

A decorative graphic consisting of three circles in dark blue, teal, and grey, followed by a vertical line that extends downwards from the top of the circles.

California's New Franchisee Rights Law: How It Affects Your Business



Applicable 1/1/2016

- Applies to new franchise agreements or renewed agreements after 1/1/2016.



Existing California Franchise Relations Act

- Termination following notice to cure for breach of any lawful provision of a franchise agreement
- 180 day notice of nonrenewal but no right to renewal
- No transfer protection
- No real remedy for franchisees



Franchise Investment

- Franchisees are “all in”
- Invest lifesavings
- Risk all their assets, not just investment in franchise



Termination Substantive Protections

Section 20020

- Old Statute: “Except as otherwise provided by this chapter, no franchisor may terminate a franchisee . . . except for good cause. Good cause, shall include but not be limited to, the failure of a franchisee to comply with any lawful requirement of the franchise agreement.”

- New Statute: “Except as provided in Section 20021, good cause shall be limited to the failure of the franchisee to substantially comply with the lawful requirements imposed upon the franchisee by the franchise agreement.”



Termination Notice Provisions

- 30 days to cure extended to at least 60 days to cure



Transfer Substantive Protections

Section 20028. “(a) It is unlawful for a franchisor to prevent a franchisee from selling or transferring a franchise, all or substantially all of the assets of the franchise business. . . to another person provided that the person is qualified under the franchisor’s then-existing standards for the approval of new or renewing franchisees. . . and to be consistently applied to similarly situated franchisees operating within the franchise brand, and the franchisee and the buyer, transferee, or assignee comply with the transfer conditions specified in the franchise agreement.”



Transfer Procedural Protection

Section 20029

Franchisee must provide notice of sale to franchisor of:

1. Name and address of proposed buyer
2. A copy of sale/transfer agreements
3. Proposed buyer's application to be a franchisee and financial and other disclosures if forms available or request for forms.

Franchisor must provide written approval standards.

Franchisor must within sixty days of information:

1. Notify franchisee of approval or disapproval in writing
2. Provide a statement of reasons if the transfer is disapproved.



Renewal Protection

There is a new remedy for non-renewals.



Remedies for Violations

20035. “(a) In the event a franchisor terminates or fails to renew a franchisee, in violation of this chapter, the franchisee shall be entitled to receive from the franchisor the fair market value of the franchised business and franchise assets and any other damages caused by the violation of this chapter.

(b) A court may grant preliminary and permanent injunctions for a violation or threatened violation of this chapter.”



Remedies for Lawful Termination or Nonrenewals

20022. “(a) Except as provided in this section, upon a lawful termination or nonrenewal of a franchisee, the franchisor shall purchase from the franchisee, at the value of price paid, minus depreciation, all inventory, supplies, equipment, fixtures, and furnishings purchased or paid for under the terms of the franchise agreement or any ancillary or collateral agreement by the franchisee to the franchisor or its approved suppliers and sources, that are, at the time of the notice of termination or nonrenewal, in the possession of the franchisee or used by the franchisee in the franchise business. . .

- Note: Acknowledges that franchisees have property rights and the franchisors can't take possession of the franchisee's property without purchasing it, even on legal terminations and nonrenewals.



Other Considerations

- Will Franchisors allow transfer of remaining term of a franchise agreement to avoid new law?
- Will “agree to agree” language, forcing new contract terms on existing franchise agreements, put those agreements under new law?



Questions?

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