



BASICS TRACK:
Franchise Relationship Laws
*Terminations • Renewals • Transfers •
Encroachment • Good Faith*

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Agenda – 75 Minutes

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What Are Franchise Relationship Laws?



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Definition & Scope

FRANCHISE RELATIONSHIP LAWS — THE BASICS

What They Are

- Statutes regulating parties' rights & obligations during the franchise relationship
- Govern conduct after the franchise agreement is signed (post-sale)
- Typically protect franchisees from arbitrary termination, non-renewal, transfer refusals, encroachment, and unreasonable standards
- May override franchise agreement terms, including choice-of-law provisions
- Differ from registration/disclosure laws (which govern pre-sale conduct)

20 Jurisdictions

- Alaska
- Arkansas
- California
- Connecticut
- Delaware
- Hawaii
- Idaho
- Illinois
- Indiana
- & Virgin Islands
- Iowa
- Michigan
- Minnesota
- Mississippi
- Nebraska
- New Jersey
- Rhode Island
- South Dakota
- Virginia
- Washington
- Wisconsin
- + Puerto Rico & Virgin Islands

Jurisdictional Scope — Three Categories

WHICH FRANCHISE RELATIONSHIPS ARE COVERED?

NARROW

Location of Unit

Applies only if the franchised business is physically located in the state.

States: AR, CT, IL, IA, MO, NE, NJ, RI, VA, WI, Puerto Rico

Most Common

BROADER

Location of Unit OR Franchisee

Applies if the unit is in the state OR the franchisee is domiciled/has its principal place of business there.

States: California, Hawaii, Indiana

Extended Reach

BROADEST

Offer/Acceptance + Location

Applies when offer is made/accepted in state, franchisee is a resident, OR franchise operates there.

States: Michigan, Minnesota, Washington

Maximum Exposure

Policy Goals of Franchise Relationship Laws

WHY DO THESE LAWS EXIST?

Balance of Power

Franchisees make substantial capital investments. These laws protect those investments from arbitrary franchisor conduct.

Procedural Fairness

Impose good-faith requirements, notice periods, and cure opportunities, ensuring franchisors cannot act unilaterally without process.

Brand vs. Autonomy

Balance the franchisor's need for brand standardization with franchisee operational independence.

System Stability

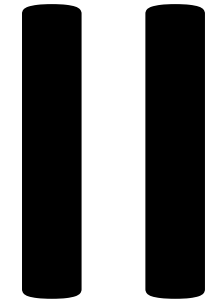
Discourage franchisor opportunism that could destabilize franchise systems and harm third parties (employees, consumers, communities).

Codify Good Faith

While the implied covenant of good faith exists at common law, many states now mandate it by statute, making it legally enforceable.

Anti-Waiver Protection

Statutory protections cannot be waived by contract in many states, franchise agreements cannot opt franchisees out of these protections.



Jurisdictional Analysis & Choice of Law



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Threshold Question: Which State's Law Governs?

A MULTI-STEP ANALYSIS REQUIRED BEFORE EVERY NOTICE

The analysis does not end with the location of the franchise unit.

1

Locate the Unit

Identify the physical state of the franchised business. This triggers most state relationship statutes.

2

Franchisee Domicile

CA, HI, and IN extend to where the franchisee is domiciled, even if the unit is elsewhere.

3

Offer/Acceptance

MI, MN, WA apply if the franchise offer was made or accepted in the state, regardless of unit location.

4

Choice-of-Law Provision

Review the franchise agreement. But anti-waiver provisions (CA, MN, WI, VA) may override the contractual choice.

5

Anti-Waiver Analysis

Even with a foreign choice-of-law, a franchisee in a protected state may argue the statute applies.

6

Most Protective Standard

Where multiple statutes apply with different requirements, comply with the most demanding standard.

Choice-of-Law Provisions: Limits & Anti-Waiver Rules

CONTRACTUAL CHOICES OF LAW ARE NOT ALWAYS RESPECTED

Key Anti-Waiver States

California (CFRA)

Choice-of-law cannot override CFRA if franchisee/business is domiciled in CA. Any waiver clause is void and unenforceable.

Minnesota (MFA)

Express anti-waiver provision voids CofL provisions for MN residents/businesses. Even a KY-law clause was overridden.

Wisconsin (WFDL)

Statute states explicitly: its effect 'may not be varied by contract.' Courts uniformly enforce this.

Virginia (VRFA)

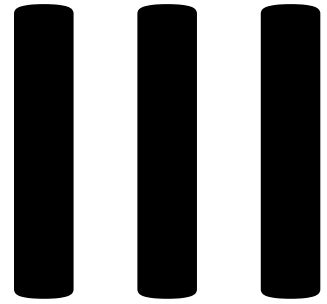
Anti-waiver provision prevents contractual waiver of VRFA protections.

New Jersey (NJFPA)

Any provision that would relieve a franchisor of NJFPA obligations, including non-renewal clauses, is void.

Drafting Best Practices

- Use state-specific addenda addressing each covered state
- Expressly identify which relationship law does, or doesn't, apply
- For CofL pointing to franchisor's home state, confirm that state's law independently applies
- If choosing a state with a relationship law, specify whether it applies in addition to or instead of the state where unit is located
- Review anti-waiver provisions each time you update agreements
- Consult counsel before issuing any notice in a relationship-law state



Termination Deep Dive



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Good Cause Standards: State by State

CORNERSTONE OF MOST FRANCHISE RELATIONSHIP STATUTES

State	Standard	Key Points
California (CFRA)	Substantial Compliance	Failure to 'substantially comply' with lawful requirements. 2022 amendments strengthened franchisee protections.
Minnesota (MFA)	Substantial Compliance	Failure to substantially comply with 'material and reasonable' franchise requirements. Unreasonable requirements = no good cause.
New Jersey (NJFPA)	Substantial Compliance	Near-indefeasible property right. Even a good-faith termination violates the Act if based on anything other than non-substantial compliance.
Nebraska	Substantial Compliance	Mirrors NJFPA standard. NJ case law provides closest guidance due to nearly identical language.
Puerto Rico (Law 75)	Just Cause (Highest)	Failure to perform an essential provision OR adverse substantial effect on the franchisor's interests. Franchisor bears burden of proof.
Virginia (VRFA)	Reasonable Cause	Slightly lower formulation. Termination for failure to pay disputed amounts does not constitute reasonable cause.
Washington (FIPA)	Good Cause	Includes breach of a material provision plus failure to cure after reasonable notice. Not exhaustively defined.
Wisconsin (WFDL)	Good Cause + Non-Discrimination	Good cause includes non-compliance with requirements that are not discriminatory compared to similarly situated dealers.

Notice & Cure Periods — Three Tiers

STATUTORY MINIMUMS OVERRIDE LESS PROTECTIVE CONTRACT TERMS

TIER 1 — NOTICE ONLY

No Cure Period Required

States: CT, DE, IN, MS, MO, NE, NJ, Virgin Islands

Wind-down period before termination effective:

- 60 days: CT, NE, NJ
- 90 days: DE, MS, MO
- 90 days (but FA can override): IN
- 120 days: Virgin Islands

Franchisee gets time to wind down, not to cure

TIER 2 — REASONABLE CURE

"Reasonable" Cure Period

States: CA (older FAs), HI, IL, MI, WA

No specific number of days required, "reasonable" generally means ~30 days.

WA: Franchisee must initiate 'substantial and continuing action' within cure period for defaults that can't be cured quickly.

Flexibility, but also uncertainty

TIER 3 — SPECIFIC CURE PERIOD

Fixed Cure Period (Days)

States: AR, CA (2016+ FAs), IA, MN, RI, WI

State-specific minimums:

- AR & RI: 30 days
- MN & WI: 60 days
- CA (2016+): 60-75 days
- IA: 30-90 days

Termination notice periods: generally 60-90 days, often running concurrently.

Strongest protection for franchisees

Incurable Defaults & Termination Notice Requirements

WHEN IMMEDIATE TERMINATION IS PERMITTED AND ITS LIMITS

Common Recognized Incurable Defaults

- Voluntary abandonment of the franchised business
- Bankruptcy or insolvency
- Conviction of a felony or crime related to the franchise
- Fraud or material misrepresentation
- Conduct creating imminent danger to public health or safety
- Conduct materially impairing the goodwill associated with the franchisor's marks
- Repeated defaults (IL: more than once within 12 months)

Critical Procedural Warning

Even incurable defaults require written notice of the termination itself.

Mahroom v. Best Western (N.D. Cal. 2010): A form letter stating only that the board decided to "cancel all aspects of the property's membership effective immediately," without specifying reasons or effective date, was held insufficient under the CFRA.

Termination notices must state:

- Reasons (with particularity in MN, NJ, NE, WI)
- Effective date
- Exact amount owed if default involves payment (MN)
- All reasons, you cannot add new ones in litigation

Buyback / Repurchase Obligations Upon Termination

STATES THAT REQUIRE FRANCHISORS TO REPURCHASE INVENTORY & EQUIPMENT

State	Trigger	What Must Be Repurchased	Valuation Method
Arkansas	Termination without good cause	Inventory, supplies, equipment, furnishings from franchisor or approved suppliers	Net cost less depreciation
California	All terminations (2016+ FAs)	Inventory, supplies, equipment, fixtures, furnishings, excludes personalized items	Price paid minus depreciation
Connecticut	All terminations (franchisee option)	Inventory, supplies, equipment, furnishings	Fair market/wholesale value
Hawaii	All terminations (franchisee option)	Same as Connecticut	Fair market/wholesale value
Rhode Island	All terminations (franchisee option)	Franchisor-branded inventory only	Fair market/wholesale value
Washington	All terminations (franchisee option)	Items from franchisor/approved suppliers (reasonably required)	Fair market/wholesale value
Wisconsin	All terminations (franchisee option)	Franchisor-branded inventory only	Fair market/wholesale value

Termination: Practical Checklist for Franchisors

BEFORE ISSUING ANY DEFAULT OR TERMINATION NOTICE

1

Jurisdictional Audit

Identify every state relationship law that may apply, unit location, franchisee domicile, offer/acceptance location.

2

Confirm Good Cause

Ensure the basis for termination satisfies the applicable standard. Document supporting facts before the notice is issued.

3

Apply Most Protective Period

Provide the longer of the contractual period and applicable statutory minimums. Where multiple states apply, use the most demanding.

4

Verify Notice Content

Include: factual basis, effective date, cure steps (if applicable), ALL reasons, you cannot add new ones in litigation.

5

Check Delivery Requirements

CA requires registered, certified, or receipted mail, telegram, or personal delivery. Follow similar requirements in each state.

6

Preserve the Record

Maintain all communications, inspections, financial data, prior notices, and workout agreements. The record is your evidence.

IV

Transfers Under Relationship Laws



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Transfer Consent: Standards & State Coverage

8 STATES REGULATE FRANCHISOR CONSENT TO TRANSFER

Group 1: Reasonableness Standard

States: AR, CA, IA, MN, NE

Prohibit franchisor from unreasonably withholding consent (or in Iowa's case, acting arbitrarily/capriciously).

California standard: Consent cannot be withheld unless the buyer does not meet standards for new/renewing franchisees OR fails to comply with transfer conditions in the FA.

Iowa is the outlier: "Arbitrarily and capriciously" withholding consent, a harder standard for franchisees to prove.

Group 2: Good Cause Standard

States: HI, MI, NJ

Require 'good cause' to refuse a transfer. Good cause includes:

- Transferee fails to meet franchisor's then-current reasonable qualifications
- Transferee is a competitor of the franchisor
- Transferee unwilling to comply with lawful obligations
- Franchisee/transferee fails to pay sums owed or cure existing defaults

Michigan MFIL: Voids any provision permitting refusal without good cause. (*Oakland Family Rest. v. Am. Dairy Queen*, 2025 U.S. App. LEXIS 5980)

Transfer Procedures: Notice, Timing & Deemed Approval

SILENCE CAN MEAN APPROVAL — TRACK EVERY REQUEST

State	Franchisee Must Notify?	Franchisor Response Window	Deemed Approval if Silent?	Written Reasons Required?
Arkansas (pre-8/1/2023)	Yes, written notice	60 days	Yes	Yes, character, financial ability, business experience only
Arkansas (8/1/2023+)	Yes, written notice	30 days	Yes	Yes, same criteria
California	No statutory requirement	60 days	Yes	Not specifically
Hawaii	No statutory requirement	30 days	Yes	Not specifically
Iowa	No statutory requirement	60 days	Yes	Not specifically
Michigan	No statutory requirement	No set deadline	No	No
Minnesota	No statutory requirement	No set deadline	No	No
Nebraska	Yes, written notice	60 days	Yes	Yes, same three criteria
New Jersey	Yes, written notice	60 days	Yes	Yes, same three criteria

V

Encroachment & Territorial Issues



Encroachment: Statutory & Common Law Protections

A PATCHWORK OF PROTECTIONS THAT DEPENDS HEAVILY ON CONTRACT LANGUAGE

States with Specific Statutory Protections

Hawaii (HFIL)

Unfair/deceptive practice to establish a competing business within franchisee's exclusive territory (except as expressly in FA). Mere solicitation doesn't count as encroachment.

Indiana (IDFPA)

Franchisor-owned outlets prohibited within exclusive territory. Does not expressly protect against competing franchisee encroachment.

Minnesota (MFA)

Clearest prohibition: unfair/inequitable to 'compete in exclusive territory or grant competitive franchises.' Applies ONLY to territories specifically granted in writing.

Iowa

Includes statutory territorial encroachment prohibition as part of broader unfair practices framework.

When No Statute Protects: Common Law

Implied covenant of good faith and fair dealing:

- Ninth Circuit (Vylene, 1996): Building a competing restaurant 1.5 miles away from a franchisee, even where the FA was silent on exclusivity, could breach the covenant by frustrating reasonable expectations.
- **Key distinction:** Express non-exclusivity clause = difficult implied covenant claim. Genuinely silent FA = viable claim.

Critical drafting gap: Most older franchise agreements don't address e-commerce, ghost kitchens, or delivery-only channels. Courts have ruled these fall outside written territorial protections.

(*Newspaper LLC v. Party City Corp.*, 2014 WL 2986653 (D. Minn. 2014))

VI

System-Wide Issues: Unreasonable Standards & Discrimination



Unreasonable Standards of Performance

STATUTORY PROHIBITIONS IN 5 KEY STATES

New Jersey (NJFPA)	<p>Most developed. Unlawful to 'impose unreasonable standards of performance.' Freestanding claim, not limited to termination. Objective reasonableness + economic impact test.</p> <p>Indicators: arbitrariness, bad intent, severe economic harm. Private right of action including injunctive relief.</p>
Washington (FIPA)	<p>Strongest protection: franchisor bears burden of proving any standard is 'reasonable and necessary.' Shifts burden to franchisor in any contested standard enforcement.</p>
Minnesota (MFA)	<p>Prohibits 'unreasonable' standards of conduct imposed by contract or rule. Courts have narrowly interpreted 'standards of conduct,' refers to franchisee conduct, not contractual rights disparities. Dearth of case law.</p>
Hawaii (HFIL)	<p>Prohibits standards that are both unreasonable AND arbitrary (conjunctive). Narrower than NJ, must prove both elements.</p>
Nebraska	<p>Statutory prohibition on unreasonable standards. Less developed case law, NJ decisions provide guidance by analogy.</p>

Discrimination Among Franchisees: 8 States with Express Prohibitions

INCONSISTENT ENFORCEMENT

State	Scope of Prohibition	Key Justifiable Exceptions
Arkansas	Termination/non-renewal requirements cannot be discriminatory vs. similarly situated franchisees (by terms or enforcement)	N/A, applies in context of good cause analysis
California	Cannot discriminatorily refuse to grant franchise or provide financial assistance offered to similarly situated franchisees	Anti-discrimination provision mirrors CA Civil Code §51.8
Hawaii	Cannot discriminate in royalties, goods, services, equipment, rentals, advertising	Different franchise grant times; franchisee capability programs; regional/experimental variations; curing defaults; other reasonable grounds
Illinois	Cannot 'unreasonably and materially' discriminate in charges for fees/royalties/goods/services IF it causes competitive harm to franchisee	Northern Dist. IL: covers only price discrimination
Indiana	Prohibits 'unfair discrimination' in franchise agreement, broader than price	Franchisees must be similarly situated under similar financial/marketing conditions to compare
Michigan	Cannot offer different renewal terms to similarly situated franchisees without justification; cannot prohibit franchisee association membership	Limited to renewal terms and associational rights
Minnesota	Prohibits discrimination without 'reasonable basis.' Franchisee must show it is similarly situated	Different franchise grant times, geographic/volume/size differences, reasonable grounds
Washington	Cannot discriminate in charges for royalties, goods, services, equipment, rentals, advertising	Reasonable, non-arbitrary discrimination based on materially different franchise grant times

VII

Recent Litigation & Legislation



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Key Recent Cases: Jurisdiction & Enforceability

2024–2025 DECISIONS SHAPING THE LANDSCAPE

***Cambria Company, LLC v. M&M Creative Laminants, Inc.*, 11 N.W.3d 318 (Minn. 2024)**

MFA does not categorically preclude out-of-state companies from enforcing claims for unfair practices, but requires sufficient connection to MN.

***La Quinta Franchising LLC v. Shin Hospitality, Inc.*, No. 22-5183, 2025 WL 2751542 (D.N.J. Sept. 29, 2025)**

NJ court declined to apply MFA to MN franchisee operating entirely outside MN. NJ choice-of-law provision controlled. Confirms MFA applicability turns on specific facts + CofL provisions.

***Fiesta Ventures Bevercreek, LLC v. Qdoba Rest. Corp.*, 2025 U.S. Dist. LEXIS 162943, *7-8**

CFRA did not apply despite California forum selection clause where all franchise locations were out-of-state. CFRA's territorial limitation strictly enforced.

***Argus Cap. v. Allison*, 2025 U.S. Dist. LEXIS 68192, *4-5.**

California court invalidated Texas mediation clause in franchise agreement, CFRA's anti-waiver provisions controlled over contractual choice of Texas as mandatory mediation forum.

***Bryka, LLC v. Holt Integrated Cirs., Inc.*, 2024 U.S. Dist. LEXIS 171031**

Distribution agreement was not a 'franchise agreement' under the Connecticut Franchise Act, plaintiff could not establish (1) prescribed marketing plan or (2) substantial trademark association (only 27.7% of revenue from defendant's product).

Key Recent Cases: Termination, Transfer & Standards

2024–2025 DECISIONS

TERMINATION	<i>Dhillon v. 7-Eleven, Inc.</i>, 2025 U.S. Dist. LEXIS 38829, *17-18	Franchisor's 'sole opinion' language in FA regarding conduct reflecting poorly on brand held consistent with CFRA's incurable default provision when read holistically.
TERMINATION	<i>In re Neely Grp., Inc.</i>, 2024 Bankr. LEXIS 1382	IFDA defines 'good cause' for repeated failures as 'more than once.' Two defaults within 12 months = 'repeated failures' permitting termination without further notice/cure.
NON-RENEWAL	<i>Scion Hotels LLC v. Holiday Hosp. Franchising LLC</i>, 2025 U.S. App. LEXIS 19129	Provision stating 'absolutely no rights of license renewal' was unenforceable under NJFPA, functions as a release of NJFPA rights = void. Good cause required for non-renewal.
TRANSFER	<i>Oakland Fam. Rests., Inc. v. Am. Dairy Queen Corp.</i>, 2025 U.S. App. LEXIS 5980	Michigan MFIL does not void consent-to-assign provisions. Requiring new FA upon transfer (decades-old original FA) = commercially reasonable good cause.
STANDARDS	<i>Bank United, NA v. GC of Vineland, LLC</i>, No. 18cv12879, 2024 WL 1299024, (D.N.J. Mar. 27, 2024), <i>aff'd</i>, 2025 WL 636306 (3d Cir. Feb. 26, 2025)	NJFPA unreasonable standards claim fails without showing substantial loss. Most challenged standards were not 'standards of performance' and remaining ones were not arbitrary, bad faith, or financially ruinous.
MICHIGAN	<i>Benjamin Franklin Franchising SPE LLC v. David Michael Plumbing Inc.</i>, 2024 U.S. Dist. LEXIS 155703	No private right of action under MFIL §445.1527. 1997 Michigan Court of Appeals decision controls; Michigan Supreme Court's refusal to review solidified its authority. Federal courts must follow most authoritative state court statement.

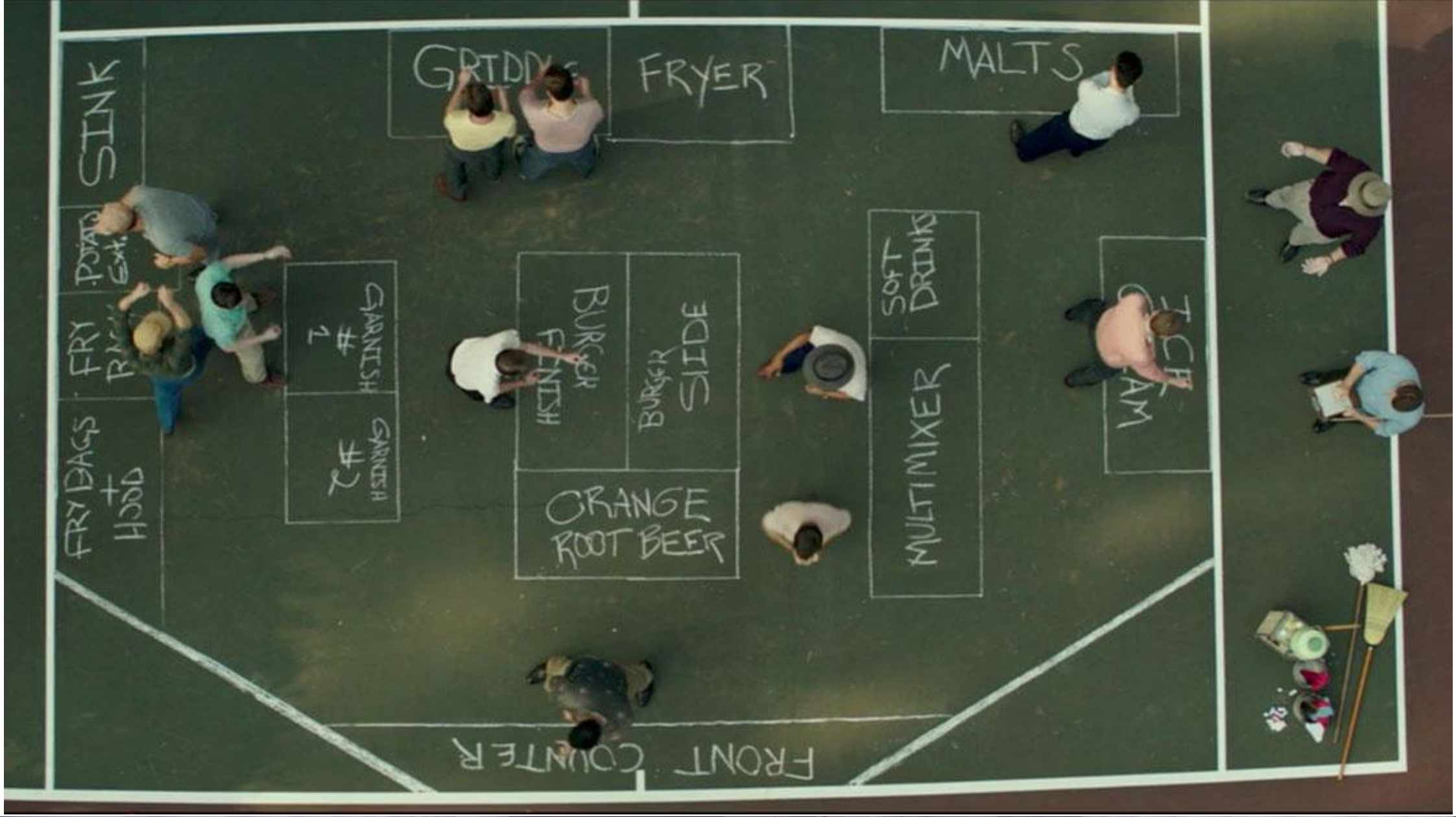
Pending & Recent Legislation

THE LANDSCAPE IS ACTIVELY EVOLVING

New Mexico PENDING	S.B. 439 (2025): Proposes franchise relationship law modeled on Indiana IDFPA. Would prohibit: supply chain restrictions, substantial FA modification without consent, termination/non-renewal without good cause, non-competes >2 years. Would also prohibit encroachment in exclusive territory and discrimination among franchisees.
Virginia FAILED	S.B. 798 (2025): Would have prohibited post-term non-competes and required all VA franchise agreements to be governed by VA law. Passed Virginia Senate unanimously (Jan. 17, 2025) but killed in House Labor & Commerce Committee.
California IN EFFECT	2022 CFRA amendments (effective Jan. 1, 2023): Added anti-waiver provision (any waiver of CFRA rights void); barred modification of FA in exchange for emergency-related assistance; expanded jurisdictional reach to include franchisees' owners domiciled in CA.
Arkansas IN EFFECT	Act 579 of 2023: Clarified applicability and expanded scope of the Arkansas Franchise Practices Act. Changed response window for transfer approvals to 30 days for agreements entered into on/after August 1, 2023 (60 days for older agreements).
NJ / MD / AK / NC MONITORING	Pending legislation in multiple states would amend motor vehicle franchise statutes. New Jersey and Maryland also have pending bills that may significantly affect notice, good cause, and cure requirements for general franchise relationships.
Congress MONITORING	Proposed federal bill: Would, if passed, create a private right of action for violations of the FTC Franchise Rule — currently no private right of action exists. Would significantly expand franchisee remedies at the federal level.

VIII

Best Practices for Compliance & Strong Franchise Relationships



Compliance Best Practices: Agreements & Operations

PROACTIVE COMPLIANCE — NOT REACTIVE CRISIS MANAGEMENT

Monitor State Law Changes

Track legislative and judicial developments in every state with franchised units. Establish a systematic monitoring process, the landscape changes regularly.

State-Specific Addenda

Supplement master FA with addenda addressing each covered state: good cause standard, notice/cure periods, buyback obligations, non-compete restrictions, renewal rights.

Calibrate Choice-of-Law

Draft CofL provisions that account for anti-waiver statutes. Expressly state which relationship law applies (or doesn't) and the conditions for its application.

Notice Provisions

Franchise agreement notice provisions should comply with, and ideally exceed, statutory minimums. Specify delivery method, address, events triggering cure periods.

Transfer Provision Alignment

Synchronize transfer approval criteria, response windows (30- or 60-day), and deemed-approval consequences with applicable state statutes.

Non-Compete Compliance

CA voids most post-term non-competes. WA regulates them under RCW §49.62. MN requires legitimate purpose + reasonable scope/time/geography. Federal scrutiny increasing.

The Best Compliance Strategy: A Strong Franchise Relationship

WHAT YOU DO EVERY DAY MATTERS MORE THAN WHAT YOUR AGREEMENT SAYS

Operational Practices

- Consistent, transparent enforcement of standards across the system, selective enforcement is the single most common franchisee defense
- Early warning systems: monitor financial data, inspections, complaints, royalty history before problems ripen into defaults
- Cross-functional reviews, legal, ops, finance, field support, at least monthly for systems of meaningful scale
- When a problem is identified, start with a direct conversation, not a formal notice
- Explore workout agreements or alternatives to termination for franchisees in good-faith distress

Documentation Culture

- Maintain thorough written records: inspection reports, correspondence, assistance provided, notes from significant conversations
- MN: termination notice citing nonpayment must state exact amount owed, requires accurate contemporaneous records
- WI (WFDL): franchisor may not rely on a reason not stated in the termination notice
- Document all reasons for differential treatment among franchisees
- Preserve records of any prior waivers of enforcement, courts will use these against you

Key Takeaways

- Jurisdictional complexity demands constant vigilance, location, domicile, offer/acceptance, AND anti-waiver provisions
- The good cause standard requires substantive justification, not merely technical breach, build your evidentiary record proactively
- Procedural compliance with notice content, delivery, and cure periods is non-negotiable, procedural errors sink substantively valid terminations
- Transfer silence = deemed approval in CA, HI, NE, NJ, franchisors must track every request
- The e-commerce/alternative channel gap in territorial provisions is a growing liability, audit and update your FAs
- The best compliance strategy is a strong franchise relationship: fair enforcement, open communication, and genuine investment in franchisee success