

ALABAMA SECURITIES COMMISSION

Post Office Box 304700

Montgomery, Alabama 36130-4700

Telephone: (334) 242-2984 or 1-800-222-1253 Fax: (334) 242-0240

Email: asc@asc.alabama.gov Website: www.asc.alabama.gov

THE ALABAMA SECURITIES COMMISSION HELPS PROSPECTIVE ENTREPRENEURS EVALUATE FRANCHISE OPPORTUNITIES

MONTGOMERY, ALABAMA (February 14, 2011) – As the unemployment rate continues to hover above 9 percent, the uncertainty of the job market may encourage would-be entrepreneurs to take their futures in their own hands by opening a small business. Investing in an established franchise can be an attractive path to becoming your own boss, but the Alabama Securities Commission cautions investors to be mindful of the risks and the realities of franchising.

“If you are thinking of investing in a franchise, you should educate yourself before you buy in,” said Joseph Borg, Director of the Alabama Securities Commission.

The Alabama Securities Commission has issued an advisory for potential franchisees to alert them to important considerations before investing in a franchise.

“The first step before investing your money in any security or business venture is to do your homework,” Borg said. “For franchise investors, this means, at a minimum, reviewing the franchise disclosure document and getting in touch with current and former franchisees. You should be very skeptical if earnings for existing franchises are not disclosed and if experienced franchisees are unhappy or unreachable.”

Borg also encourages franchise investors to retain legal counsel to help them understand the terms and conditions of their franchise agreement, which is drafted by the franchisor’s attorney and almost always gives the franchisor the advantage. Potential pitfalls for franchisees include no automatic right to renew the franchise after an initial term, liability for “future royalties” should the franchisee terminate the agreement early, and requirements that disputes with the franchisor be resolved in the state where the franchisor is located, which may be inconvenient and expensive.

“If the franchisor makes any verbal promises or guarantees, make sure they are in writing, too,” Borg said. “Even if you have researched the franchisor and spoken with a number of successful franchisees, you need to protect yourself should your venture not take off as planned.”

Although the Alabama Securities Commission does not register franchise offerings, prospective investors may check with another state’s franchise office or the Better Business Bureau. Information about state franchising offices is available on the website of the North American Securities Administrators Association at http://www.nasaa.org/Industry_Regulatory_Resources/Corporation_Finance/588.cfm.

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For further information contact Dan Lord, Education and Public Affairs Manager, 334-353-4858.

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