December 18, 2024

To: North American Securities Administrators Association (NASAA) Broker-Dealer Section and Market and Regulatory Policy and Review Project Group

Sent via email to: nasaacomments@nasaa.org

Re: NASAA Model Rule on Dishonest or Unethical Business Practices of Broker-Dealers and Agents ("Business Practices Rule")

This complaint is submitted on behalf of the Great Schools Franchise Owners Association (GSFOA), an independent association representing over 100 The Goddard School® franchise locations. Our complaint concerns potentially dishonest or unethical practices in preparing the Franchise Disclosure Documents (FDDs) issued by Goddard Systems, LLC (GSL), a franchisor owned by private equity firm Sycamore Partners. These ongoing practices significantly impact current and prospective franchisees—particularly in light of their relevance to the NASAA Business Practices Rule.

The GSFOA submits this complaint anonymously on behalf of its members, as some franchisees fear retaliation from GSL if their identities are disclosed. Below, we provide an overview of our concerns.

1. Misleading Earnings Claims in Franchise Disclosure Documents (FDDs)

GSL's FDD earnings claims rely on franchise-wide averages calculated using self-reported data from franchisees. These averages present an incomplete and misleading depiction of financial performance because they fail to account for crucial variables, such as:

- **Center-specific factors:** Differences in school size, program offerings, and occupancy levels.
- **Regional variations:** State-by-state and regional differences in childcare regulations, minimum wages, mandated employment benefits, employer taxes, costs of living, and climate conditions.
- **Accounting inconsistencies:** Variations in franchisees' accounting methods and motivations when reporting earnings. Franchisees are incentivized to underreport rent and property taxes in their financial reports. This issue has been brought to the attention of the franchisor's executives during owner-input group meetings, but no corrective action has been taken.

Prospective franchisees without deep familiarity with the childcare industry may mistakenly view these averages as representative and achievable benchmarks, despite their lack of comparability across locations and circumstances. More meaningful and accurate averages should reflect state, region, school size, occupancy, and program offerings, because these are non-management factors that help determine a school's performance.

Moreover, GSL's earnings claims do not adequately account for recent financial burdens imposed on franchisees, such as:

- **Increased Marketing Fees:** Adjustments in 2023 led some franchisees to incur additional annual charges of $10,000–$50,000.
- **Adoption of the Wonder of Learning® Curriculum:** Franchisees were required to transition to this new curriculum and the school management software that supports it beginning in 2023, incurring significant adoption and continuing costs. Some spent over $30,000 in the first year, with ongoing additional annual costs exceeding $6,000 to maintain the curriculum.

Without adjustments to historical earnings claims in the FDD to reflect these increased costs, brokers and prospective franchisees may not fully understand the financial challenges associated with owning and operating a The Goddard School franchise.

For a testimonial highlighting these challenges, please refer to a Federal Trade Commission (FTC) comment below submitted by a franchisee in October 2024 at Regulations.gov. [https://www.regulations.gov/comment/FTC-2023-0026-2446]

2. Inadequate Disclosure of Risks from Universal Prekindergarten (UPK) Programs

GSL's FDD does not sufficiently disclose the significant risks posed by the expansion of Universal Prekindergarten (UPK) and similar publicly funded preschool programs. Pre-Kindergarten programs typically account for 40–50% of a franchisee's Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). The rise of UPK programs, offered free of charge through public schools, has drawn families away from private Pre-Kindergarten programs like those offered by The Goddard School. This reduction in Pre-K enrollment negatively impacts franchisee revenue and their ability to sustain Infant and Toddler programs, which rely on Pre-K revenue to offset operating losses.

Despite this, GSL's FDD does not provide state-specific or district-specific information about UPK's potential impact. Prospective franchisees lacking detailed knowledge of the childcare industry may remain unaware of these risks, jeopardizing their ability to make informed investment decisions.

For a testimonial describing the threat UPK programs pose to franchise viability, please refer to a The Goddard School franchisee FTC comment below submitted in October 2024 at Regulations.gov. [https://www.regulations.gov/comment/FTC-2023-0026-2611]

Request for NASAA Review

We respectfully request that the NASAA investigate whether GSL's FDD practices align with the standards outlined in the Business Practices Rule. Specifically, we urge a review of the following:

1. The methodology and presentation of earnings claims, particularly the omission of more detailed and relevant averages.
2. The lack of adequate disclosure regarding the risks posed by UPK, and other publicly funded preschool programs (e.g., Universal Preschool).

Our association stands ready to provide additional information and documentation to assist with this review.

Respectfully,

The GSFOA Interim Board of Directors
gsfoa@aafdchapters.org

Cc: Amy Kopleton (KopletonA@dca.njoag.gov), Chair - Project Group; Jim Nix (jnix@ilsos.gov), Chair – Section

Attached: PDF version of this complaint