



Lyft's IPO Warns About Misclassification Risks And Local Regulations

Insights

3.18.19

Lyft recently filed for an initial public offering with the hopes of raising as much as \$2.1 billion. As part of its registration statement for its IPO, Lyft acknowledged the company could be negatively impacted by several potential business risks. The filing acknowledged not only increased and intense competition from competitors, but also the specter of litigation across the country as drivers contest their classification as independent contractors and the applicability of Lyft's arbitration agreement. Within its S-1, Lyft cited lawsuits disputing the employment status of its drivers – as well as new municipal regulations – as potential risks that investors should consider when evaluating the company.

Ridesharing companies not only have to respond to class action lawsuits alleging unpaid wages as a result of misclassification as independent contractors, but also must adhere to new local ordinances that have been implemented to restrict the way ride-sharing companies operate. For example, New York City officials recently established a minimum pay rate for drivers who drive for app-based ride-hailing companies. In response, Lyft has filed suit in New York state court, claiming the new rules in New York City will destroy market competition and harm drivers.

Unfortunately for Lyft, New York City's new regulations may only be the beginning of further municipal restrictions. Lyft said in its registration statement that other jurisdictions could follow New York City's lead and implement new municipal restrictions. These restrictions not only increase Lyft's operating costs in certain regions but also require the company to monitor the potential implementation of new ordinances and restrictions in each market that it operations. When local restrictions are put in place, Lyft is also subjected to increased legal risk due to future disputes over whether Lyft is in compliance with the local restrictions.

Overall, Lyft's business risks are similar to other gig economy platforms that rely on the work of freelancers. In the extremely competitive ride-sharing industry, the classification of its 1.9 million drivers is critical to Lyft's business model. As Lyft prepares for its IPO, the company has acknowledged if the contractor classification of drivers is challenged, there may be adverse business, financial, tax, legal and other consequences. For example, Lyft would like be forced to raise fares in response to increased costs from managing its drivers. Unfortunately for Lyft, the U.S. regulatory framework has been slow to adapt to the ride-sharing industry and there is not expected to be a solution any time soon.

Without a uniform regulatory framework, ridesharing companies will be subject to the uncertainty of the interpretation of varying state laws and municipal regulations. Additionally, the tests governing whether a driver is an independent contractor or an employee vary by the applicable law and are typically highly fact sensitive. Laws and regulations that govern the status and misclassification of independent contractors are subject to change and to differing interpretations by various authorities. This creates uncertainty and unpredictability for companies like Lyft. Additionally due what is at stake, it can be expected that classification lawsuits will be appealed by the losing party. This combination of factors results in uncertain, costly, and lengthy litigation.

For riding sharing companies, a final determination classifying a driver of a ridesharing platform as an employee, could harm the entire industry. If drivers were classified as employees, ridesharing companies could suffer from wage and hour liability, unpaid taxes, claims for employee benefits, claims of discrimination, harassment, and retaliation under civil rights laws, and other claims under laws and regulations applicable to employers.

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