

Letter of Comment No: 2
File Reference: 1082-300
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Stacey Sutay

From: Paul Hogan [phogan@homeinstead.com]
Sent: Thursday, November 06, 2003 12:00 PM
To: Director - FASB
Cc: Richard Phillis; Roger Baumgart
Subject: johng@franchise.org

I am the President of Home Instead Senior Care. We have 440 franchises in 46 states and another 35 in three other countries. In the US we serve over 22,000 senior citizens and employ about 24,000 CAREGiveres. I am writing in regards to the File Reference 1082-300. The requirement to have franchisors consolidate the financial statements of its franchisees would impose a huge burden on both franchisors and franchisees. The burden is not only caused by the time it would take to accomplish this but it would be nearly impossible to achieve a reliable result given the nature of franchising.

Below are the limitations and challenges to consolidation;

- If required to consolidate, franchisors will need to gather timely GAAP financial information from franchisees that they may not have the legal right to obtain and which the franchisee may not even maintain.
- Franchisors with international operations would be presented with an even greater challenge given the complexities that international franchisees would introduce to the consolidation process.
- Achieving consistency of the information reported would be a major challenge. Different accounting policies, systems and compensation philosophies would all present challenges that would result in anything but more useful financials.
- Costs would be substantial to the companies involved. The franchisor's auditors would have to include franchisees in the audit scope, thereby significantly increasing audit costs and potentially resulting in modifications to the auditors' report when the auditors are unable to complete the audit of the franchisee due to unavailable (e.g., the franchisee refuses to cooperate) or unauditable GAAP financial information. This would be extremely costly and could result in serious liability if audits cannot be completed.

Franchisees are small, independent businesses. Just imagine having to do the following to comply with this requirement:

- All franchisees within a system would be required to use the same outside auditor.
- It would require all franchises within a system to adhere to accounting principles dictated by the franchisor.
- All franchises within a system to would be forced provide full financial statement information to franchisor.
- All franchisees within a system would be required to provide internal control reports to franchisors and adhere to internal control dictates of franchisor.

I am urging you to abandon this regulatory idea for the franchise community.

Sincerely,
Paul R. Hogan
President & Founder



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