

DATE: [Insert Date]

TO: [Client Name]

FROM: [Law Firm/Consultant Name]

RE: Red Flag Advisory Report - Franchise Disclosure Document (FDD) for [Franchise Name]

Dear [Client Name],

We have completed our comprehensive review of the Franchise Disclosure Document (FDD) provided by [Franchisor Name] dated [FDD Issuance Date]. Below is our advisory regarding the "Red Flags" and high-risk areas identified during our legal and financial analysis.

1. Item 3: Litigation History

[Insert findings regarding past or pending lawsuits. Red flag if there is a high volume of franchisee litigation or fraud allegations.]

2. Item 4: Bankruptcy

[Insert findings regarding prior bankruptcies of the franchisor, its parent, or key officers.]

3. Item 19: Financial Performance Representations (Earnings Claims)

[State whether the franchisor provides earnings data. Red flag if claims are missing, vague, or only represent top-performing outlets without context.]

4. Item 20: System Health (Unit Turnover)

[Analyze the rate of closures, terminations, and non-renewals. Red flag if more than 10-15% of the system has closed or transferred in the last three years.]

5. Item 21: Financial Statements

[Note any concerns regarding the franchisor's solvency, net losses, or lack of audited statements.]

6. Operational and Contractual Risks

- **Territory Rights:** [Red flag if the territory is non-exclusive or allows "encroachment" via e-commerce.]
- **Renewal Conditions:** [Red flag if renewal requires "current" (potentially expensive) upgrades to the facility.]
- **Supplier Restrictions:** [Red flag if the franchisor profits significantly from required purchases without competitive bidding.]

7. Summary of Recommendations

Based on the risks identified above, we recommend the following next steps before signing the Franchise Agreement:

1. Contact at least 5-10 former franchisees listed in the FDD to discuss their reasons for leaving.
2. Request a written explanation regarding the litigation noted in Item 3.
3. Consult with a specialized franchise accountant to review the Item 21 financial health.

Please note that this letter is an advisory summary and does not constitute a guarantee of business success. Please contact our office to schedule a follow-up consultation.

Sincerely,

[Signature]

[Name and Title]