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**OFFICIAL TRANSCRIPT PROCEEDING**

**FEDERAL TRADE COMMISSION**

MATTER NO. R511003

TITLE FRANCHISE RULE ANPR MEETING

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FRANCHISE RULE ANPR MEETING  
OPEN PUBLIC FORUM

FEDERAL TRADE COMMISSION

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FEDERAL TRADE COMMISSION

In the Matter of: )  
Franchise Rule ANPR ) Matter No. R511003  
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The following transcript was produced from a live  
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APPEARANCES:

ON BEHALF OF THE FEDERAL TRADE COMMISSION :

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P R O C E E D I N G S

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MR. TOPOROFF: My name is Steve Toporoff. I'm an attorney in the Division of Marketing Practices at the Federal Trade Commission. It is July 29, 1997, and we're meeting today in a open public forum to allow all interested parties the opportunity to meet and discuss issues involving the Commission's Franchise Rule, as well as the Commission's Advance Notice of Proposed Rule making that was published in the Federal Register this past Friday -- this past February.

Today, we have one member of the public who wishes to make a statement on the record, and I'd ask her to introduce herself and to state her name for the record and also to begin her statement, please.

MS. MOUSLEY: My name is Dianne Mousley and I am a former franchisee with the Mike Schmidt's Philadelphia Hoagies franchise, and they were a franchise that was based in Treehouse (phonetic), Pennsylvania, with about eight stores in the Philadelphia area.

Our -- my store was in Lancaster, Pennsylvania, and we entered into an agreement with them three years ago. So that would have been 1994, we signed an agreement in March and opened our store in August of 1994

1 and have had a series of setbacks with them right from  
2 the beginning.

3 The construction was done by a company that  
4 they recommended. And they came in, helped us choose the  
5 site where we were to be, and they came in, started  
6 construction, were three-quarters of the way through the  
7 construction -- now, this is with their company that had  
8 built all their other stores -- three-quarters of the way  
9 through the construction, the building inspector came in  
10 from the township and said, where's your building  
11 permits. And they had not obtained any building permits  
12 at all.

13 So there was a stop-work warrant until they  
14 could secure the proper permits. Then, the township made  
15 them get a demolition permit, so they had to demolish  
16 everything that they had built and start over again. So,  
17 this put us behind in our schedule of about six weeks to  
18 two months. However, I had already signed a lease and  
19 was paying for rent on this building or on this space and  
20 was not able to open for business and was behind in two  
21 months.

22 Therefore, the training that we were to receive  
23 was also pushed back, and we got maybe two weeks -- two  
24 to three weeks' worth of training which was done at my

1 own home, very little training done at our site, because  
2 it was still under construction.

3 So when we opened -- now, this is a cheese  
4 steak and hoagie franchise, a sandwich shop -- we did not  
5 really have the proper training that we were told that we  
6 were going to have. And they -- they did supply us with  
7 two people that came and worked with us. However -- and  
8 they stayed for several weeks. However, they were going  
9 to charge us their hourly rate, and we were to pay for  
10 them to be there.

11 We disputed that, we had a dispute with our  
12 lawyer and their lawyer, and they finally agreed that  
13 they would pay for that cost since it -- the construction  
14 was delayed and we didn't get the proper training. Then

1 first time, they saw to it that he got there. They then  
2 began letting people go in their organization and hired  
3 one person who was to be in charge of training and  
4 running the franchise. He did come out and he seemed to  
5 know what he was doing.

6 He came out to see us maybe once a week or once  
7 every other week and would sit down with our numbers,  
8 help us figure out our profit and loss, show us all the  
9 business aspect of the franchise, which we really had not  
10 been trained in at all. We basically knew how to order  
11 food, how to prepare the food and that was it.

12 But this person did seem to know what he was  
13 doing, and we were quite shocked when -- he was hired in  
14 February, and in August we got a notice out of the clear  
15 blue that said he had been let go, no reason why, no  
16 explanation as to what was going to happen next, he was  
17 gone. And then, right after that, the rest of their  
18 staff was gone. So, we had no support staff.

19 We had one memo that came out and said we've  
20 moved our offices. This is the new address, new phone  
21 number. We would call the phone number and we would get  
22 an answering machine. Then, several weeks later, it was  
23 now a new address and now we had a pager number, and we  
24 would try to page and no one would return the page.

1           The only time we ever heard from them was when  
2 they wanted their royalty, which was six percent a month.  
3 And, we began withholding our royalty payments because we  
4 said, where are you? You know, what are you doing for  
5 us? There's no marketing. There's no contact with you.  
6 There's not even a phone number.

7           Well, that's not your concern. You signed an  
8 agreement. You're to pay six percent royalty. We never  
9 really promised you anything. And when you look at the  
10 agreement, it is very nebulous as to what the franchisor  
11 is responsible for.

12           So, we began withholding royalty, and, at that  
13 point, I started contacting the other franchisees just  
14 saying, you know, how are you guys doing? Because,  
15 whenever we did hear from the franchisor, where's your  
16 royalty, and we would say, where are you? Well all the  
17 other stores are doing great, what's your problem?

18           So, then I started calling the other stores,  
19 and they weren't doing great. They were also withholding  
20 royalty. They were on the verge of collapse. They were  
21 in worse shape than I was. So we, the franchisees, got  
22 together. I would say three or four of us became very  
close. They came to Lancaster and met with me and my

1                   So he came into this meeting as well, and we  
2                   confronted him at this point. Where is your support?  
3                   Where are all the promises? When we bought this  
4                   franchise from a salesman, they gave us a very nice,  
5                   glossy, glitzy pamphlet of how this was going to be a  
6                   great franchise opportunity.

7                   It was not to be missed. It was different from  
8                   any other franchise because Mike Schmidt's name was  
9                   attached to it. And it was going to be kept, you know,  
10                  manageable and small enough that help was only going to  
11                  be a phone call away. And we said, where is -- where  
12                  are -- where's the follow up to all these promises?

13                  And we were told that the President of the  
14                  franchise was running his own store, as well as trying to  
15                  be the franchisor because all the other people had been  
16                  let go. He told us he was now going to sell his store --  
17                  or not even really sell it. He told us that the shopping  
18                  center that his store was in wanted his space to expand  
19                  the grocery store. So he was getting out of his lease  
20                  and this was going to allow him time now to go out and  
21                  really be a franchisor and give us the support that we  
22                  needed.

23                  So we basically said okay, that's what we're  
24                  going to expect. As soon as we start getting that help,

1 we'll begin paying royalties again. The next thing we

1       them, present a plan as to how to pay these off and how  
2       we can turn things around, which we did. We contacted  
3       their lawyer. Well, their lawyer, every time we tried to  
4       contact them, you would get an answering machine and he  
5       does not return the calls, even to my lawyer. He does  
6       not return the calls. It goes for weeks and weeks before  
7       he returns the calls.

8               My lawyer left messages for him, sent a letter.  
9       The day before our termination notice -- we were to be  
10      terminated, we still had not heard from them. I called  
11      my lawyer and I said, what -- what's going to happen  
12      now? He said, I don't know what to tell you. I have  
13      never seen anything like this, where a lawyer does not  
14      respond.

15             He said, tomorrow's the date that they gave  
16      you. He said, I guess you can expect to have a sheriff  
17      come in and padlock your door. And he said, certainly  
18      don't do anything. They don't really have the right to  
19      padlock your store, but I don't know what to tell you.  
20      Well then the next day, the lawyer did call and said,  
21      okay, we're now going to have someone else come in.

22             The President of the franchise was a young kid,  
23      30 years old. At this point, he said, he will no longer  
24      be involved. His father is now taking over and you will

1       communicate only with the father. So the father then --  
2       it was decided the father would come out and sit down at  
3       our store with my husband and try and work out an  
4       equitable plan that we would pay part of the royalties  
5       until we saw that they were going to get their act  
6       together and give us the support that we needed.

7                So that happened. We started paying partially  
8       for the back royalties, but we still did not hear from  
9       them, nothing. We would call. We would get -- a  
10      secretary from the father's main business would answer  
11      the phone. And we would call with questions about the  
12      business, about preparing the food or ordering, and the  
13      secretary would say, he doesn't know the answer to that.  
14      He knows nothing about the food business.

15               We could -- really couldn't get through to him  
16      and when we did finally get through to him, he would say,  
17      I don't know what to tell you. I know nothing about the  
18      food business, but they still wanted to collect their  
19      royalties. So again, we stopped paying. I'm still now  
20      in contact with the other franchisees, several others.

21               They are now -- it's now winter time, which is  
22      a very slow time to begin with. They're sliding deeper  
23      and deeper into debt. They're barely holding on.  
24      They're not meet -- able to meet their payroll. None of

1           them, at this point, were able to pay their rent. Their  
2           electric bills were in arrears. They were getting  
3           termination notices for phone bills and all kinds of  
4           things, and they were still trying to hang on.

5                         Yet, they were still being harassed for their  
6           royalties. They were getting no contact, no help at all  
7           with the franchisor. Finally, we just kept withholding  
8           royalties, as did the other ones, and finally, we said,  
9           this is it. We're just not -- we're just not going to  
10          pay anymore, and we then started the proceedings of  
11          breaking off of the franchise agreement, which is --

12                        MR. RAYMOND: Somewhere in there you have a --  
13          you talk about the consultant they brought in.

14                        MS. MOUSLEY: Oh, right.

15                        MR. RAYMOND: They did bring in a consultant.

16                        MS. MOUSLEY: They did -- they did -- when we  
17          had the first meeting with them, he said, okay, we're  
18          going to hire a food consultant to get us back on track  
19          since he knew nothing about the food industry. And they  
20          had someone come out and talk to us from the May  
21          (phonetic) Association in Chicago. And, they were  
22          thinking of hiring this firm to come in and help my store  
23          and one other store. Those were the two that they  
24          selected.

1           The other stores that were failing, they  
2 weren't even going to try and help. And this company was  
3 going to charge an outrageous amount of money. I forget  
4 what it was -- something -- several hundred dollars an  
5 hour -- and, of course, they were going to charge us for  
6 that.

7           When my husband sat down and met with the  
8 father of this franchisor, my husband said to him, did  
9 you get other estimates, other bids for any other  
10 companies to come in, because it does seem like an  
11 outrageous amount of money. And he said, no, that's a  
12 good idea, maybe we should do that.

13           He said, do you have anyone in mind? And my  
14 husband had just been reading the Philadelphia Magazine,  
15 and there had been an article in there about a restaurant  
16 doctor. He said, I just read this article, maybe you  
17 should call him. And he says, oh, that's great. That's  
18 a great idea. Do you have a copy of that article?

19           So my husband went home, got the article,  
20 brought it back, the franchisor called and did engage  
21 this other organization. So that was through us. I  
22 mean, we arranged all that for him. They came in. They  
23 did -- they spent one full day with us. They went over  
24 all of our numbers, everything. Basically told us, you

1 know, what we needed to do to turn the business around,  
2 how we were to get profitable, because we were -- we were  
3 losing money. We were having to put money in of our own  
4 to meet payroll, to pay the rent.

5           It was just every month, we were not even  
6 breaking even, and we had no clue why, because no one had  
7 taught us how to figure out the profit and loss and how  
8 to turn this around. So the restaurant consultant did  
9 come out. Like I said, they spent one full day. They  
10 gave us some basic ideas to raise prices, which we  
11 thought all along, you know, we need to raise prices.  
12 That's the key issue.

          We've been in business two years and the prices

1           them to teach you how to reprogram your cash register,  
2           which is basically what we did.

3                       We incurred that expense ourselves to learn how  
4           to reprogram it, to put the new prices in, which did help  
5           us then to start to turn things around. So, the food  
6           consultant then completed their contracted time, which  
7           was really a day, and that was it. Then the franchisor,  
8           of course, tried to collect the payment from us to pay  
9           for that food consultant who came in.

10                      We did pay a little bit more of the royalties.  
11           We never did pay the full six percent after that because  
12           we didn't feel we were getting everything that we had  
13           been promised. So, at one point, we -- my brother even  
14           did come to the Federal Trade Commission and filed a  
15           complaint with the Federal Trade Commission as to their  
16           disclosure document.

17                      And the FTC cited them, sent their lawyer a  
18           letter citing the different violations, and, of course,  
19           their lawyer then sent back a letter saying this is not  
20           true. And that's -- as far as I know, that's where it  
21           stands right now. The FTC has not really followed up  
22           again to pursue it any further.

23                      We did come to an agreement then to end our  
24           franchise agreement. We decided that we would -- with

1 the franchisor, decided that we would pay them \$5,000 and  
2 that would -- that would end our relationship with them.  
3 A termination document was written up. We signed the  
4 document. The document was sent back to them the  
5 beginning of June for them to sign. We still have not  
6 received it. My lawyer has not received it. We still  
7 don't know whether they've signed it. We've tried to  
8 call the franchisor's lawyer, no return phone calls.

9 UNIDENTIFIED MALE: He did return the call.

10 MS. MOUSLEY: To you.

11 UNIDENTIFIED MALE: No, to David.

12 MS. MOUSLEY: Oh, to -- finally, yeah --  
13 finally he did return -- two weeks ago, the lawyer  
14 returned my lawyer's phone call finally and said, oh  
15 yeah, they did sign it, but I haven't had a secretary so  
16 we haven't been able to get it sent out in the mail. As  
17 of yesterday, we still have not received it. And I said  
18 to my lawyer, now what do we do?

19 I have to change my name. I have to  
20 redecorate. I, you know -- I have to get on with my life  
21 here, and they did cash the certified check because I  
22 went to the bank and said, has the check been cashed?  
23 They said, yeah, the check was cashed several days after  
24 it was drawn. So my lawyer's advice was, well, if they

1           cashed the check, then they've terminated the agreement.

2                       The lawyer -- their lawyer claims that they've  
3           signed the papers, but they're -- we still don't have  
4           them. My lawyer doesn't have them and I don't have them.  
5           So, that's where we stand at this point. All the other  
6           stores are gone. Two of them went bankrupt. Several of  
7           them just closed their doors and walked out. Their  
8           things are still in there. They're in the process of  
9           trying to sell off their equipment because they just  
10          couldn't make it.

11                      There is one store in Emmaus right now that is  
12          still operating as a Mike Schmidt's Philadelphia Hoagies.  
13          No one knows what their relationship is or what's going  
14          on. Are they paying royalties? Are they getting away  
15          with not paying royalties? No one knows, but there is  
16          one store that is still a Mike Schmidt's Philadelphia  
17          Hoagies. The rest of us are gone.

18                      And, to me, I mean, that's -- it's outrageous.  
19          It is absolutely outrageous and are they -- are they  
20          collecting royalties from this one store? The one store  
21          really has been ostracized by the rest of us. We sort of  
22          decided not to include her because she was at the

1       said, yeah, we're going to withhold our royalties along  
2       with everyone else, and then we found out that she went  
3       back and began paying them. So, I don't -- like I say, I  
4       don't know what's happening with her, but she's still  
5       trading with the Mike Schmidt's and she's the only one.  
6       So that's basically the story.

7                   MR. TOPOROFF: If I might, this is Steve  
8       Toporoff, just to make the record clear. I'm going to  
9       ask you a question if I can. Based upon your experience,  
10      is there any advice that you could give the Federal Trade  
11      Commission as we look at our disclosure log?

12                   MS. MOUSLEY: Mm-hmm.

13                   MR. TOPOROFF: Which is basically the  
14      disclosure document that you got.

15                   MS. MOUSLEY: Mm-hmm.

16                   MR. TOPOROFF: Is there any information that  
17      the franchisor could have given you early on that would  
18      have been helpful to you or would have put you in a  
19      better position in terms of your experience in operating  
20      the franchise?

21                   MS. MOUSLEY: As far as the disclosure  
22      document, they -- they basically were a young company and  
23      they had, I would say, grandiose ideas as to what they  
24      were going to do, and we sort of believed them. I don't

1 know how, in the disclosure document, they can, as an --  
2 as a young franchise, they can justify what they've done  
3 or are going to do. I think it's difficult with a young  
4 franchise as to what they can disclose.

5 MR. RAYMOND: They -- could you -- for the  
6 record, I'm David Raymond. I'm a lawyer with Winston &  
7 Strawn, but I'm also appearing here in a different  
8 capacity. Dianne is not my client but my sister and I  
9 was a minority investor in her franchise. So I have  
10 lived through this experience as well.

11 In my review of the documents, it appeared to  
12 me that this franchisor did comply with all the  
13 disclosure requirements. They were also careful to make  
14 the statement that they were not making any earnings  
15 representations, and that no one had any authority on  
16 their behalf to make any earnings representations. So  
17 they -- they complied with the script letter of the FTC  
18 franchise disclosure rule.

19 One problem, and the problem that we discussed

1 and the month after that.

2 And so the disclosure document represents the  
3 facts at a particular point in time and any franchisee  
4 who's looking at making a major investment will be  
5 considering that over some longer period of time. Now,  
6 Dianne did go out and talk to other franchisees before  
7 she signed her agreement. The other franchisees did the  
8 same thing.

9 But, because everybody had such a short period  
10 of experience, nobody was speaking from any significant  
11 amount of experience. They could only talk about what  
12 was happening for that short period of time, and so an  
13 awful lot of them had to make their decisions based on  
14 these rosy projections of what the future was going to be  
15 like, and the big part of that was the promises that they  
16 were going to get support.

17 At the time Dianne signed her agreement, there  
18 was somewhat of an organization behind this franchisor.  
19 They had a small staff. They had enough people to send  
20 out to train Dianne's staff. And so there was a reason  
21 to believe that this was a start-up organization that had  
22 a good concept, and they also had a major sports  
23 celebrity behind them.

24 Now, we knew that he wasn't actively

1 participating, but you would expect anybody in that kind  
2 of stature and public image that have done some kind of  
3 due diligence before he allowed somebody to use his name.  
4 So you at least thought that the people that were behind  
5 the franchise were at least experienced businessmen, even  
6 if they weren't experienced franchisors.

7           And there were disclosures about everybody that  
8 was involved in the organization, but again, within the  
9 next several months, most of those people were no longer  
10 associated there. And so the snapshot in time the  
11 disclosure document represented when Dianne got the  
12 disclosure documents changed dramatically in a year and  
13 two months later.

14           And I can't say that they intended that to  
15 happen. I assume that they wanted this to be a success,  
16 too. But at some point in time, somebody decided not to  
17 support it any longer when they started eliminating  
18 employees, closing down offices, moving offices and phone  
19 numbers. At some point in time, somebody decided to no  
20 longer support this, but they still kept calling the  
21 franchisees every month asking for royalties.

22           And so it really became a contract dispute,  
23 which the FTC's Rule really doesn't address what happens  
24 after the relationship is entered into. And so that's

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1           Because franchisees are, in some -- there are  
2           some cases where you got major corporations that are  
3           franchisees of big franchisors, but an awful lot of them  
4           happen to be people like Dianne and her colleagues in  
5           this franchise that are taking out loans on their homes,  
6           home equity loans, that are taking out major loans maybe  
7           from the SBA or from the bank, that represent a  
8           significant portion of their net worth.

9           And for those people, they're putting much more  
10          of their own assets on the line and their financial  
11          future on the line than somebody investing in a mutual  
12          fund. And it seems to me that these kind of people ought  
13          to have as much protection in terms of disclosures as the  
14          investor does. And, in that regard, by allowing  
15          franchisors to say, we're not going to make any earnings  
16          claims and nobody has any authority to make any earnings  
17          claims, I think is a disturbance to franchisees.

18          A mutual fund investor makes more disclosures  
19          than that. Now, true, they say past performance is not  
20          an indication of future performance, but you don't even  
21          get that with a franchisor. Most of them will say  
22          nothing about earnings. They say, it's up to you to  
23          check it out. Now if -- in a normal business  
24          relationship, that's true.

1                   A major business making an investment decision  
2                   or a decision to make an acquisition or a decision to  
3                   enter into a joint venture, will do a lot of due  
4                   diligence. But you're talking about major corporations  
5                   that have those kinds of resources available. You're  
6                   talking about people who have never run a business before  
7                   who are putting their own net worth on the line and,  
8                   in many cases, making lifestyle changes as a result of

1           their contract or an amendment or at least bring the  
2           prospective franchisee up to date about any changes that  
3           may have occurred since they first received the  
4           disclosure document?

5                     MR. RAYMOND:  Yes, it would.

6                     MR. TOPOROFF:  Um.

7                     MS. MOUSLEY:  Yeah, I agree with that.  This is  
8           Dianne Mousley speaking again.  I agree with that and I  
9           agree that, even up to the day of signing, that you  
10          should be given a statement as to what's happening and be  
11          able, at that point, to walk away from the table and say  
12          we're not going through with this.

13                    At several times I did threaten to not go  
14          through with the franchise agreement when we began  
15          having -- of course, I did sign in March and, during that  
16          summer when they started doing construction and then  
17          didn't have the building permits and we were way behind  
18          schedule, at that point, I threatened to not go through  
19          with opening the store, and was actually harassed by the  
20          franchise salesman who sold us the franchise to begin  
21          with.

22                    He called me, I would say for one solid week,  
23          several times a day telling me it would be a big mistake  
24          for me not to go forward, that I was really going to

1 regret it. Someone else would come in here and open  
2 the hoagie shop, and they would be very successful, and  
3 I would just be kicking myself the rest of my life that  
4 I didn't take -- take advantage of this golden  
5 opportunity.

6                   And it was -- it got to the point where it was  
7 harassment, and I finally said to him, do not call me  
8 anymore. And he just basically wouldn't let go, and I  
9 think that franchise salesmen is also a very integral  
10 part of the whole picture. They need to be governed in

1 basic disclosure document is met.

2 MR. RAYMOND: You know, big deal if you look at  
3 their investment comparisons. People that sell  
4 securities have to be licensed and registered. To find  
5 that these franchisors -- any businessman that decides he  
6 wants to put together a franchise plan can put together  
7 something, hire a broker to sell it, put out some ads and  
8 start selling with these kind of representations of a  
9 rosy future.

10 So I don't -- I don't know if there's any  
11 possibility kind of looking at the securities regulations  
12 as a model, but I think we got to look at this as a very  
13 serious investment for a lot of people. It's not just  
14 a straight business transaction which is what -- the way  
15 I think franchisors have been treated. These are  
16 business --

17 MR. TOPOROFF: Well, businesses --

18 MR. RAYMOND: -- relationships between --

19 MR. TOPOROFF: Sure.

20 MR. RAYMOND: -- two parties. But you got one  
21 party, in many cases, that has many more resources and  
22 knowledge, much more knowledge and sophistication than  
23 the other party.

24 MR. TOPOROFF: This is Steve Toporoff again.

1           On the issue of a comparison between franchises and  
2           securities, that's one that is brought to our attention a  
3           number of times. And a key distinction is that  
4           securities are regulated by statute, that there are any

1                   To be honest with you, it is focused on  
2 disclosure issues because that's our primary concern, but  
3 that's not to say that we wouldn't entertain other ideas.  
4 And one of the proposals that has come back to us is by  
5 the Franchise Mediation Group, and I can provide you a  
6 copy of that if you're interested.

7                   We are going to have two additional public --  
8 well, all told, we're going to have six workshop  
9 conferences. This is the first in the series. There is  
10 going to be one in New York City on September, I think  
11 it's the 17th and the 18th. And one of the issues that  
12 we'll be discussing there is that specific issue of --  
13 I -- of alternative law enforcement approach.

14                   And in the proposal that was submitted, there  
15 are ideas for putting together some kind of alternative  
16 program and that's very much in its infancy. And I would  
17 suggest that if you have an interest in this subject  
18 matter, we're going to be discussing that issue in New  
19 York and then in November in Seattle.

20                   I would encourage you to get involved and, you  
21 know, as, having gone through your experience, either  
22 directly as a franchisee or as somebody who's been  
23 involved a little bit on the side, but nonetheless, you  
24 might have very valuable information to offer. So I

1 would encourage you.

2 The only -- the only prerequisite for  
3 participating in our public workshop conferences as a  
4 participant at a round table discussion is that you  
5 submit a comment and that you let us know. I think by  
6 appearing today and giving your statement on the record,  
7 you certainly have offered a comment. So you qualify as  
8 far as that is concerned.

9 MS. MOUSLEY: Mm-hmm.

10 MR. TOPOROFF: So really, the only thing  
11 that -- if you were interested in participating in that  
12 event we would love to have you, I think you could make a  
13 valuable contribution. It's just a question of letting  
14 us know, and I could provide you with that information  
15 after we meet.

16 MS. MOUSLEY: Mm-hmm.

17 MR. TOPOROFF: I'm going to ask my colleague,  
18 Carolyn Cox, if she had any questions at this point.

19 MS. COX: One thing that we were talking --  
20 interested in is how franchisees use their disclosure  
21 documents and whether or not they consult outside parties  
22 in their evaluation of the document in trying to  
23 determine if it's a feasible franchise system. So I was  
24 just curious as to whether you had hired an attorney or

1 an accountant or anyone to kind of sit down with you, the  
2 disclosure document and evaluate the feasibility of a  
3 franchise system.

4 MS. MOUSLEY: Yes, we did do that. My brother  
5 took a look at it. We hired -- well, we did not hire, we  
6 had a financial analyst come in and look at it, and my  
7 lawyer also looked at it. And all of them I think  
8 basically felt that, well, this is a very young  
9 operation, their figures did not look real good.

10 But it was because they were several years old  
11 and, you know, it takes a while to get rosy-looking  
12 figures that -- and, like they kept saying when they were  
13 giving us the sales pitch, this is a young company and,  
14 you know, we have a lot of expenses to get the business  
15 up and running, so therefore, that's why the figures were  
16 not great looking because they were still paying off the  
17 initial debt of starting it.

18 And basically, that's what everyone came up  
19 with, that yes, you know, it's a young company so  
20 therefore, I guess, you're taking a risk as to getting  
21 involved in a young company, as any investment you're  
22 taking a risk. But when you're presented with a glitzy  
23 sales package and a very high-pressured, aggressive sales  
24 person that's harassing you on the phone saying, you

1 know, you're going to be very sorry if you don't do this,  
2 you know, you start to -- like, when you look any  
3 figures, they can -- thinking you can get the figures to  
4 go on either side, you know.

5 MS. COX: Okay. That's helpful to know.

6 MR. TOPOROFF: Okay. Is there anything -- this  
7 is Steve Toporoff. Is there anything that anybody else  
8 would like to say for the record?

9 MS. MOUSLEY: I think part of my concern is  
10 that we did go through this process, and we did file a  
11 complaint with the FTC, and the FTC responded. And I  
12 just feel like -- at this point, their lawyer came back  
13 and disputed it, which obviously is what you would  
14 expect, but I don't really know, is that as far as the  
15 FTC is going to go with it?

16 MR. TOPOROFF: Could you -- okay. Just --  
17 (inaudible).

18 MS. MOUSLEY: Okay. Is the FTC going to follow  
19 up and check their lawyer's response and, you know,  
20 respond to that? That's my concern at this point. I  
21 just feel like we're more or less in a state of limbo  
22 with the FTC.

23 MR. TOPOROFF: Well then that concludes this  
24 meeting.

1 (Whereupon, the meeting was concluded.)

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C E R T I F I C A T I O N O F T Y P I S T

8

9 MATTER NUMBER: R511003

10 CASE TITLE: FRANCHISE RULE ANPR MEETING

11 TAPING DATE: 7/29/97

12 TRANSCRIPTION DATE: 8/6/97

13

14 I HEREBY CERTIFY that the transcript contained  
15 herein is a full and accurate transcript of the tapes  
16 transcribed by me on the above cause before the FEDERAL  
17 TRADE COMMISSION to the best of my knowledge and belief.

18

19 DATED: AUGUST 11, 1997

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RUTH KERKER BLAIR

23

24

C E R T I F I C A T I O N O F P R O O F R E A D E R

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1           I HEREBY CERTIFY that I proofread the transcript for  
2 accuracy in spelling, hyphenation, punctuation and  
3 format.

4

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6

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ELIZABETH M. STABLER