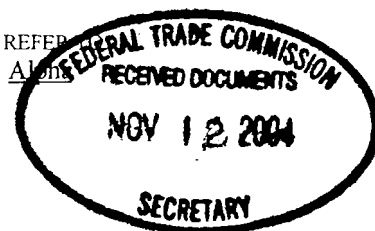


**DEPARTMENT OF CORPORATIONS**  
*California's Investment and Financing Authority*



**WILLIAM P. WOOD**  
**California Corporations Commissioner**  
 Sacramento, California

IN REPLY REFER  
 FILE NO: Alom



November 10, 2004

Federal Trade Commission  
 Office of the Secretary  
 Room H-159 (Annex W)  
 600 Pennsylvania Avenue, N.W.  
 Washington, D.C. 20580

RE: Franchise Rule Staff Report R511003

To Whom It May Concern:

This letter serves to provide comments on the above-referenced staff report, as a supplement to comments submitted by the North American Securities Administrators Association.

The Department of Corporations, California's Investment and Financing Authority and administrator of the California Franchise Investment Law (the nation's first franchise registration law), commends the hard work of the Federal Trade Commission, and especially Steven Toporoff of the Division of Marketing Practices.

In addition to the written comments submitted by the North American Securities Administrators Association, the Department offers the following comments to help achieve efficient and effective administration of the Federal Trade Commission's proposed rulemaking.

First, certain definitions in Section 436.1 (i.e., franchisee, franchisor, person, and predecessor) are vague and unclear. As a result, these definitions may increase the likelihood of litigation and unintended consequences. Accordingly, the Federal Trade Commission should revise these proposed definitions to conform to current definitions in California's Franchise Investment Law and NASAA's UFOC Guidelines. Specifically, please consider California Corporations Code Sections 31006, 31007, and 31015 for definitions of franchise, franchisor, and person; and Item 1 of the Instructions of NASAA's UFOC Guidelines for the definition of predecessor.

- Securities • Franchises • Off-Exchange Commodities • Investment and Financial Services •
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SACRAMENTO 95814-4052  
 1515 K STREET, SUITE 200  
 (916) 445-7205

SAN FRANCISCO 94105-2980  
 71 STEVENSON STREET, SUITE 2100  
 (415) 972-8559

LOS ANGELES 90013-2344  
 320 WEST 4<sup>TH</sup> STREET, SUITE 750  
 (213) 576-7500

SAN DIEGO 92101-3697  
 1350 FRONT STREET, ROOM 2034  
 (619) 525-4233

Federal Trade Commission

November 10, 2004

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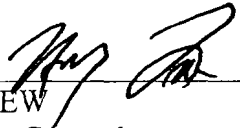
Secondly, the Federal Trade Commission should clarify the application of certain financial statement requirements in Section 436.5(u). For instance, the proposed rule should clarify that unaudited financial statements must be prepared in accordance with US GAAP or as permitted by the Securities and Exchange Commission. Additionally, Section 436.5(u) does not clarify whether unaudited financial statements (such as the unaudited opening balance sheet) must be prepared by an independent certified public accountant or independent public accountant. For purposes of making conforming changes, please consider the requirements of Title 10, California Code of Regulations, Section 310.111.2.

Thank you for considering these comments as well as those submitted by the North American Securities Administrators Association.

Should you need any additional information or assistance, please contact me at the number below.

Very truly yours,

WILLIAM P. WOOD  
California Corporations Commissioner

By   
HENRY LEW  
Supervising Counsel  
213-576-7582

HL:gh

Cc: Timothy Le Bas  
Deputy Commissioner and General Counsel

Dale E. Cantone  
Assistant Attorney General

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