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## HOUSE BILL NO. 1848

## AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the House Committee on Transportation  
on January 25, 2007)

(Patron Prior to Substitute—Delegate Saxman)

A BILL to amend and reenact § 46.2-1569 of the Code of Virginia, relating to ability of a buyer of a motor vehicle dealership to contest the failure of a manufacturer to approve the transfer of the dealership.

Be it enacted by the General Assembly of Virginia:

1. That § 46.2-1569 of the Code of Virginia is amended and reenacted as follows:

§ 46.2-1569. Other coercion of dealers; transfer, grant, succession to and cancellation of dealer franchises; delivery of vehicles, parts, and accessories.

Notwithstanding the terms of any franchise agreement, it shall be unlawful for any manufacturer, factory branch, distributor, or distributor branch, or any field representative, officer, agent, or their representatives:

1. To coerce or attempt to coerce any dealer to accept delivery of any motor vehicle or vehicles, parts or accessories therefor, or any other commodities, which have not been ordered by the dealer.

2. To coerce or attempt to coerce any dealer to enter into an agreement with the manufacturer, factory branch, distributor, or distributor branch, or representative thereof, or do any other act unfair to the dealer, by threatening to cancel any franchise existing between the manufacturer, factory branch, distributor, distributor branch, or representative thereof and the dealer.

2a. To coerce or attempt to coerce any dealer to join, contribute to, or affiliate with any advertising association.

3. To prevent or refuse to approve the sale or transfer of the ownership of a dealership by the sale of the business, stock transfer, or otherwise, or the transfer, sale, or assignment of a dealer franchise, or a change in the executive management or principal operator of the dealership, unless the franchisor provides written notice to the dealer of its objection and the reasons therefor by certified mail or overnight delivery or other method designed to ensure delivery to the dealer at least thirty days prior to the proposed effective date of the transfer, sale, assignment, or change. No such objection shall be sufficient unless the failure to approve is reasonable. The only grounds that may be considered reasonable for a failure to approve are that an individual who is the applicant or is in control of an entity that is an applicant (i) lacks good moral character, (ii) lacks reasonable motor vehicle dealership management experience and qualifications, (iii) lacks financial ability to be the dealer, or (iv) fails to meet the standards otherwise established by this title to be a dealer. No such objection shall be effective to prevent the sale, transfer, assignment, or change if the Commissioner has determined, if requested in writing by the dealer within thirty days after receipt of an objection to the proposed sale, transfer, or change, and after a hearing on the matter, that the failure to permit or honor the sale, transfer, assignment, or change is unreasonable under the circumstances. No franchise may be sold, assigned, or transferred unless (i) the franchisor has been given at least ninety days' prior written notice by the dealer as to the identity, financial ability, and qualifications of the proposed transferee on forms generally utilized by the franchisor to conduct its review, as well as the full agreement for the proposed transaction, and (ii) the sale or transfer of the franchise and business will not involve, without the franchisor's consent, a relocation of the business.

3a. To impose a condition on the approval of the sale or transfer of the ownership of a dealership by the sale of the business, stock transfer, or otherwise if the condition would violate the provisions of this title if imposed on the existing dealer.

In the event the manufacturer, factory branch, distributor or distributor branch takes action to prevent or refuse to approve the sale or transfer of the ownership of a dealership by the sale of the business, stock transfer, or otherwise, or the transfer, sale or assignment of a dealer franchise, or a change in the executive management or principal operator of the dealership, without a statement of specific grounds for doing so that is consistent with subdivision 3 hereof or imposes a condition in violation of subdivision 3a hereof, that shall constitute a violation of this section. The existing dealer may request review of the action or imposition of the condition in a hearing by the Commissioner. If the Commissioner finds that the action or the imposition of the condition was a violation of this section, the Commissioner may order that the sale or transfer be approved by the manufacturer, factory branch, distributor, or distributor branch, without imposition of the condition. If the existing dealer does not request a hearing by the Commissioner concerning the action or the condition imposed by the manufacturer, factory branch, distributor, or distributor branch, and the action or condition was the proximate cause of the failure of the contract for the sale or transfer of ownership of the dealership, the

60 applicant for approval of the sale or transfer or the existing dealer, or both, may commence an action  
61 at law for violation of this section. The action may be commenced in the circuit court of the city or  
62 county in which the dealer is located, or in any other circuit court with permissible venue, within two  
63 years following the action or the imposition of the condition by the manufacturer, factory branch,  
64 distributor, or distributor branch for the damages suffered by the applicant or the dealer as a result of  
65 the violation of this section by the manufacturer, factory branch, distributor, or distributor branch, plus  
66 the applicant's or dealer's reasonable attorney fees and costs of litigation. Notwithstanding the  
67 foregoing, an exercise of the right of first refusal by the manufacturer, factory branch, distributor, or  
68 distributor branch pursuant to § 46.2-1569.1 shall not be considered the imposition of a condition  
69 prohibited by this section.

70 4. To grant an additional franchise for a particular line-make of motor vehicle in a relevant market  
71 area in which a dealer or dealers in that line-make are already located unless the franchisor has first  
72 advised in writing all other dealers in the line-make in the relevant market area. No such additional  
73 franchise may be established at the proposed site unless the Commissioner has determined, if requested  
74 by a dealer of the same line-make in the relevant market area within thirty days after receipt of the  
75 franchisor's notice of intention to establish the additional franchise, and after a hearing on the matter,  
76 that there is reasonable evidence that after the grant of the new franchise, the market will support all of  
77 the dealers in that line-make in the relevant market area. Establishing a franchised dealer in a relevant  
78 market area to replace a franchised dealer that has not been in operation for more than two years shall  
79 constitute the establishment of a new franchise subject to the terms of this subdivision. The two-year  
80 period for replacing a franchised dealer shall begin on the day the franchise was terminated, or, if a  
81 termination hearing was held, on the day the franchisor was legally permitted finally to terminate the  
82 franchise. This subdivision shall not apply to (i) the relocation of an existing dealer within that dealer's  
83 relevant market area if the relocation site is to be more than ten miles distant from any other dealer for  
84 the same line-make; (ii) the relocation of an existing dealer within that dealer's relevant market area if  
85 the relocation site is to be more distant than the existing site from all other dealers of the same  
86 line-make in that relevant market area; or (iii) the relocation of an existing new motor vehicle dealer  
87 within two miles of the existing site of the relocating dealer.

88 5. Except as otherwise provided in this subdivision and notwithstanding the terms of any franchise,  
89 to terminate, cancel, or refuse to renew the franchise of any dealer without good cause and unless (i) the  
90 dealer and the Commissioner have received written notice of the franchisor's intentions at least sixty  
91 days prior to the effective date of such termination, cancellation, or the expiration date of the franchise,  
92 setting forth the specific grounds for the action, and (ii) the Commissioner has determined, if requested  
93 in writing by the dealer within the sixty-day period and, after a hearing on the matter, that there is good  
94 cause for the termination, cancellation, or nonrenewal of the franchise. In any case where a petition is  
95 made to the Commissioner for a determination as to good cause for the termination, cancellation, or  
96 nonrenewal of a franchise, the franchise in question shall continue in effect pending the Commissioner's  
97 decision or, if that decision is appealed to the circuit court, pending the decision of the circuit court. In  
98 any case in which a franchisor neither advises a dealer that it does not intend to renew a franchise nor  
99 takes any action to renew a franchise beyond its expiration date, the franchise in question shall continue  
100 in effect on the terms last agreed to by the parties. Notwithstanding the other provisions of this  
101 subdivision notice of termination, cancellation, or nonrenewal may be provided to a dealer by a  
102 franchisor not less than fifteen days prior to the effective date of such termination, cancellation, or  
103 nonrenewal when the grounds for such action are any of the following:

104 a. Insolvency of the franchised motor vehicle dealer or filing of any petition by or against the  
105 franchised motor vehicle dealer, under any bankruptcy or receivership law, leading to liquidation or  
106 which is intended to lead to liquidation of the franchisee's business.

107 b. Failure of the franchised motor vehicle dealer to conduct its customary sales and service  
108 operations during its posted business hours for seven consecutive business days, except where the failure  
109 results from acts of God or circumstances beyond the direct control of the franchised motor vehicle  
110 dealer.

111 c. Revocation of any license which the franchised motor vehicle dealer is required to have to operate  
112 a dealership.

113 d. Conviction of the dealer or any principal of the dealer of a felony.

114 The change or discontinuance of a marketing or distribution system of a particular line-make product  
115 by a manufacturer or distributor, while the name identification of the product is continued in substantial  
116 form by the same or a different manufacturer or distributor, may be considered to be a franchise  
117 termination, cancellation, or nonrenewal. The provisions of this paragraph shall apply to changes and  
118 discontinuances made after January 1, 1989, but they shall not be considered by any court in any case in  
119 which such a change or discontinuance occurring prior to that date has been challenged as constituting a  
120 termination, cancellation or nonrenewal.

121 5a. To fail to provide continued parts and service support to a dealer which holds a franchise in a

discontinued line-make for at least five years from the date of such discontinuance. This requirement shall not apply to a line-make which was discontinued prior to January 1, 1989.

6. To fail to allow a dealer the right at any time to designate a member of his family as a successor to the dealership in the event of the death or incapacity of the dealer. It shall be unlawful to prevent or refuse to honor the succession to a dealership by a member of the family of a deceased or incapacitated dealer if the franchisor has not provided to the member of the family previously designated by the dealer as his successor written notice of its objections to the succession and of such person's right to seek a hearing on the matter before the Commissioner pursuant to this article, and the Commissioner determines, if requested in writing by such member of the family within thirty days of receipt of such notice from the franchisor, and after a hearing on the matter before the Commissioner pursuant to this article, that the failure to permit or honor the succession is unreasonable under the circumstances. No member of the family may succeed to a franchise unless (i) the franchisor has been given written notice as to the identity, financial ability, and qualifications of the member of the family in question, and (ii) the succession to the franchise will not involve, without the franchisor's consent, a relocation of the business.

7. To fail to ship monthly to any dealer, if ordered by the dealer, the number of new vehicles of each make, series, and model needed by the dealer to receive a percentage of total new vehicle sales of each make, series, and model equitably related to the total new vehicle production or importation currently being achieved nationally by each make, series, and model covered under the franchise. Upon the written request of any dealer holding its sales or sales and service franchise, the manufacturer or distributor shall disclose to the dealer in writing the basis upon which new motor vehicles are allocated, scheduled, and delivered to the dealers of the same line-make. In the event that allocation is at issue in a request for a hearing, the dealer may demand the Commissioner to direct that the manufacturer or distributor provide to the dealer, within thirty days of such demand, all records of sales and all records of distribution of all motor vehicles to the same line-make dealers who compete with the dealer requesting the hearing.

7a. To fail or refuse to offer to its same line-make franchised dealers all models manufactured for the line-make, or require a dealer to pay any extra fee, or remodel, renovate, or recondition the dealer's existing facilities, or purchase unreasonable advertising displays or other materials as a prerequisite to receiving a model or a series of vehicles.

7b. To require or otherwise coerce a dealer to underutilize the dealer's facilities.

8. To include in any franchise with a motor vehicle dealer terms that are contrary to, prohibited by, or otherwise inconsistent with the requirements of this chapter.

8a. For any franchise agreement, to require a motor vehicle dealer to pay the attorney's fees of the manufacturer or distributor related to hearings and appeals brought under this article.

9. To fail to include in any franchise with a motor vehicle dealer the following language: "If any provision herein contravenes the laws or regulations of any state or other jurisdiction wherein this agreement is to be performed, or denies access to the procedures, forums, or remedies provided for by such laws or regulations, such provision shall be deemed to be modified to conform to such laws or regulations, and all other terms and provisions shall remain in full force," or words to that effect.