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FDD Item 12 Territory Rights Worksheet for PE Franchise Screens

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Executive Summary

A growth assumption that rests on territory ("the brand is thin in this region, so there is room to add units") is a claim about rights, not about maps. This report treats FDD (Franchise Disclosure Document) Item 12 as a disclosed-evidence source and builds a ledger that separates what a public disclosure says, what an executed contract may say, and what observed operating activity shows. The goal is a reviewer-ready decision for private-equity (PE) origination teams: is a proposed expansion or channel-growth assumption supported by public disclosures, contradicted by them, or still dependent on signed agreements and specialist diligence?

Item 12 asks the franchisor to say whether it grants an exclusive territory, to disclose conditions on relocation and additional outlets, and to disclose franchisee options and rights of first refusal to acquire more franchises (www.ecfr.gov). It also requires disclosure of reserved alternative channels, whether or not the territory is exclusive (www.ecfr.gov). The rule does not define "exclusive", and staff of the Federal Trade Commission (FTC) read it narrowly: an exclusive territory is one in which the franchisor promises not to place company-owned or franchised outlets (www.ftc.gov). Reserving non-outlet channels does not defeat that exclusivity, but reserving physical non-traditional venues does (www.ftc.gov). These staff views date from 2012 or earlier and are not a 2026 rule change (www.ftc.gov).

Item 22 attaches the proposed agreements (www.ecfr.gov), which are the forms a new buyer would sign, not the signed contracts of older franchisees. The Item 17 lead-in itself tells readers to read the listed provisions in the attached agreements (www.ftc.gov), and a practitioner paper from the International Franchise Association (IFA) notes that contract versions tend to change with annual updates (www.franchise.org). Item 20 counts outlets but carries no polygons, so a blank area on a map has an unknown legal status.

The findings are practical. First, write the party, brand, channel and geography before interpreting "exclusive". Second, keep disclosed rights and observed activity in different columns. Third, treat a current standard form as evidence only for the cohort that signed it, and record older cohorts as "unknown" until executed documents are seen. Fourth, the useful output is a next-document decision (which executed agreement, amendment,

development schedule or territory exhibit to request), not a projected store count. The worksheet uses no empirical expansion benchmarks or company financial data, nothing here is individualized legal advice, and any legal characterization belongs with franchise counsel.

Introduction and Background

Existing coverage of this subject is written mostly for franchisors and franchisees learning how to read or draft Item 12, and several practitioner explainers already define the terms well (franchise.law) (www.franchiselawsolutions.com). This report does not repeat those definitions at length. Its contribution is a screening method for a different reader: a U.S. PE analyst in consumer or services origination who must decide whether a geographic expansion or channel-growth assumption survives a territory-rights check. The worksheet therefore keeps disclosed rights and observed activity in separate columns, because only public documents are available at this stage of screening.

Two different parties can be the subject of a screen, and their rights must stay separate. A **franchisor network** screen asks whether the franchisor can still sell franchises or open company outlets where it wants to. A **multi-unit franchisee** screen asks what a particular operator can add, hold or transfer. A franchisor's reserved rights are the mirror image of the franchisee's protections, so one clause can support one party's growth claim and constrain the other's. Naming the party first prevents the common error of reading a franchisee protection as franchisor white space, or the reverse.

The analytical frame has three layers:

- **Public disclosure.** The FDD, which must be delivered at least 14 calendar days before a prospective franchisee signs a binding agreement or pays the franchisor.
- **Contract.** Signed agreements and amendments, which public sources rarely expose.
- **Observed activity.** Outlet lists, openings and closures.

The FTC states that the text of the rule is the authority and that its compliance guide is not a substitute (www.ftc.gov), and the FAQs are staff views the Commission has not adopted (www.ftc.gov). Federal rules also coexist with state law, since the FTC does not intend to preempt state franchise practices laws except for inconsistency (www.ecfr.gov). The eCFR text used here was displayed as current through 11/09/2026 (www.ecfr.gov).

Reading Item 12 as Disclosed Evidence

Item 12 is a checklist of rights and reservations, and each line is evidence about what a franchisor says it grants, not proof of what any executed contract says. The components below are listed in the order an analyst would extract them into the ledger.

Territory designation and boundary precision

The first element is whether the franchise is for a specific location or for a location the franchisor will approve later (www.ecfr.gov). That fact alone changes how a growth claim reads: a franchisee with an approved-later site has no map to protect yet. The second is any minimum territory granted. The rule requires disclosure when

a territory is granted but does not require one to be granted.

Practitioners report that territories are typically described by a radius, ZIP codes, or an area covering a certain population (franchise.law), and that radius terms are simple but can be blunt in dense or irregular trade areas (www.heritagelawwi.com). One franchisee-side firm advises that a marketing map or sales presentation may not define territorial rights (www.heritagelawwi.com). For a PE screen the implication is concrete: a boundary described only as a radius or a ZIP list is not a polygon, and the signed agreement's territory exhibit is the document that would settle the geometry. The boundary section later in this report returns to the geospatial limits.

Conditions, relocation and additional-outlet rights

For exclusive territories, the franchisor must say whether continued exclusivity depends on a sales volume, market penetration or another contingency (www.ecfr.gov). It must also describe other circumstances that let it modify territorial rights; the rule's own example is a population increase that lets the franchisor add a franchise in the area. Relocation conditions must also be disclosed, and one practitioner view lists relocation buffers as a negotiating point because moved units can otherwise enter an area another party believed protected (www.heritagelawwi.com).

The most important line for expansion screens is the franchisee-side option: Item 12 requires disclosure of franchisee options, rights of first refusal, or similar rights to acquire additional franchises (www.ecfr.gov). This clause can make a "white space" claim wrong in a specific way. If an existing franchisee holds an option on an adjacent area, the franchisor's own growth assumption for that area depends on the option's status, and franchisees may negotiate such rights to expand into adjacent territories (www.varnumlaw.com). Public sources cannot tell an analyst whether a given option was exercised, lapsed or amended. That stays "unknown" until executed documents are seen.

Reserved channels, competing brands and the word "protected"

For all territories, exclusive or not, the franchisor must disclose whether it or an affiliate has used or reserves the right to use other channels of distribution such as the Internet, catalog or telemarketing (www.ecfr.gov), along with any compensation owed to the franchisee for soliciting or accepting orders inside the territory. Whether the franchisee can sell online outside its territory is a separate disclosure.

Competing brands are a separate disclosure. If the franchisor or an affiliate operates, franchises or plans to operate or franchise a business under a different trademark, Item 12 requires a description (www.ecfr.gov). Because the rule works through affiliates, the sister-brand search should start with the affiliates named in Item 1.

The word "protected" has no universal meaning in the rule. One firm describes a protected territory as one where the franchisor agrees not to add same-brand franchised or company-owned units (www.varnumlaw.com), and adds that protected does not mean exclusive (www.varnumlaw.com). The FTC's buyer guidance says an exclusive or protected territory may not protect against all competition by the franchisor (www.ftc.gov). The exact clause must be read each time, and the ledger should quote it rather than label it.

Table 1 below sets out the rights-by-channel matrix that forms the first layer of the evidence ledger. Every row is a fictional template; the "disclosed" column records what an Item 12 clause could say, the "observed" column is deliberately separate, and "unknown" is a valid entry wherever public sources cannot resolve existing rights.

Party	Brand	Channel	Geography	Disclosed in Item 12 (clause, edition)	Observed activity (separate evidence)	Status
Franchisee (Hypothetical Example)	Fictional Brand Alpha	Physical franchised or company outlets	Territory exhibit, ZIP list	Promise not to place outlets in the territory, with a performance contingency	Outlet list shows no Alpha outlet in the ZIP list (identity and date match required)	Public support for the disclosed promise; executed exhibit unknown
Franchisor (Hypothetical Example)	Fictional Brand Alpha	Online sales into the territory	Same territory	Reserved Internet sales, with compensation terms if any	Brand website accepts orders from the territory	Consistent with disclosure; do not count as franchisee revenue
Franchisor affiliate (Hypothetical Example)	Fictional Brand Beta	Outlets under a different trademark	Overlapping trade area	Competing-brand description and conflict plan	Beta locations appear on a map	Specialist review: does Beta sell similar goods or services?
Franchisee (Hypothetical Example)	Fictional Brand Alpha	Additional outlets in an adjacent area	Adjacent counties	Option or right of first refusal	No Alpha outlet yet opened	Unknown: option status needs the executed agreement or amendment
Franchisor (Hypothetical Example)	Fictional Brand Alpha	Non-traditional venues (airport, stadium)	Inside the territory	Reservation of venue rights, which FTC staff treat as negating exclusivity	Venue outlet observed	Reconcile with the "exclusive" label; counsel review

The matrix shows why a single "exclusive: yes or no" field loses information. Each row would be repeated for every edition and cohort in Table 2. Rows that cannot be filled from public sources stay "unknown" instead of being estimated, and the observed-activity column never overwrites the disclosed-rights column.

The FTC's Distinction: Outlets, Channels and Venues

Two FTC staff interpretations drive most of the definitional debate, and both are longstanding. FAQ 25 describes an exclusive territory as an area within which the franchisor promises not to establish either a company-owned or franchised outlet (www.ftc.gov). If the agreement omits that commitment, Item 12 requires the prescribed statement "You will not receive an exclusive territory" (www.ecfr.gov). FAQ 25 adds that a franchisor may reserve alternative channels or competing brands without the disclaimer, because Item 12 separately requires detailed disclosure of those reservations (www.ftc.gov), and a practitioner summary says the same (franchise.law).

FAQ 37, issued October 16, 2012 (www.ftc.gov), addresses a different reservation: the right to open outlets selling the same goods or services under the same trademarks in non-traditional venues such as airports, stadiums, hospitals or theme parks. Staff answered that such a reservation negates the exclusivity commitment (www.ftc.gov), reasoning that there is no principled basis for treating those venues as "other channels of distribution" (www.ftc.gov). A practitioner commentary summarizes this as rendering the entire territory nonexclusive (www.offitkurman.com) and observes that non-traditional venues are physically located in the franchisee's territory (www.offitkurman.com). Staff said they would not object to disclosure of the specific reserved venues alongside the mandatory statement (www.ftc.gov).

For analysts, this produces a reading rule to be used with counsel-reviewed wording: a non-traditional physical venue is not simply "another online channel". If an FDD calls a territory "exclusive" and reserves online sales, that is consistent with FAQ 25. If it calls a territory "exclusive" and reserves airport or stadium outlets under the same trademark, franchise counsel should reconcile the label with the FAQ 37 reading before any growth claim relies on either. The FAQs are staff views and not binding on the Commission, a caveat one franchise-law blog also makes (franchiselaw.foxrothschild.com), and state overlays may differ.

Timing matters for the "not a 2026 rule change" point. FAQ 37 dates from 2012, and the FTC's buyer guidance used here dates from May 2023 and is general rather than a PE diligence standard (www.ftc.gov). The New York Attorney General's registration-forms page links to the FTC FAQs under the label "Amended franchise rule frequently asked questions (FAQs)" (ag.ny.gov). A link on a state page is a pointer, not a statement that the FAQs bind a state, so the rule text, state law and counsel's reading remain controlling.

From Item 12 to Item 22: Contract Cohorts and Missing Signed Documents

Item 22 requires the franchisor to attach a copy of all proposed agreements regarding the franchise offering (www.ecfr.gov). "Proposed" is the operative word. These are the forms a prospect could sign after receiving that edition of the FDD. They are not the executed contracts of franchisees who signed under earlier editions, and a public FDD does not prove the terms of those older contracts.

Several sources support caution. One law-firm guide says an existing franchisee's terms are fixed by its signed agreement for its term, and that an FDD update changes what future prospects see (reidellawfirm.com). The IFA's mergers-and-acquisitions paper tells buyers to check how many versions of the franchise agreement exist (www.franchise.org), whether earlier versions grant broader or different rights than the seller's current form (www.franchise.org), and whether FDD disclosures accurately reflect the rights granted to each franchisee (www.franchise.org). Item 17 contains a hint: the renewal summary must state, where applicable, that franchisees may be asked to sign a contract with materially different terms (www.ecfr.gov).

Development structures add another layer. An area development agreement is a contract separate from the individual franchise agreements for each location (lopeslawllc.com), and it contains a development schedule of deadlines for each unit opening (www.franchise-law.com). One explainer says area-wide protection typically ends once the schedule is complete and is replaced by the protection attached to each location (lusthausfranchiselaw.com). Consequences of a missed milestone vary by agreement, from loss of exclusivity for the portion of territory tied to the missed opening (lopeslawllc.com) to termination of the development

agreement and recapture of the territory (www.riw.com). Counsel-side checklists also ask whether a default under the development agreement is a default under the individual franchise agreements (www.riw.com). Whether any of this applies to a given system cannot be known from the FDD alone, which is why the ledger carries a development-schedule column.

State overlays add a further variable. Franchisors may attach state-specific addenda rather than prepare a separate FDD for each state (www.franchise.org), and state-specific amendments that modify the franchise agreement are typically included in Item 22 (www.franchise.org). Washington's sample addendum states that it modifies the FDD, the franchise agreement and related agreements (dfi.wa.gov). Minnesota's statute requires the registration filing to state whether the franchisee receives an exclusive area and territory and, if so, a map (www.revisor.mn.gov). Some states also have relationship statutes addressing franchisor competition inside a designated exclusive territory, for example Washington (app.leg.wa.gov) and Hawaii (www.capitol.hawaii.gov). This report does not analyze their reach; their existence is why state and counsel review appears in the register.

Table 2 below shows the FDD edition and contract-cohort ledger. Every row is fictional and illustrates the fields an analyst fills from public pages; clause, page and URL entries are placeholders, and no real brand is implied.

Cohort (Hypothetical Example)	FDD edition and retrieval date	Item 12 clause, page, URL	Form agreement version (Item 22)	Signed-document status	Conditions and exceptions	Reviewer question
Cohort A: signed under the 2023 edition of Fictional Brand Alpha	2023 edition; retrieved 2026-11-12 (placeholder)	Item 12, p. 24 (placeholder), state registry URL	Form v3 attached to that edition	Not seen; cohort size unknown	Performance contingency on exclusivity; online sales reserved	Request executed agreements and territory exhibits for all cohort A signers
Cohort B: signed under the 2025 edition	2025 edition; retrieved 2026-11-12 (placeholder)	Item 12, p. 26 (placeholder)	Form v4	Not seen	Venue reservation added; wording changed from "exclusive" to "protected"	Which executed agreements carry the new reservation; did any amendment reach cohort A?
Cohort C: current form	Current edition; retrieved 2026-11-12 (placeholder)	Item 12, p. 27 (placeholder)	Form v5 (proposed only)	Proposed agreement only; zero executed seen	Option on adjacent area disclosed	Is any option executed, exercised or lapsed?
Cohort D: area development agreements	Editions vary	Item 12 plus Item 22 exhibit	Several development forms	Schedules and status unknown	Milestones determine territory retention	Request schedules, amendments and milestone status
Legacy cohort: signed before the earliest edition retrieved	Unknown	None retrievable	Unknown	Unknown	Unknown	Perimeter unknown; request the list of agreement versions in force

The ledger demonstrates two rules. A current standard FDD supports claims only for agreements signed on that form, and a clause quoted from a newer edition cannot be back-applied to older cohorts. A missing-rights completeness panel should report counts with an explicit perimeter. If a data room later shows 12 executed agreements verified within cohort B, which is documented to contain 40 signed agreements, the panel can state 12 of 40. Without a documented denominator, the panel reports "agreements verified: 0; cohort size: unknown; percentage: not computed". A percentage built on an unknown perimeter would imply precision the evidence does not have.

Reconciling Item 12 with the Item 20 Outlet Map

Item 20 reports total franchised and company-owned outlets for each of the franchisor's last three fiscal years (www.ecfr.gov), with state tables covering transfers, terminations, non-renewals, reacquisitions and closures. It also reports franchise agreements signed but outlets not opened (www.ecfr.gov). Item 20 is a standard source for system growth, transfers and closures (www.franchise.org), but it is a count table, not a territory register.

A low outlet count, a blank patch on a market map or a state with few units is therefore not automatically available expansion territory. Three conditions must hold before the two items are combined for a claim:

- **Identity** must match: the Item 20 operator, brand and entity must be the party whose Item 12 rights are being read.
- **Dates** must match: the Item 20 fiscal-year data and the Item 12 edition must describe the same period or cohort.
- **Boundaries** must be compatible: an Item 20 state table has no polygons, so it cannot be intersected with a ZIP-list or radius territory without the signed exhibit.

Historical closure also does not necessarily free a territory. Item 20 records terminations and closures but not whether the corresponding territory was reassigned, retained or released. An area developer falling behind schedule can tie up territory, a diligence point raised in an American Bar Association (ABA) Forum chapter (www.lathropgpm.com), and an IFA paper suggests asking for a list of agreements signed but never opened, especially those past development timeframes and not terminated (www.franchise.org). Any growth analysis built on projected openings should treat that table as the franchisor's own expectation, and signed-but-not-opened counts as contracts whose territory terms are unseen, not as open geography.

Boundary precision and geospatial caveats

A ZIP code is not a polygon in the sense GIS (geographic information system) users assume. The U.S. Census Bureau describes ZIP Code Tabulation Areas (ZCTAs) as generalized areal representations of the point-based ZIP Codes (www.census.gov) and notes that not all valid ZIP Codes are represented by a 2020 ZCTA (www.census.gov). The U.S. Postal Service states that ZIP Codes do not necessarily adhere to city or municipal boundaries (faq.usps.com) and that it will occasionally add a new ZIP Code or change ZIP Code boundaries (faq.usps.com). A practitioner glossary lists changing ZIP boundaries that invalidate earlier territory maps as a source of overlap (thelawdept.com). A ZIP-list territory in an older contract may therefore not map to a current ZCTA layer without a documented crosswalk. Legal boundaries change too: the Census Bureau

updates legally defined areas annually (www.census.gov), while statistical boundaries mostly change with each decennial census (www.census.gov), and its TIGER/Line vintage states that legal boundaries are as of January 1, 2026 (www.census.gov).

If an analyst draws a geometric overlap, the coordinate system must be declared. EPSG:4326 (WGS 84) is an ellipsoidal two-dimensional system whose unit is the degree (epsg.io). In the PostGIS spatial database, geometry area is a planar calculation in the units of the spatial reference system (postgis.net), while geography distance tests use meters (postgis.net). The U.S. Geological Survey reports that no single equal-area projection is best for all resolutions and latitudes (www.usgs.gov), so the projection used for area must be stated. Radius is not drive time either: Esri documentation notes that buffers assume unimpeded movement in any direction (pro.arcgis.com) and that counting population in a straight-line buffer would overstate the count of people who can reach a facility (pro.arcgis.com). Subtracting a circle's area from a state's area never yields commercially available territory, because the remainder has unknown rights. A geometric example is meaningful only with defined polygons from a signed exhibit, a declared coordinate system and a stated vintage.

Data Analysis and Evidence

This worksheet relies on rule-defined figures rather than expansion benchmarks or company financial data, so its quantitative core is the set of rule-defined numbers and scope limits that determine what a public FDD can and cannot show. Each belongs in the ledger as a date, count or scope limit, not a forecast.

- **Delivery timing.** The FDD must be furnished at least 14 calendar days before a binding agreement is signed (www.ecfr.gov), with a seven-day period for revised agreements whose terms the franchisor unilaterally and materially alters (www.ecfr.gov); changes arising from the prospective franchisee's own negotiations do not trigger it.
- **Annual update.** After each fiscal year closes, the franchisor must prepare a revised disclosure document within 120 days (www.ecfr.gov), so one edition can be more than a year old when it is read.
- **Quarterly revisions.** The franchisor must prepare quarterly revisions reflecting material changes (www.ecfr.gov), so an amendment can alter an Item 12 reading between annual editions.
- **State perimeter.** A 2019 cover-sheet instruction from the North American Securities Administrators Association (NASAA) lists 14 states with registration, filing or exemption requirements (www.nasaa.org), while a Maryland Securities Division document says Maryland is one of twelve franchise registration states (oag.maryland.gov). The two lists appear to measure different things: the NASAA sentence covers states requiring registration, filing or an exemption and names Michigan and South Dakota, which are absent from the Maryland document's twelve registration states. The 2019 NASAA list may no longer match current state requirements, so record both figures and verify the current state list before relying on either.

Scope matters as much as numbers, because it decides which item can support which claim.

- **Item 12 (territory):** disclosed rights and reservations. It supports claims about what a franchisor says it grants and reserves, not where outlets are or what executed contracts say.

- **Item 19 (financial performance representations):** the FTC's consumer blog says financial performance claims must be in Item 19 (www.ftc.gov). It does not establish territory rights.
- **Item 20 (outlets):** counts, status and projected openings. It does not establish territory rights.
- **Item 21 (financial statements):** issuer financials. It says nothing about any territory.
- **Item 22 (contracts):** proposed agreements, the primary FDD component that can be compared line by line to Item 12, for the current form only.

Public access to filings varies. NASAA's Electronic Filing Depository includes a public site where filings can be searched and viewed free of charge (www.nasaa.org), though its FAQ says FDD visibility is configurable by state, with documents public by default (nasaaefd.org). Wisconsin offers a search for current registration status and history (dfi.wi.gov), Minnesota says its franchise registration documents are public and may be copied (mn.gov), and Washington directs inquiries about whether a franchise has filed to the Division by contact (dfi.wa.gov). Access is public but uneven, so the ledger should record which registry produced which edition and when. New York's guidance adds that states may require more extensive disclosures than the FTC Rule (ag.ny.gov).

Case Studies and Real-World Examples

All three scenarios below are fictional and labeled as such. None describes a real company, a client engagement or a target list. Each pairs a supported public observation with a specific unresolved screening question.

Exclusive outlet territory with reserved online sales (Hypothetical Example)

Fictional Brand Alpha's current FDD says the franchisee receives an exclusive territory, defined by a ZIP list, in which Alpha will not place franchised or company-owned outlets. Item 12 also discloses that Alpha reserves the right to sell through its website and ship into the territory, with no compensation payable. **Supported public observation:** this combination is consistent with FAQ 25, under which a franchisor can grant outlet exclusivity while reserving alternative channels and disclosing them (www.ftc.gov). A growth claim that "the franchisor's online channel will grow without affecting franchisee territories" is supported as a disclosure but must not be read as franchisee revenue. **Unresolved question:** does each executed agreement in the cohort contain the same reservation, and did any amendment change the compensation term? The next document to request is the executed agreement and territory exhibit for the cohort, not a revenue projection.

Additional-outlet option controlled by an existing franchisee (Hypothetical Example)

A fictional multi-unit operator, Beacon Holdings, operates 14 outlets under Fictional Brand Gamma according to a hypothetical Item 20 table. Gamma's Item 12 discloses an option for the franchisee to acquire additional franchises in two adjacent counties. **Supported public observation:** Item 12 discloses the option as a category (www.ecfr.gov), and the hypothetical Item 20 shows no opened Gamma outlets in those counties for three fiscal years. A franchisor-network thesis that treats those counties as white space is contradicted in part by the disclosure, since another party may hold a right. A franchisee-side thesis that Beacon can open there is not yet supported either, because option conditions, expiry and any development schedule are unseen. **Unresolved question:** is the option exercised, lapsed, subject to a schedule or amended? Request the

executed option or development agreement and any schedule amendments, and ask counsel how a change of control of Beacon would interact with transfer terms, since transfers are often conditioned on the transferee signing the then-current form (www.quarles.com) and that requirement must be disclosed in Item 17 (www.quarles.com).

Current standard form plus an unknown legacy cohort (Hypothetical Example)

Fictional Brand Delta's latest FDD attaches a franchise agreement granting a "protected territory" with a defined minimum radius and a reservation of non-traditional venues. Delta's hypothetical Item 20 shows 120 franchised outlets at year end, but the earliest edition retrievable from public sources is three editions old. **Supported public observation:** the current form is available as an Item 22 exhibit and states its reservations. **Unresolved question:** how many of the 120 outlets operate under agreements signed before the earliest retrievable edition, and do those grant broader rights than the current form, as the IFA paper asks buyers to check (www.franchise.org)? The completeness panel reads "agreements verified: 0; agreements in legacy cohort: unknown; completeness percentage: not computed". The decision is to request the list of agreement versions in force and a counsel-supervised sample of executed legacy agreements, not to extrapolate the current form to 120 outlets.

Implementation Guidance: Claim Status and Document-Request Register

The register converts the ledger into a decision. Each growth claim gets one row and one of four statuses:

- **Public support:** the disclosure supports the claim for a stated edition.
- **Public contradiction:** the disclosure conflicts with the claim.
- **Incomplete contract evidence:** the disclosure is silent or applies only to a proposed form.
- **Specialist review:** the wording needs counsel or a state-law check.

The register omits forecasts of closures, royalty lift, deal returns or owners' sale intentions, none of which a public FDD can support.

Table 3 below applies the statuses to five fictional claims drawn from the scenarios above. It is a template for reviewer sign-off, with the next document to request in the last column.

Proposed claim (Hypothetical Example)	Party, brand, channel, geography	Disclosure clause relied on	Status	Next document to request
"Online sales will not disturb franchisee territories"	Franchisor, Alpha, online sales, cohort territories	Reserved Internet channel with compensation disclosure	Public support for the disclosure; contradiction risk if read as franchisee revenue	Executed agreements for each cohort and any channel-compensation amendment
"Two adjacent counties are open white space"	Franchisor, Gamma, outlets, two counties	Franchisee option on additional franchises	Public contradiction in part	Executed option or development agreement, schedule and amendments

Proposed claim (Hypothetical Example)	Party, brand, channel, geography	Disclosure clause relied on	Status	Next document to request
"Territory is protected, so there is no encroachment risk"	Franchisee, Delta, outlets, radius	Protected-territory language with venue reservation	Specialist review	Counsel reading of the clause; executed legacy agreements
"Current form applies to all 120 outlets"	Network, Delta, all channels, all geographies	Item 22 proposed agreement	Incomplete contract evidence	List of agreement versions in force; cohort denominator
"Closed-outlet areas are available for resale"	Franchisor, Beta, outlets, closed-unit areas	Item 20 closure categories	Incomplete contract evidence	Territory release or reassignment records

Row one pairs a supported disclosure with a disallowed inference. Row two shows Item 12 contradicting a white-space thesis before any contract is seen. Rows four and five show the "unknown" outcomes that dominate early public screening. Signed agreements should be obtained only through lawful, counsel-supervised channels such as a data room. Item 20 contact lists exist for buyer due diligence, and any outreach program requires separate compliance review outside this report.

A practical sequence for a reviewer follows.

- **Step 1: Name the party.** Franchisor network or a specific multi-unit franchisee, with entity and brand written down.
- **Step 2: Write the claim in channel and geography terms** before reading "exclusive" or "protected".
- **Step 3: Pull the edition.** Record issuance date, registry source and retrieval date, and check currency against the 120-day annual update cycle.
- **Step 4: Extract Item 12 clauses** into Table 1, quoting wording and page numbers.
- **Step 5: Match to Item 22.** Record the form version and mark older cohorts "unknown" until signed documents are seen.
- **Step 6: Reconcile Item 20** only where identity, dates and boundaries are compatible, and leave empty geographies "unknown".
- **Step 7: Assign a status** and name the next document, flagging state addenda and relationship statutes for counsel.
- **Step 8: Record conflicts.** Where two sources disagree, keep both, as with the state-count discrepancy above.

Implications and Future Directions

For PE origination teams, territory evidence changes what a screen should ask for, not how large the pipeline looks. A claim that survives Table 3 as "public support" has cleared only the first of several gates. The ledger turns a vague "we think there is room" into a document-request list. An IFA conference recap lists what investors evaluate in multi-unit franchisee deals, including expansion opportunities, legal exposure and the strength of the relationship with the franchisor (www.franchise.org), which is why territory rights are more than a footnote.

Several limits apply. A public FDD is a research lead, not an opinion that a particular acquisition can expand or transfer. Several legal sources used here are practitioner commentary rather than primary law, the FTC FAQs are non-binding staff views, and some ABA-related materials date from 2014, so counsel should check them against current law. State coverage is illustrative rather than comprehensive: the worksheet cites only a few state registry and statute pages, so state-specific rules need separate checking. Nothing here forecasts closures, royalty changes, returns or owners' sale intentions.

Future changes could alter the ledger's inputs. A new FTC staff interpretation, an updated state regulation or a revised NASAA guideline would require re-dating the relevant rows, and no such change is asserted here. Analysts should re-run the edition check whenever a new annual FDD or quarterly revision appears, because those cycles can change Item 12 wording between reads. Registry access may also change as states adjust public-viewing settings (nasaaefd.org).

Frequently Asked Questions (FAQs)

What does FDD Item 12 cover, in plain terms?

Item 12 covers territory: whether the location is specific or approved later, any minimum territory, relocation and additional-outlet conditions, franchisee options and rights of first refusal, whether the territory is exclusive, and franchisor reservations of other channels and competing brands. The FTC describes Items 8 and 12 together as explaining restrictions the franchisor may place on the business (www.ftc.gov).

How do I read Item 12 territory for a PE screen?

Write the party, brand, channel and geography first, then read the clause, then record the disclosed right, the observed activity and the evidence still needed in separate columns. Treat the output as a document-request decision rather than a store-count estimate.

What is the difference between an exclusive territory and a protected territory?

The rule uses "exclusive" and does not define "protected". FTC staff describe exclusivity as a promise not to establish company-owned or franchised outlets in the area (www.ftc.gov). A practitioner view describes protected territories as an agreement not to add same-brand units with other reservations possible (www.varnumlaw.com). Read the exact clause, not the label.

Can a franchisor call a territory exclusive and still sell online?

According to FTC staff, reserved alternative channels do not by themselves require the non-exclusive disclaimer, provided Item 12 discloses them (www.ftc.gov). Reserved physical non-traditional venues are treated differently (www.ftc.gov). Counsel should confirm the wording for a given FDD.

Does a low outlet count mean there is white space?

No. Item 20 reports outlets, not rights. A blank region may be covered by a franchisee's option (www.ecfr.gov), an unopened signed agreement, a development schedule (lusthausfranchiselaw.com) or a closed unit's retained territory.

What are reserved rights, and how do they relate to franchise territory encroachment risk?

Reserved rights are the channels, venues and brands the franchisor keeps. One franchisee-side firm defines encroachment as activity by the franchisor or another franchisee that competes in or meaningfully overlaps with a territory, and frames it as a practitioner definition rather than a legal term of art (www.heritagelawwi.com). Whether activity is encroachment depends on the signed contract and applicable state law, which is a counsel question.

What belongs on a franchise due-diligence checklist for private equity?

For territory: current and prior FDD editions (an ABA chapter says it is prudent to look beyond the current one (www.lathropgpm.com)), executed agreements and amendments, development schedules and status, territory exhibits, option records, state addenda, and the list of agreement versions in force.

Conclusion

Item 12 is a disclosure about what a franchisor says it grants and reserves, and it is useful evidence for a PE expansion screen when read with discipline. The disciplined reading separates party, brand, channel and geography; keeps disclosed rights apart from observed activity; follows the FTC staff distinction between outlet exclusivity and reserved non-outlet channels without treating it as a 2026 change; and treats the current Item 22 form as proof only for agreements signed on that form.

Reconciliation with Item 20 is valid only where identity, dates and boundaries are compatible, and outlet counts never reveal the legal status of an empty area. A blank patch on a market map prompts a question rather than answering one.

The output of the worksheet is a status and a next document. Public support, public contradiction, incomplete contract evidence and specialist review are the four honest outcomes, and "unknown" is a legitimate entry wherever signed agreements, amendments, development schedules or territory exhibits are unavailable. Legal characterization of any clause, state overlay or contract effect belongs with qualified franchise counsel, and a public FDD should be treated as a research lead rather than an opinion on whether a particular acquisition can expand or transfer.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

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