

CHAPTER 80C

FRANCHISES

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80C.01 DEFINITIONS.

Subdivision 1. As used in sections 80C.01 to 80C.22, the terms defined in this section have the meanings here given them.

Subd. 2. "Advertisement" means any written or printed communication or any communication by recorded telephone message, radio, television, picture or similar means published in connection with a sale of, or offer to sell, any franchise.

Subd. 3. "Commissioner" means the commissioner of commerce.

Subd. 4. "Franchise" means (a) a contract or agreement, either express or implied, whether oral or written, for a definite or indefinite period, between two or more persons:

(1) by which a franchisee is granted the right to engage in the business of offering or distributing goods or services using the franchisor's trade name, trademark, service mark, logotype, advertising, or other commercial symbol or related characteristics;

(2) in which the franchisor and franchisee have a community of interest in the marketing of goods or services at wholesale, retail, by lease, agreement, or otherwise; and

(3) for which the franchisee pays, directly or indirectly, a franchise fee; or

(b) a contract, lease, or other agreement, either express or implied, whether oral or written, for a definite or indefinite period, between two or more persons, whereby the franchisee is granted the right to market motor vehicle fuel using the franchisor's trade name, trademark, service mark, logotype, advertising, or other commercial symbol or related characteristics for which the franchisee pays a franchise fee; or

(c) the sale or lease of any products, equipment, chattels, supplies, or services to the purchaser, other than the sale of sales demonstration equipment, materials or samples for a total price of \$500 or less to any one person, for the purpose of enabling the purchaser to start a business and in which the seller:

(1) represents that the seller, lessor, or an affiliate thereof will provide locations or assist the purchaser in finding locations for the use or operation of vending machines, racks, display cases, or similar devices, or currency operated amusement machines or devices, on premises neither owned or leased by the purchaser or seller; or

(2) represents that the seller will purchase any or all products made, produced, fabricated, grown, bred, or modified by the purchaser using, in whole or in part, the supplies, services, or chattels sold to the purchaser; or

(3) guarantees that the purchaser will derive income from the business which exceeds the price paid to the seller; or

(d) an oral or written contract or agreement, either expressed or implied, for a definite or indefinite period, between two or more persons, under which a manufacturer, selling security systems through dealers or distributors in this state, requires regular payments from the distributor or dealer as royalties or residuals for products purchased and paid for by the dealer or distributor.

(e) "Franchise" does not include any business which is operated under a lease or license on the premises of the lessor or licensor as long as such business is incidental to the business

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conducted by the lessor or licensor on such premises, including, without limitation, leased departments, licensed departments, and concessions.

(f) "Franchise" does not include any contract, lease or other agreement whereby the franchisee is required to pay less than \$100 on an annual basis, except those franchises identified in paragraph (b).

(g) "Franchise" does not include a contract, lease or other agreement between a new motor vehicle manufacturer, distributor, or factory branch and a franchisee whereby the franchisee is granted the right to market automobiles, motorcycles, trucks, truck tractors, or self-propelled motor homes or campers if the foregoing are designed primarily for the transportation of persons or property on public highways.

(h) "Franchise" does not include a contract, lease, or other agreement or arrangement between two or more air carriers, or between one or more air carriers and one or more foreign air carriers. The terms "air carrier" and "foreign air carrier" shall have the meanings assigned to them by the Federal Aviation Act, United States Code Appendix, title 49, sections 1301(3) and 1301(22), respectively.

Subd. 5. "Franchisee" means a person to whom a franchise is granted. Unless otherwise stated herein, franchisee shall also include subfranchisor.

Subd. 6. "Franchisor" means a person who grants a franchise or an area franchise.

Subd. 7. "Area franchise" means any contract or agreement between a franchisor and a subfranchisor whereby the subfranchisor is granted the right, for consideration given in whole or in part for such right, to sell or negotiate the sale of franchises in the name or in behalf of the franchisor. Unless specifically stated otherwise, "franchise" includes "area franchise."

Subd. 8. "Subfranchisor" means a person to whom an area franchise is granted.

Subd. 9. "Franchise fee" means any fee or charge that a franchisee or subfranchisor is required to pay or agrees to pay for the right to enter into a business or to continue a business under a franchise agreement, including, but not limited to, the payment either in lump sum or by installments of an initial capital investment fee, any fee or charges based upon a percentage of gross or net sales whether or not referred to as royalty fees, any payment for goods or services, or any training fees or training school fees or charges; provided, however, that the following shall not be considered the payment of a franchise fee:

(a) The purchase of goods or agreement to purchase goods at a bona fide wholesale price;

(b) The purchase of goods or agreement to purchase goods on consignment, if the proceeds remitted by the franchisee from any such sale shall reflect only the bona fide wholesale price of such goods;

(c) The repayment by the franchisee of a bona fide loan made to the franchisee from the franchisor;

(d) The purchase of goods or agreement to purchase goods at a bona fide retail price subject to a bona fide commission or compensation plan that in substance reflects only a bona fide wholesale transaction;

(e) The purchase, at their fair market value, of supplies or fixtures or agreement to so purchase supplies or fixtures necessary to enter into the business or to continue the business under the franchise agreement;

(f) The purchase or lease, at the fair market value, of real property or agreement to so purchase or lease real property necessary to enter into the business or to continue the business under the franchise agreement.

Subd. 10. "Fraud and deceit" are not limited to common law fraud and deceit.

Subd. 11. "Order" means a consent, authorization, approval, prohibition or requirement, or other order applicable to a specific case, issued by the commissioner.

Subd. 12. "Person" means a natural person, corporation, partnership, trust, or other legal entity.

Subd. 13. "Publish" means publicly to issue or circulate by newspaper, mail, radio, or television, or otherwise to disseminate to or place before the public.

Subd. 14. "Rule" means any published rule adopted by the commissioner in accordance with chapter 14.

Subd. 15. "Sale" or "sell" includes every contract or agreement for the sale of, and every contract to sell or dispose of, a franchise or interest in a franchise for value

Subd. 16. "Offer" or "offer to sell" includes every attempt to offer to dispose of, and every solicitation of an offer to buy, a franchise or interest in a franchise for value.

Subd. 17. "Predecessor" means any person or persons from whom the franchisor acquired, either directly or indirectly, assets constituting 30 percent or more of the franchisor's total assets immediately following the acquisition, during the five year period preceding the date of the offering circular.

Subd. 18. "Fractional franchise" means any franchise relationship in which the franchisee or any of the principal officers or directors of the franchisee, have been in the type of business represented by the franchise relationship for more than two years and the parties anticipated, or should have anticipated, at the date of the agreement establishing the franchise relationship, that the sales arising from the relationship would represent no more than 20 percent of the dollar sales volume of the franchisee.

Subd. 19. **Assist the purchaser in finding locations.** "Assist the purchaser in finding locations" means to directly assist the purchaser in finding locations, or to refer the purchaser to any resource which assists in finding locations and is affiliated with the seller through common ownership, common control, a referral fee arrangement, or any other business relationship. "Assist the purchaser in finding locations" does not include providing to the purchaser a written list of resources which assist in finding locations, provided that none of the resources on the list are affiliated with the seller in any way.

History: 1973 c 612 s 1; 1975 c 181 s 1; 1977 c 9 s 1; 1980 c 516 s 2; 1981 c 59 s 19; 1981 c 165 s 1-3; 1982 c 424 s 130; 1983 c 289 s 114 subd 1; 1984 c 596 s 1; 1984 c 655 art 1 s 92; 1985 c 248 s 70; 1988 c 561 s 1; 1996 c 439 art 2 s 16; 1997 c 222 s 32

80C.02 REGISTRATION REQUIREMENT.

No person may offer or sell any franchise in this state unless there is an effective registration statement on file in accordance with the provisions of sections 80C.01 to 80C.22 or unless the franchise or transaction is exempted under section 80C.03.

History: 1973 c 612 s 2

80C.03 EXEMPTIONS.

The registration requirement imposed by section 80C.02 shall not apply to the following provided that the method of offer or sale is not used for the purpose of evading sections 80C.01 to 80C.22:

(a) the offer or sale of a franchise owned by that franchisee, or the offer or sale of the entire area franchise owned by the subfranchisor making the offer or sale if the sale is not effected by or through a franchisor; provided, however, that no person shall make more than one sale during any period of 12 consecutive months of a franchise or area franchise granted by a single franchisor. A sale is not effected by or through a franchisor merely because a franchisor has a right to approve or disapprove a different franchisee;

(b) any transaction by an executor, administrator, sheriff, receiver, trustee in bankruptcy, guardian or conservator;

(c) any offer or sale to a banking organization, financial organization or life insurance corporation within the meanings given these terms by section 345 31;

(d) securities currently registered in this state pursuant to chapter 80A;

(e) the offer or sale of a franchise, not including an area franchise, provided that:

(1) the franchisor shall make no more than one sale of a franchise pursuant to this exemption during any period of 12 consecutive months;

(2) the franchisor has not advertised the franchise for sale to the general public in newspapers or other publications of general circulation or otherwise by radio, television, electronic means or similar communications media, or through a program of general solicitation by means of mail or telephone;

(3) the franchisor deposits all franchisee fees within two days of receipt in an escrow account until all obligations of the franchisor to the franchisee which are, pursuant to the terms of the franchise agreement, to be performed prior to the opening of the franchise, have been performed. The franchisor shall provide the franchisee with a purchase receipt for the franchise fees paid, a copy of the escrow agreement and the name, address and telephone number of the escrow agent. The escrow agent shall be a bank located in Minnesota. Upon a showing of good cause the commissioner may waive the escrow of franchise fees; and

(4) the franchisor has provided to the commissioner, no later than ten business days prior to the sale, a written notice of its intention to offer or sell a franchise pursuant to this exemption;

(f) the offer or sale of a fractional franchise;

(g) any transaction which the commissioner by rule or order exempts as not being within the purposes of this chapter and the registration of which the commissioner finds is not necessary or appropriate in the public interest or for the protection of investors; and

(h) the offer or sale of a franchise to a resident of a foreign state, territory, or country who is neither domiciled in this state nor actually present in this state, if the franchise business is not to be operated wholly or partly in this state, and if the sale of this franchise is not in violation of any law of the foreign state, territory, or county concerned.

History: 1973 c 612 s 3; 1976 c 2 s 36; 1981 c 165 s 4; 1985 c 251 s 5; 1986 c 444

80C.04 APPLICATION FOR REGISTRATION.

Subdivision 1. An application for registration of a franchise shall be made by filing with the commissioner a proposed public offering statement accompanied by a fee of \$400. The public offering statement shall contain the following:

(a) The name of the franchisor, the name under which the franchisor is doing or intends to do business, and the name of any parent or affiliated person that will engage in business transactions with franchisees;

(b) The franchisor's principal business address, the address of its agent in this state authorized to receive service of process, and a consent to service of process as required by section 80C.20, if applicable;

(c) The business form of the franchisor, whether corporate, partnership or otherwise, and the state or other sovereign power under which the franchisor is organized;

(d) Such information concerning the identity and business experiences of persons affiliated with the franchisor as the commissioner may by rule prescribe;

(e) A statement whether the franchisor or any person identified in the public offering statement:

(1) Has during the ten year period immediately preceding the date of the public offering statement been convicted of a felony, pleaded nolo contendere to a felony charge, or been held liable in a civil action by final judgment if such felony or civil action involved fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices or misappropriation of property;

(2) Is subject to any currently effective order of the United States Securities and Exchange Commission or the securities administrator of any state denying registration to or revoking or suspending the license or registration of such person as a securities broker, dealer, agent, or investment adviser, or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange;

(3) Is subject to any currently effective order or ruling of the Federal Trade Commission;

(4) Is subject to any currently effective injunctive or restrictive order relating to the business which is the subject of the franchise offered or any other business activity as a result of an action brought by any public agency or department; or

(5) Has any civil or criminal actions pending against that franchisor or person involving fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices or misappropriation of property.

Such statement shall set forth the court and date of conviction or judgment, any penalty imposed or damages assessed, the date, nature and issuer of any orders, and the court, nature, and current status of any pending action.

(f) The business experience of the franchisor, including the length of time the franchisor has conducted a business of the type to be operated by the franchisees, has granted franchises for such businesses, and has granted franchises in other lines of business.

(g) A balance sheet of the franchisor as of the end of the franchisor's most recent fiscal year and an income statement for the period ending on the date of such balance sheet, both audited by an independent certified public accountant; and, if the fiscal year-end of the franchisor is in excess of 90 days prior to the date of filing the application, a balance sheet and income statement, which may be unaudited, as of a date within 90 days of the date of the application. The commissioner may by rule or order prescribe the form and content of financial statements required under this clause and the circumstances under which consolidated financial statements may or shall be filed, and may waive the requirement of audited financial statements;

(h) A copy of the entire franchise contract or agreement proposed for use, including all amendments thereto,

(i) A statement of the franchise fee charged, the proposed use of the proceeds of such fee by the franchisor, and the method or formula by which the amount of the fee is determined if the fee is not the same in all cases;

(j) A statement describing any payments or fees other than franchise fees that the franchisee or subfranchisor is required to pay to the franchisor, including royalties and payments or fees which the franchisor collects in whole or in part on behalf of a third party;

(k) A statement of the conditions under which the franchise agreement may be terminated or renewal refused or repurchased at the option of the franchisor, any limitations on the right of the franchisee to sell, transfer, assign, move, renew or terminate the franchise, and a description of the provisions regarding franchisee equity upon sale, termination, refusal to renew, or repurchase;

(l) A statement whether, by the terms of the franchise agreement or by other device or practice, the franchisee or subfranchisor is required to purchase from the franchisor or person designated by the franchisor, services, supplies, products, fixtures or other goods relating to the establishment or operation of the franchise business, together with a description thereof;

(m) A statement of any restriction or condition imposed by the franchisor whether by the terms of the franchise agreement or by other device or practice of the franchisor whereby the franchisee is limited in the goods or services offered by the franchisee to the franchisee's customers;

(n) A statement of the terms and conditions of any financing arrangements when offered directly or indirectly by the franchisor or an agent or affiliate;

(o) A statement of any past or present practice or of any intent of the franchisor to sell, assign or discount to a third party any note, contract or other obligation of the franchisee or subfranchisor in whole or in part;

(p) A copy of any statement of estimated or projected franchisee earnings prepared for presentation to prospective franchisees or subfranchisors, or other persons, together with a statement setting forth the data upon which such estimation or projection is based;

(q) A statement describing the training program, supervision and assistance the franchisor has provided and will provide the franchisee;

(r) A statement of any compensation or other benefit given or promised to a public figure arising, in whole or in part, from the use of the public figure in the name or symbol of the franchise or the endorsement or recommendation of the franchise by the public figure in advertisements, and the extent to which such public figure is involved in the actual management of the franchisor;

(s) A statement of the number of franchises presently operating and proposed to be sold;

(t) A statement whether franchisee or subfranchisors receive an exclusive area and territory, and if so, a map thereof; and

(u) Such other information as the commissioner may require;

(v) When the franchises to be registered are proposed to be offered and sold by a subfranchisor or the subfranchisor's agents, the application shall also include the same information concerning the subfranchisor as is required concerning the franchisor pursuant to this section.

Subd. 2. To the extent that such document is currently accurate, any document filed under sections 80C.01 to 80C.22 may be incorporated by reference in a subsequent application filed under this section if it was filed within two years prior to the filing of such subsequent application or is otherwise available in the files of the commissioner.

History: 1973 c 612 s 4; 1986 c 444; 1991 c 233 s 45

80C.05 REGISTRATION PROVISIONS.

Subdivision 1. Every application for registration, including amendments thereto, and annual report shall be signed and verified by the applicant and by the franchisor and subfranchisor on whose behalf the offering is to be made.

Subd. 2. The commissioner shall have power to place such conditions, limitations, and restrictions on any registration as may be necessary to carry out the purposes of sections 80C.01 to 80C.22. Upon compliance with the provisions of sections 80C.01 to 80C.22 and other requirements of the commissioner, and if the commissioner finds no ground for denial of the registration, the commissioner shall register the franchise. Registration shall be by entry in a book called Register of Franchises, which entry shall show the franchise registered and for whom registered, and shall specify the conditions, limitations, and restrictions upon such registration, if any, or shall make proper reference to a formal order of the commissioner on file showing such conditions, limitations, and restrictions. The registration shall become effective upon issuance by the commissioner of an order for registration.

Subd. 3. If the commissioner finds that the applicant has failed to demonstrate that adequate financial arrangements have been made to fulfill obligations to provide real estate, improvements, equipment, inventory, training or other items included in the offering, the commissioner may by rule or order require the escrow or impoundment of franchise fees and other funds paid by the franchisee or subfranchisor until no later than the time of opening of the franchise business.

Subd. 4. An application for registration that has not become effective will be considered withdrawn if no activity occurs with respect to the application for a period of 120 days.

History: 1973 c 612 s 5; 1996 c 439 art 2 s 17

80C.06 PUBLIC OFFERING STATEMENT.

Subdivision 1. Except as required by sections 80C.01 to 80C.22, no portion of the public offering statement shall be underscored, italicized, printed in larger or bolder type than the balance of the statement unless the commissioner requires or permits it. The public offering statement shall recite in boldface type of not less than 10-point type that registration of this franchise does not constitute approval or recommendation of the franchise by the commissioner.

Subd. 2. In addition to the information required by section 80C.04 to be included in the public offering statement, the commissioner may by rule or order require that specified portions of the public offering statement be emphasized by italics, bold-faced type or other means, that earnings or sales projections or estimations be qualified by appropriate legend and by the filing with the commissioner of such other information or documents as are necessary or appropriate in the public interest or for the protection of prospective franchisees or subfranchisors and may require that such additional information or documents be furnished to prospective franchisees or subfranchisors as part of the public offering statement.

Subd. 3. The commissioner may by rule or order provide that any information required by section 80C.04 to be included in the public offering statement need not be included in respect of any class of franchisees on finding that such information is inappropriate to such class and that disclosure adequate for the protection of prospective franchisees or subfranchisors is otherwise included within the public offering statement.

Subd. 4. The commissioner may by rule or order deem to be in full or partial compliance with this section or section 80C.04, any public offering or similar statement which complies

with the requirements of any federal law or administrative rule or with the law of any other state requiring substantially the same disclosure of information as is required under sections 80C.01 to 80C.22.

Subd. 5. Any person offering for sale or selling any franchise which is subject to the registration requirements imposed by section 80C.02 shall, at the person's own expense, present to the prospective franchisee, at least seven days prior to the execution by the prospective franchisee of any franchise or other agreement, or at least seven days prior to the payment of any consideration by the franchisee, whichever occurs first, a copy of the current public offering statement together with a copy of all proposed agreements relating to the sale of the franchise. The franchisee shall be permitted to retain the public offering statement prior and subsequent to the execution of any franchise or other agreement. The person offering or selling the franchise shall obtain a receipt, signed by the prospective franchisee, acknowledging receipt of a copy of the public offering statement prior to executing any franchise or other agreement and prior to paying any consideration. The receipt shall be kept in the possession of the person offering or selling the franchise, subject to inspection by the commissioner, for a period of three years from the date the receipt is taken.

Subd. 6. The commissioner may require the franchisor to alter or amend the proposed public offering statement in order to assure full and fair disclosure to prospective purchasers.

History: 1973 c 612 s 6; 1986 c 444

80C.07 AMENDMENT OF REGISTRATION.

A person with a registration in effect shall, within 30 days after the occurrence of any material change in the information on file with the commissioner, notify the commissioner in writing of the change by an application to amend the registration accompanied by a fee of \$100. The commissioner may by rule define what shall be considered a material change for such purposes, and may determine the circumstances under which a revised public offering statement must accompany the application. If the amendment is approved by the commissioner, it shall become effective upon the issuance by the commissioner of an order amending the registration.

History: 1973 c 612 s 7; 1991 c 233 s 46

80C.08 ANNUAL REPORT.

Subdivision 1. Within 120 days after the fiscal year end of the registrant, the registrant shall file a report in the form prescribed by rule of the commissioner. A fee of \$200 shall accompany the annual report.

Subd. 2. Failure to file the annual report and pay the fee shall constitute cause for cancellation of the registration. In the event of such cancellation, registration may be reinstated at a subsequent date following filing of the report and payment of the fee.

History: 1973 c 612 s 8; 1977 c 9 s 2; 1991 c 233 s 47

80C.09 ADVERTISING.

Subdivision 1. No person shall publish or cause to be published in this state any advertisement offering a franchise subject to the registration requirements of sections 80C.01 to 80C.22 unless a true copy of the advertisement has been filed in the office of the commissioner at least five business days prior to the first publication thereof, or at such later time as the commissioner by rule or order may allow, unless such advertisement has been exempted by rule of the commissioner.

Subd. 2. No person shall publish or cause to be published in this state any advertisement concerning any franchise after the commissioner has found that the advertisement contains any statement that is false or misleading or omits to make any statement necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and has so notified the person by written order. The order may be issued without prior notice or hearing. At any time after the issuance of the order, the person desiring to use the advertisement may in writing request a hearing on the order. Upon the receipt of such a written request, the matter shall be set for hearing to commence within 15 days after such

receipt unless the person making the request consents to a later date. After the hearing, which shall be conducted in accordance with the provisions of chapter 14, the commissioner shall, by written order, either affirm, modify, or vacate the order.

History: 1973 c 612 s 9; 1977 c 9 s 3; 1982 c 424 s 130

80C.10 BOOKS, RECORDS AND ACCOUNTS.

Every franchisor or subfranchisor offering franchises for sale in this state shall at all times keep and maintain a complete set of books, records and accounts of such sales, which shall at all times be open to inspection by the commissioner.

History: 1973 c 612 s 10

80C.11 OPINIONS, APPRAISALS, AND REPORTS.

The commissioner may accept and act upon the opinions, appraisals and reports of any independent engineers, appraisers, or other independent experts which may be presented by an applicant or any interested party, on any question of fact concerning or affecting the franchises proposed to be offered and sold. The commissioner may also have any or all matters concerning or affecting such franchises investigated, appraised, passed upon and certified by engineers, appraisers or other experts selected by the commissioner.

History: 1973 c 612 s 11; 1986 c 444

80C.12 DENIAL, SUSPENSION OR REVOCATION OF REGISTRATIONS OR EXEMPTIONS.

Subdivision 1. The commissioner, with or without prior notice or hearing, may issue a cease and desist order and may issue an order denying, suspending or revoking any registration, amendment or exemption on finding any of the following:

(a) That the applicant, registrant or franchisor or any officer, director, agent or employee thereof or any other person has violated or failed to comply with any provision of sections 80C.01 to 80C.22 or any rule or order of the commissioner;

(b) That the offer, sale, or purchase of the franchise would constitute misrepresentation to or deceit or fraud upon purchasers thereof, or has worked or tended to work a fraud upon purchasers or would so operate;

(c) That the applicant, registrant or franchisor or any officer, director, agent or employee thereof or any other person is engaging or about to engage in false, fraudulent or deceptive practices in connection with the offer and sale of a franchise;

(d) That any person identified in a public offering statement has been convicted of an offense described in section 80C.04, clause (5), or is subject to an order, or has had a civil judgment entered against the person as described in section 80C.04, clause (5), and the involvement of the person in the business of the applicant or franchisor creates a substantial risk to prospective franchisees;

(e) That the financial condition of the franchisor adversely affects or would adversely affect the ability of the franchisor to fulfill its obligations under the franchise agreement;

(f) That the franchisor's enterprise or method of business includes or would include activities which are illegal where performed;

(g) That the method of sale or proposed method of sale of franchises or the operation of the business of the franchisor or any term or condition of the franchise agreement or any practice of the franchisor is or would be unfair or inequitable to franchisees.

Subd. 2. Upon the entry of an order under subdivision 1 without a hearing, the commissioner shall promptly serve a copy of the order upon the subject applicant, registrant, franchisor or other person. The order shall state the reasons for its issuance and shall either order a hearing, which shall be set for no later than 20 days from the date of the order, or specify that upon the written request of the applicant, registrant, franchisor, or other person, the matter will be set for hearing within 15 days after receipt of the request; provided that with the consent of the applicant, registrant, franchisor or other person a hearing may be held subsequent to the expiration of either period specified herein. If no hearing is requested within 30 days of

service of the order and none is ordered by the commissioner, the order will remain in effect until it is modified or vacated by the commissioner. If a hearing is requested or ordered, the commissioner, after notice and hearing in accordance with the provisions of chapter 14, shall affirm, modify or vacate the order.

Subd. 3. As an alternative to the procedure prescribed in subdivision 2, the commissioner may issue an order to show cause setting a hearing and requiring an applicant, registrant, franchisor or other person to appear and show cause why a cease and desist order should not be issued, or why an order denying, suspending or revoking a registration, amendment or exemption should not be issued. The order to show cause shall give reasonable notice of the time and place for hearing thereon, and shall state the reasons for the entry of the order. The hearing shall be conducted in accordance with the provisions of chapter 14. After the hearing, the commissioner shall enter an order making such disposition of the matter as the facts require.

Subd. 4. In any proceeding under sections 80C.01 to 80C.22, the burden of proving an exemption or exception from a definition is upon the person claiming it.

History: 1973 c 612 s 12; 1979 c 144 s 1; 1982 c 424 s 130, 1986 c 444

80C.13 PROHIBITED PRACTICES.

Subdivision 1. No person may make or cause to be made any untrue statement of a material fact in any application, notice, report, or other document filed with the commissioner under sections 80C.01 to 80C.22, or omit to state in any such application, notice, report or other document any material fact which is required to be stated therein, or fail to notify the commissioner of any material change as required by section 80C.07.

Subd. 2. No person may offer or sell a franchise in this state by means of any written or oral communication which includes an untrue statement of a material fact or which omits to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

Subd. 3. No person may represent or cause to be represented to any prospective purchaser of a franchise that the filing of any document under sections 80C.01 to 80C.22 or the registration or exemption from registration of a franchise constitutes a finding by the commissioner that any document filed under sections 80C.01 to 80C.22 is true, complete, and not misleading, or that the commissioner has passed in any way upon the merits of any franchise, and no person may represent that a franchise is registered or exempted from registration when in fact, such is not the case.

History: 1973 c 612 s 13

80C.14 UNFAIR PRACTICES.

Subdivision 1 **Prohibition.** No person, whether by means of a term or condition of a franchise or otherwise, shall engage in any unfair or inequitable practice in contravention of such rules as the commissioner may adopt defining as to franchises the words "unfair and inequitable." For the purpose of rules defining the words "unfair and inequitable," the commissioner may specifically recognize classifications of franchises including but not limited to the classifications of motor vehicle fuel franchises, motor vehicle franchises, hardware franchises, and franchises which require that the franchisee make an initial, unfinanced investment in excess of \$200,000. A violation of this section is enjoined by a court of competent jurisdiction. Irreparable harm to the franchisee will be presumed if there is a violation of this section by a person who is required to register under section 80C.02, but who fails to do so.

A temporary injunction may be granted under this section without requiring the posting of any bond or security. A bond or security is required if a temporary restraining order is granted.

Subd. 2. **Acts constituting.** All franchise contracts or agreements, other than those classifications of franchises specifically recognized by the commissioner under subdivision 1, and any other device or practice of a franchisor must conform to subdivisions 3 and 4. It is an unfair and inequitable practice for a person to commit an act specified in subdivisions 3 to 5.

Subd. 3. Termination or cancellation. (a) No person may terminate or cancel a franchise unless: (i) that person has given written notice setting forth all the reasons for the termination or cancellation at least 90 days in advance of termination or cancellation, and (ii) the recipient of the notice fails to correct the reasons stated for termination or cancellation in the notice within 60 days of receipt of the notice; except that the notice is effective immediately upon receipt where the alleged grounds for termination or cancellation are:

- (1) voluntary abandonment of the franchise relationship by the franchisee;
- (2) the conviction of the franchisee of an offense directly related to the business conducted pursuant to the franchise; or
- (3) failure to cure a default under the franchise agreement which materially impairs the good will associated with the franchisor's trade name, trademark, service mark, logotype or other commercial symbol after the franchisee has received written notice to cure of at least 24 hours in advance thereof.

(b) No person may terminate or cancel a franchise except for good cause. "Good cause" means failure by the franchisee to substantially comply with the material and reasonable franchise requirements imposed by the franchisor including, but not limited to:

- (1) the bankruptcy or insolvency of the franchisee;
- (2) assignment for the benefit of creditors or similar disposition of the assets of the franchise business;
- (3) voluntary abandonment of the franchise business;
- (4) conviction or a plea of guilty or no contest to a charge of violating any law relating to the franchise business; or
- (5) any act by or conduct of the franchisee which materially impairs the good will associated with the franchisor's trademark, trade name, service mark, logotype or other commercial symbol

Subd. 4. Failure to renew. Unless the failure to renew a franchise is for good cause as defined in subdivision 3, paragraph (b), and the franchisee has failed to correct reasons for termination as required by subdivision 3, no person may fail to renew a franchise unless (1) the franchisee has been given written notice of the intention not to renew at least 180 days in advance of the expiration of the franchise; and (2) the franchisee has been given an opportunity to operate the franchise over a sufficient period of time to enable the franchisee to recover the fair market value of the franchise as a going concern, as determined and measured from the date of the failure to renew. No franchisor may refuse to renew a franchise if the refusal is for the purpose of converting the franchisee's business premises to an operation that will be owned by the franchisor for its own account.

Subd. 5. Withholding consent to transfer. It is unfair and inequitable for a person to unreasonably withhold consent to an assignment, transfer, or sale of the franchise whenever the franchisee to be substituted meets the present qualifications and standards required of the franchisees of the particular franchisor

History: 1973 c 612 s 14; 1981 c 165 s 5; 1986 c 444; 1987 c 317 s 1; 1989 c 198 s 1

80C.145 MOTOR FUEL FRANCHISES; RIGHT OF SURVIVORSHIP.

Subdivision 1. Required provisions. No motor fuel franchisor shall initially execute or renew a franchise agreement in the state after July 1, 1981 unless it contains the provisions of subdivisions 3 to 9.

Subd. 2. Definition; designated family member. For purposes of this section, "designated family member" means the spouse, child, grandchild, parent, brother, or sister of the motor fuel franchisee who, in the case of the motor fuel franchisee's death, is entitled to inherit the franchisee's interest in the motor fuel franchise under the terms of the franchisee's will or under the law of intestate succession of this state or who, in the case of an incapacitated franchisee, has been appointed by a court as the legal representative of the franchisee's property.

Subd. 3. Authorization. Any designated family member of a deceased or incapacitated owner of a motor fuel franchise may succeed to the ownership of the existing franchise: (a) if

the designated family member gives the motor fuel franchisor written notice of the intention to succeed to the motor fuel franchise within 60 days of the motor fuel franchisee's death or incapacity; (b) if the designated family member agrees to be bound by all terms and conditions of the existing franchise; and (c) unless there exists good cause for the refusal to honor the succession on the part of the motor fuel franchisor.

Subd. 4. Personal and financial data. At the time of serving notice under subdivision 3, the designated family member shall provide upon the request of the motor fuel franchisor, personal and financial data that is reasonably necessary to determine whether the succession should be honored.

Subd. 5. Notice of termination or refusal to honor succession. If a motor fuel franchisor believes in good faith that good cause exists for refusing to honor succession of the franchise by a designated family member of a deceased or incapacitated motor fuel franchisee, the franchisor may within 90 days after receipt of the personal and financial data requested under subdivision 4, serve notice upon the designated family member of its refusal to honor succession and of its intent to terminate the existing motor fuel franchise with the designated family member no sooner than 90 days from the date the notice is served.

Subd. 6. Contents of notice. The notice must state the specific grounds for the refusal to honor the succession and the termination of the existing franchise with the designated family member.

Subd. 7. Effect of notice not timely served. If notice of refusal and termination is not timely served upon the designated family member, the existing motor fuel franchise shall continue in effect subject to termination only as otherwise permitted by law.

Subd. 8. Burden of proof. In determining whether good cause for the refusal to honor the succession exists, the motor fuel franchisor has the burden of proving that the successor is a person who is not of good moral character or does not meet the franchisor's existing, reasonable standards

Subd. 9. Succession agreements. Notwithstanding the foregoing, in the event the motor fuel franchisee and the motor fuel franchisor have duly executed an agreement concerning the succession rights prior to the franchisee's death or incapacitation; the agreement shall be observed, even if the agreement designates an individual other than the surviving spouse or heirs of the franchisee.

Subd. 10. Enforcement. The attorney general or any aggrieved party may institute a civil action in the district court for an injunction prohibiting a violation of this section. It is no defense to the action that the state or the aggrieved party has adequate remedies at law.

History: 1981 c 59 s 1.

80C.146 ELIMINATION OF SERVICE BAYS PROHIBITED.

Subdivision 1. Definitions. As used in this section, the terms defined in this subdivision have the meanings given them.

"Full-service station" means any place of business where motor vehicle fuel is sold and delivered into the tanks of motor vehicles and has an enclosed area where automobile repairs are offered to consumers, including, but not limited to, lubrication, oil change, tire repair, battery charge, replacement of fan belts, hoses, and wiper blades.

"Service bays" are enclosed areas where automobile repairs are performed, including, but not limited to, lubrication, oil change, tire repair, battery charge, replacement of fan belts, hoses, and wiper blades.

Subd. 2. Building alterations. (a) A motor fuel franchise agreement entered into or renewed, extended, or modified, after April 27, 1988, must comply with this subdivision if it allows the franchisor to modify, remodel, or alter a full-service station operated by a franchisee by eliminating one or more service bays. The agreement must provide that if the motor fuel franchisor eliminates one or more service bays during the term of the agreement, the franchisor must first pay to the franchisee in cash an amount that fairly and adequately compensates the franchisee for the loss of the service and repair business. The amount of compensation must be determined without regard to:

(1) the income or loss the franchisee may realize as a result of any subsequent or replacement business the franchisee may be entitled to operate on the premises leased from the motor fuel franchisor; or

(2) the income or loss the franchisee may realize by relocating the franchisee service and repair business or by acquiring another service and repair business.

(b) The commissioner shall require inclusion of the provision specified in paragraph (a) in the franchise agreement as a condition of registration of the agreement. An agreement subject to this subdivision that does not contain the provision is deemed to contain the provision: The provision may not be waived or modified except in a writing signed by the franchisee that is executed at least 30 days after the execution of the franchise agreement, is separate and independent from the franchise agreement, and is based upon adequate consideration. Adequate consideration may include, without limitation, an agreement to purchase the entire business operated by the franchisee or an agreement to provide equivalent repair facilities for use by the franchisee.

(c) If the franchisor and the franchisee are unable to agree on the amount of compensation, and either the franchisor or the franchisee demands arbitration, the matter must be submitted to binding arbitration in accordance with sections 572.08 to 572.30 and the rules of the American Arbitration Association. Within 30 days after the demand for arbitration, the franchisor and the franchisee shall each select an arbitrator. The two arbitrators shall select a third arbitrator within 45 days after the demand for arbitration. The franchisor and the franchisee shall pay the fees and expenses of the arbitrator each selects, and the franchisor and franchisee shall share equally the fees and expenses of the third arbitrator.

(d) Nothing in this subdivision prohibits a motor fuel franchisor from altering, modifying, or remodeling a full-service station, without payment to the franchisee, following the expiration of the franchise relationship based upon termination or nonrenewal of the franchise relationship in accordance with United States Code, title 15, section 2802(b)(3)(D).

Subd. 3. **Enforcement.** The attorney general or any aggrieved party may institute a civil action in the district court for an injunction prohibiting any violation of subdivision 2 and an award of costs, disbursements, and reasonable attorney's fees. It is no defense to the action that the state or aggrieved party may have adequate remedies at law.

History: 1984 c 444 s 1-3; 1988 c 663 s 2,3

80C.15 [Repealed, 1987 c 336 s 47]

80C.16 ENFORCEMENT; PENALTIES AND REMEDIES.

Subdivision 1. [Repealed, 1987 c 336 s 47]

Subd. 2. Any person who violates section 80C.02, 80C.06, 80C.09, 80C.13 or 80C.14 shall be subject to a fine of not more than \$2,000 for each violation. Any person who fails to comply with a final judgment or order rendered by a court of competent jurisdiction, issued for a violation of sections 80C.01 to 80C.22, shall be subject to a fine of not more than \$25,000. The fines authorized by this subdivision shall be imposed in a civil action brought by the attorney general on behalf of the state of Minnesota, and shall be deposited into the state treasury.

Subd. 3. (a) Any person who willfully violates any provision of sections 80C.01 to 80C.22 shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

(b) Any person who employs, directly or indirectly, any device, scheme or artifice to defraud in connection with the offer or sale of any franchise or engages, directly or indirectly, in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person in connection with the offer, purchase or sale of any franchise shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

(c) Nothing in this subdivision limits the power of the state to punish any person for any conduct which constitutes a crime under any other statute.

History: 1973 c 612 s 16; 1984 c 628 art 3 s 11; 1986 c 444

80C.17 CIVIL LIABILITY.

Subdivision 1. A person who violates any provision of this chapter or any rule or order thereunder shall be liable to the franchisee or subfranchisor who may sue for damages caused thereby, for rescission, or other relief as the court may deem appropriate.

Subd. 2. Every person who directly or indirectly controls a person liable under subdivision 1, every partner in a firm so liable, every principal executive officer or director of a corporation so liable, every person occupying a similar status or performing similar functions and every employee of a person so liable who materially aids in the act or transaction constituting the violation is also liable jointly and severally with and to the same extent as such person, unless the person who would otherwise be liable hereunder had no knowledge of or reasonable grounds to know of the existence of the facts by reason of which the liability is alleged to exist.

Subd. 3. Any suit authorized under this section may be brought to recover the actual damages sustained by the plaintiff together with costs and disbursements plus reasonable attorney's fees.

Subd. 4. Except as explicitly provided in this section, no civil liability in favor of any private party shall arise against any person by implication from or as a result of the violation of any provision of sections 80C.01 to 80C.22 or any rule or order thereunder. Nothing herein shall limit any liability which may exist by virtue of any other statute or under common law if sections 80C.01 to 80C.22 were not in effect.

Subd. 5. No action may be commenced pursuant to this section more than three years after the cause of action accrues.

History: 1973 c 612 s 17; 1981 c 165 s 6; 1987 c 336 s 19; 1993 c 372 s 1,2

80C.18 COMMISSIONER TO PRESCRIBE RULES.

Subdivision 1. The commissioner may promulgate rules to carry out the provisions of sections 80C.01 to 80C.22, including rules and forms governing public offering statements, applications, financial statements and annual reports, and defining any terms, whether or not used in sections 80C.01 to 80C.22, insofar as the definitions are not inconsistent with sections 80C.01 to 80C.22. The commissioner may define by rule false, fraudulent or deceptive practices in the offer and sale of franchises. For the purpose of rules and forms the commissioner may classify franchises, persons and matters within the commissioner's jurisdiction, and prescribe different requirements for different classes. Rules shall be promulgated in accordance with chapter 14.

Subd. 2. The commissioner may, upon request and upon payment of a fee of \$50, honor requests for interpretive opinions relating to sections 80C.01 to 80C.22.

History: 1973 c 612 s 18; 1981 c 165 s 7; 1985 c 248 s 70; 1986 c 444; 1993 c 13 art 1 s 21

80C.19 SCOPE OF SECTIONS 80C.01 TO 80C.22.

Subdivision 1. The provisions of sections 80C.01 to 80C.22 concerning sales and offers to sell shall apply when a sale or offer to sell is made in this state; when an offer to purchase is made and accepted in this state; or when the franchise is to be located in this state.

Subd. 2. For the purpose of sections 80C.01 to 80C.22, an offer to sell or to purchase is made in this state, whether or not either party is then present in this state, when the offer originates from this state or is directed by the offeror to this state and received by the offeree in this state.

Subd. 3. For the purpose of this section, an offer to purchase or to sell is accepted in this state when acceptance is communicated to the offeror in this state, and has not previously been communicated to the offeror, orally or in writing, outside this state; and acceptance is communicated to the offeror in this state, whether or not either party is then present in this state, when the offeree directs it to the offeror in this state reasonably believing the offeror to be in this state and it is received by the offeror in this state.

Subd. 4. An offer to sell or to purchase is not made in this state when the publisher circulates or there is circulated in the publisher's behalf in this state any bona fide newspaper or

other publication of general, regular and paid circulation which is not published in this state, or when a radio or television program originating outside this state is received in this state.

History: 1973 c 612 s 19; 1981 c 165 s 8; 1986 c 444

80C.20 SERVICE OF PROCESS.

Every applicant for registration under sections 80C.01 to 80C.22 and every franchisor on whose behalf an application for registration is filed, except applicants and franchisors which are Minnesota corporations, shall file with the commissioner, in such form as the commissioner may prescribe, an irrevocable consent appointing the commissioner and successors in office to be the applicant's or franchisor's attorney to receive service of any lawful process in any civil action against the applicant or franchisor or a successor, executor or administrator, which arises under sections 80C.01 to 80C.22 or any rule or order thereunder after the consent has been filed, with the same force and validity as if served personally on the applicant or franchisor or a successor, executor or administrator. Service under this section shall be made in compliance with section 45.028, subdivision 2.

When any person, including any nonresident of this state and any foreign corporation, engages in conduct prohibited or made actionable by sections 80C.01 to 80C.22, whether or not the person has filed a consent to service of process, and personal jurisdiction over the person cannot otherwise be obtained in this state, that conduct shall be considered equivalent to appointment of the commissioner and successors in office to be the person's agent to receive service of any lawful process in any suit against the person or a successor, executor or administrator which grows out of that conduct and which is brought under sections 80C.01 to 80C.22, with the same force and validity as if served personally. Service under this section shall be made in compliance with section 45.028, subdivision 2.

History: 1973 c 612 s 20; 1986 c 444; 1992 c 564 art 2 s 12

80C.21 WAIVERS VOID.

Any condition, stipulation or provision, including any choice of law provision, purporting to bind any person who, at the time of acquiring a franchise is a resident of this state, or, in the case of a partnership or corporation, organized or incorporated under the laws of this state, or purporting to bind a person acquiring any franchise to be operated in this state to waive compliance or which has the effect of waiving compliance with any provision of sections 80C.01 to 80C.22 or any rule or order thereunder is void.

History: 1973 c 612 s 21; 1989 c 198 s 2

80C.22 ADMINISTRATION.

Subdivision 1. Sections 80C.01 to 80C.22 shall be administered by the commissioner of commerce.

Subd. 2. It is unlawful for the commissioner or any of the commissioner's officers or employees to use for personal benefit any information which is filed with or obtained by the commissioner and which is not generally available to the public. Nothing in sections 80C.01 to 80C.22 authorizes the commissioner or any of the commissioner's officers or employees to disclose any confidential information except among themselves or to other administrators or regulatory authorities, or when necessary or appropriate in a proceeding or investigation under sections 80C.01 to 80C.22. No provision of sections 80C.01 to 80C.22 either creates any privilege or derogates from any privilege which exists at common law or otherwise, when documentary or other evidence is sought under a subpoena directed to the commissioner or any of the commissioner's officers or employees.

Subd. 3. All applications, notices, reports and other documents filed with the commissioner under sections 80C.01 to 80C.22 shall be open to public inspection in accordance with rules prescribed by the commissioner. The commissioner may publish information filed with, or obtained by, the commissioner, if, in the judgment of the commissioner, such action is in the public interest.

Subd. 4. A document is filed when it is received by the commissioner.

Subd. 5. The commissioner shall keep a register of all filings which are or have ever been effective under sections 80C.01 to 80C.22 and all denial, suspension, revocation and

other orders which have been entered under sections 80C.01 to 80C.22. The register shall be open for public inspection.

Subd. 6. The commissioner upon request shall furnish to any person at a reasonable charge photostatic or other copies, certified under seal of office if certification is requested, of any entry in the register or any order or other document on file in the commissioner's office. Any copy so certified is admissible in evidence under section 600.13.

Subd. 7. Orders of the commissioner shall be served by mailing a copy thereof by mail to the most recent address of the recipient of the order as it appears in the files of the commissioner. Subpoenas shall be served in the same manner as provided in civil actions in the district courts.

History: 1973 c 612 s 22; 1980 c 516 s 2; 1983 c 289 s 114 subd 1; 1984 c 655 art 1 s 92; 1986 c 444; 1993 c 372 s 3

80C.30 BURGLAR ALARM FRANCHISES.

A manufacturer of a burglar alarm product having been sold to a distributor in this state for at least five years may establish itself as a franchisor as provided in this section. Such franchisor may require a distributor to begin paying an annual franchise fee and/or a sign up fee for operations within this state provided the manufacturer gives an existing nonfranchised distributor ten years' notice of intent to establish a franchisor/franchisee relationship and grants an automatic extension of the existing distributor contractual arrangement during the notice period. The manufacturer may not establish any business in this state in competition with the distributor during the notice period. A manufacturer terminating an existing burglar alarm distributor contract in this state must wait ten years before opening a distributorship in this state.

History: 1988 c 561 s 2