BLOGS

State Franchise and Dealer Laws

Wisconsin Federal Court Refuses to Apply State Franchise Law Requirements to Dealer-Distributor Relationship

A Wisconsin federal court recently upheld the termination of two dealer agreements, finding that the agreements were not subject to California and Washington state franchise laws, both of which require good cause for termination of an agreement. *PW Stoelting, L.L.C. v. Levine*, 2018 WL 6603874 (E.D. Wis. Dec. 17, 2018). This dispute arose after PW Stoelting, a manufacturer of food service and cleaning equipment, terminated, without cause, its agreements with two related dealers based in California and Washington. Although the agreements permitted termination without cause, the dealers argued that certain inventory purchase requirements constituted a "franchise fee," thus creating a franchise relationship under California and Washington state law. Because both states prohibit termination of a franchise relationship without good cause, the dealers argued that PW Stoelting's termination was invalid.

The court rejected the dealers' claim that payments for required quantities of inventory constituted a "franchise fee" under either California or Washington law, both of which specifically exclude from the franchise fee definition purchases of goods made at bona fide wholesale price. The court first analyzed California law, which limits the bona fide wholesale price exemption to quantities that a reasonable business person would purchase. Here, the dealers purchased goods at 45-50% of the list price, and were further required to maintain a certain level of inventory — approximately $70,000 for the California dealer. However, the cost of these goods was minimal in comparison to actual sales — the court noted that over the course of relationship, the dealers collectively purchased more than $20,000,000 worth of products and parts from PW Stoelting. Given the low relative cost of the minimum inventory requirement compared to the dollar amount of the California dealer's sales, the court held that no reasonable jury would find that this required inventory level at wholesale prices exceeds what a reasonable business person would normally purchase, and thus the mandatory purchases did not constitute a franchise fee under California law. The court reached the same conclusion under Washington law, finding that the purchases fell within the bona fide wholesale price exemption. As a result, because the fee element of a franchise was missing, the court found the distribution arrangements were not covered by the state franchise laws and upheld the termination of both agreements.

The dealers also claimed that PW Stoelting's termination notice was invalid because it was not sent directly to the dealers via U.S. mail. Rather, the manufacturer had sent the notices via UPS to the dealers' counsel, after receiving

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a letter from him demanding that all future correspondence from the manufacturer to the dealers be sent to him. Because the notice was deemed substantially compliant with the agreements, it was held to be valid.