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968 F.Supp.2d 1030

United States District Court, N.D. California,
San Jose Division.

UNITED STATES of America, Plaintiff,

v.

EBAY, INC., Defendant.

Case No.: 5:12-CV-05869-EJD

|
5:12-cv-05869

|
September 27, 2013

Synopsis

Background: Government brought antitrust action against employer, alleging employer's agreement with another employer not to solicit or hire each others' employees was an unreasonable restraint of trade. Employer moved to dismiss.

Holdings: The District Court, *Edward J. Davila, J.*, held that:

[1] government's allegations were sufficient to allege antitrust conspiracy under the Sherman Act;

[2] government's allegations adequately stated a horizontal market allocation agreement supporting an unreasonable restraint of trade claim; but

[3] whether the alleged agreement was a naked restraint of trade subject to per se or quick look analysis, or whether it was ancillary to a legitimate business purpose, could not be determined on a motion to dismiss.

Motion denied.

West Headnotes (15)

[1] **Antitrust and Trade Regulation** 🔑 Cartels, Combinations, Contracts, and Conspiracies in General

To be actionable under the Sherman Act, any alleged conspiracy must, inter alia, involve independent centers of decisionmaking, i.e., at least two distinct entities engaging in concerted activity. Sherman Act § 1, 15 U.S.C.A. § 1

[2] **Antitrust and Trade Regulation** 🔑 Officers and directors

Typically, officers or employees of the same firm do not provide the plurality of actors imperative for a conspiracy under the Sherman Act. Sherman Act § 1, 15 U.S.C.A. § 1

1 Cases that cite this headnote

[3] **Antitrust and Trade Regulation** 🔑 Conspiracy or combination

Government's allegations that employer's chief executive officer (CEO) entered into agreement with founder of another employer not to solicit or hire each others' employees were sufficient to allege antitrust conspiracy under the Sherman Act, even though the other employer's founder was an interlocking director of both companies; allegations permitted inference that other employer's founder, who also served on its executive committee during the relevant time period, had authority to bind that employer to agreements. Sherman Act § 1, 15 U.S.C.A. § 1

1 Cases that cite this headnote

[4] **Antitrust and Trade Regulation** 🔑 Officers and directors

Clayton Act provision permitting individuals to serve on boards of multiple companies so long as those companies are not meaningful competitors did not preclude antitrust scrutiny of alleged agreement between employer's chief executive officer (CEO) and founder of another

employer, who was interlocking director of the two companies, not to solicit or hire each others' employees. Sherman Act § 1, 15 U.S.C.A. § 1; Clayton Act § 8, 15 U.S.C.A. § 19

[5] **Antitrust and Trade Regulation** 🔑 Complaint

To sufficiently plead an unreasonable restraint of trade under the Sherman Act, a plaintiff must include allegations showing that the restraint will fail under one of three rules of analysis: the rule of reason, per se, or quick look. Sherman Act § 1, 15 U.S.C.A. § 1

9 Cases that cite this headnote

[6] **Antitrust and Trade Regulation** 🔑 Rule of reason

The rule of reason is the default level of analysis of an alleged unreasonable restraint of trade and requires the court to examine a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect. Sherman Act § 1, 15 U.S.C.A. § 1

[7] **Antitrust and Trade Regulation** 🔑 Horizontal

Restraints of trade that are per se unlawful include horizontal agreements among competitors to fix prices or to divide markets. Sherman Act § 1, 15 U.S.C.A. § 1

5 Cases that cite this headnote

[8] **Antitrust and Trade Regulation** 🔑 "Quick look" and other tests

Falling between the rule of reason and per se condemnation, the "quick look" analysis of an unreasonable restraint of trade claim is an abbreviated form of the rule of reason that may be used when an observer with even a rudimentary understanding of economics could conclude that the arrangements in question could

have an anticompetitive effect on customers and markets. Sherman Act § 1, 15 U.S.C.A. § 1

9 Cases that cite this headnote

[9] **Antitrust and Trade Regulation** 🔑 Complaint

To state an unreasonable restraint of trade claim, United States could plead under the per se and quick look rules, without alleging a rule of reason claim; as master of its complaint, United States was not obliged to plead under each possible rule. Sherman Act § 1, 15 U.S.C.A. § 1

4 Cases that cite this headnote

[10] **Antitrust and Trade Regulation** 🔑 Conspiracy or combination

Government's allegations that defendant employer agreed with another employer not to solicit or hire each others' employees and that the two employers were direct competitors for employees, especially skilled engineers and scientists, adequately stated a horizontal market allocation agreement supporting an unreasonable restraint of trade claim, despite government's failure to include allegations outlining a specific labor market definition. Sherman Act § 1, 15 U.S.C.A. § 1

2 Cases that cite this headnote

[11] **Antitrust and Trade Regulation** 🔑 Horizontal

A horizontal market allocation typically constitutes a per se violation of the Sherman Act's unreasonable restraint of trade provision. Sherman Act § 1, 15 U.S.C.A. § 1

2 Cases that cite this headnote

[12] **Antitrust and Trade Regulation** 🔑 Per se

A market allocation agreement or any other restraint traditionally subject to per se treatment will only be found to be per se illegal if it facially appears to be one that would almost always tend to restrict competition and decrease output, i.e. if

it is a naked restraint on trade. Sherman Act § 1, 15 U.S.C.A. § 1

6 Cases that cite this headnote

[13] Antitrust and Trade Regulation 🔑 Per se

When an antitrust defendant advances plausible arguments that a practice enhances overall efficiency and makes markets more competitive, per se treatment is inappropriate, and the rule of reason applies. Sherman Act § 1, 15 U.S.C.A. § 1

3 Cases that cite this headnote

[14] Antitrust and Trade Regulation 🔑 Conspiracy or combination

Whether defendant employer's alleged agreement with another employer not to solicit or hire each others' employees was a naked restraint of trade subject to per se or quick look analysis, or whether it was ancillary to a legitimate business purpose, could not be determined on a motion to dismiss in government's antitrust action. Sherman Act § 1, 15 U.S.C.A. § 1; Fed. R. Civ. P. 12(b)(6)

3 Cases that cite this headnote

[15] Antitrust and Trade Regulation 🔑 "Quick look" and other tests

Courts use the quick look rule in evaluating an alleged unreasonable restraint of trade when (1) the plaintiff shows that the challenged restraint falls into one of the general per se categorizations, but (2) the agreement or the nature of the market in which the agreement is made is sufficiently unfamiliar to refrain from applying the per se rule, and (3) the defendant offers preliminary evidence suggesting that the challenged restraint is reasonably necessary to some procompetitive activity. Sherman Act § 1, 15 U.S.C.A. § 1

2 Cases that cite this headnote

Attorneys and Law Firms

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ORDER DENYING EBAY'S MOTION TO DISMISS THE UNITED STATES' COMPLAINT

[Re: Docket No. 15]

EDWARD J. DAVILA, United States District Judge

Presently before the court in these antitrust actions is Defendant eBay Inc.'s (“eBay”) Motion to Dismiss Plaintiff the United States of America's (“United States”) Complaint. No. 12–CV–05869 Dkt. No. 15. eBay has also moved to dismiss Plaintiff the People of the State of California's (“California”) (collectively with the United States, “Plaintiffs”) Complaint in related action No. 12–CV–05869. The court held a hearing on these matters on April 26, 2013. Having reviewed the parties' briefing and heard the parties' arguments, and for the following reasons, the court DENIES eBay's Motion as to the United States' Complaint.

I. BACKGROUND

a. Factual Background

This case concerns an alleged handshake agreement struck and occasionally refined by eBay executives, including then–CEO Meg Whitman, and Scott Cook, the founder and Chairman of the Executive Committee of Intuit, Inc. (“Intuit”), which restricted eBay and Intuit's ability to recruit or hire candidates from one another. The two complaints' factual allegations largely mirror each other. Accordingly, the following factual background is taken solely from the United States' Complaint and is assumed to be true for purposes of these *1033 Motions. See No. 12–CV–05869, Dkt. No. 1.

In November 2005, eBay's then-COO Maynard Webb wrote to Mr. Cook about a potential hire from Intuit who had contacted eBay regarding a job. *Id.* at ¶¶ 12, 15. Mr. Webb proposed a going-forward policy under which eBay would not actively recruit from Intuit, would give Intuit notice before making offers to senior-level Intuit employees who had initially contacted eBay, and would inform Intuit after lower-level employees had accepted offers from eBay. *Id.* Mr. Cook objected to the proposal to the extent it allowed any hiring of Intuit employees without prior notice to Intuit, explaining that “we don't recruit from board companies, period” and “[w]e're passionate on this.” *Id.* at ¶ 15. Mr. Cook committed that Intuit would refrain from making an offer to any eBay employee without prior notice to eBay and stated that “[w]e would ask the same.” *Id.*

According to Plaintiffs, eBay and Intuit reached and implemented an initial no-solicitation agreement by August 2006. *Id.* at ¶ 17. At that time, eBay was considering hiring an Intuit employee to its Paypal subsidiary. When approached about this hire, Beth Axelrod, eBay's Senior Vice President for Human Resources at the time, stated that while she was “happy to have a word with Meg [Whitman] about it,” she was “quite confident [Ms. Whitman] will say hands off because Scott [Cook] insists on a no poach policy with Intuit.” *Id.* Ms. Axelrod went on to confirm with Ms. Whitman that eBay in fact could not proceed with the hire without first notifying Mr. Cook. *Id.* eBay discontinued recruitment of that candidate, apparently because “everyone agreed ‘that it's to[o] awkward to call Scott [Cook] when [they] don't even know if the candidate has interest.’” *Id.*

The parties continued to have discussions regarding recruiting and hiring in the ensuing months. In April 2007, Mr. Cook complained to Ms. Whitman that he was “quite unhappy” about an offer eBay planned to make to an Intuit employee who had approached eBay. *Id.* at ¶ 18. In response, Ms. Axelrod instructed David Knight, eBay's Vice President of Internal Communications at the time, to hold off on making the offer. Mr. Knight complained that the decision to hold back the offer put the applicant “in a bad position and [eBay] in a bad place with California law.” *Id.* A week later Mr. Knight explained that eBay “desperately need[ed] this position filled” and asked Ms. Axelrod and Ms. Whitman “to at least ‘negotiate’ any shift from a ‘no poaching’ agreement to a ‘no hiring’ agreement” after this particular applicant was hired. *Id.*

Plaintiffs allege that although this candidate was ultimately hired, eBay and Intuit's agreement thereafter “metastasized” into a no-hire policy. *Id.* at ¶¶ 18–19. “eBay recruiting personnel understood that ‘Meg [Whitman] and Scott Cook entered into the agreement (handshake style, not written) that eBay would not hire from Intuit, period.’” *Id.* at ¶ 21. Similarly, “Mr. Cook and Intuit ... agreed that intuit would not recruit from eBay.” *Id.*

The Complaints contain several examples of eBay's understanding and implementation of the agreement. For instance, when approached by two eBay employees about the policy, Ms. Axelrod explained that “[eBay] ha[s] an explicit hands off[f] that we cannot violate with any Intuit employee. There is no flexibility on this.” *Id.* at ¶ 20. eBay repeatedly declined to interview or hire Intuit employees, even when it had positions open for “quite some time” or when the only acceptable candidate was from Intuit. *Id.* at ¶ 23.

***1034** The Complaints also reflect Mr. Cook's understanding of the agreement. When speaking with a candidate who had decided to work for eBay but expressed interest in joining Intuit in the future, Mr. Cook explained that “Intuit is precluded from recruiting [the candidate]” except under limited circumstances. *Id.* at 21. Later, in August 2007, Ms. Whitman complained to Mr. Cook that Intuit had been recruiting eBay employees in violation of the agreement. Mr. Cook responded saying “# @!%\$# ^&!!! Meg my apologies. I'll find out how this slip up occurred again....” *Id.* at ¶ 22.

In 2009, the Department of Justice's (“DOJ”) investigation of no-solicitation/no-hire agreements among technology companies became public. *Id.* at ¶ 25. According to Plaintiffs, eBay and Intuit's agreement remained in effect for at least some period of time after this announcement. *Id.* Since that time, a court in a separate action has ordered Intuit to refrain from entering into or enforcing any agreement that improperly limits competition for employee services. *Id.* at ¶ 9.

b. Procedural History

On November 16, 2012, Plaintiffs filed the instant actions against eBay, alleging that eBay entered into a no-solicitation/no-hire agreement with Intuit in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1. No. 12–CV–05869, Dkt. No. 1; No. 12–CV–05874, Dkt. No. 1. California also raises claims under the Cartwright Act, California

Business and Professions Code § 16720, and the California Unfair Competition Law (“UCL”), California Business and Professions Code § 17200 *et seq.* No. 12–CV–05874, Dkt. No. 1 ¶¶ 39–48. This court issued an order relating these two cases on December 11, 2012. No. 12–CV–05869, Dkt. No. 11; No. 12–CV–05874, Dkt. No. 4. While Plaintiffs point to Intuit as a co-conspirator, they have not named Intuit as a defendant in these actions because it is already subject to a court order in *United States v. Adobe Systems*, No. 10–01629 (D.D.C. Mar. 17, 2011), which prohibits it from entering into or enforcing any agreement that improperly limits competition for employee services. No. 12–CV–05869, Dkt. No. 1 ¶ 9.

On January 22, 2013, eBay filed the instant Motions to Dismiss pursuant to Fed.R.Civ.P. 12(b)(6) for failure to state a claim on the grounds that both Complaints fail to allege an actionable conspiracy and fail to allege harm to competition. eBay brings its Motion to Dismiss California's Complaint on the additional grounds that California lacks standing to assert a claim for injunctive relief under the Sherman Act and that it fails to state a claim under the Cartwright Act or the UCL. No. 12–CV–05874, Dkt. No. 9. The court now turns to the substance of eBay's motion as to the United States' Complaint.

II. LEGAL STANDARD

Federal Rule of Civil Procedure 8(a) requires a plaintiff to plead each claim in the complaint with sufficient specificity to “give the defendant fair notice of what the ... claim is and the grounds upon which it rests.” *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007) (internal quotations omitted). A complaint which falls short of the Rule 8(a) standard may be dismissed if it fails to state a claim upon which relief can be granted. Fed.R.Civ.P. 12(b)(6). Dismissal under Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim is “proper only where there is no cognizable legal theory or an absence of sufficient facts alleged to support a cognizable legal theory.” *Shroyer v. New Cingular Wireless Servs., Inc.*, 606 F.3d 658, 664 (9th Cir.2010) (quoting *Navarro v. Block*, 250 F.3d 729, 732 (9th Cir.2001)). In considering *1035 whether the complaint is sufficient to state a claim, the court must accept as true all of the factual allegations contained in the complaint. *Ashcroft v. Iqbal*, 556 U.S. 662, 678, 129 S.Ct. 1937, 173 L.Ed.2d 868 (2009). While a complaint need not contain detailed factual allegations, it “must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’ ” *Id.* (quoting *Twombly*, 550 U.S. at 570, 127 S.Ct. 1955).

III. DISCUSSION

A. Sherman Act Claim

Section 1 of the Sherman Act, 15 U.S.C. § 1, prohibits “[e]very contract, combination ... or conspiracy[] in restraint of trade or commerce among the several States.” Despite this broad language, the Supreme Court has recognized that Congress intended only to “outlaw ... unreasonable restraints.” *Texaco Inc. v. Dagher*, 547 U.S. 1, 5, 126 S.Ct. 1276, 164 L.Ed.2d 1 (2006). Thus, to state a claim under Section 1, a plaintiff must allege (1) a contract, combination, or conspiracy between two or more entities; (2) in unreasonable restraint of trade; that (3) affects interstate commerce. *See* 15 U.S.C. § 1; *Am. Ad Mgmt., Inc. v. GTE Corp.*, 92 F.3d 781, 788 (9th Cir.1996). Here, eBay argues that the United States has failed to adequately allege the first and second prongs of its Section 1 claim.

1. Actionable Conspiracy

[1] [2] [3] eBay first contends that the United States has failed to state an actionable agreement between itself and Intuit because the allegations in the Complaint solely reflect conversations between eBay and Mr. Cook, an overlapping director of both companies. To be actionable under Section 1, any alleged conspiracy must, *inter alia*, involve “independent centers of decisionmaking,” *i.e.*, at least two distinct entities engaging in concerted activity. *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 768–69, 104 S.Ct. 2731, 81 L.Ed.2d 628 (1984) (holding that a parent corporation and its wholly owned subsidiary are incapable of conspiring with one another); *see Freeman v. San Diego Ass'n of Realtors*, 322 F.3d 1133, 1149 (9th Cir.2003) (“where firms are not an economic unity and are at least potential competitors, they are usually not a single entity for antitrust purposes”). Typically, “[o]fficers or employees of the same firm do not provide the plurality of actors imperative for a § 1 conspiracy.” *Id.* at 769, 104 S.Ct. 2731.

The alleged no-solicitation/no-hire agreement cannot amount to an actionable conspiracy, according to eBay, because, as officers and directors of the same company, the participants in the negotiations shared a “unity of purpose.” *Copperweld*, 467 U.S. 752. The United States contends that the presence of a single overlapping director does not render two otherwise separate firms a single entity for antitrust purposes. Instead,

insists the United States, the Complaint states a *quid pro quo* between the two separate entities.

As the parties' arguments make clear, the true dispute lies not in whether an agreement was struck, but on whose behalf Mr. Cook acted during the ongoing no-solicitation/no-hire discussions with various eBay executives. According to eBay, Mr. Cook only insisted on the agreement in order to assist him in his eBay board role by eliminating the appearance of divided loyalties. No. 12–CV–05869, Dkt. No. 15 at 10. As such, the policy “was adopted to facilitate a cohesive and cooperative relationship between the company and its Board.” No. 12–CV–05869, Dkt. No. 26 at 3. To support this argument, eBay points to a paragraph in the Complaint that states Mr. Cook “was willing to sacrifice the welfare of Intuit's employees *1036 in order to advance his own personal interests in serving on eBay's Board.” No. 12–CV–05869, Dkt. No. 1 ¶ 12. The United States, however, contends that “the inescapable inference is that Cook was acting in accord with Intuit's policies and business interests,” and points to various references throughout the Complaint of Mr. Cook complaining “on behalf of Intuit about eBay's hiring practices.” *Id.* at ¶¶ 12, 15, 22; Dkt. No. 24 at 8.

The Complaint contains allegations that Mr. Cook is not only the Founder of Intuit, but also served as the Chairman of its Executive Committee during the relevant time period. No. 12–CV–05869, Dkt. No. 1 ¶ 1. Such allegations permit the court to make the reasonable inference that Mr. Cook had the authority to bind Intuit to agreements. *See Twombly*, 550 U.S. at 556, 127 S.Ct. 1955 (requiring antitrust plaintiffs to provide “plausible grounds to infer an agreement” sufficient to “raise a reasonable expectation that discovery will reveal evidence of illegal agreement”). As an executive with such power, Mr. Cook complained to eBay “on behalf of Intuit” about eBay's attempts to solicit or hire Intuit employees, committed Intuit to refraining from this same behavior, and expressed that “we,” *i.e.* Intuit, would “ask the same” from eBay. No. 12–CV–05869, Dkt. No. 1 ¶¶ 12, 15. These complaints and commitments allegedly induced an agreement restricting employee solicitation and hiring between the two companies. *See id.* at ¶ 15, 17–18, 21. Thereafter, and further supporting the plausibility of Intuit's participation in the agreement, Mr. Cook received complaints from eBay about Intuit's, not Mr. Cook's, compliance with the agreement. For instance, the allegation that Mr. Cook responded to Ms. Whitman's complaints about Intuit's continued solicitation of eBay employees by promising to investigate “how this slip up occurred again” suggests not only that an agreement

between the two companies had been established, but also that Intuit executives other than Mr. Cook generally abided by it. *Id.* at ¶ 22. The court acknowledges that while the Complaint is replete with examples of eBay's understanding of and adherence to the agreement, they are not as illustrative of Intuit's behavior. However, at this stage in the litigation, the court finds that the United States has plausibly alleged an actionable agreement between the two companies.

[4] eBay's additional argument that Section 8 of the Clayton Act would preclude a finding of an actionable agreement is tenuous at best. Section 8 permits individuals to serve on boards of multiple companies—*i.e.* serve as “interlocks”—so long as those companies are not meaningful competitors. *See* 15 U.S.C. § 19. eBay is correct in pointing out that Section 8 generally “removes from the coverage of interlock prohibitions arrangements that pose little risk of significant antitrust injury.” No. 12–CV–05869, Dkt. No. 15 at 12 (citing ABA Section of Antitrust Law, *Antitrust Law Developments*, at 438 (7th ed.2012)). However, Section 8 does not go so far as to provide complete immunity from antitrust scrutiny. In fact, other courts have found that the presence of even multiple interlocks does not necessarily preclude the finding of an actionable agreement under Section 1 of the Sherman Act. *See, e.g., In re Sulfuric Acid Antitrust Litigation*, 743 F.Supp.2d 827, 884–86 (N.D.Ill.2010) (finding on summary judgment that one entity's partial ownership of another, along with overlapping directors, consolidated financial statements, and several integrated business units between the two did not necessarily preclude the finding of an actionable agreement because the extent of the owner-company's control over the partially-owned subsidiary was disputed). Here, *1037 neither party provides any evidence or argument showing that Mr. Cook's interlock is an acceptable one under Section 8, let alone that the interlock is so irreproachable that it serves to immunize eBay and Intuit from Section 1 scrutiny. Therefore, the court finds that Section 8 does not preclude a finding that the United States has plausibly stated an actionable agreement.

2. Unreasonable Restraint of Trade

[5] [6] [7] [8] eBay next argues that the United States has failed to adequately allege the second prong of its Section 1 claim, an unreasonable restraint of trade. *Am. Ad Mgmt.*, 92 F.3d at 788. To sufficiently plead an unreasonable restraint, a plaintiff must include allegations showing that the restraint will fail under one of three rules of analysis: the rule of

reason, per se, or quick look. The rule of reason is the default level of analysis and requires the court to examine “a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature, and effect.” *State Oil Co. v. Khan*, 522 U.S. 3, 10, 118 S.Ct. 275, 139 L.Ed.2d 199 (1997). Because this rule requires substantial factual evidence, applying it can impose a heavy burden on both litigants and the court. See II Phillip E. Areeda, Herbert Hovenkamp, Roger D. Blair & Christine Piette Durrance, *Antitrust Law*, ¶ 305e at 68 (3d ed. 2007) (“Areeda”). Courts have found such a detailed inquiry to be unnecessary, however, when one of a limited class of agreements—restraints that are so “manifestly anticompetitive” and lacking in “any redeeming virtue”—has been proven. *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877, 886, 127 S.Ct. 2705, 168 L.Ed.2d 623 (2007); *Nw. Wholesale Stationers v. Pac. Stationery and Printing Co.*, 472 U.S. 284, 289, 105 S.Ct. 2613, 86 L.Ed.2d 202 (1985). These types of restraints are instead considered illegal per se, and once established, do not require any “elaborate industry analysis” otherwise required under the rule of reason. *Nat’l Soc. of Prof. Eng’rs v. United States*, 435 U.S. 679, 692, 98 S.Ct. 1355, 55 L.Ed.2d 637 (1978); see *Leegin*, 551 U.S. at 886, 127 S.Ct. 2705. “Restraints that are per se unlawful include horizontal agreements among competitors to fix prices or to divide markets.” *Leegin*, 551 U.S. at 886, 127 S.Ct. 2705. Falling between the rule of reason and per se condemnation, the “quick look” analysis is an abbreviated form of the rule of reason that may be used when “an observer with even a rudimentary understanding of economics could conclude that the arrangements in question could have an anticompetitive effect on customers and markets.” *Cal. Dental Ass’n v. Fed. Trade Comm’n*, 526 U.S. 756, 770, 119 S.Ct. 1604, 143 L.Ed.2d 935 (1999); *Nat’l Collegiate Athletic Ass’n v. Bd. of Regents of the Univ. of Okla.*, 468 U.S. 85, 109, n. 39, 104 S.Ct. 2948, 82 L.Ed.2d 70 (1984) (“NCAA”).

a. Pleading Requirements

[9] eBay argues that the United States has failed to state an unreasonable restraint of trade because it fails to include any allegations sufficient to state a rule of reason claim. The United States admits that it has omitted these allegations, but insists that the law does not require it to do so when it only intends to pursue claims under the per se and quick look rules. The court agrees with the United States that it is not obliged to plead under each possible rule. A plaintiff is the master

of its complaint and may choose which claims to allege. The strategy of alleging only per se and quick look violations is not an unprecedented one. See, e.g., *Texaco*, 547 U.S. at 7, n. 2, 126 S.Ct. 1276; *1038 *In re Ins. Brokerage Antitrust Litig.*, 618 F.3d at 317 (3rd Cir.2010). However, the court cautions that the United States must abide by the consequences of its pleading decisions. Should the court ultimately find that the United States cannot maintain a per se or quick look claim, the United States will then be without recourse to the rule of reason and its case will be dismissed. See *Texaco*, 547 U.S. at 7, n. 2, 126 S.Ct. 1276 (reversing the Ninth Circuit’s holding that the defendants’ particular horizontal price fixing agreement constituted a per se violation but declining to review the claim under the rule of reason because the plaintiffs had not pled such a claim); *Fox v. Good Samaritan Hosp., LP*, No. 04–CV–00874, 2008 WL 2805407 at *4, n. 3 (N.D.Cal. July 17, 2008) (finding that precedent does not suggest “that a party can begin with a per se claim and when that is denied on summary judgment much later try again on a rule of reason theory”); *Cheatham’s Furniture Co. v. La–Z–Boy Chair Co.*, 728 F.Supp. 569, 571–72 (E.D.Mo.1989) (finding that the plaintiff failed to prove its per se vertical price fixing claim and granting summary judgment to defendant, even though the claim may have survived under the rule of reason, because the plaintiff had not pled such a claim); *Inter–City Tire and Auto Center, Inc. v. Uniroyal, Inc.*, 701 F.Supp. 1120, 1123 (D.N.J.1988) (granting summary judgment to the defendant on the plaintiff’s per se vertical price fixing and resale price maintenance claims and declining to consider the claim under the rule of reason because plaintiff had not pled a rule of reason claim).

b. Rule Determination

eBay argues that even if, as here, the court finds that the United States need not plead a rule of reason claim, its Complaint must nevertheless be dismissed because it has failed to state a claim under either of the rules that the United States has chosen to pursue. Thus, the court must next determine whether the United States has adequately alleged a Section 1 violation under either the per se or quick look rules.

i. Per Se Unreasonableness

[10] The United States maintains that eBay’s no-solicitation/no-hire agreement with Intuit is per se unreasonable because it amounts to a naked market allocation that distorts

the competitive recruiting process for skilled high-tech employees. *See* No. 12–CV–05869, Dkt. No. 1 ¶¶ 10–11, 27; Dkt. No. 24 at 10. Particularly the United States alleges that eBay and Intuit are direct competitors for employees, especially skilled engineers and scientists, and that the two companies agreed to not solicit or hire each others' employees. This agreement, according to the United States, suppressed competition between the two companies and affected their employees' mobility and compensation. No. 12–CV–05869, Dkt. No. 1 ¶ 32. eBay argues that these allegations are insufficient because (1) they do not amount to a classic horizontal market allocation, and (2) even if they do, such an agreement is ancillary to a procompetitive business purpose and thus not subject to the per se rule. At this stage in the litigation, the court finds neither of these arguments persuasive.

[11] A horizontal market allocation typically constitutes a per se violation of Section 1. *See United States v. Topco Assocs.*, 405 U.S. 596, 608, 92 S.Ct. 1126, 31 L.Ed.2d 515 (1972); *United States v. Brown*, 936 F.2d 1042, 1044–45 (9th Cir.1991) (“A market allocation agreement between two companies at the same market level is a classic per se antitrust violation.”) Notwithstanding eBay's argument to the contrary, the facts that the alleged market allocation in this case occurs in an input market, *i.e.* the employment market, *1039 and that the United States has failed to include allegations outlining a specific labor market definition do not as a matter of law prevent the court from finding that the agreement as stated amounts to a “classic” horizontal market division. Antitrust law does not treat employment markets differently from other markets in this respect:

Antitrust law addresses employer conspiracies controlling employment terms precisely because they tamper with the employment market and thereby impair the opportunities of those who sell their services there. Just as antitrust law seeks to preserve the free market opportunities of buyers and sellers of goods, so also it seeks to do the same for buyers and sellers of employment services.

IIA Areeda ¶ 352c at 254–55 (3d ed.2007); *see, e.g., Roman v. Cessna Aircraft Co.*, 55 F.3d 542 (10th Cir.1995) (finding that the plaintiff, an airplane engineer, had adequately pled antitrust standing in a suit challenging two airline manufacturers' no-hire agreement). Moreover, “[a]n agreement among employers that they will not compete against each other for the services of a particular employee or prospective employee is, in fact, a service division agreement, analogous to a product division agreement.” XII Areeda ¶ 2013b at 143. The court thus finds that the United States'

allegations concerning the agreement between eBay and Intuit, taken as true, suffice to state a horizontal market allocation agreement.

[12] [13] The fact that the court finds that the United States adequately alleged a market allocation agreement does not in and of itself indicate that per se treatment is imminent. Rather, a market allocation agreement or any other restraint traditionally subject to per se treatment will only be found to be per se illegal if it “facially appears to be one that would almost always tend to restrict competition and decrease output,” *i.e.* if it is a naked restraint on trade. *NCAA*, 468 U.S. at 100, 104 S.Ct. 2948 (citation omitted). In contrast, “[w]hen a defendant advances plausible arguments that a practice enhances overall efficiency and makes markets more competitive, per se treatment is inappropriate, and the rule of reason applies.” *Paladin Assoc., Inc. v. Montana Power Co.*, 328 F.3d 1145, 1155 (9th Cir.2003). Thus, to make a rule determination, the court must first consider whether the alleged no-solicitation/no hire agreement is ancillary to a procompetitive business purpose. *See Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 19–22, 99 S.Ct. 1551 (1979) (“*BMI* ”); *see also* XII Areeda ¶ 2013a at 142 (explaining that if agreements among employers not to compete for employees “are ‘naked’ and not immunized, they are illegal per se....”).

[14] eBay challenges the United States' assertion that the alleged agreement is a naked one, instead arguing that the agreement is ancillary to a legitimate procompetitive business purpose: Mr. Cook's service on eBay's board. The court agrees with eBay's contention that the fact that the United States labeled the agreement a naked one does not make it so. By the same token, however, the court cannot hold that the agreement is ancillary simply because eBay posits that it is. The court must instead make that determination based on factual evidence relating to the agreement's formation and character. *See, e.g.,* XI Areeda ¶ 1910b at 311 (“Of course, even in the per se case the relevant facts have to be established and the restraint has to be “characterized” for inclusion or exclusion from the per se category.”).

Though the parties supply substantial legal argument to support their respective positions, they do so without the benefit of *1040 discovery, and thus without sufficient factual evidence to support their contentions. At this stage in this action, the court simply cannot determine with certainty the nature of the restraint, and by extension, the level of analysis to apply.¹ *See* II Areeda ¶ 305e at 69 (“Often,

however, the decision about which rule is to be employed will await facts that are developed only in discovery.”). Thus, taking the allegations in the Complaint as true, the court cannot determine as a matter of law that per se treatment will be inappropriate. *See, e.g., Cal. Dental Ass'n, 526 U.S. at 779, 119 S.Ct. 1604* (“The truth is that our categories of analysis of anticompetitive effect are less fixed than terms like “per se,” “quick look,” and “rule of reason” tend to make them appear. We have recognized, for example, that ‘there is often no bright line separating per se from Rule of Reason analysis,’ since ‘considerable inquiry into market conditions’ may be required before the application of any so-called “per se” condemnation is justified.”) (citations omitted).

ii. Unreasonableness under the “Quick Look” Rule

[15] The United States contends in the alternative that if the per se rule does not apply, the court will be able to find a [Section 1](#) violation after applying a quick look analysis to eBay's no-solicitation/no-hire agreement. Courts use the quick look rule when (1) the plaintiff shows that the challenged restraint falls into one of the general per se categorizations, but (2) the agreement or the nature of the market in which the agreement is made is sufficiently unfamiliar to refrain from applying the per se rule, and (3) the defendant offers preliminary evidence suggesting that the challenged restraint is reasonably necessary to some

precompetitive activity. *See XI Areeda ¶ 1911 at 335–36.* As discussed in the previous section, the United States has sufficiently pled the existence of a restraint on trade of a type that is subject to per se treatment. As such, the United States has also sufficiently pled the existence of the type of restraint that may fall under the ambit of the quick look rule. For the same reasons as stated in the previous section, the court cannot at this early stage make a determination as to which rule will apply. Thus, the court cannot find as a matter of law that the quick look rule will not apply to the challenged agreement in this case.

IV. CONCLUSION

For the foregoing reasons, the court DENIES eBay's Motion to Dismiss the United States' Complaint. eBay is ORDERED to file its Answer by no later than October 11, 2013.

In addition, the court hereby sets a Case Management Conference for November 15, 2013 at 10:00 a.m. The parties shall submit their Joint Case Management Conference Statement by no later than November 8, 2013.

IT IS SO ORDERED.

All Citations

968 F.Supp.2d 1030, 2013-2 Trade Cases P 78,530

Footnotes

- 1 Similarly, the court cannot at this early stage determine what weight to afford evidence of the DOJ's consent decrees with other employers, which provide a list of exceptions to the prohibition of entering into no-solicitation/no-hire agreements, in determining which rule should apply. *See BMI, 441 U.S. at 13, 99 S.Ct. 1551* (finding that while a consent decree may be “a unique indicator that the challenged practice may have redeeming competitive virtues,” it “does not immunize the defendant from liability for actions, including those contemplated by the decree, that violate the rights of non-parties.”)