Initial Thoughts on the *American Needle* Decision

Gregory J. Werden

Hat manufacturer American Needle, Inc. brought suit under Section 1 of the Sherman Act, alleging that the NFL and its teams had unlawfully acted in concert in granting a single, exclusive license to all the teams' logos and trademarks for use on apparel. The NFL moved for summary judgment, arguing that the league and its teams had acted as a single economic entity. In the limited context of the NFL's intellectual property licensing, both the district court and court of appeals accepted the single-entity argument.[1]

The Supreme Court had invited the single-entity argument in a 1982 opinion by Justice Stevens,[2] so it came as a bit of a surprise when Justice Stevens' unanimous opinion in *American Needle, Inc. v. NFL*[3] not only rejected the NFL's single-entity argument in that case but also seemingly afforded little scope for the argument in future cases involving sports leagues with independently owned and operated teams. The decision, however, did not provide much guidance on when the single-entity argument is valid with joint ventures other than sports leagues.

The Narrow Holding of *American Needle*

The Section 1 analysis in *American Needle* begins by observing that the determination of whether conduct is concerted does not turn on "formalistic distinctions" but rather on a "functional consideration of how the parties involved in the alleged anticompetitive conduct actually operate."[4] The Court explained that the "key" is whether the alleged agreement "joins together separate decisionmakers . . . 'pursuing separate economic interests.'"[5] The Court declared that even the actions of a single legal entity constitute concerted conduct if the entity serves as "'an instrumentality'" of multiple competitors and thus is "a vehicle for ongoing concerted activity."[6]

Applying these principles, the Court found it clear that collective licensing by the NFL teams was concerted conduct. The Court declared that "the teams compete in the market for intellectual property," and that they had acted pursuant to their "'separate economic interests,'" so their collective licensing decisions "'depriv[ed] the marketplace of independent centers of decisionmaking.'"[7] The Court then addressed the actions of NFL Properties (NFLP), created in 1963 to

***Gregory Werden** is Senior Economic Counsel, Antitrust Division, U.S. Department of Justice. The views expressed herein are not purported to reflect those of the U.S. Department of Justice.*

[1] Am. Needle, Inc. v. New Orleans La. Saints, 496 F. Supp. 2d 941 (N.D. Ill. 2007), *aff'd*, Am. Needle, Inc. v. NFL, 538 F.3d 736 (7th Cir. 2008).

[2] *See* Ariz. v. Maricopa County Med. Soc'y, 457 U.S. 332, 356 (1982) (observing that a "joint arrangement[] in which persons who would otherwise be competitors pool their capital and share the risks of loss as well as the opportunities for profit" is "regarded as a single firm competing with the other sellers in the market").

[3] 130 S. Ct. 2201 (2010).

[4] *Id.* at 2209.

[5] *Id.* at 2212 (quoting Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 769 (1984)).

[6] *Id.* at 2209–10 (quoting United States v. Sealy, Inc., 388 U.S. 350, 353 (1967)).

[7] *Id.* at 2213 (quoting *Copperweld*, 467 U.S. at 769).

license the intellectual property of the NFL teams. The Court held that NFLP's "marketing of property owned by the separate teams" is concerted action because the teams have "economic interests that are distinct from NFLP's financial well-being" and so "are not like the components of a single firm that act to maximize the firm's profits."[8]

American Needle did not reject single-entity treatment for all actions by all joint ventures. When participants in a joint venture do not have interests separate from those of the venture, *American Needle* suggests that the venture acts as a single economic entity. For example, concerted action surely does not occur when law partners agree on the firm's fees. But the opinion hints at no general test for determining when a joint venture and its participants act as a single economic entity. The Court's failure to provide more guidance is not surprising but is disappointing both to the antitrust cognoscenti and to participants in all sorts of joint ventures.

American Needle *did not reject single-entity treatment for all actions by all joint ventures. When participants in a joint venture do not have interests separate from those of the venture,* American Needle *suggests that the venture acts as a single economic entity.*

Copperweld in Retrospect

In *American Needle*, the Supreme Court began its analysis of NFLP's actions by observing:

> We generally treat agreements within a single firm as independent action on the presumption that the components of the firm will act to maximize the firm's profits. But in rare cases, that presumption does not hold. 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 . . . .[9]

This implicit reference to the Court's prior decisions could have been made explicit with a discussion of *Copperweld*.[10] *Copperweld* had held that "an internal 'agreement' to implement a single, unitary firm's policies" is not concerted conduct because it does not "raise the antitrust dangers that § 1 was designed to police."[11] *Copperweld* also had held that "the operations of a corporate enterprise organized into divisions must be judged as the conduct of a single actor," reasoning that each division "pursues the common interests of the whole" so coordination among them entails no "sudden joining of two independent sources of economic power previously pursuing separate interests."[12] Even when sister divisions engage in marketplace rivalry, the Court presumed that they act to maximize company-wide profits.[13]

Multi-divisional corporate structures like those discussed in *Copperweld* typically were created by mergers, as was the structure presented by that case.[14] *Copperweld* teaches that, when two companies merge, they necessarily become a single economic entity for Section 1 purposes. Neither the quoted observation from *American Needle* nor anything else in the decision is to the contrary. A necessary condition for concerted conduct in that observation is that "the parties to the agreement act on interests separate from those of the firm itself." The interests of sister divisions can differ, but they cannot be separate from those of their parent firm for the simple reason that the divisions have no source of profits outside the parent firm. Consequently, *American*

---

8 *Id.* at 2214–15.

9 *Id.* at 2215.

10 Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984).

11 *Id.* at 769.

12 *Id.* at 770–71.

13 *Id.* at 771.

14 The "agreement" at issue in the case was between Copperweld Corp. and Regal Tube Co., which Copperweld had purchased from Lear Singer. *See id.* at 756, 774.

Needle casts no doubt on the critical legal rule that merging two independent companies necessarily makes them into a single economic entity for Section 1 purposes.

Like NFLP, most joint ventures have participants with interests separate from those of the venture; indeed, few joint ventures are even the principal profit source for their participants. *American Needle* suggests that the typical joint venture engages in concerted conduct when its participants act on those separate profit interests when operating the joint venture or determining its general policies.

In almost every important way, the Section 1 analysis in American Needle *closely tracked the brief filed by the Solicitor General, which urged a "functional analysis" and focused on the elimination of actual or potential competition as the key determinant of whether conduct is concerted. The Solicitor General, however, went further than the Court.*

The Solicitor General's Test

In almost every important way, the Section 1 analysis in *American Needle* closely tracked the brief filed by the Solicitor General, which urged a "functional analysis" and focused on the elimination of actual or potential competition as the key determinant of whether conduct is concerted.[15] The Solicitor General, however, went further than the Court. Consistent with Section 1 principles articulated by the Court, the Solicitor General argued that a sports league acts as a single economic entity if, and only if, two conditions are met:

> First, the teams and the league must have effectively merged the relevant aspect of their operations, thereby eliminating actual and potential competition among the teams and between the teams and the league in that operational sphere. Second, the challenged restraint must not significantly affect actual or potential competition among the teams or between the teams and the league outside their merged operations.[16]

The Supreme Court recited these conditions but found "no need to pass upon the Government's position that entities are incapable of conspiring under § 1" if, and only if, these conditions are met.[17] The Court explained that this case involved "agreements amongst potential competitors and would constitute concerted action under the Government's own standard" because, "[a]t any point, the teams could decide to license their own trademarks."[18] The Court also suggested that the effective merger test was not satisfied because the NFL teams had "potentially competing interests" and ultimately were responsible for the decisions of NFLP.[19] Significantly, these remarks are factual characterizations of the specific situation presented by the case, rather than legal conclusions with potentially broad applicability.

The Supreme Court left the door open to the application of the Solicitor General's test in future Section 1 challenges to actions taken by joint ventures. A court applying the test, however, also would look to *American Needle*. A court presumably would pay close attention to the Supreme Court's determination that the NFL teams had not effectively merged their intellectual property licensing operations and to the Court's conclusion that NFLP was "an instrumentality" of the teams. A court could distinguish ventures in which the participants merely operate the relevant aspect of their operations jointly from ventures in which the participants effectively merged that aspect of their operations. A court also could distinguish ventures that serve the separate inter-

---

[15] Brief for the United States as Amicus Curiae Supporting Petitioner at 6, 8, 11–13, 16–22, American Needle, Inc. v. NFL, 130 S. Ct. 2201 (2010) (No. 08-661).

[16] *Id.* at 17.

[17] *American Needle*, 130 S. Ct. at 2216 n.9.

[18] *Id.*

[19] *Id.*

ests of the participants from ventures that are operated in the interest of the ventures themselves as distinct business entities.[20]

American Needle's Characterizations of the NFL's Licensing

American Needle came to the Supreme Court with a record remarkably thin even for a summary judgment. Because discovery had been limited to the single-entity issue, much about the intellectual property licensing of the NFL and its teams was undocumented in the record. Notably absent was any analysis of how competition had worked, or might work, in licensing the teams' intellectual property. Yet the Court seemed to treat these matters as both clear and simple.

Initially, the Court asserted: "Prior to 1963, the teams made their own arrangements for licensing their intellectual property and marketing trademarked items such as caps and jerseys."[21] But this assertion appears to rewrite history.[22] I have found no hard evidence of any merchandise licensing by an NFL team before 1959. At that time, Roy Rogers pitched a marketing plan. Roy Rogers Enterprises then licensed merchandise for all NFL teams until the creation of NFLP in 1963.[23]

The Court also asserted that "the teams still own their own trademarks and are free to market those trademarks as they see fit," so "[a]t any point the teams could decide to license their own trademarks."[24] But this assertion is difficult to square with documents in the record governing the NFL's intellectual property licensing at the time of the events giving rise to the lawsuit. These documents include the Trust Agreement from 1982 through which the NFL teams formally pooled their intellectual property rights.[25] Also in the record is the agreement between the Trust and NFLP through which the Trust granted "to NFLP the exclusive right to license the use of the [signatory teams' intellectual property] on all types of articles of merchandise."[26] The Court asserted that "the teams are able to . . . withdraw from" their collective licensing arrangement,[27] but amending or dissolving the Trust required consent of three-quarters of the participating teams.[28]

---

[20] A venture in this latter category appears to fit the mold of the *Maricopa County* dictum quoted *supra*, in note 2. *American Needle* repudiated the mistaken notion potentially encouraged by the dictum that merely sharing in profits and losses is sufficient to make a venture a single entity. *Id.* at 2215.

[21] *Id.* at 2207.

[22] At oral argument, Justice Sotomayor asked counsel for the NFL whether the teams' intellectual property ever had been licensed "by the individual teams," and he responded: "It was done, I believe collectively, through Roy Rogers Enterprises." Transcript of Oral Argument at 42, American Needle, Inc. v. NFL (No. 08-661), 130 S. Ct. 2201 (2010), *available at* http://www.supremecourt.gov/oral_arguments/argument_transcripts/08-661.pdf.

[23] *See* Neil Steinberg, *He Could Always Move Merchandise*, SPORTS ILLUSTRATED, July 27, 1998, *available at* http://images.si.com/vault/article/magazine/MAG1013413/index.htm. The first president of NFLP was Larry Kent, who had been manager of the marketing department at Roy Rogers Enterprises. *Id.*

[24] *American Needle*, 130 S. Ct. at 2216 n.9.

[25] Trust Agreement, *American Needle*, Joint Appendix at 350–68; *see also* Partial Answer to Amended Complaint ¶¶ 32–33, Dallas Cowboys Football Club, Ltd. v. NFL, No. 95 Civ. 9426 (S.D.N.Y. filed Jan. 11, 1996), Joint Appendix at 464. The Dolphins and Raiders did not sign the Trust Agreement but granted their rights directly to NFLP. *See id.*; NFL Defendants' Response to Plaintiff's Statement of Additional Facts in Support of Its Response to the Motion of the NFL Defendants for Summary Judgment (Single Entity), Joint Appendix at 238, 247–48.

[26] License Agreement, Joint Appendix Art. I, *supra* note 25, at 387. Whether NFLP was merely "an instrumentality" of the teams presents a distinct question from whether the teams could decide to license their own trademarks, which must be answered on the basis of additional facts.

[27] *American Needle*, 130 S. Ct. at 2207.

[28] Trust Agreement §§ 6.01, 6.02, Joint Appendix, *supra* note 25, at 360.

Finally, the Court asserted: "To a firm making hats, the Saints and the Colts are two potentially competing suppliers of valuable trademarks."[29] That is true, but such competition is most unlikely to be meaningful. American Needle, "a firm making hats," sought the intellectual property of all NFL teams, as did the other NFL licensees. These companies' business model is to produce a version of each product (or several) for each NFL team. No licensee with this business model could ever play one team off against another team in licensing negotiations, and thus, meaningful competition could not exist among the teams in licensing to such a company. On remand, American Needle's claim is apt to be rejected on this basis.

One can imagine companies with very different business models, but it is difficult to imagine a model giving rise to meaningful competition. The most likely alternative involves a licensee selling its merchandise in a single locality (or just a few). A vendor operating only in New Orleans could license from the Colts instead of from the Saints, but that possibility would not provide it with bargaining leverage in negotiating with the Saints. When licensing its intellectual property to local companies in the New Orleans area, the Saints are apt to face less competition from the Colts than from a hundred other owners of trademarks and logos familiar to New Orleans residents and visitors.

Implications for Section 7 Enforcement

A fundamental principle of Section 7 law, first asserted in *Brown Shoe*, holds that "[w]here the arrangement effects a horizontal merger between companies occupying the same product and geographic market, whatever competition previously may have existed in that market between the parties to the merger is eliminated."[30] All subsequent horizontal merger cases have reasoned from the premise that merging parties permanently cease to compete in any meaningful sense because the merged firm maximizes joint profits.

Without this premise, the government would have the burden in every horizontal merger case of proving that the merging firms actually would cease competing after their merger. When post-merger plans call for operating the merging companies as separate divisions, that burden could be difficult to carry. But *American Needle* did not impose that burden even though it held that concerted action is possible within a single firm. As explained above, *American Needle* did not overrule *Copperweld*, which held that separately incorporated companies joined through merger were thereafter a single economic entity because they would maximize joint profits.[31]

Section 7 cases have long determined what constitutes a merger on the basis of functional considerations rather than formalistic distinctions. Beginning with *Penn-Olin*, certain transactions structured as joint ventures were treated as mergers.[32] The Supreme Court's rationale for applying Section 7 in *Penn-Olin* was largely that forming the joint venture eliminated actual or potential competition between its two participants in the venture's market.[33] The Court treated the formation of the joint venture as a merger because the essential premise of horizontal merger analysis, artic-

---

[29] *American Needle*, 130 S. Ct. at 2213.

[30] Brown Shoe Co. v. United States, 370 U.S. 294, 335 (1962).

[31] *See supra* notes 9–14 and accompanying text.

[32] *See, e.g.*, United States v. Penn-Olin Chem. Co., 378 U.S. 158, 167–72 (1964); FTC v. Warner Commc'ns Inc., 742 F.2d 1156, 1159, 1163–65 (9th Cir. 1984); Yamaha Motor Co. v. FTC, 657 F.2d 971, 974, 976 (8th Cir. 1981); United States v. Ivaco, Inc., 704 F. Supp. 1409, 1414 (W.D. Mich. 1989).

[33] *See Penn-Olin*, 378 U.S. at 169 ("[I]t may be assumed that neither [parent] will compete with the progeny in its line of commerce.").

ulated just two years earlier in *Brown Shoe*, applied under the circumstances of the case. The reasoning of *American Needle* is entirely consistent with that of *Penn-Olin* and *Brown Shoe* and does not call into question prior determinations of which transactions are treated as mergers under Section 7.

The Competitor Collaboration Guidelines issued by the federal enforcement agencies in 2000 set out detailed criteria under which joint venture formation is treated as a merger because it has the competition-eliminating effect associated with a horizontal merger and also a similar degree of permanence.[34] Applying these criteria, the FTC treated as a merger the formation of joint ventures between Shell and Texaco.[35] As described by the Supreme Court in *Texaco Inc. v. Dagher*,[36] each venture was like "a single entity," with Shell and Texaco acting "in their role as investors, not competitors" because the formation of the ventures combined their operations in a manner "ending competition between the two companies in the domestic refining and marketing of gasoline."[37] *American Needle* in no way repudiated the view taken by the Court on the joint venture at issue in *Dagher*.

American Needle *could be read to signal that non-sports joint ventures should be treated differently.*

The test advocated by the Solicitor General in *American Needle* was an adaptation of the test set out in the Competitor Collaboration Guidelines. If the formation of a joint venture is treated as a merger with respect to certain markets, it should follow that joint venture participants no longer act as separate economic entities within those markets. *American Needle* questioned neither this logic nor the specific policy of the Guidelines. The opinion, however, did spotlight the possibility that a joint venture is not the relevant marketplace actor because it merely serves as "an instrumentality" of its participants. When the facts fit that mold, the formation of the joint venture was not an effective merger.

Implications for Substantive Section 1 Analysis

American Needle explained that the application of the rule of reason is sensitive to the NFL teams' "need to cooperate" and sometimes does not require "a detailed analysis."[38] The Court specifically identified the NFL teams' need to "cooperate in the production and scheduling of games" and the league's "interest in maintaining a competitive balance."[39] The Court thereby signaled the lower courts that they should give substantial weight to special circumstances presented by sports leagues when they apply the rule of reason.

American Needle could be read to signal that non-sports joint ventures should be treated differently. The opinion draws attention to much earlier decisions by the Court applying the per se rule to joint ventures,[40] so plaintiffs are apt to cite *American Needle* in support of the application of the per rule to various joint venture actions. A judge, however, surely could not be persuaded that, after decades of reining in the per se rule, all nine Justices suddenly would support its revitalization.

---

[34] *See* Fed. Trade Comm'n & U.S. Dep't of Justice, Antitrust Guidelines for Collaborations Among Competitors § 1.3 (2000), *available at* http://www.ftc.gov/os/2000/04/ftcdojguidelines.pdf.

[35] *See* Brief for the United States as Amicus Curiae Supporting Petitioners at 4, 13 & n.8, Texaco Inc. v. Dagher, 547 U.S. 1 (2006) (Nos. 04-805 & 04-814).

[36] 547 U.S. 1 (2006).

[37] *Id.* at 4, 6–7.

[38] Am. Needle, Inc. v. NFL, 130 S. Ct. 2201, 2216–17 (2010).

[39] *Id.*

[40] *Id.* at 2209–10, 2214–15 (citing United States v. Topco Assocs., 405 U.S. 596 (1972) and United States v. Sealy, Inc., 388 U.S. 350 (1967)).

Conclusion

American Needle held that the NFL's intellectual property licensing was concerted conduct and strongly suggested that most activities of the major professional sports leagues also entail concerted conduct. But the Supreme Court neither broadly rejected the single-entity argument for joint ventures nor endorsed any specific test for determining when that argument should be accepted. The Court indicated, however, that the conduct of joint venture participants is concerted when they act on their own separate interests in operating the joint venture or determining its general policies. ●