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ADP Sues Zenefits for Defamation

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— Zenefits

A conflict between one of the biggest providers of corporate payroll services and one of the world's most highly valued startups spilled into court on Tuesday. Payroll provider [ADP](#) ADP +1.82% filed a lawsuit accusing Silicon Valley high-flier Zenefits of defamation.

The dispute started when ADP blocked Zenefits from accessing payroll information on behalf of the startup's customers, some of whom use the company as a middleman for the payroll provider's services. The companies disagree on the circumstances that led to ADP's action, and they have waged in a bitter war of words this week.

The disagreement escalated with the lawsuit, filed with the U.S. district court in San Francisco. ADP's complaint said Zenefits and its chief executive, Parker Conrad, launched a "manipulative and malicious public relations campaign, ignoring its own conduct, to defame ADP and drive away ADP's clients." ADP also said Zenefits defamed

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the payroll giant when it “alleged that ADP intentionally sought to cause harm to ADP’s clients solely to gain an unfair competitive advantage against Zenefits.”

In a further development, Zenefits said Wednesday that ADP had launched a competing product even as the payroll processor was denying it had moved to crush a potential rival.

An official from a company claiming to be a customer of both ADP and Zenefits showed The Wall Street Journal an email from an ADP sales representative who said his company was “coming out with a product to compete with Zenefits.” The product described in the email would combine payroll processing with free HR benefits administration technology such as Zenefits offers. The email was dated Tuesday, the same day ADP filed its defamation lawsuit.

The ADP spokesman said the product described in the salesperson’s email was neither a new offering nor launched in response to the Zenefits dispute. “This is a core service ADP has offered clients for many years,” the spokesman said in an email Wednesday.

The quarrel between ADP and Zenefits shines a spotlight on an obscure but highly profitable corner of corporate technology. A growing number of companies are vying to provide access to payroll processing, handle insurance-benefit applications and provide other human-resources services to companies large and small. The dispute between ADP and Zenefits shows the hardscrabble nature of the battle for corporate tech dollars.

The fight stems from Zenefits’ role as an intermediary for some of ADP’s small-business clients that use a payroll system called ADP RUN. Zenefits provides access to ADP for what Zenefits says is about 600 of its business customers that also use the ADP payroll system. Last week, Zenefits contends, ADP cut off its access without warning.

“ADP – the world’s largest payroll provider – has cut thousands of their small business customers off from using Zenefits to automate their time-consuming payroll administration work,” Zenefits wrote in an open letter to its customers. “ADP did so without permission from these small businesses, and also without notifying Zenefits, who has partnered with ADP amicably since we were founded.” Zenefits repeated its accusations Wednesday [in a blog post](#).

ADP shot back [on its own website](#): “We have never integrated with Zenefits in any sense and have never authorized their method of extracting data from our RUN payroll system. They gained access to our systems by convincing clients to give them administrative access to our platform. Despite having many legitimate ways to integrate with ADP properly, Zenefits chose an unsecure and indirect approach.”

ADP said this week, and reiterated in its lawsuit, that it cut off Zenefits’ ability to extract information from its payroll system because Zenefits overloaded ADP’s computer systems with a flood of digital traffic. ADP also said that Zenefits connected with ADP’s payroll systems in a way that threatened to expose Social Security numbers and other sensitive data belonging to employees whose payroll and benefits information was shared among Zenefits and ADP systems.

Zenefits, for its part, said no personal information was revealed. It said ADP was acting out of self-interest because Zenefits and ADP compete in some areas. In communications about the ADP issue in recent days, Conrad characterized the ADP blocking of Zenefits as “unethical”—a word, he said in an interview Monday, he wished he hadn’t used.

Conrad on Tuesday said he believed ADP’s lawsuit “was filed in really bad faith.” He said ADP CEO Carlos Rodriguez phoned him on Saturday night for what Conrad called a “Dirty Harry conversation.” According to Conrad, Rodriguez said, “You’re going to hear from our lawyers very soon, and you’re really going to hear from us on Monday.”

Of the Saturday phone call, ADP said, “During that conversation ADP’s position remained the same, and Mr. Rodriguez again requested that Zenefits immediately retract their comments, and made a good faith offer to properly partner. Mr. Parker would not comply, forcing ADP to tell its side of the story to our customers and the markets we serve.”

On Monday, ADP issued a lengthy explanation of what had led ADP to shut off Zenefits’ access to its system. The same day, Conrad said ADP sent Zenefits a letter that said Zenefits should recant what it had told customers about the ADP dispute.

Zenefits’ clash with ADP follows contentious brushes with regulators and insurance brokers over how the startup lures small businesses with free employee-benefits tools in hope of selling them health insurance. Zenefits was valued at \$4.5 billion in a recent private stock sale.

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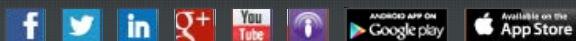
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