

## **1992 IOWA FRANCHISE LAW\***

*Applicability:* Applies to all new and existing franchises; does not apply to contracts between Iowa franchisors and out of state franchisees

*Dispute Resolution:* Right of venue in Iowa

*Transfer:* Franchisor must allow transfer if transferee satisfies the qualifications for new franchisees; franchisor has 60 days to approve transfer; may impose a transfer fee, has right of first refusal; may not interfere with public offerings without good cause; succession to heir is not considered a transfer

*Encroachment:* Restaurant franchisors may not open a store within the a 3 mile radius or 30,000 population base without allowing franchisee right of first refusal or compensation for lost market share as determined by appraisers

*Non-renewal:* Franchisor may not refuse to renew without at least six months notice and one of the following conditions exist: a) good cause b) the parties agree not to renew and the noncompete covenant is waived or c) the franchisor is withdrawing from the area and the noncompete covenant is waived.

*Non-compete:* Franchisors are prohibited from enforcing noncompete clauses after a termination or nonrenewal unless: a) the franchisee opens a business that relies on a substantially similar marketing program to that of the franchisor or b) the franchisor offered to purchase the assets of the business at fair market value

*Repurchase of Assets:* Franchisee may engage in any lawful business after termination or non-renewal unless program is similar to the franchisors or franchisor offers to purchase the business at fair market value

*Termination:* May terminate only for good cause, may not act in arbitrary manner; must provide a 'get well' period of 30-90 days unless franchisee is declared bankrupt, has abandoned the business, fails to comply with the same material provision of the contract, etc.

*Independent Sourcing:* Allows franchisee to purchase supplies, equipment, services, etc. from sources of franchisee's choosing

## **1995 AMENDMENTS\***

*Applicability:* Unchanged

*Dispute Resolution:* Unchanged

*Transfer:* Transferee must meet current qualifications for new franchisees; franchisor may impose financial requirements; public offering clause struck out; succession to heir not considered a transfer, however heir must meet qualifications of the franchisor within one year

*Encroachment:* Nullified the 3 mile/30,000 rule; established adverse impact guidelines of 5% on annual gross sales of impacted franchisee during the first 12 months of the new unit's operation; burden of proof lies with franchisee

*Non-renewal:* May require franchisee to meet current requirements for new franchisees and sign a new contract; 1992 restrictions a, b and c apply, however the franchisor may enforce the non-compete covenant if the parties agree not to renew (as outlined in 'b')

*Non-compete:* Can enforce unless franchisor completely withdraws from the area

*Repurchase of Assets:* Unchanged, however it now does not apply to assets of the franchised business which the franchisee did not purchase from the franchisor

*Termination:* Burden of proof for 'arbitrary actions' rests with franchisee; non-payment of fees cure time need not exceed 30 days; after 3 material breaches of the contract within a 12 month period franchisor may terminate provided franchisee had been given opportunity to cure.

*Independent Sourcing:* Unchanged

**\*Source: Iowa code 523H (1992, 1995)**