

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2009

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SENATE BILL 914
Commerce Committee Substitute Adopted 5/12/09
House Committee Substitute Favorable 8/5/09
House Committee Substitute #2 Favorable 8/6/09
Fifth Edition Engrossed 8/6/09

Short Title: Clarify MV Dealer Franchise Rights.

(Public)

Sponsors:

Referred to:

March 26, 2009

1 A BILL TO BE ENTITLED
2 AN ACT TO CLARIFY MOTOR VEHICLE DEALERS AND MANUFACTURERS
3 LICENSING LAWS.

4 The General Assembly of North Carolina enacts:

5 **SECTION 1.** G.S. 20-305 is amended by adding a new subdivision to read:

6 "(42) Notwithstanding the terms, provisions, or conditions of any agreement or
7 waiver, to directly or indirectly condition the awarding of a franchise to a
8 prospective new motor vehicle dealer, the addition of a line make or
9 franchise to an existing dealer, the renewal of a franchise of an existing
10 dealer, the approval of the relocation of an existing dealer's facility, or the
11 approval of the sale or transfer of the ownership of a franchise on the
12 willingness of a dealer, proposed new dealer, or owner of an interest in the
13 dealership facility to enter into a site control agreement or exclusive use
14 agreement. For purposes of this subdivision, the terms "site control
15 agreement" and "exclusive use agreement" include any agreement that has
16 the effect of either: (i) requiring that the dealer establish or maintain
17 exclusive dealership facilities; or (ii) restricting the ability of the dealer, or
18 the ability of the dealer's lessor in the event the dealership facility is being
19 leased, to transfer, sell, lease, or change the use of the dealership premises,
20 whether by sublease, lease, collateral pledge of lease, right of first refusal to
21 purchase or lease, option to purchase, option to lease, or other similar
22 agreement, regardless of the parties to such agreement. Any provision
23 contained in any agreement entered into on or after the effective date of this
24 act that is inconsistent with the provisions of this subdivision shall be
25 voidable at the election of the affected dealer, prospective dealer, or owner
26 of an interest in the dealership facility."

27 **SECTION 2.** G.S. 20-305.2 reads as rewritten:

28 **"§ 20-305.2. Unfair methods of competition.**

29 (a) It is unlawful for any motor vehicle manufacturer, factory branch, distributor,
30 distributor branch, or subsidiary thereof, to directly or indirectly through any subsidiary or
31 affiliated entity, own any ownership interest in, operate, or control any motor vehicle dealership
32 in this State, provided that this section shall not be construed to prohibit:



- 1 (1) The operation by a manufacturer, factory branch, distributor, distributor
2 branch, or subsidiary thereof, of a dealership for a temporary period (not to
3 exceed one year) during the transition from one owner or operator to
4 another; or
- 5 (2) The ownership or control of a dealership by a manufacturer, factory branch,
6 distributor, distributor branch, or subsidiary thereof, while in a bona fide
7 relationship with an economically disadvantaged or other independent
8 person, other than a manufacturer, factory branch, distributor, distributor
9 branch, or an agent or affiliate thereof, who has made a bona fide,
10 unencumbered initial investment of at least six percent (6%) of the total sales
11 price that is subject to loss in the dealership and who can reasonably expect
12 to acquire full ownership of the dealership within a reasonable period of
13 time, not to exceed 12 years, and on reasonable terms and conditions; or
- 14 (3) The ownership, operation or control of a dealership by a manufacturer,
15 factory branch, distributor, distributor branch, or subsidiary thereof, if such
16 manufacturer, factory branch, distributor, distributor branch, or subsidiary
17 has been engaged in the retail sale of motor vehicles through such dealership
18 for a continuous period of three years prior to March 16, 1973, and if the
19 Commissioner determines, after a hearing on the matter at the request of any
20 party, that there is no independent dealer available in the relevant market
21 area to own and operate the franchise in a manner consistent with the public
22 interest; or
- 23 (4) The ownership, operation, or control of a dealership by a manufacturer,
24 factory branch, distributor, distributor branch, or subsidiary thereof, if the
25 Commissioner determines after a hearing on the matter at the request of any
26 party, that there is no independent dealer available in the relevant market
27 area to own and operate the franchise in a manner consistent with the public
28 interest; or
- 29 (5) The ownership, operation, or control of any facility (location) of a new
30 motor vehicle dealer in this State at which the dealer sells only new and used
31 motor vehicles with a gross weight rating of 8,500 pounds or more, provided
32 that both of the following conditions have been met:
- 33 a. The facility is located within 35 miles of manufacturing or
34 assembling facilities existing as of January 1, 1999, and is owned or
35 operated by the manufacturer, manufacturing branch, distributor,
36 distributor branch, or any affiliate or subsidiary thereof which
37 assembles, manufactures, or distributes new motor vehicles with a
38 gross weight rating of 8,500 pounds or more by such dealer at said
39 location; and
- 40 b. The facility is located in the largest Standard Metropolitan Statistical
41 Area (SMSA) in the State; or
- 42 (6) As to any line make of motor vehicle for which there is in aggregate no more
43 than 13 franchised new motor vehicle dealers (locations) licensed and in
44 operation within the State as of January 1, 1999, the ownership, operation, or
45 control of one or more new motor vehicle dealership trading solely in such
46 line make of vehicle by the manufacturer, factory branch, distributor,
47 distributor branch, or subsidiary or affiliate thereof, provided however, that
48 all of the following conditions are met:
- 49 a. The manufacturer, factory branch, distributor, distributor branch, or
50 subsidiary or affiliate thereof does not own directly or indirectly, in

- 1 aggregate, in excess of forty-five percent (45%) interest in the
2 dealership;
- 3 b. At the time the manufacturer, factory branch, distributor, distributor
4 branch, or subsidiary or affiliate thereof first acquires ownership or
5 assumes operation or control with respect to any such dealership, the
6 distance between the dealership thus owned, operated, or controlled
7 and the nearest other new motor vehicle dealership trading in the
8 same line make of vehicle, is no less than 35 miles;
- 9 c. All the manufacturer's franchise agreements confer rights on the
10 dealer of the line make to develop and operate within a defined
11 geographic territory or area, as many dealership facilities as the
12 dealer and manufacturer shall agree are appropriate; and
- 13 d. That as of July 1, 1999, not fewer than half of the dealers of the line
14 make within the State own and operate two or more dealership
15 facilities in the geographic territory or area covered by the franchise
16 agreement with the manufacturer.
- 17 (7) The ownership, operation, or control of a dealership that sells primarily
18 recreational vehicles as defined in G.S. 20-4.01 by a manufacturer, factory
19 branch, distributor, or distributor branch, or subsidiary thereof, if the
20 manufacturer, factory branch, distributor, or distributor branch, or subsidiary
21 thereof, owned, operated, or controlled the dealership as of October 1, 2001.
- 22 (b) ~~This section~~ Subsection (a) of this section does not apply to manufacturers or
23 distributors of trailers or semitrailers that are not recreational vehicles as defined in
24 G.S. 20-4.01.
- 25 (c) For purposes of subsection (d) of this section, the following definitions apply:
- 26 (1) Successor manufacturer. – Any motor vehicle manufacturer, as defined in
27 G.S. 20-286(8e), that, on or after January 1, 2009, acquires, succeeds to, or
28 assumes any part of the business of another manufacturer, referred to as the
29 "predecessor manufacturer," as the result of any of the following:
- 30 a. A change in ownership, operation, or control of the predecessor
31 manufacturer by sale or transfer of assets, corporate stock or other
32 equity interest, assignment, merger, consolidation, combination, joint
33 venture, redemption, court-approved sale, operation of law or
34 otherwise.
- 35 b. The termination, suspension, or cessation of a part or all of the
36 business operations of the predecessor manufacturer.
- 37 c. The discontinuance of the sale of the product line.
- 38 d. A change in distribution system by the predecessor manufacturer,
39 whether through a change in distributor or the predecessor
40 manufacturer's decision to cease conducting business through a
41 distributor altogether.
- 42 (2) Relevant market area. – The area within a 10-, 15-, or 20-mile radius around
43 the site of the previous franchisee's dealership facility, as determined in the
44 same manner that the relevant market area is determined under
45 G.S. 20-286(13b) when a manufacturer is seeking to establish an additional
46 new motor vehicle dealer.
- 47 (3) Former Franchisee. – A new motor vehicle dealer, as defined in
48 G.S. 20-286(13), that has entered into a franchise, as defined in
49 G.S. 20-286(8a) with a predecessor manufacturer and that has either:

- 1 a. Entered into a termination agreement or deferred termination
2 agreement with a predecessor or successor manufacturer related to
3 such franchise; or
4 b. Has had such franchise canceled, terminated, nonrenewed,
5 noncontinued, rejected, nonassumed, or otherwise ended.

6 (d) For a period of four years from the date that a successor manufacturer acquires,
7 succeeds to, or assumes any part of the business of a predecessor manufacturer, it shall be
8 unlawful for such successor manufacturer to enter into a same line make franchise with any
9 person, as defined in G.S. 20-4.01(28), or to permit the relocation of any existing same line
10 make franchise, for a line make of the predecessor manufacturer that would be located or
11 relocated within the relevant market area of a former franchisee who owned or leased a
12 dealership facility in that relevant market area without first offering the additional or relocated
13 franchise to the former franchisee, or the designated successor of such former franchisee in the
14 event the former franchisee is deceased or disabled, at no cost and without any requirements or
15 restrictions other than those imposed generally on the manufacturer's other franchisees at that
16 time, unless one of the following applies:

- 17 (1) As a result of the former franchisee's cancellation, termination,
18 noncontinuance, or nonrenewal of the franchise, the predecessor
19 manufacturer had consolidated the line make with another of its line makes
20 for which the predecessor manufacturer had a franchisee with a then-existing
21 dealership facility located within that relevant market area.
22 (2) The successor manufacturer has paid the former franchisee, or the
23 designated successor of such former franchisee in the event the former
24 franchisee is deceased or disabled, the fair market value of the former
25 franchisee's franchise calculated as prescribed in G.S. 20-305(6)d.3.
26 (3) The successor manufacturer proves that the former franchisee, or the
27 designated successor of such former franchisee in the event the former
28 franchisee is deceased or disabled, by reason of lack of training, lack of prior
29 experience, poor past performance, lack of financial ability, or poor
30 character, is unfit to own or manage the dealership. A successor
31 manufacturer who seeks to assert that a former franchisee is unfit to own or
32 manage the dealership must file a petition seeking a hearing on this issue
33 before the Commissioner and shall have the burden of proving lack of fitness
34 at such hearing. The Commissioner shall try to conduct the hearing and
35 render a final determination within 120 days after the manufacturer's petition
36 has been filed. No successor dealer, other than the former franchisee, may be
37 appointed or franchised by the successor manufacturer within the relevant
38 market area until the Commissioner has held a hearing and rendered a
39 determination on the issue of the fitness of the previous franchisee to own or
40 manage the dealership."

41 **SECTION 3.** The terms and provisions of this act shall be applicable to all
42 franchises and other agreements entered into on or after the effective date of this act between
43 any new motor vehicle dealer located in this State and a manufacturer or distributor.

44 **SECTION 4.** If any provision of this act or its application is held invalid, the
45 invalidity does not affect other provisions or applications of this act that can be given effect
46 without the invalid provisions or application, and to this end the provisions of this act are
47 severable.

48 **SECTION 5.** This act is effective when it becomes law.