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BUSINESS AND PROFESSIONS CODE - BPC

DIVISION 8. SPECIAL BUSINESS REGULATIONS [18400 - 22949.92.2] (Division 8 added by Stats. 1941, Ch. 44.)

CHAPTER 5.5. Franchise Relations [20000 - 20044] (Chapter 5.5 added by Stats. 1980, Ch. 1355, Sec. 1.)

ARTICLE 3. Termination [20020 - 20022] (Article 3 added by Stats. 1980, Ch. 1355, Sec. 1.)

20020. Except as otherwise provided by this chapter, no franchisor may terminate a franchise prior to the expiration of its term, except for good cause. Except as provided in Section 20021, good cause shall be limited to the failure of the franchisee to substantially comply with the lawful requirements imposed upon the franchisee by the franchise agreement after being given notice at least 60 days in advance of the termination and a reasonable opportunity, which in no event shall be less than 60 days from the date of the notice of noncompliance, to cure the failure. The period to exercise the right to cure shall not exceed 75 days unless there is a separate agreement between the franchisor and franchisee to extend the time.

(Amended by Stats. 2015, Ch. 776, Sec. 1. (AB 525) Effective January 1, 2016.)

20021. If during the period in which the franchise is in effect, there occurs any of the following events which is relevant to the franchise, immediate notice of termination without an opportunity to cure, shall be deemed reasonable:

- (a) The franchisee or the business to which the franchise relates has been the subject of an order for relief in bankruptcy, judicially determined to be insolvent, all or a substantial part of the assets thereof are assigned to or for the benefit of any creditor, or the franchisee admits his or her inability to pay his or her debts as they come due;
- (b) The franchisee abandons the franchise by failing to operate the business for five consecutive days during which the franchisee is required to operate the business under the terms of the franchise, or any shorter period after which it is not unreasonable under the facts and circumstances for the franchisor to conclude that the franchisee does not intend to continue to operate the franchise, unless such failure to operate is due to fire, flood, earthquake, or other similar causes beyond the franchisee's control;
- (c) The franchisor and franchisee agree in writing to terminate the franchise;
- (d) The franchisee makes any material misrepresentations relating to the acquisition of the franchise business or the franchisee engages in conduct which reflects materially and unfavorably upon the operation and reputation of the franchise business or system;
- (e) The franchisee fails, for a period of 10 days after notification of noncompliance, to comply with any federal, state, or local law or regulation, including, but not limited to, all health, safety, building, and labor laws or regulations applicable to the operation of the franchise;
- (f) The franchisee, after curing any failure in accordance with Section 20020 engages in the same noncompliance whether or not such noncompliance is corrected after notice;
- (g) The franchisee repeatedly fails to comply with one or more requirements of the franchise, whether or not corrected after notice;
- (h) The franchised business or business premises of the franchise are seized, taken over, or foreclosed by a government official in the exercise of his or her duties, or seized, taken over, or foreclosed by a creditor, lienholder, or lessor, provided that a final judgment against the franchisee remains unsatisfied for 30 days (unless a supersedeas or other appeal bond has been filed); or a levy of execution has been made upon the license granted by the franchise agreement or upon any property used in the franchised business, and it is not discharged within five days of such levy;
- (i) The franchisee is convicted of a felony or any other criminal misconduct which is relevant to the operation of the franchise;
- (j) The franchisee fails to pay any franchise fees or other amounts due to the franchisor or its affiliate within five days after receiving written notice that such fees are overdue; or
- (k) The franchisor makes a reasonable determination that continued operation of the franchise by the franchisee will result in an imminent danger to public health or safety.

(l) If the franchise expressly permits termination under such circumstances, there is a lawful termination or nonrenewal of a separate motor fuel franchise governed by provisions of the Petroleum Marketing Practices Act (15 U.S.C. Secs. 2801 to 2807, inclusive) that is operated by the franchisee or affiliate of the franchisee located at the same business premises if both franchises are granted by the same franchisor or an affiliate of the franchisor. "Affiliate" shall have the same meaning as set forth in subdivision (k) of Section 31005.5 of the Corporations Code.

(Amended by Stats. 2015, Ch. 776, Sec. 2. (AB 525) Effective January 1, 2016.)

20022. (a) Except as provided in this section, upon a lawful termination or nonrenewal of a franchisee, the franchisor shall purchase from the franchisee, at the value of price paid, minus depreciation, all inventory, supplies, equipment, fixtures, and furnishings purchased or paid for under the terms of the franchise agreement or any ancillary or collateral agreement by the franchisee to the franchisor or its approved suppliers and sources, that are, at the time of the notice of termination or nonrenewal, in the possession of the franchisee or used by the franchisee in the franchise business. The franchisor shall have the right to receive clear title to and possession of all items purchased from the franchisee under this section.

(b) This section shall not require the franchisor to purchase any personalized items, inventory, supplies, equipment, fixtures, or furnishings not reasonably required to conduct the operation of the franchise business in accordance with the franchise agreement or any ancillary or collateral agreement or to which the franchisee, at the cessation of operation of the franchise business by the franchisee, cannot lawfully, or does not, grant the franchisor clear title and possession upon the franchisor's payment to the franchisee for the inventory, supplies, equipment, fixtures, or furnishings.

(c) This section shall not apply when the franchisee declines a bona fide offer of renewal from the franchisor.

(d) This section shall not apply if the franchisor does not prevent the franchisee from retaining control of the principal place of the franchise business.

(e) This section shall not apply to any termination or nonrenewal of a franchise due to a publicly announced and nondiscriminatory decision by the franchisor to completely withdraw from all franchise activity within the relevant geographic market area in which the franchise is located. For the purpose of this section "relevant geographic market area" shall have the same meaning as in Section 20999.

(f) This section shall not apply if the franchisor and franchisee mutually agree in writing to terminate or not renew the franchise.

(g) This section shall not apply to any inventory, supplies, equipment, fixtures, or furnishings that are sold by the franchisee between the date of the notice of termination or nonrenewal, and the cessation of operation of the franchise business, by the franchisee, pursuant to the termination or nonrenewal.

(h) Upon the termination or nonrenewal of a franchise, a franchisor may offset against the amounts owed to a franchisee under this section any amounts owed by the franchisee to the franchisor, provided the franchisee agrees to the amount owed or the franchisor has received a final adjudication of any amounts owed.

(Amended by Stats. 2022, Ch. 728, Sec. 2. (AB 676) Effective January 1, 2023.)