CLIENT ALERT

Lanham Act in Trade Secrets Case Triggered by Sending Misleading Email to Former Employer's Customers

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Employers are typically confined to limited theories of liability when acting as the plaintiff in a customer non-solicitation case. Usually, in states where covenants not to compete are enforced, employers would sue for violating a restrictive covenant, assuming the covenant is both reasonable in time and geographic scope. Also, assuming employers have a properly worded proprietary information agreement, employers can sue, independently, for breach of contract. Obviously, if employers have evidence of misappropriation of trade secrets, a claim may lie under the Uniform Trade Secrets Act as well as some attendant tort claims (*e.g.*, interfering with contractual relations and interference with perspective economic advantage).

Recently, however, the Sixth Circuit has opened the door to a potentially new kind of claim—a claim for violation of the Lanham Act—opening the door to federal court and, potentially, trebled damages and the possibility of recovering attorneys' fees (in "exceptional cases"). *Grubbs v. Sheakley Grp., Inc.*, ___ F.3d ___, No. 15-3302, 2015 WL 7964109 (6th Cir. Dec. 7, 2015). This claim arose from a former management-level employee sending an email out to the former employer's customers that falsely suggested that the former employer was partnering with a competitor.

In *Grubbs*, a management-level employee of a professional employment organization, or PEO (entities to which companies can outsource tasks, such as payroll, workers compensation, and employee benefits), decided to leave her present job and join a competitor. In this process, the employee sent an email to 23 customers of her existing employer. In the e-mail, the employee told her clients:

> "Customers: We are moving! In order to better serve you, we are partnering with Sheakley HR and moving our offices. As many of you know, we have partnered with Sheakley over the years with regards to our workers compensation and unemployment management. We have been blessed to have experienced tremendous growth over the last 6 months. We find ourselves needing more office space and more resources to ensure that our customer service level continues to meet your expectations. By moving into Sheakley Group we will be able to provide you and your employees with additional resources, services, and benefits, while continuing to provide you with the service that you have grown accustomed to expect from TriServe. Nothing will change from your standpoint. We will have new contact information, but nothing else will change. You will begin to see the Sheakley HR name and we will be introducing new benefits and new services to assist you with growing your business."

Unhappy that the former employee's email to its customers suggested that it was merging some or all of its service offerings with a one-time competitor, the former employer, Tri-Serve, sued in federal court. In addition to various tort claims, Tri-Serve alleged, inter alia, that the e-mail was evidence of a federal Lanham Act violation. Tri-Serve asserted that the former employee violated the Lanham Act's prohibition against false advertising because the email falsely suggested that Tri-Serve was entering a partnership with Sheakley when it was not. But a key question for the court was whether the Lanham Act even applied here.

Dismissing the Lanham Act claim for false advertising, the trial court applied the following standard for determining whether the alleged statement is actionable:

> [The alleged statement must be:] (1) commercial speech; (2) by a defendant who is in commercial competition with the plaintiff; (3) for the purpose of influencing customers to buy the defendant's goods or services; (4) *that is disseminated sufficiently to the relevant purchasing public to constitute advertising or promotion within that industry*.

(Italics added.) In the trial court's view, an e-mail to 23 recipients didn't represent a sufficient dissemination to satisfy the fourth element of the standard. However, on appeal, the Sixth Circuit considered that approach too narrow.

According to the Sixth Circuit, the key question is whether "the contested representations are part of an organized campaign to penetrate the relevant market." According to the *Grubbs* court, an organized campaign may not require the carpet bombing approach of "junk mail, newspaper advertising and television commercials." The Court noted the increased use of "targeted promotion," which in its view "reflects a belief by advertisers that discrete segments of a much larger existing or potential customer base may find specific messages most persuasive . . . . In other words, the most focused advertisements or promotions may not be widely disseminated at all."

The *Grubbs'* court took a broad view of the "dissemination" element, adopting a revised test, which defined "commercial advertising or promotion" as:

> (1) commercial speech; (2) for the purpose of influencing customers to buy the defendant's goods or services; (3) that is disseminated either widely enough to the relevant purchasing public to constitute advertising or promotion within that industry *or to a substantial portion of the plaintiff's or defendant's existing customer or client base*.

(Italics added.) Applying that definition, the Sixth Circuit found, an e-mail to 23 recipients could create Lanham Act exposure.

It's common for competitors to sue one another when non-compete agreements or trade secrets are in play. This appellate decision, though, gives the allegedly wronged party a potential new weapon—one that opens up the federal courthouse and provides a remedy that allows for trebled damages and, potentially, attorneys' fees. This is, safe to say, a big deal.

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