

FINAL BILL REPORT

ESSB 5256

PARTIAL VETO

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SYNOPSIS AS ENACTED

Brief Description: Providing franchise investment protection.

SPONSORS: Senate Committee on Law & Justice (originally sponsored by Senators Nelson, A. Smith and Newhouse).

SENATE COMMITTEE ON LAW & JUSTICE

HOUSE COMMITTEE ON COMMERCE & LABOR

HOUSE COMMITTEE ON REVENUE

BACKGROUND:

Franchising is a contractual method for marketing and distributing the goods or services of a company (the franchisor) through a dedicated or restricted network of distributors (franchisees). Under the terms of a franchise contract, a franchisor grants the right and license to a franchisee to market a product or service using the trademark and/or business system developed by the franchisor. The most commonly recognized criteria in the United States for determining whether a business arrangement is a franchise is the Federal Trade Commission 1978 regulatory rule.

The Washington Franchise Investment Protection Act of 1972 regulates franchises in Washington through disclosure requirements, the delineation of rights and prohibited acts, and mandatory registration of offerings, brokers, and agents. The Washington State Bar Association has suggested that the public would be better served if the Washington act conformed more closely to the regulations of the Federal Trade Commission and uniform acts proposed by the North American Securities Administrators Association and the National Conference of Commissioners on Uniform State Laws.

SUMMARY:

The Franchise Investment Protection Act is amended. The definition of "franchise" is narrowed. Franchise sales agents working for franchisors or franchise brokers are no longer required to register under the act. Washington franchisors are allowed to offer franchises for sale in other states without registering in this state, unless the offer violates the franchise law of the other state. The disclosure statements specified by the act are eliminated and replaced with a requirement to follow regulations based on the Uniform

Franchise Offering Circular adopted by the North American Securities Administrators Association.

Franchisors who give notice to the Department of Licensing that they have a net worth of at least \$5,000,000, at least 25 franchisees, and require an initial investment by franchisees of more than \$100,000 are exempt from the registration requirements if they pay a filing fee to the department. The fee for filing a notice of claim of exemption is \$100 for the original filing and \$100 for each annual renewal.

The fee for filing an application for registration on the sale of franchise is \$600.

The maximum number of franchises which a small franchisor may grant and be exempt from registration requirements, if there is no advertisement for franchisees, is reduced from nine to three. The buyer from such a small franchisor must now have the advice of a certified public accountant or attorney.

Franchises involving renting or leasing motor vehicles are now subject to the act.

The maximum franchise fee which a franchisor may charge and be exempt from the registration requirement of the act is reduced from \$1,500 to \$500.

The length of time required between the delivery of a franchise offering circular and the sale of the franchise is expanded from 48 hours to 10 days.

Negotiations of the terms and conditions of a franchise are specifically allowed when initiated by the franchisee.

There is a statute of limitations of one year on actions for failure to register and three years for other actions under the act.

The Director of the Department of Licensing may deny, suspend, or revoke a franchise broker's registration or any exemptions from registration in the case of certain violations or wrongdoing.

VOTES ON FINAL PASSAGE:

Senate	41	8	
House	95	0	(House amended)
Senate	39	7	(Senate concurred)

EFFECTIVE: July 28, 1991

Partial Veto Summary: The section which creates a statute of limitations of one year on actions for failure to register and three years for other actions is deleted. (See VETO MESSAGE)