














State Franchise Registration Guide

California

Documents Included:

 Application for a License under the California Finance Lenders Law.pdf
 Application for License under the Escrow Law.pdf
 Applications for Licensure Package.pdf
 Consent to Service of Process.pdf
 expedite.pdf
 Guidelines for Franchise Registration.pdf
 Instructions and Form for Filing the 2010 Annual Report for Lenders and Brokers.pdf
 listfr.pdf
 Nonprofit Community Service Organization Audit Report and Declaration.pdf
 Nonprofit Community Service Organization Notice and Written Consent.pdf
 Notice of Dissolution or Termination of Engaging in the Activities of a Prorater.pdf
 Notice to Residents of Foreclosed Property.pdf
 Statement of Identity and Employment Application.pdf

Key Websites:

- <http://www.corp.ca.gov/SRD/ufdd.asp>
- <http://www.corp.ca.gov/srd/franchise.asp>
- <http://www.leginfo.ca.gov/cgi-bin/calawquery?codesection=corp&codebody=&hits=20>

Primary contact:

- Call (866) 275-2677
- Department of Corporations: 916-445-7205

Franchise Division
Department of Corporations
1515 K Street
Sacramento, CA 95814
(916) 445-7205

Registration Fee:

- Registration of an offer or sales of franchise: \$675.00

- Registration renewal statement or annual report: \$450.00

List of Documents for Franchise Registration/Renewal

The applicant should make every effort to utilize the following naming conventions to facilitate our electronic processing and the documents should be listed in the following order. The exhibits may be renumbered and documents may be added or deleted from the list below.

Document index

CD #1

- Application Transmittal Letter
- Application Facing Page
- Certification Page
- Consent to Service of Process (not required for a CA corporation, limited partnership or limited liability company)
- Corporate Acknowledgement
- Supplemental Information
- Sales Agent Disclosure Forms (redacted)
- Guarantee of Performance (if any)
- Auditor's Consent
- Franchise Offering Circular/Disclosure Document (clean/marked copy)
- Receipt

Exhibits:

- Franchise Agreement (clean/marked copy)
- Financial Statements
- Area Development Agreement (if any)
- List of Administrators
- Agents for Service of Process
- List of Franchisees
- List of Former Franchisees
- State Specific Appendix
- Other Exhibits

CD #2

- Customer Authorization of Disclosure of Financial Records
- Sales Agent Disclosure Forms (un-redacted)

Franchise Registration Application Instructions

COVER LETTER:

Please acknowledge in your cover letter of the application whether any documents or exhibits will be submitted at a later time.

The cover letter should tell the Department the date of the franchisor's fiscal year end, and acknowledge that the registration (normally) will end 110 days after the date of its next fiscal year. This will coordinate registration renewal with the required fiscal year end audited financial statements, and will reduce the need to submit interim statements.

If the franchisor offered or sold securities in California under the California Corporate Securities Law of 1968, the franchisor must describe these transactions in the cover letter and indicate whether the securities were qualified or exempt and/or make any required filings.

4. FORMS FOR THE FRANCHISOR'S APPLICATION:

- A. Application Cover Page. See attached page 48.
- B. An authorized officer, manager or general partner should sign the application. See Form C on attached pages 49 and 50. A person holding a power of attorney may sign if the authorizing corporate resolution is included.
- C. Supplemental Information Page. See Form B on attached page 49.
- D. Sales Agent Disclosure Form. Complete a form only for each person offering and selling the franchise in California, unless the person is named in Item 2 of the Offering Circular. See Form E on attached page 52. Send a clean copy (marked CONFIDENTIAL) and one that redacts (blacks out) home address and telephone number, SSN and birth date.
- E. One copy of the Offering Circular in the Uniform Franchise Offering Circular (UFOC) format in this packet (UFOC as adopted by NASAA on April 25, 1993). See the attached pages 1 through 53. Note the Mandatory Disclosure Requirements outlined in Rule 310.114.1 that make some changes to the format (attached for your convenience).
- F. Consent to Service (not required for a California corporation but is required for all other California entities such as an CA LP or CA LLC and foreign entities). Use Form D on attached page 51.
- G. Customer Authorization Form [QR 500.265, see also Corporations Code §31111(b)] is attached and follows page vii.
- H. Send only one set of all documents.

5. REQUIRED FINANCIAL STATEMENTS FOR REGISTRATION:

Normally the application must include the franchisor's financial statement audited by an independent certified public accountant (CPA) in accordance with generally accepted accounting principles (GAAP) (See Rule 310.111.2 for requirements). With your application, you must include a manually signed consent of the independent public accountant for the use of the audited financial statements in the UFOC. The Department will not accept "Compilation" report financial statements unless they are interim financials, submitted with "Audited" report financials. The use of audited financial statements does not relieve the applicant or any person from liability for false and misleading statements contained in the financial statements. The Department may accept a current "Review" report balance sheet instead of an audit if:

- A. It is the franchisor's first registration application in California and the franchisor has no prior audited financial statements;
- B. The "Review" report balance sheet is as of a date within 90 days of the application filing date;
- C. The financials include profit and loss statements covering the prior three years, or from inception of the business; a Statement of Cash Flow, and appropriate footnotes;
- D. The "Review" report conforms to American Institute of Certified Public Accountants standards.

6. IMPOUND:

The franchisor must demonstrate its present financial ability to meet its obligations to the franchisee stated in the UFOC and Franchise Agreement, without relying on the proposed franchisee's funds. Otherwise, the Commissioner will impound all initial fees paid by the franchisee to the franchisor. If an impound is required, you must submit a copy of the form of Purchase receipt, and the written consent of the Depository. (See Rules 310.113 through 310.113.2).

The franchisor may avoid an impound if an increase in franchisor's capitalization shows financial ability to meet its proposed obligations or by posting a surety bond (see attached form) as per Rule 310.113.5. An impound may also be avoided by an adequate Guarantee of Performance, coupled with the Guarantor's audited financial statements which shall be included along with the Guarantee in the UFOC. These financials must show the Guarantor's financial ability to meet the franchisor's obligations. Use Form F on attached page 53.

7. PRE-EFFECTIVE AMENDMENT:

A PRE-effective amendment changes a pending application. The application must include a facing page and a verification page. Underline or mark documents to show changes from the previous filing. Send only the marked

copy. Do not send an unmarked copy. Do not highlight changes in color. There is no fee to file a pre-effective amendment, unless a balance fee is owed on the previous filing.

A pre-effective amendment may also be filed within 6 months of an abandonment of the application only if all the outstanding comments at the time of the abandonment are addressed and the applicant must file an application facing page marked as a pre-effective amendment/RE-INSTATEMENT, with a certification page. The cover letter must specifically mention that the applicant is seeking the reinstatement of an application that was abandoned on a specified date.

8. POST-EFFECTIVE AMENDMENT:

A POST-effective amendment is submitted after a registration is effective. A POST-effective amendment application includes a completed application cover page, and a verification page. Mark the documents to reflect changes from the prior filing. Send only this one marked copy of the document being changed. Do not send an unmarked copy and do not send documents that are not being changed. There is a \$50 fee for filing a post-effective amendment application.

After the franchisor is registered, it must file an application for post-effective amendment when a material change occurs or to add sales agents. A post-effective amendment application is effective as of the date an order is issued indicating the effectiveness of the post-effective amendment.

9. RENEWAL:

Submit a renewal application in the same format as the original application. Include all documents required for an initial registration. Please acknowledge in your cover letter of the application whether any documents or exhibits will be submitted at a later time and state the fiscal year.

The franchisor's financial statement for the most recent fiscal year must be certified as an audit by an independent CPA. Submit a manually executed auditor's consent for use of the financial statement in the UFOC.

Send one complete, updated, clean copy of the UFOC and exhibits. If a document is revised, send one copy of the changed pages only with the changes marked. Mark changes from the previous filing (but not highlighted in color). Do NOT send extra copies.

2007/2008 Changes in California Franchise Registration Requirements

Please note that the North American Securities Administrators Association, Inc.'s ("NASAA") Uniform Franchise Offering Circular (UFOC) disclosure document format is valid until June 30, 2008, regardless of when the registration was approved in California.

The Federal Trade Commission has withdrawn permission from all franchisors to use the UFOC disclosure document prepared under the current NASAA UFOC Guidelines after June 30, 2008.

On and after July 1, 2008, all franchisors must use a franchise disclosure document that complies with the FTC Franchise Rule, 16 CFR 436, as amended, 72 FR 15444 (March 30, 2007), (the "FTC Franchise Rule"). In its June 22, 2007 Interim Franchise Statement of Policy, NASAA incorporated the disclosures required under the FTC Franchise Rule for the Uniform Franchise Disclosure Document ("UFDD"). The California Department of Corporations announced in its June 28, 2007 Release 17-F that the Department would begin accepting the UFDD as of July 1, 2007 and that on/after July 1, 2008, only the UFDD can be used to offer and sell franchises in California regardless of when a UFOC may have been registered. All registered franchisors wanting to offer or sell franchises on and after July 1, 2008 must file the UFDD as a part of its 2007/2008 application process or file and have approved a post-effective amendment application with the UFDD before any franchises can be offered or sold on or after July 1, 2008. Therefore, be advised that no UFOC may be distributed to prospective franchisees after July 1, 2008 under any circumstances.

In addition, the following new items are being added to the California Special Instructions of the soon to be released 310.111 UFDD Packet (10/07), which will include fillable franchise forms available from our website. See <http://www.corp.ca.gov/forms/securities.asp>

7. NOTE: Civil Code §1189 requires that any notary's certificate of acknowledgment taken within this state must be in the form attached. Any certificate of acknowledgment taken in another state shall be sufficient in California if it is taken in accordance with the laws of the state where the acknowledgment is made. In that instance only, the current NASAA form would be acceptable in California.

8. As of January 1, 2008, California Corporations Code Section 31119 requires that the offering circular together with all proposed agreements relating to the sale of the franchise be delivered to prospective franchisees at least 14 days prior to execution by the prospective franchisee of any binding franchise or other agreement, or at least 14 days prior to the receipt of any consideration, whichever occurs first.

9. As of January 1, 2008, California Corporations Code Section 31155 requires that all applicants for registration, except for California corporations, California limited partnerships, or California limited liability companies, file an irrevocable consent appointing the Commissioner to be the applicant's attorney to receive service of any lawful process in any non-criminal suit, action, or proceeding against the applicant which arises under the Franchise Investment Law.

10. As of July 1, 2008, only the UFDD can be used as the offering document to offer and sell registered franchises in California, regardless of when the franchisor registered its franchise system and regardless of any prior registration involving a UFOC