



February 24, 2026

Senator Pamela Beidle, Chair
Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, Maryland 21401

Re: MSBA Business Law Section Council -- Senate Bill 415 – Favorable with Amendments

Dear Senator Beidle and Fellow Committee Members:

The Business Law Section Council (the “Section Council”) of the Maryland State Bar Association (the “MSBA”) annually reviews proposed legislation that may affect Maryland businesses. We do so as volunteers interested in the advancement of business regulatory law in Maryland.

The Section Council has reviewed Senate Bill 0415 “Business Regulation – Maryland Franchise Registration and Disclosure Law – Alterations” (“SB 415”), colloquially titled the Franchise Reform Act, as well as rough drafts of amendments that we have been told that the Committee Chair intends to request at the Committee hearing. Because I have primarily represented clients concerning the franchisor and franchisee relationship for over 25 years, mainly in Maryland, the Section Council’s current Chair, I. DeAndrei “Dee” Drummond, has authorized me to submit this letter on the Section Council’s behalf.

The Section Council supports SB 415, with amendments, for the reasons explained below.

The law at issue, Maryland Business Regulation Section 14-201 *et seq.*, as currently constructed (the “Franchise Law”) is focused on requiring franchisors to provide certain disclosures to franchisees, in the form of an offering prospectus or franchise disclosure document (“FDD”), and requiring that, before selling a franchise to a Maryland Franchisee, a franchisor submit the FDD to the Maryland Securities Commissioner for its review for compliance with FDD preparation guidelines, which is called registration. (The Securities Commissioner is an officer within the Office of the Attorney General.) The registration to sell franchises must be renewed annually.

The bill would direct the Securities Commissioner to continue its pilot program that incentivizes existing franchisors to submit their registration renewal applications shortly after the beginning of their fiscal, typically beginning on January 1, as opposed to filing within 30 days of their registration’s expiration date – which is typically during the spring. The spring filing franchise registration renewal rush, which is related to compliance with the Federal Trade Commission’s Franchise Sales Rule, has resulted in a crush of renewal applications that the Securities Commissioner’s staff must review each spring, frequently resulting in delays in renewal completions. This has caused many complaints about the agency by franchisors nationally, and by their prospective franchisees in Maryland.

The pilot program permits the franchisors to submit their renewal application after making most updates that are required annually, but before completion of their annual financial statement audit (which, under the FTC Franchise Rule, must be completed within 120 days of the end of the franchisor’s fiscal year). The Securities Commissioner’s staff will review the changes, including those proposed to the

standard franchise agreement, and provide comments that will facilitate prompt completion of the registration process by the end of the first quarter of that fiscal year if the franchisor is responsive to the Commissioner's requests and completes its audit efficiently. However, since not all franchisors will take advantage of the pilot program, it should result in the Securities Division's FDD review workload being spread out more equally during the year, which will improve its efficiency and responsiveness to renewal filings for the benefit of all. The bill will require the Securities Commissioner to report on the results of the pilot program and the overall efficiency of its registration review function, which may spur the Commissioner's staff to perform their duties with greater efficiency and public benefit.

The bill also will make changes for the benefit of franchisees. For the first time, the Franchise Law (in new Section 14.233) will address the imbalance of power between franchisees and franchisors within the ongoing relationship, by prohibiting a franchisor from restricting or inhibiting franchisees from associating together for their common benefit "for any lawful purpose" – which could include collectively raising grievances with the franchisor for the franchisees' mutual benefit. Franchisees will have a right to sue for injunctive relief and damages, in Maryland, if the franchisor violates this prohibition. This provision mirrors "free association" laws passed in other states such as California and Illinois. Franchisee associations have been valuable resources for franchisees to curb franchisor initiatives to profit at the franchisees' expense, and to allow franchisees to use collective purchasing power through cooperatives.

We request that the period during which franchisees to bring a claim under that new freedom of association section be **amended** to the earlier of 3 years from when the violation occurs or 2 years from when the franchisee discovers the violation, because many franchise agreements require that a franchisee mediate a claim before filing a lawsuit, and the short period to bring a claim will incentivize litigation instead of compromise through direct negotiation or mediation.

We understand that the Chair will request a change to page 7, lines 22 through 25, so that they will now read, "The injunctive relief may be sought from the circuit court in the county where the franchise affected by the violation conducts business, or the owner of the franchised business resides." While we support the amendment, we think the word "owner of the franchised business" is too broad, because many franchised businesses are owned by multiple people, some of whom may own a small passive interest in the business. **We suggest that "owner of the franchised business" be replaced with "franchisee."**

We also recommend that **the definition of "Franchisee" be amended** in the statute's Section 14-201(g) to recognize how franchising has developed over the past 46 years since enactment of the Franchise Law. "Franchisee" is currently defined as "a person to whom a franchise is granted." However, since a "person" under law can be a limited liability entity, this can lead to unfair results. That is because, while the franchise rights usually are "granted to" a limited liability entity, nearly all franchisors require each individual who owns substantial equity in the franchisee entity to personally guarantee that the entity will satisfy all of its obligations to the franchisor, and require those owners to be personally bound by covenants not to compete, not to solicit, and to maintain confidentiality as if they were the franchisee.

Therefore, "Franchisee" should now be defined as "a person to whom a franchise is granted, or who personally guarantees satisfaction of the obligations of the franchisee as defined in the franchise agreement." This will make the statute consistent with its intention, which is to protect individuals who reside in Maryland against deception in the sale of franchises and, with this bill, from detrimental actions by a franchisor due to that human's efforts to collaborate with their fellow franchise owners for collective benefit. It also will recognize that, when a Maryland resident quits a job to purchase

a franchise from a franchisor violating the Franchise Law, that individual suffers damages in terms of lost wages and other opportunities that should be compensable, beyond the losses of the franchisee entity.

The bill will provide many franchisees with claims for violation of the registration or disclosure provisions of the Franchise Act with more time to enforce their rights under the Franchise Law, by expanding the time in which they can file claims. Currently, a private claim under Section 14-227 (the “Private Action”) must be brought within 3 years of when the franchisee bought the franchise rights. That limitation sometimes is unfair, particularly for substantial investment franchises for which it sometimes takes 2 or more years to find and develop a location and open for business. However, for smaller investment services franchises, which often open within 1 year of purchase, the current limitations period is sufficient to permit the franchisee to determine whether it was misled into buying and pursue justice.

We understand that the Chair will request that that portion of the bill, on page 7, lines 1 to 7, be revised to read, “An action under this section must be brought within the earlier of 4 years after the grant of the franchise; or 2 years after the date the franchise opened to the public.” **We support this amendment** but think that the following words should be added at the end, after the word “public”: “or begins providing services or selling goods to paying customers”. That is necessary because some franchised businesses are never “open to the public,” but all most provide goods or services to paying customers.

We understand that the Chair also will request an amendment to the Private Action section, page 5, line 27 of the bill, so that a Private Claim can be brought only if the franchisee is a Maryland resident or the franchised business operates in the state. This would eliminate the current right of out-of-state franchisees to bring an action against of Maryland-based franchisors for violations of the law’s registration or disclosure requirements. *We think that this will incentivize franchising activity from Maryland to the benefit of its economy, by eliminating exposure that few other states impose on franchisors operating from their state, unless the franchisee is also a resident.*

We also suggest these technical amendments:

Page 2, line 20, delete “Franchisors” from the class of people the bill is intended to protect.

Page 6, line 22, either strike existing language about partnerships (which are nearly extinct) and substitute “each owner of a limited liability company who participates in managing the company”, or add the quoted language for limited liability companies as a new subpart in Section 14-227(E)(1), as to joint and several liability for people participating in violations of the registration and disclosure provisions.

Overall, the bill addresses important deficiencies in the Franchise Law, will benefit Maryland franchisees and Maryland-based franchisors, and may approve administrative efficiency for the benefit of all participants in franchising. We commend the Chair for introducing it, and we urge your Committee to report it favorably, following amendments, so that it can advance to become law.

Sincerely,



David L. Cahn
Past Chair, Business Law Section Council
Co-Chair, Franchise Law Committee