

## Client Alert.

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# ***American Needle*: Supreme Court Finds the NFL's Intellectual Property Licensing to Involve "Concerted Action" Subject to the Antitrust Laws**

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### SUMMARY OF DECISION

In *American Needle, Inc. v. National Football League*, the Supreme Court held that the NFL's conduct relating to the licensing of the teams' trademarks and other intellectual property constitutes concerted action of the sort that is within the scope of Section 1 of the Sherman Act rather than unilateral conduct to which Section 1 would not apply. The Court, in an opinion by Justice Stevens, unanimously reversed the decision of the Seventh Circuit, which had found that the NFL and its teams are a single entity incapable of conspiring within the meaning of Section 1 with respect to the licensing of their intellectual property.

In finding that the NFL's conduct came within the scope of Section 1, however, the Court also explained that the NFL's conduct should not be condemned outright under Section 1, but instead analyzed under the "flexible" rule of reason. The Court identified several justifications that might allow the court on remand to find that there was no violation of Section 1, perhaps even in the "twinkling of an eye" without the need for detailed analysis.

Although the Court's reasoning may spark debate about the circumstances under which Section 1 applies to the decision-making of other joint ventures, the Court was undoubtedly influenced by the somewhat unusual factual context of the case, where it perceived an agreement among dozens of separately owned football teams competing both on and off the playing field, including with respect to the intellectual property licensing at issue in the case.

### BACKGROUND

The NFL is an unincorporated association of 32 separately owned teams. In 1963, the teams formed National Football League Properties (NFLP) to develop, license, and market their intellectual property. Between 1963 and 2000, NFLP granted non-exclusive licenses to a number of companies, including American Needle, to manufacture and sell apparel bearing team logos. In 2000, the teams voted to authorize NFLP to grant exclusive licenses, and NFLP then granted an exclusive license to Reebok to manufacture and sell trademarked headwear bearing the marks of all NFL teams. After granting Reebok's exclusive license, NFLP declined to renew American Needle's license.

American Needle sued, alleging, *inter alia*, that the decision of the NFL, its teams, and NFLP to grant an exclusive license to Reebok violated Section 1 of the Sherman Act. After limited discovery addressing the single-entity issue, the NFL persuaded the district court to grant summary judgment in its favor on the ground that the NFL, its teams, and NFLP were incapable of conspiring within the meaning of Section 1 because they act as a single enterprise with respect to licensing decisions. The Seventh Circuit affirmed.

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## THE COURT'S ANALYSIS

In deciding whether the NFL, its teams, and NFLP were capable of engaging in a “contract, combination . . . or conspiracy” within the meaning of Section 1, the Court emphasized that a finding of concerted action “does not simply turn on whether the parties involved are legally distinct entities,” but rather demands a “functional consideration” of how the parties actually operate. Slip Op. at 6. Citing precedent going back over fifty years, the Court explained that the analysis of whether parties have engaged in concerted action within the meaning of Section 1 is one of substance rather than form. Slip Op. at 8-9. For there to be concerted action under Section 1, there must be “separate economic actors pursuing separate economic interests,” “such that the agreement deprives the marketplace of ‘independent decisionmaking,’ . . . and therefore of ‘diversity of entrepreneurial interests,’” and ultimately of “actual or potential competition.” Slip Op. at 10.

In cases such as *Copperweld*, the emphasis on substance over form led the Court to reject the “intra-enterprise” conspiracy doctrine and hold that two entities that are legally separate (e.g., a parent and its wholly-owned subsidiary) were nonetheless incapable of conspiring within the meaning of the Sherman Act. In *American Needle*, substance cut the other way, leading the Court to conclude that it is “not determinative that two legally distinct entities have organized themselves under a single umbrella or into a structured joint venture.” Slip Op. at 11.

Applying this functional inquiry to the NFL and its teams, the Court began by concluding without difficulty that the NFL teams competed with one another in numerous respects, including in “the market for intellectual property” at issue in the case. Thus, to “a firm making hats” like American Needle, “the Saints and Colts are two potentially competing suppliers of valuable trademarks.” When each team makes decisions about licensing its intellectual property, it is pursuing its “separate economic interests” and not the “‘common interests of the whole’ league.” Slip Op. at 12.

Proceeding from this premise, the Court made relatively quick work rejecting the arguments the NFL had advanced for treating decisions by the NFL’s member teams regarding their intellectual property licensing as those of a single entity.

- The fact that the NFL teams had formed NFLP as a “legally separate entity” to act as the centralized manager of their intellectual property could not, in and of itself, preclude the application of Section 1. The Court observed that, for example: “An ongoing §1 violation cannot evade scrutiny simply by giving the ongoing violation a name and label.” Slip Op. at 13.
- The NFLP’s decades-long history as the driving force in commercializing NFL-related trademarks did not help. The Court regarded such a history of concerted action as merely indicating that the participants had chosen to pursue *some set* of common interests, and as not ruling out the possibility that the shared interest involved imposing anticompetitive restraints on others. That history thus did not overcome the fact that the teams still had “distinct, potentially competing interests” in licensing their intellectual property. Slip Op. at 13-14.
- The claimed inability of the teams to produce “NFL football” except through cooperation likewise was “not relevant to whether that cooperation is concerted or independent action.” The Court regarded this argument as going only to the distinct question of the “justification for cooperation.” The Court also observed that the decision by a group of firms to produce a “joint product” that differs in some way from the products each could produce separately does not necessarily mean that their cooperation “must be treated as independent conduct” and immunized from Section 1 scrutiny. Slip Op. at 14-15.

The Court next turned to the “closer” question “whether NFLP’s decisions can constitute concerted action.” The Court acknowledged that this was a harder question, because of NFLP’s status as a “separate corporation with its own management” and its record of sharing most of its revenues with the teams “on an equal basis.” But the Court nonetheless regarded the answer to this question as equally clear: “for the same reasons the 32 teams’ conduct is

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covered by §1, NFLP's actions are also subject to §1, at least with regards to its marketing of property owned by the separate teams." Slip Op. at 15.

The Court again emphasized the fact that each NFL team owned its own intellectual property, and thus, absent the teams' agreement to "cooperate in exploiting" their intellectual property assets, there would be "nothing to prevent each of the teams from making its own market decisions relating to purchases of apparel and headwear, to the sale of such items, and to the granting of licenses to use of its trademarks." *Id.* Viewed through this lens, NFLP presented one of the "rare cases" where "agreements within a single firm" should not be treated as "independent action." Slip Op. at 16. The Court noted that in exceptional circumstances "agreements made within a firm can constitute concerted action covered by §1 when the parties to the agreement act on interests separate from those of the firm itself, and the intrafirm agreements may simply be a formalistic shell for ongoing concerted action." Slip Op. at 16. Here, the Court regarded NFLP as merely "'an instrumentality' of the teams" and thus held its licensing decisions subject to Section 1 scrutiny.

The NFL fared better in the portion of the Court's opinion addressing how Section 1 should be applied to the alleged conduct. The Court emphasized that the "flexible rule of reason" would apply, and that application of Section 1 to the licensing conduct of NFLP might exonerate the NFL without the need for a "detailed analysis." Slip Op. at 18-19. Among the features that "may well justify a variety of collective decisions made by the teams" were their shared "interest in making the entire league successful and profitable," their need to cooperate "in the production and scheduling of games," and their interest as a sports league "in maintaining a competitive balance." The Court left for remand the question whether these potential justifications played any role in the rule-of-reason analysis of the restraints at issue.

### THE LIKELY SIGNIFICANCE OF THE DECISION

The "single-entity" issue addressed in the Court's decision is one of great interest to participants in joint ventures and other collaborative activity. The Court's analysis of the applicability of Section 1 to decisions by the NFL and its member teams regarding the licensing of their individually-owned intellectual property assets provides new insights into how the Court views the reach of *Copperweld*. The decision thus provides an occasion for venturers to consider the implications of the Court's analysis for their own joint activities.

Although the Court's decision will be read by some as expressing great hostility toward the immunization of joint venture conduct from Section 1 scrutiny, the Court's factual premise – that NFL teams were potential competitors in the relevant market absent their agreement to make licensing decisions jointly through NFLP – strongly influenced the analysis that followed and thus narrows the lessons that flow directly from the decision.

The Court's decision addressed only two extreme cases: one presented by the facts in *American Needle* and the other by agreements that all would regard as made by participants within a single firm: between president and vice president, between a corporation and one of its divisions, and between a parent and its wholly-owned subsidiary. Slip Op. at 11. The Court refrained from addressing other hypothetical situations, some of which might similarly be regarded as involving the decisions of a single entity, such as the hypothetical raised at oral argument about the appropriate treatment of partners in a law firm reaching agreement on their hourly rates. The Court also expressly declined to pass on the Solicitor General's proposal for a standard that would focus on whether firms had "effectively merged the relevant aspect of their operations," along the lines of the "integrated joint venture" that was at issue in the Court's 2006 decision in *Texaco, Inc. v. Dagher*. The Court did not think that test was implicated on these facts because the NFL's teams "still own their own trademarks and are free to market those trademarks as they see fit." Slip Op. at 17 n.9.

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At the same time, the Court's comments about the substance of Section 1 analysis may prove useful to collaborators seeking to have their agreements upheld as lawful without the need for an extensive and costly examination of market structure.

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