The Impact Of American Needle On IP And Contracts

- IP Law360, May 26, 2010

Author(s): Charles R. Macedo, Joseph M. Casino and Michael J. Kasdan

Law360, New York (May 26, 2010) -- On May 24, the U.S. Supreme Court held that the intellectual property licensing activities of the National Football League Properties ("NFLP"), the licensing arm of the National Football League, could constitute concerted action under § 1 of the Sherman Act. In so finding, the Supreme Court rejected the NFL's argument that the NFLP is exempt from § 1 of the Sherman Act because it is a "single entity."

The court found that the relevant inquiry must address the manner that the member teams of the NFLP operate, rather than a formalistic inquiry that only considers the form of the association. In particular, the court noted that in the context of intellectual property licensing, each of the NFL teams are independent businesses that compete with each other and have objectives that are not always common. The case was remanded to see if the particular licensing activities were illegal under a rule of reason analysis.

Section 1 of the Sherman Act

Justice Stevens, writing for the unanimous court, explained that the question of whether any contract, combination or conspiracy is illegal under § 1 of the Sherman Act is resolved by determining whether it "unreasonably restrains trade." Am. Needle Inc. v. N.F.L., No. 08-661, slip op. at 1 (U.S. May 24, 2010).

In particular, the court examined whether the activities of the intellectual property licensing entity formed by the 32 teams in the NFL as a separate corporate entity could fall within the Sherman Act's prohibition against concerted action by way of contracts or conspiracies that restrain trade.

Factual Background

The NFLP granted a non-exclusive license to American Needle Inc. and other vendors to manufacture and sell team apparel. Rather than renew the non-exclusive license of American Needle, the NFLP granted an exclusive license to Reebok International Ltd. to produce and sell headwear for all 32 teams. American Needle filed an action in the Northern District of Illinois alleging that the NFLP's activities violated § 1 of the Sherman Act as a "contract, combination . . . or conspiracy, in restraint of trade." Id. at 4-5. The NFL responded that the NFLP was not capable of conspiring within the meaning of § 1 since it was a "single entity" with regard to the complained of licensing activities.

The NFLP was formed in 1963 to develop, license, and market NFL team-related intellectual

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

property (e.g., using team logos on apparel). NFLP revenues are either given to charity or shared equally among the NFL teams. While the NFLP operates as a single entity, each NFL team may withdraw from this arrangement at any time. In December 2000, the NFL teams voted to authorize the NFLP to grant exclusive licenses, changing its prior policy of granting only non-exclusive licenses. Thereafter, the NFLA declined to renew American Needle's non-exclusive license.

The U.S. District Court for the Northern District of Illinois granted summary judgment against American Needle on the basis that the operations of the NFL teams were so integrated as to be considered a single entity and were not joint ventures cooperating for a common purpose. Id. at 3. The U.S. Court of Appeals for the Seventh Circuit affirmed, noting that with regard to the intellectual property licensing activities at issue, the NFL entities acted as a single entity and thus were immune from antitrust liability.

The Supreme Court reversed the holding that the NFL was not immune from antitrust liability because the NFLP was composed of multiple companies with separate and distinct legal interests. The court then remanded the case to consider whether the particular licensing activities at issue were illegal under a rule of reason analysis.

Supreme Court Analysis

The Supreme Court noted that the narrow issue before it was whether the NFLA and its member organizations were capable of engaging in a "contract, combination . . . or conspiracy" in restraint of trade or whether it must be viewed as a single entity exempt from the purposes of § 1 of the Sherman Act. Id. at 4.

The Supreme Court noted that not every contract between separate legal entities could be viewed as concerted action, but that § 1 broadly applies to coordinated activity between independent actors that is a restraint of trade. Id. at 5. However, the Supreme Court noted that concerted behavior is treated more harshly than independent behavior since concerted behavior is illegal under the Sherman Act whether or not it results to monopolization.

The Supreme Court then went through the history of many prior instances where what appeared to be a single entity was treated as distinct entities under § 1 of the Sherman Act. The Supreme Court stated that whether the members of a single legal entity are acting in a concerted fashion is not based on "formalistic distinctions" but rather "how the parties involved in the alleged anti-competitive conduct actually operate." Id. at 6. The Supreme Court concluded that the fact that a single entity is the direct actor does not preclude antitrust liability under § 1 of the Sherman Act.

The Supreme Court went on to analyze the justification for viewing a single entity as multiple actors under antitrust law. It stressed that when "separate decision makers" are combined together this could deprive the market of "independent centers of decisionmaking." Id. at 11 (quoting Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 769 (1984)).

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

As the court stated: “Because the inquiry is one of competitive reality, it is not determinative that two parties to an alleged § 1 violation are legally distinct entities. Nor, however, is it determinative that two legally distinct entities have organized themselves under a single umbrella or into a structured joint venture. The question is whether the agreement joins together ‘independent centers of decisionmaking.’ ” (Id. at 11.)

Applying this standard, the court then reasoned that each of the NFL teams is a separate entity with distinct interests and separate corporate consciences. Id. at 12. Their interests are not always common. As summarized by the Supreme Court, the “teams compete with one another, not only on the playing field, but to attract fans, for gate receipts and for contracts with managerial and playing personnel.” Id. They also compete in the market for intellectual property, each team having its own valuable trademarks.

The court found that decision by NFL teams to license their separately owned trademarks collectively to one vendor is a decision that deprives the marketplace of independent centers of decision-making. Id. The court noted that there may be a range of activities that coordinated action is permissible between the NFL football teams, or “there would be no NFL football.” Id. at 14.

However, this need for cooperation “is not relevant to whether the cooperation is concerted or independent action.” Id. The question of whether such activity illegally restrains trade by depriving the market of independent decision makers must still be addressed.

The court concluded that while there are many common interests between NFL teams that justify coordination, this “does not justify treating them as a single entity for § 1 purposes when it comes to the marketing of the teams’ individually owned intellectual property.” Id. at 19. The court notes that a variety of collective decisions may be made by the teams but that a rule of reason analysis needs to be applied to determine whether such collective decisions are violations of the Sherman Act.

Conclusion

The Supreme Court’s American Needle decision should be considered when making any contract or other arrangement to coordinate intellectual property activities with a separate legal entity. Forming a single licensing entity to coordinate the activities of multiple actors will not provide companies with a safe harbor from antitrust scrutiny. The substance of the arrangement, rather than the form, is the key under the Supreme Court’s analysis. This decision could have important implications for those involved in patent pools, standardization activities and other areas where coordination of intellectual property activities among independent companies are commonly conducted.

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.

Joseph M. Casino, Michael J. Kasdan and Charles R. Macedo
Amster Rothstein & Ebenstein LLP

Joseph Casino was a partner, Charles Macedo is a partner and Michael Kasdan was an associate with Amster Rothstein & Ebenstein in the firm's New York office. Charles can be reached at cmacedo@arelaw.com. The opinions expressed are those of the authors and do not necessarily reflect the views of Portfolio Media, publisher of Law360.

© Copyright Amster, Rothstein & Ebenstien LLP. All rights reserved.