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HOUSE BILL NO. 2316

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the House Committee on Transportation
on February 1, 2007)

(Patron Prior to Substitute—Delegate Welch)

A BILL to amend and reenact § 46.2-1569 of the Code of Virginia, relating to coercion of motor vehicle dealers; termination of dealer franchises.

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 *by threat to take or by taking any action in violation of the chapter*, or ~~do~~ by any other act unfair or injurious 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 at least thirty days prior to the proposed effective date of the transfer, sale, assignment, or change. 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, and (ii) the sale or transfer of the franchise and business will not involve, without the franchisor's consent, a relocation of the business.

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

5. Except as otherwise provided in this subdivision and notwithstanding the terms of any franchise, to terminate, cancel, or refuse to renew the franchise of any dealer without good cause and unless (i) the dealer and the Commissioner have received written notice of the franchisor's intentions at least sixty days prior to the effective date of such termination, cancellation, or the expiration date of the franchise, setting forth the specific grounds for the action, and (ii) the Commissioner has determined, if requested

60 in writing by the dealer within the sixty-day period and, after a hearing on the matter, that there is good
61 cause for the termination, cancellation, or nonrenewal of the franchise. In any case where a petition is
62 made to the Commissioner for a determination as to good cause for the termination, cancellation, or
63 nonrenewal of a franchise, the franchise in question shall continue in effect pending the Commissioner's
64 decision or, if that decision is appealed to the circuit court, pending the decision of the circuit court. In
65 any case in which a franchisor neither advises a dealer that it does not intend to renew a franchise nor
66 takes any action to renew a franchise beyond its expiration date, the franchise in question shall continue
67 in effect on the terms last agreed to by the parties. Notwithstanding the other provisions of this
68 subdivision notice of termination, cancellation, or nonrenewal may be provided to a dealer by a
69 franchisor not less than fifteen days prior to the effective date of such termination, cancellation, or
70 nonrenewal when the grounds for such action are any of the following:

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

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

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

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

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

88 5a. To fail to provide continued parts and service support to a dealer which holds a franchise in a
89 discontinued line-make for at least five years from the date of such discontinuance. This requirement
90 shall not apply to a line-make which was discontinued prior to January 1, 1989.

91 5b. *Upon the involuntary or voluntary termination, nonrenewal, or cancellation of the franchise of*
92 *any dealer, by either the manufacturer, distributor, or factory branch or by the dealer, notwithstanding*
93 *the terms of any franchise whether entered into before or after the enactment of this section, to fail to*
94 *pay the dealer for at least the following:*

95 (1) *The dealer cost plus any charges by the franchisor for distribution, delivery, and taxes paid by*
96 *the dealer, less all allowances paid to the dealer by the franchisor, for new and undamaged motor*
97 *vehicles of current or one-year-prior model year purchased within 120 days of the termination in the*
98 *dealer's inventory, whether acquired from the franchisor or from another dealer of the same line make*
99 *in the ordinary course of business;*

100 (2) *The dealer cost as shown in the price catalog of the franchisor current at the time of repurchase*
101 *of each new, unused, undamaged, and unsold part or accessory if such part or accessory is in the*
102 *current parts catalog and is still in the original, resalable merchandising package and in unbroken lots,*
103 *except that in the case of sheet metal, a comparable substitute for the original package may be used;*

104 (3) *The fair market value of each undamaged sign owned by the dealer that bears a trademark,*
105 *trade name or commercial symbol used or claimed by the franchisor if such sign was purchased from or*
106 *at the request of the franchisor;*

107 (4) *The fair market value of all special tools and automotive service equipment owned by the dealer*
108 *that were recommended and designated as special tools or equipment by the franchisor, if the tools and*
109 *equipment are in usable and good condition, normal wear and tear excepted; and*

110 (5) *The reasonable cost of transporting, handling, packing, and loading of motor vehicles, parts,*
111 *signs, tools, and special equipment subject to repurchase hereunder.*

112 *The provisions of this subsection do not apply to a dealer who is unable to convey clear title to the*
113 *property identified in this subsection.*

114 *For purposes of this subsection, a voluntary termination shall not include the transfer of the*
115 *terminating dealer's franchised business in connection with a transfer of that business by means of sale*
116 *of the equity ownership or assets thereof to another dealer.*

117 6. To fail to allow a dealer the right at any time to designate a member of his family as a successor
118 to the dealership in the event of the death or incapacity of the dealer. It shall be unlawful to prevent or
119 refuse to honor the succession to a dealership by a member of the family of a deceased or incapacitated
120 dealer if the franchisor has not provided to the member of the family previously designated by the
121 dealer as his successor written notice of its objections to the succession and of such person's right to

122 seek a hearing on the matter before the Commissioner pursuant to this article, and the Commissioner
123 determines, if requested in writing by such member of the family within thirty days of receipt of such
124 notice from the franchisor, and after a hearing on the matter before the Commissioner pursuant to this
125 article, that the failure to permit or honor the succession is unreasonable under the circumstances. No
126 member of the family may succeed to a franchise unless (i) the franchisor has been given written notice
127 as to the identity, financial ability, and qualifications of the member of the family in question, and (ii)
128 the succession to the franchise will not involve, without the franchisor's consent, a relocation of the
129 business.

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

141 7a. To fail or refuse to offer to its same line-make franchised dealers all models manufactured for the
142 line-make, or require a dealer to pay any extra fee, or remodel, renovate, or recondition the dealer's
143 existing facilities, or purchase unreasonable advertising displays or other materials as a prerequisite to
144 receiving a model or a series of vehicles.

145 7b. To require or otherwise coerce a dealer to underutilize the dealer's facilities.

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

148 8a. For any franchise agreement, to require a motor vehicle dealer to pay the attorney's fees of the
149 manufacturer or distributor related to hearings and appeals brought under this article.

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