Analysis to Aid Public Comment
In the Matter of Mr. Jacob J. Alifraghis, Also Doing Business As InstantUPCCodes.com, and In the Matter of 680 Digital, Inc., Also Doing Business As Nationwide Barcode, and Philip B. Peretz, File No. 141-0036

The Federal Trade Commission ("Commission") has accepted, subject to final approval, an agreement containing consent order ("Consent Agreement") from Mr. Jacob J. Alifraghis, who operates InstantUPCCodes.com ("Instant"), and a separate Agreement from Philip B. Peretz and 680 Digital, Inc., also d/b/a Nationwide Barcode ("Nationwide"). These individuals and entities are collectively referred to as "Respondents." The Commission's complaints ("Complaints") allege that each Respondent violated Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, by inviting certain competitors in the sale of barcodes to join together in a collusive scheme to raise prices.

Under the terms of the proposed Consent Agreements, Respondents are required to cease and desist from communicating with their competitors about rates or prices. They are also barred from entering into, participating in, inviting, or soliciting an agreement with any competitor to divide markets, to allocate customers, or to fix prices.

The Commission anticipates that the competitive issues described in the Complaints will be resolved by accepting the Proposed Orders, subject to final approval, contained in the Consent Agreements. The Consent Agreements have been placed on the public record for 30 days for receipt of comments from interested members of the public. Comments received during this period will become part of the public record. After 30 days, the Commission will review the Consent Agreements again and the comments received, and will decide whether it should withdraw from the Consent Agreements or make final the accompanying Decisions and Orders ("Proposed Orders").

The purpose of this Analysis to Aid Public Comment is to invite and facilitate public comment. It is not intended to constitute an official interpretation of the proposed Consent Agreements and the accompanying Proposed Orders or in any way to modify their terms.

The Consent Agreements are for settlement purposes only and do not constitute an admission by Respondents that the law has been violated as alleged in the Complaints or that the facts alleged in the Complaints, other than jurisdictional facts, are true.

I. The Complaints

The allegations of the Complaints are summarized below:

Instant, Nationwide, and a firm we refer to as Competitor A sell barcodes over the Internet. A firm we refer to as Competitor B also sells barcodes over the Internet, but at higher prices than Instant, Nationwide, and Competitor A. Price competition among these firms caused the price of barcodes to decrease over time.

Prior to August 2013, Instant had never communicated with Nationwide or Competitor A. On the evening of August 4, 2013, Mr. Alifraghis of Instant sent a message to Mr. Peretz of Nationwide proposing that all three competitors raise their prices to meet the higher prices charged by Competitor B:

> Hello Phil, Our company name is InstantUPCCodes.com, as you may be aware, we are one of your competitors within the same direct industry that you are in. . . . Here's the deal Phil, I'm your friend, not your enemy. . . . Here's what I'd like to do: All 3 of us- US, YOU and [Competitor A] need to match the price that [Competitor B] has. . . . I'd say that 48 hours would be an acceptable amount of time to get these price changes completed for all 3 of us. The thing is though, we all need to agree to do this or it won't work. . . . Reply and let me know if you are willing to do this or not.

Mr. Alifraghis then sent a similar email message to Competitor A. The next day, on August 5, Mr. Peretz forwarded Mr. Alifraghis' message to Competitor A, asking for Competitor A's thoughts on the proposal to raise and fix prices.

On August 6, Mr. Peretz emailed Mr. Alifraghis and Competitor A. He stated that, rather than raise price within the next 48 hours as proposed by Mr. Alifraghis, he would prefer to wait until Sunday, August 11, to raise his prices. Mr. Peretz added a second condition: he wanted Instant to raise its prices first:

> We are open to what you suggest . . . and are willing to pull the trigger on this at midnight Sunday, August 11th.

Competitor A did not respond to this email or to any emails in the series. Not having heard from Competitor A, Mr. Alifraghis emailed Mr. Peretz stating that he would have to hear from Competitor A directly before any price increase could take place.

On August 7, Mr. Peretz sent an email to Mr. Alifraghis and Competitor A, trying to overcome the lack of lack of trust that he perceived as impeding efforts to coordinate a price increase.

On August 11, the price increase discussed by the barcode competitors in multiple email messages failed to materialize. Two days later, on August 13, Mr. Peretz wrote again to Mr. Alifraghis and Competitor A. Mr. Peretz urged his competitors to continue their dialogue and to take the opportunity presented to raise prices:

> This is a dialog [. . .] a dialog is a very good thing and it seems, regardless of how I feel about each of you and how you feel about each other or me, this is an opportunity to increase profitability. All it takes is conversation and a leap of faith.
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> This is the opportunity that we have all wanted [. . .] to be able to increase our

> prices and to make some money.

In their correspondence, Mr. Alifraghis and Mr. Peretz also threatened to lower their own prices if the other parties did not cede to their demands to collectively increase pricing. For example, on August 19, Mr. Peretz stated in an email to Instant and Competitor A:

> Gentlemen,
> Have we given up on this conversation?
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> This is the busiest time of year . . . and I am considering meeting and/or beating your prices. Would like to see what your thoughts are before I screw up our industry even more.

Mr. Peretz and Mr. Alifraghis continued to exchange communications about price levels into January 2014, until they learned of the FTC's investigation.

II. Analysis

The term "invitation to collude" describes an improper communication from a firm to an actual or potential competitor that the firm is ready and willing to coordinate on price or output or other important terms of competition. Mr. Alifraghis' August 4 email to his competitors outlining a mechanism by which the three companies can and should fix the price of barcodes is a clear example of an invitation to collude. The ensuing private communications among barcode sellers outlined in the Complaints establish a series of subsequent invitations, with each Respondent repeatedly communicating its willingness to raise and fix prices for barcodes, contingent on other competitors doing so, and soliciting rivals to participate in a common scheme.

For 20 years, the Commission has held that an invitation to collude may violate Section 5 of the FTC Act.[1] Several legal and economic justifications support the imposition of liability upon a firm that communicates an invitation to collude, even where there is no proof of acceptance. First, difficulties exist in determining whether a competitor has or has not accepted a particular solicitation. Second, even an unaccepted solicitation may facilitate coordinated interaction by disclosing the solicitor's intentions or preferences. Third, the anti-solicitation

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[1] *See, e.g.*, *In re Quality Trailer Prods.*, 115 F.T.C. 944 (1992); *In re AE Clevite*, 116 F.T.C. 389 (1993); *In re Precision Moulding*, 122 F.T.C. 104 (1996); *In re Stone Container*, 125 F.T.C. 853 (1998); *In re MacDermid*, 129 F.T.C (C-3911) (2000); *see also In re McWane, Inc.*, Docket No. 9351, *Opinion of the Commission on Motions for Summary Decision* at 20-21 (F.T.C. Aug. 9, 2012) ("an invitation to collude is 'the quintessential example of the kind of conduct that should be . . . challenged as a violation of Section 5'") (citing the Statement of Chairman Leibowitz and Commissioners Kovacic and Rosch, *In re U-Haul Int'l, Inc.*, 150 F.T.C. 1, 53 (2010). This conclusion has been affirmed by leading antitrust scholars. *See*, P. Areeda & H. Hovenkamp, VI ANTITRUST LAW ¶ 1419 (2003); Stephen Calkins, *Counterpoint: The Legal Foundation of the Commission's Use of Section 5 to Challenge Invitations to Collude is Secure*, ANTITRUST Spring 2000, at 69. In a case brought under a state's version of Section 5, the First Circuit expressed support for the Commission's application of Section 5 to invitations to collude. *Liu v. Amerco*, 677 F.3d 489 (1st Cir. 2012).

doctrine serves as a useful deterrent against potentially harmful conduct that serves no legitimate business purpose.[2]

If the invitation is accepted and the competitors reach an agreement, the Commission will refer the matter to the Department of Justice for a criminal investigation. In this case, the complaint does not allege that Nationwide, Instant, and Competitor A reached an agreement.

An invitation to collude, which, if accepted, would constitute a *per se* violation of the Sherman Act, is a violation of Section 5. Although this case involves particularly egregious conduct, less egregious conduct may also result in Section 5 liability. It is not essential that the Commission find such explicit invitations to increase prices. Nor must the Commission find repeated misconduct attributable to the principals of firms.

III. The Proposed Consent Orders

The Proposed Orders have the following substantive provisions:

Section II, Paragraph A of the Proposed Orders enjoin Respondents from communicating with their competitors about rates or prices, with a proviso permitting public posting of rates and a second proviso that permits Respondents to buy or sell barcodes.

Section II, Paragraph B prohibits Respondents from entering into, participating in, maintaining, organizing, implementing, enforcing, inviting, offering, or soliciting an agreement with any competitor to divide markets, to allocate customers, or to fix prices**.**

Section II, Paragraph C bars Respondents from urging any competitor to raise, fix or maintain its price or rate levels or to limit or reduce service terms or levels.

Sections III-VI of the Proposed Orders impose certain standard reporting and compliance requirements on Respondents.

The Proposed Orders will expire in 20 years.

[2] *Valassis Communications, Inc.*, Analysis of Agreement Containing Consent Order to Aid Public Comment, 71 Fed. Reg. 13976, 13978-79 (Mar. 20, 2006).