exact things to verify in the eight items that carry the real risk, in reading order, plus the final checks before you sign.

1. Item 19, the earnings claim

- An Item 19 exists at all (about a third make none).
- It reports a median, not only an average.
- It says how many owners, and what percent, reached the figure.
- It states which units are counted, and whether closed units are included.
- It distinguishes gross sales from net profit.
- It defines the time period, the sample, and excluded costs.

2. Item 21, franchisor financial health

- Audited statements are included, not a summary.
- The auditor's opinion is clean, with no going-concern note.
- Net worth is positive, not a deficit.
- Revenue is mostly royalties, not initial franchise fees.

3. Items 5, 6 and 7, the real cost

- The investment is itemized, not hidden behind varies.
- Working capital covers a realistic period, not just three months.
- The estimate names what it excludes.
- Every ongoing fee is listed with how it is calculated.

4. Item 20, owner turnover

- The tables show opened, closed, transferred, and reacquired.
- Exits are low relative to the base, not masked by net growth.
- The former-franchisee contact list is present.
- You will call owners who left, not just the references given.

5. Item 3, litigation

- You noted the direction: franchisees suing matters more.
- You noted the nature: earnings-claim and fraud cases.
- You noted whether the same allegation repeats.
- You separated allegations from findings.

6. Item 9, control

- Required purchases are listed.
- Transfer and renewal are clear, not at sole discretion.
- Any non-compete, with length and area, is stated.
- Standards changes come with notice, not sole discretion alone.

7. Item 11, support

- Training is quantified: hours, days, who pays travel.
- Ongoing support uses will, not may.
- Opening assistance is committed, not optional.
- Technology and marketing provided are defined.

8. Item 12, territory

- The territory is exclusive and defined in writing.
- Reserved rights are listed and bounded.
- There is a promise not to open inside your area.
- You know whether exclusivity can be lost on a quota.

Before you sign

- You have the complete document, all 23 items plus exhibits, current within 12 months.
- You received it at least 14 days before signing or paying.
- An independent franchise attorney has reviewed the agreement.
- An independent accountant has reviewed the costs and financials.

A short glossary

The terms you will meet in a Franchise Disclosure Document, in plain English.

Additional funds (working capital). The money to cover early operating losses before the business supports itself. A short window understates it.

Average (mean). The total divided by the count. A few large units can pull it far above a typical owner's result.

Churn. The rate at which owners leave through closure, transfer, or reacquisition. Net growth can hide it.

Cohort (sample). The specific group of outlets an earnings figure is based on. An honest figure names it and its size.

Earnings claim (Item 19). Any franchisor statement about what outlets earn. A franchisor may make none, which means no number in writing.

Encroachment. When the franchisor or another unit takes business from your area, in person or online.

Estimated initial investment (Item 7). The full range of money to open, itemized by category, with a low and a high column.

Going concern. An auditor's note of substantial doubt about the franchisor's ability to stay in business.

Gross sales vs net profit. Gross sales are revenue. Net profit is what is left after every cost. Item 19 figures are usually gross.

Initial franchise fee (Item 5). The upfront fee for the right to open. Often the smallest part of the total cost.

Median. The middle value, where half of owners are above and half below. A better picture of a typical owner than an average.

Net worth (stockholders' equity). What the franchisor owns minus what it owes. A negative number is a deficit.

Non-compete. A clause limiting what business you can run during and after the franchise. Read the length and the area.

Reserved rights (Item 12). The ways a franchisor keeps the right to sell into your area. Broad reserved rights hollow out an exclusive territory.

Royalty fee (Item 6). An ongoing fee, usually a percent of sales, owed for the life of the agreement, even in a bad month.

Sole discretion. Contract language letting the franchisor decide on its own, often without notice or limit.

Transfer. Your right to sell the franchise, and the franchisor's conditions and fees for approving it.

14-day rule. You must receive the complete disclosure document at least 14 calendar days before signing or paying.

How to find your FDD

You do not need to wait for a salesperson to hand it to you.

Ask the franchisor. Under the FTC Franchise Rule, they must give you the complete disclosure document before you commit. If a franchisor will not, treat that as a serious warning sign.

Pull it free from a state regulator. Several states publish registered disclosure documents in free, searchable databases. Wisconsin and Minnesota are the two most commonly used. Search the franchise's full legal name and download the most recent PDF.

Confirm it is current and complete. Check the issuance date on the cover, and make sure it has all 23 items plus exhibits, including the franchise agreement and the audited financial statements. A short overview is not the disclosure document.

Read the full guide, free

The complete guide, all eight chapters, the free checkers, the glossary, and the printable checklist, live on the website. If you want a second set of eyes, send a note from the site and we will help.

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*The franchises that ruin people looked the most
profitable on paper. The truth is in the document.
Now you know how to read it.*

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