

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Commerce and Tourism

BILL: SB 1212

INTRODUCER: Senator Ring

SUBJECT: Contracts for Goods and Services

DATE: March 20, 2015

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Siples	McKay	CM	Pre-meeting
2.			JU	
3.			FP	

I. Summary:

SB 1212 provides that a contract for goods or services is unlawful if it includes a provision requiring the consumer to waive his or her right to make any statement regarding the seller or lessor or the goods or services. The bill also makes it unlawful for a party to threaten or seek enforcement of such a provision or to penalize the consumer for making a statement regarding his or her experiences with the seller or lessor or the goods or services. The bill provides that any waiver of a consumer's right to provide such statement is contrary to public policy and would be void and unenforceable. The bill provides civil penalties for violation of its provisions.

II. Present Situation:

Contracts

The formation of a contract requires the following: offer, acceptance, and consideration.¹ A contract may be written or oral.² A contract formed under duress, induced by fraud, or with a person that lacks capacity are voidable.³ A contract is void, meaning it has no legal effect, if it is unconscionable,⁴ contravenes public policy, or is otherwise illegal.⁵

¹ 11 Fla. Jur. 2d *Contracts* s. 25.

² In some cases, there is a statutory requirement that a contract be written.

³ 11 Fla. Jur. 2d *Contracts* s. 10.

⁴ Unconscionability is common law doctrine that courts may use to refuse to enforce contractual provisions in which one party overreaches the other party to gain "...an unjust and undeserving advantage which it would be inequitable to permit him to enforce..." *Steinhardt v. Rudolph*, 422 So.2d 884, 889 (Fla. 3d DCA 1982) (quoting *Peacock Hotel, Inc. v. Shipman*, 138 So. 44, 46 (1931)). Unconscionability may be either procedural, dealing with the factors surrounding the entering of the contract; or substantive, focusing directly on the contract terms. *Steinhardt* at 889 (citing *Kohl v. Bay Colony Club Condominium, Inc.*, 398 So.2d 865, 867 (Fla. 4th DCA 1981), *reh'g denied*).

⁵ 11 Fla. Jur. 2d *Contracts* s. 11.

General provisions and definitions for certain commercial transactions are found in the Florida Uniform Commercial Code (UCC).⁶ Among other things, the UCC applies to the sale of goods and leases, but does not generally govern contracts for services. “Contract” is defined as the total legal obligation that results from the parties’ agreement, consistent with law.⁷

Freedom of Speech

Both the First Amendment of the United States Constitution and Article 1, Section 4 of the Florida Constitution, protect against an infringement on the right of free speech. Although it is legal to waive one’s constitutional rights in contracts, the court will determine: (1) whether the waiver was voluntary, free, deliberate, and not procured through intimidation, coercion, or deception; and (2) whether the waiver was executed with full awareness of the nature of the rights being abandoned and the consequences of such abandonment.⁸

Customer Reviews

There are a number of internet websites on which a consumer can share his or her experience with a particular business.⁹ When seeking services or goods, an individual may review these websites and in making a decision to do business with a particular company, take into consideration the experiences that others have had with that particular company. According to one study, online reviews are the second most trusted source of information relied on by consumers, behind recommendations from friends and family.¹⁰

Some businesses have attempted to limit a consumer’s ability to share his or her opinion about the business or the goods or services received from the business. Several stories about such contractual clauses have made the news recently:

- In 2013, an online retailer threatened enforcement of a non-disparagement clause against customers, after the customers left a negative review on a consumer review website. The retailer demanded removal of the review or a payment of \$3,500. The customer refused to pay and the retailer reported the fine for collection, which negatively impacted the customers’ credit ratings. The customers filed a lawsuit in a federal district court in Utah seeking compensation for violations of the Fair Credit Reporting Act and tort law. They claimed that the clause was unconscionable and unlawfully restricted their First Amendment

⁶ Chapters 670-680, F.S., are cited as the Uniform Commercial Code (UCC). General provisions of the Uniform Commercial Code are found in ch. 671, F.S.; the Uniform Commercial Code – Sales is found in ch. 672, F.S.; and the Uniform Commercial Code – Leases is found in ch. 680, F.S.

⁷ Section 671.201(12), F.S.

⁸ *Peterson v. Florida Bar*, 720 F. Supp.2d 1351, 1358 (M.D. Fla. 2010) (citing *Sliney v. State*, 699 So.2d 662, 668 (Fla. 1997)).

⁹ For example, see TripAdvisor, *About TripAdvisor*, available at http://www.tripadvisor.com/PressCenter-c6-About_Us.html (last visited Mar. 16, 2015); Yelp.com, *About Us*, available at <http://www.yelp.com/about> (last visited Mar. 16, 2015); and Angieslist.com, *Angie’s List*, <http://www.angieslist.com/aboutus.htm> (last visited Mar. 16, 2015). Additionally, many search engines, such as Google (www.google.com), Yahoo (www.yahoo.com), or Bing (www.bing.com) offer access to consumer reviews within the search engine results.

¹⁰ Nielsen, *Consumer Trust in Online, Social and Mobile Advertising Grows*, (Apr. 10, 2012), available at <http://www.nielsen.com/us/en/insights/news/2012/consumer-trust-in-online-social-and-mobile-advertising-grows.html> (last visited Mar. 17, 2015).

rights. Ultimately, the customers obtained a default judgment against the retailer and were awarded compensatory and punitive damages, as well as attorney's fees and expenses.¹¹

- A hotel in New York posted a policy on its website that indicated it would fine wedding parties \$500 for each negative review posted by any member of the wedding party or their guests. After public backlash, this policy was removed.¹²
- Medical Justice provided standard agreements to medical professionals for use in their practices that asked patients to waive the right to, directly or indirectly, provide commentary regarding the practitioner or the services received. Some of the standard agreements required the patient to sign over any written, pictorial, or electronic commentary about the practitioner.¹³ One dentist, using a Medical Justice form contract, was sued by a patient. In March 2015, a federal district court in New York ruled the contract was unenforceable and constituted a misuse of copyright law.¹⁴

*Defamation*¹⁵

If a business is concerned about false reviews that may have a negative impact on its business, it would be able to bring a civil action against a consumer who publishes false or misleading reviews. To prevail, the business must show that the customer:

- Published a false statement about the business;
- The false statement was published to a third party; and
- The falsity of the statement caused injury to the business.¹⁶

III. Effect of Proposed Changes:

Section 1 creates s. 672.3021, F.S., to prohibit a contract for the sale or lease of consumer goods or services from including a provision that limits a consumer's right to make statements regarding his or her experiences with the seller or lessor, the seller's or lessor's employees, or the goods or services. The bill makes it unlawful to threaten or to seek to enforce a provision made unlawful under this bill, or otherwise penalize a consumer for making a statement protected under this bill.

The bill creates a civil action for the violation of the provisions of the bill which may be brought by a consumer, the Office of Attorney General, or the state attorney for the county in which the violation occurred. A court may impose a civil penalty of no more than \$2,500 for the first

¹¹ Nelson, Steven, *Retailer That Fined Couple \$3,500 for Negative Review Hit with Lawsuit*, U.S. News & World Report, (Dec. 13, 2013), available at <http://www.usnews.com/news/articles/2013/12/18/retailer-that-fined-couple-3500-for-negative-review-hit-with-lawsuit> (last visited Mar. 19, 2015) and Volokh, Eugene, *Default Judgment Against KlearGear, the Company that Billed Customers for \$3,500, Because They Posted a Negative Review*, The Washington Post, (May 16, 2014), available at <http://www.washingtonpost.com/news/volokh-conspiracy/wp/2014/05/16/default-judgment-against-kleargear-the-company-that-billed-customers-for-3500-because-they-posted-a-negative-review/> (last visited Mar. 19, 2015).

¹² Hetter, Katia, CNN, *A \$500 Fine for Bad Reviews? Inn's Policy Pummeled*, (Aug. 5, 2014), available at <http://www.cnn.com/2014/08/04/travel/bad-hotel-review-fine-backlash/> (last visited Mar. 17, 2015).

¹³ Doctored Reviews, available at <http://doctoredreviews.com/patients/the-back-story/> (last visited Mar. 17, 2015).

¹⁴ Lexology.com, *Court Finds Dentist Misused Copyright Law to Stop Bad Yelp Reviews*, (Mar. 17, 2015), available at <http://www.lexology.com/library/detail.aspx?g=56373e86-0715-4b86-97c7-68582badf0cd> (last visited Mar. 17, 2015).

¹⁵ Defamation is defined as the unprivileged publication of false statements that naturally and proximately result in an injury to another. Under Florida law, defamation also includes libel and slander. 19 Fla. Jur. 2d s. 2.

¹⁶ *Razner v. Wellington Regional Medical Center, Inc.*, 837 So.2d 437, 442 (Fla. 4d DCA 2002) (citing *Valencia v. Citibank Int'l.*, 728 So.2d 330, 330 (Fla. 3d DCA 1999)).

violation and no more than \$5,000 for each subsequent violation. Willful, intentional, or reckless violations may incur an additional civil penalty of up to \$10,000. The civil penalty will be awarded to the consumer, if he or she brought the civil action, or to the general fund of the Office of Attorney General or the state attorney, if one of these entities brought the action. The imposition of these civil penalties does not affect any other relief available to the consumer.

The provisions of this bill do not affect a host of online consumer reviews or comments from removing consumer reviews or comments that the host may lawfully remove.

Section 2 provides an effective date of July 1, 2015.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

The United States Constitution and the Florida Constitution prohibit the state from passing any law impairing the obligation of contracts.¹⁷ “[T]he first inquiry must be whether the state law has, in fact, operated as a substantial impairment of a contractual relationship. The severity of the impairment measures the height of the hurdle the state legislation must clear.”¹⁸ If a law does impair contracts, the courts will assess whether the law is deemed reasonable and necessary to serve an important public purpose.¹⁹ The factors that a court will consider when balancing the impairment of contracts with the public purpose include:

- Whether the law was enacted to deal with a broad, generalized economic or social problem;
- Whether the law operates in an area that was already subject to state regulation at the time the parties undertook their contractual obligations, or whether it invades an area never before subject to regulation; and

¹⁷ U.S. Const. Art. I, § 10; Art. I, s. 10, Fla. Const.

¹⁸ *Pomponio v Claridge of Pompano Condominium, Inc.*, 378 So.2d 774, 779 (Fla. 1979) (quoting *Allied Structural Steel Co. v. Spannaus*, 438 U.S. 234, 244-45 (1978)). See also *General Motors Corp. v. Romein*, 503 U.S. 181 (1992).

¹⁹ *Park Benziger & Co. v. Southern Wine & Spirits, Inc.*, 391 So.2d 681, 683 (Fla. 1980); *Yellow Cab Co. of Dade County v. Dade County*, 412 So.2d 395, 397 (Fla. 3rd DCA 1982) (citing *United States Trust Co. v. New Jersey*, 431 U.S. 1, (1977)).

- Whether the law effects a temporary alteration of the contractual relationships of those within its scope, or whether it works a severe, permanent, and immediate change in those relationships, irrevocably and retroactively.²⁰

V. Fiscal Impact Statement:**A. Tax/Fee Issues:**

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

To the extent that individuals violate the provisions of the bill, there may be a negative fiscal impact to the state court system or legal agencies seeking to enforce the provisions of the bill. However, some of that costs may be offset by the recovery of civil penalties.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The bill proposes the placement of its provisions in ch. 672, F.S., which contains the Uniform Commercial Code, related to the sale of goods. Since this chapter does not address leases or contracts for services, those substantive provisions might be better located elsewhere in the law.

VIII. Statutes Affected:

This bill creates the section 672.3027 of the Florida Statutes.

IX. Additional Information:**A. Committee Substitute – Statement of Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

²⁰ See *supra* note 17, at 779.