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BLOGS
Renewals

California Federal Court Dismisses Claim by Franchisees Under CFIL

A California federal court has granted a franchisor's motion to dismiss an amended complaint brought by many of its Union 76 brand gas station franchisees in connection with the franchisor's renewal of their franchise agreements. The case is *In re ConocoPhillips Co. Service Station Rent Contract Litig.*, 2010 U.S. Dist. LEXIS 61300 (N.D. Cal. Jun. 2, 2010). The plaintiff-franchisees sued, claiming that Conoco violated Section 31101 of California's Franchise Investment Law (CFIL). Section 31101 exempts the offer and sale of a franchise from the registration requirements of Chapter 2 of the CFIL if certain conditions are met, including the disclosure of prescribed information. Relying on this section, the franchisees alleged that Conoco had failed to disclose certain required information at the time of their renewals, including its intent to increase rent, its practice of charging credit and debit card processing fees, and its intent to assign each of their franchise agreements to a third party. The franchisees sued for declaratory relief under the CFIL and for relief under Section 17200 of California's Unfair Competition Law (UCL). Conoco moved to dismiss the amended complaint.

In dismissing the amended complaint, the court held that Section 31101 of the CFIL does not apply to the renewal of existing franchise agreements. The court cited Section 31001 of the CFIL, which explains that the CFIL was enacted to ensure that a *prospective* franchisee is cognizant of its duties and obligations before deciding to enter into a franchise relationship. The court also noted that the renewal of an existing franchise is excluded from the definitions of "offer" and "sale" under Section 31018, provided the renewal does not require a "material modification" of the franchise. Focusing on this section, the franchisees argued that the rent increase was a material modification to each of their franchise agreements and, therefore, a "sale" under the CFIL. The court found, however, that the franchisees failed to allege this claim in the amended complaint. The court further found that even if there was a material modification, no claim for damages existed for failure to provide disclosures under Section 31101 because the franchisees would be required to either object and rescind the franchise agreements or agree to the material modification. Finding the franchisees' other claims to be dependent on the validity of the CFIL claim, the court also dismissed the claim for declaratory relief and the UCL claim as not legally viable. However, the court granted the franchisees leave to amend their claims.