

## IN RE INTEL CORP.

*By Jeff Loew*

The rise of the information industry in our economy has brought with it corresponding changes in the way corporations compete with one another.<sup>1</sup> In the computer technology industry, for example, a corporation's customers are frequently its competitors as well.<sup>2</sup> As networks, and computer networks in particular, fundamentally redefine the relationships among all members of society, including those in business,<sup>3</sup> legal regulations must also adapt to keep pace.<sup>4</sup>

Intel Corporation ("Intel"), the world's largest manufacturer of the general-purpose microprocessors<sup>5</sup> that power personal computers around the world, is at the center of one such "virtual network."<sup>6</sup> Its prominent status has made the company the subject of an investigation by the Federal Trade Commission ("FTC"). On June 8, 1998, the FTC filed suit against Intel, charging the company with violating section 5 of the Federal Trade Commission Act.<sup>7</sup> The FTC alleged conduct constituting unlawful monopolization, unlawful attempts to monopolize, and unfair competition.<sup>8</sup>

The FTC settled its antitrust case against Intel on March 8, 1999.<sup>9</sup> The settlement order, ("Intel decree") limits Intel's ability to withhold certain types of intellectual property ("IP") from its customers for reasons relating

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1. See generally CARL SHAPIRO & HAL R. VARIAN, INFORMATION RULES: A STRATEGIC GUIDE TO THE NETWORK ECONOMY (1999).

2. See *id.* at 228. Shapiro and Varian refer to this phenomenon as "coopetition."

3. See MANUEL CASTELLS, THE RISE OF THE NETWORK SOCIETY (1996).

4. See SHAPIRO & VARIAN, *supra* note 1, at 297-318.

5. These processors, also called "chips," serve the essential functions within a computer system of processing system data and controlling other devices integral to the system. Federal Trade Commission Complaint, In the Matter of Intel Corporation, (Docket No. 9288) (June 8, 1998) para. 2, 4, available at <http://www.ftc.gov/os/1998/9806/intelfin.cmp.htm>. [hereinafter Complaint].

6. See SHAPIRO AND VARIAN, *supra* note 1, at 183.

7. 15 U.S.C. § 45 (1994).

8. See Complaint para. 42.

9. See FTC, *FTC Accepts Settlement of Charges Against Intel* (Mar. 17, 1999) available at <http://www.ftc.gov/opa/1999/9903/intelcom.htm>; see also Declan McCullagh, *FTC, Intel Bury the Hatchet*, WIRED NEWS (Mar. 17, 1999) (<http://www.wired.com/news/politics/0,1283,18533,00.html>).

to an IP dispute with that customer.<sup>10</sup> The order also prohibits Intel from refusing to sell (or threatening to refuse to sell) general-purpose microprocessors to a customer based on an IP dispute with that customer.<sup>11</sup> The Intel decree allows for certain exceptions whereby Intel may lawfully engage in these acts.<sup>12</sup> By agreeing to the settlement order Intel did not admit to possessing monopoly power.

This Note will explore in detail the scope and significance of the Intel decree, and will provide a brief overview of the circumstances leading up to the settlement. It will focus in particular on the manner in which the Decree limits Intel's ability to exercise its IP rights, and to choose whether or not to do business with its customers. The Note concludes by examining the degree to which the pre-trial settlement of this dispute has failed to resolve a number of areas of antitrust and IP law that will continue to present challenges to the legal system.

## I. BACKGROUND

### A. Intel's Dominant Role in the Information Technology Industry

When IBM decided to base its PC line of personal computers on an Intel microprocessor, it initiated a decades-long process by which Intel processors, contained within the computers of IBM and its competitors, captured a dominant share of the market for general-purpose microprocessors.<sup>13</sup> A network of computer and peripheral device manufacturers, as well as software producers, particularly Microsoft, all subsequently developed their products to utilize or complement the Intel microprocessor. End users sought to purchase systems that were compatible with those of other users to more easily exchange information with one another.<sup>14</sup> Due to a number of factors, including IBM's decision and the phenomenon of

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10. See Federal Trade Commission Agreement Containing Consent Order, In the Matter of Intel Corporation, (Docket No. 9288) para. II.A.1. (Mar. 8, 1999), available at <<http://www.ftc.gov/os/1999/9903/d09288intelagreement.htm>> [hereinafter Consent Decree].

11. See *id.* para. II.A.2.

12. See *id.* para. II.B.

13. See SHAPIRO & VARIAN, *supra* note 1, at 125. Intel further enhanced its market power by means of the customer loyalty and brand identification it had established over that time. See *id.* at 272. By 1997, Intel microprocessors commanded eighty percent of the market for general-purpose microprocessors. See Complaint at para. 6.

14. See Mark A. Lemley, *Antitrust and the Internet Standardization Problem*, 28 CONN. L. REV. 1041, 1052-53 (1996).

“network effects,”<sup>15</sup> the Intel microprocessor became a de facto standard in the computer industry.<sup>16</sup>

## B. The FTC’s Complaint

The FTC’s complaint against Intel, filed on June 8, 1998, charged that the company held a monopoly in general-purpose microprocessors, and that its conduct toward three of its customers for microprocessors, Digital Equipment Corporation,<sup>17</sup> Intergraph Corporation,<sup>18</sup> and Compaq Computer Corporation,<sup>19</sup> represented an unlawful use of its resulting market power to maintain its monopoly.<sup>20</sup>

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15. Network externalities, also called network effects, are common in technology industries, and occur when “the utility that a user derives from consumption of a good increases with the number of other agents consuming the good.” Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424, 424 (1985).

16. See SHAPIRO & VARIAN, *supra* note 1, at 234.

17. Digital is a Massachusetts corporation with 1997 revenues of \$13.7 billion. See Complaint para. 16. Digital was a significant customer of Intel, and sales by Digital of Intel-based computers represented a substantial portion of its revenues, accounting for \$2 billion in 1997. See *id.* Digital was also, however, a competitor of Intel. Its microprocessors, sold under the name “Alpha chip,” were widely considered at the time to be “the highest performing general purpose microprocessors available,” and were the only microprocessors that competed with Intel’s architecture in running Microsoft Corporation’s highly popular Windows NT operating system. *Id.* para. 16-17; see also SHAPIRO & VARIAN, *supra* note 1, at 286-87.

18. See *id.* para. 24. Intergraph is an Alabama-based corporation that develops and sells computer hardware and software. Its primary focus is on developing high-end workstations intended for computer-aided design, computer-aided manufacturing, and other computer graphics. See *id.* In late 1992, Intergraph Corporation began to shift its focus from workstations based on its own Clipper technology to systems based on Intel’s Pentium microprocessor, becoming one of the first manufacturers to develop a family of workstations based on Intel’s architecture. See *id.* By 1996 all of its workstations were based on Intel microprocessors. See *id.* para. 25.

19. See *id.* para. 33; Compaq is a Texas-based producer of computer systems, the majority of which incorporate Intel microprocessors. See *id.* At the time of the Complaint’s filing, Compaq was the largest manufacturer of personal computers in the world. See *id.* Compaq was Intel’s largest customer for microprocessor products, purchasing more than \$2 billion worth of Intel microprocessors in 1997. See *id.*

20. FTC, *Intel Abuses its Monopoly Power in Violation of Federal Law* (visited Oct. 30, 1999), available at (<http://www.ftc.gov/opa/1998/9806/intelc.htm>); see also Will Rodger, *Legal Eagles Say FTC Action Will Set Precedents*, ZDNET TECH NEWS NOW (June 8, 1998) (<http://www.zdnet.com/zdnn/stories/news/0,4586,2110802.00.html>).

1. *Intel's conduct toward its customers*

a) Digital Equipment Corporation

Digital sued Intel for patent infringement on May 12, 1997, alleging that Intel's microprocessors infringed Digital's microprocessor patents.<sup>21</sup> Intel responded by denying Digital timely access to the advance technical information ("ATI")<sup>22</sup> needed by Digital to continue to develop new Intel-based computer systems.<sup>23</sup> Intel further demanded return of microprocessor prototypes and refused to provide additional prototypes, and allegedly acted to create public uncertainty about Digital's ability to bring to market new Intel-based computer system products.<sup>24</sup>

b) Intergraph Corporation

In 1996, a number of Intel customers requested that the company indemnify them with regard to patent infringement claims they had received from Intergraph; in response to those claims, Intel demanded that Intergraph grant Intel a royalty-free license to Intergraph's Clipper technology, as a condition for continuing to receive ATI necessary for Intergraph to develop Intel-based workstations.<sup>25</sup> When Intergraph refused, Intel withheld its ATI, delaying Intergraph's development of a graphics workstation,<sup>26</sup> and allegedly acted to create uncertainty in the computer industry as to whether Intergraph was capable of bringing new Intel-based products to market in a timely manner.<sup>27</sup>

Intergraph sued Intel for patent infringement, antitrust violations and various state law claims, and the court granted an injunction requiring Intel to continue to provide ATI to Intergraph. The Federal Circuit overturned this holding on appeal, ruling that a defendant in a patent infringement suit cannot be forced to continue to supply sensitive information to

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21. *See* Complaint para. 18.

22. Advance technical information consists of information Intel provides to customers regarding new Intel products prior to their commercial release, to enable those customers to develop their own, compatible products. *See id.* para. 12.

23. *See id.* para. 19.

24. *See id.*

25. *See Intergraph Corp. v. Intel Corp.* 3 F. Supp. 2d 1255, 1266-67 (N.D. Ala. 1998), *vacated* 195 F.3d 1346, 1367 (Fed. Cir., 1999); *see also* Complaint para. 26; *see also* Intergraph Corp., *Intergraph v. Intel—Public Information: Chronology Highlights/Summary* (visited Jan. 31, 2000), (<http://www.intergraph.com/intel/breakdwn.asp>).

26. *See* Complaint para. 27.

27. *See id.*

the plaintiff in the case.<sup>28</sup> Even when a party has market power, the court held, it may still protect its own IP rights when it is being sued.<sup>29</sup>

c) Compaq Computer Corporation

In 1994, Compaq sued Packard Bell, another PC manufacturer, for using technology that infringed Compaq's patents in its computer systems. Intel had supplied the allegedly infringing components, and the company intervened on Packard Bell's behalf.<sup>30</sup> In response to Compaq's suit, Intel cut off ATI necessary for Compaq to produce computers based on the latest Intel chips.<sup>31</sup>

2. *Alleged anticompetitive effect of Intel's conduct*<sup>32</sup>

In all three instances, the complaint alleged, Intel's conduct "was not reasonably necessary to serve any legitimate, pro-competitive purpose."<sup>33</sup> Further, this conduct had a "significant adverse impact" on its customers' ability to develop Intel-based computer systems and "would have posed an even more significant long-term effect" had Digital and Compaq not agreed to license their microprocessor technology to Intel,<sup>34</sup> and had a

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28. See *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1358 (Fed. Cir. 1999).

29. See *id.*

30. See Complaint para. 34.

31. See *id.* para. 35.

32. The FTC alleged, first of all, that Intel possessed monopoly power in the relevant market, that for general-purpose microprocessors. See *id.* para. 6. This monopoly status was reflected in Intel's own market studies, which showed that it was responsible for eighty percent of the total dollar sales of general-purpose microprocessors. See *id.* The Complaint further alleged that barriers to entry in the relevant market are extremely high, based on the high costs in time and money of developing a competing processor (four years and \$250 million), the cost of building and equipping a semiconductor fabrication facility to produce the chips (\$1.6 billion), and the great difficulty a new entrant would have in establishing product reputation and in ensuring compatibility with a computer operating system and an adequate selection of desirable application software. See *id.* para. 8-10. The FTC argued that Intel's coercive methods of obtaining the patents of its customers, who are also its competitors, by means of withholding technical information necessary for their businesses, served the anti-competitive purpose of "effectively undermin[ing] the patent rights of such firms and reduc[ing] their incentives to develop new technologies relating to microprocessors." *Id.* para. 14.

33. See *id.* para. 20, 30, 36.

34. See *id.* para. 21, 37; The resolution of the IP dispute between Digital and Intel itself created antitrust concerns for the FTC. As part of the agreement between the two corporations, Intel agreed to purchase Digital's Alpha fabrication plant, with the understanding that Intel would thereafter produce Alpha microprocessors solely for Digital. Following the issuance of a complaint by the FTC, Digital agreed in a settlement to license its Alpha technology to other Commission-approved licensees, as a precondition to the sale of its Alpha fabrication plant to Intel. See *FTC, Agreement Containing Consent*

United States District Court not enjoined Intel in April 1998 from further engaging in such conduct toward Intergraph.<sup>35</sup> Intel's conduct, the Complaint concluded, "constitutes unlawful monopolization, unlawful attempts to monopolize, and unfair methods of competition, all in violation of section 5 of the Federal Trade Commission Act."<sup>36</sup>

Intel denied the key allegations in its response to the complaint, arguing that it acted reasonably under the law to protect its IP rights, and that its actions furthermore did not harm competition in the relevant market.<sup>37</sup>

## II. THE INTEL DECREE: SUBSTANTIVE PROVISIONS

The Decree orders that for a period of ten years, Intel shall not withhold or threaten to withhold ATI from a microprocessor customer when an IP dispute arises between them, unless there is some other legitimate business reason, unrelated to the dispute, for withholding the information.<sup>38</sup> It also prevents Intel from basing its supply decisions for general-purpose microprocessors upon such a dispute.<sup>39</sup> The agreement only applies where the customer is receiving such information at the time the dispute arises.<sup>40</sup>

These restrictions will also apply only where a customer, asserting that Intel has infringed its IP rights, agrees in writing not to seek an injunction against the manufacture and sale of Intel microprocessors that incorporate the same IP at issue.<sup>41</sup> Aside from the specific restrictions stated above, the Decree states that it "does not otherwise limit Intel's IP rights, nor its ability to enforce those rights."<sup>42</sup>

The Intel decree explicitly preserves Intel's right to seek legal remedies with regard to IP disputes, provided that such remedies do not affect

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*Order, In the Matter of Digital Equipment Corporation, a corporation*, File No. 981-0040 (visited Oct. 30, 1999), available at (<http://www.ftc.gov/os/1998/9804/9810040.agr.htm>).

35. See Consent Decree para. 31.

36. *Id.* para. 41.

37. A judge or jury defines the relevant market at trial, but this decision is often a subject of contention among the parties. See Intel Corporation's Answer to Complaint, In the Matter of Intel Corporation, (Docket No. 9288) (July 13, 1998), available at (<http://www.ftc.gov/os/adjpro/d9288/index.htm>).

38. See Consent Decree para. II.A.

39. See *id.*; Such an injunction was obtained by Intergraph in its suit against Intel, although the injunction was overturned on appeal. See *Intergraph Corp. v. Intel Corp.*, 3 F. Supp. 2d 1255, 1291-93 (N.D. Ala. 1998), *rev'd*, 195 F.3d 1346, 1352. (Fed. Cir. 1999).

40. See Consent Decree para. II.A.

41. See *id.*

42. *Id.*

its obligation to continue to supply technical information.<sup>43</sup> It also allows Intel to withhold or make supply decisions regarding ATI based on business considerations unrelated to the IP dispute, such as a customer's breach of an agreement regarding the disclosure or use of the information.<sup>44</sup>

The Decree does not require Intel to provide information or processors to a customer to facilitate the development of a type of system that the customer has neither developed nor demonstrated plans to develop within the preceding year.<sup>45</sup> Nor does it prevent Intel from requiring customers to use microprocessor information only for the development of systems incorporating that processor.<sup>46</sup> The Decree also does not require Intel to disclose technical information or to supply processors when such material is not normally made available to its customers.<sup>47</sup>

### III. ANALYSIS

#### A. Effect of the Decree on Intel's IP Rights

The FTC's action against Intel occurred in the context of an increasing interaction between the fields of antitrust and IP law.<sup>48</sup> As IP has become essential in the information economy, antitrust counterclaims have also gained importance, because antitrust is one of the few effective weapons against an infringement claim. It is usually used defensively as a means to invalidate a plaintiff's claim to the IP right at issue. A defendant against an infringement claim may allege, for example, that the plaintiff has used its patent to unlawfully acquire or maintain its monopoly, and that the patent is therefore invalid under the doctrine of misuse.<sup>49</sup>

While it is not uncommon for an alleged infringer to file a counterclaim alleging that a patent has somehow been unlawfully obtained or misused, thus stripping the patentee of its antitrust exemption,<sup>50</sup> it is less

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43. *See id.* para. II.B.1.

44. *See id.* para. II.B.2, II.B.3.

45. *See id.* para. II.B.4. For example, Intel may prohibit a customer from using its ATI in the development of a rival microprocessor.

46. *See id.* para. II. B.5.

47. *See id.* para. II.B.6.

48. *See* Herbert Hovenkamp, *Introduction. Symposium: Intellectual Property Rights and Federal Antitrust Policy*, 24 J. CORP. L. 477, 477 (1999).

49. *See* Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 173-74 (1965).

50. *See id.* at 177 (proof that a patentee has knowingly and willfully misrepresented facts to the Patent Office in order to obtain the patent is sufficient to strip patentee of its exemption from the antitrust laws). *But see* Brunswick Corp. v. Riegel Textile Corp. 752

common for the plaintiff in an infringement suit to make such a claim, as was the case in the *Intergraph* suit. Intergraph filed suit against Intel, charging the company with anticompetitive behavior and patent infringement, later amending its complaint to include a federal antitrust claim.<sup>51</sup> This antitrust claim was unusual in that it was not brought as a counterclaim by an alleged infringer, which is usually the case where antitrust activity is alleged in a patent infringement suit.<sup>52</sup> Instead the party initiating the suit, Intergraph, made the claim.

The FTC's Complaint, and the subsequent Intel decree, controversially seeks to limit Intel's ability to freely exercise its right, granted by IP laws, to exclude access to its IP. These limitations are in apparent contradiction with some legislation and recent case law.<sup>53</sup> While antitrust law seeks to maintain markets that are open and competitive, the Patent Act in contrast confers upon an inventor the "right to exclude others from making, using, offering for sale, or selling" the patented invention or process.<sup>54</sup> This exclusion applies even if another person should invent the device or process independently. In cases where the property protected by the patent constitutes a market under antitrust analysis, such a barrier may allow an individual firm or inventor to dominate the market for an invention for the term of its patent.<sup>55</sup>

Conflicts between the two bodies of law have become even more pressing as proprietary information has become a core asset of many businesses.<sup>56</sup> Congress has dealt with the issue through legislation,<sup>57</sup> and the

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F.2d 261, 265 (7th Cir. 1984), *cert. denied*, 472 U.S. 1018 (1985) (for a fraudulently-acquired patent to violate Section 2 of the Sherman Act, the fraud must be material in the sense that the patent would not have been issued but for the misconduct).

<sup>51</sup>. See *Intergraph Corp. v. Intel Corp.*, 3 F. Supp. 2d 1255, 1258 (N.D. Ala. 1998); see also *Intergraph Corp., Intergraph v. Intel—Public Information*, *supra* note 25.

<sup>52</sup>. See e.g., *Walker Process Equipment*, 382 U.S. at 173-74.

<sup>53</sup>. See *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1186 (1st Cir. 1994) ("[T]he exercise of patent rights is a 'legitimate means' by which a firm may maintain its monopoly power."); see also *In re Indep. Serv. Orgs. Antitrust Litig.*, 89 F. Supp. 1131, 1142-43 (D. Kan. 1997) (holding that a copyright holder may refuse to sell or license its copyrighted material); Patent Misuse Reform Act of 1988, 35 U.S.C. § 271(d).

<sup>54</sup>. See Patent Act, 35 U.S.C. § 154 (1994).

<sup>55</sup>. See Patent Misuse Reform Act of 1988, 35 U.S.C. § 271(d) (1994). Such exclusionary power has taken on added force since the Courts have begun to allow business-related inventions to be patented, thus allowing corporations, where their innovation comprises a market, to monopolize that market for a particular method of doing business. See *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F. 3d 1368, 1377 (Fed. Cir. 1998).

<sup>56</sup>. See SHAPIRO & VARIAN, *supra* note 1, at 297-98.

FTC and the Antitrust Division of the Department of Justice have jointly issued a set of "Antitrust Guidelines for the Licensing of Intellectual Property" ("Antitrust Guidelines").<sup>58</sup> Nevertheless, conflicts and uncertainties persist, as the Intel situation demonstrates.

Congress amended the patent laws with the 1988 Patent Misuse Reform Act, which provides that "no patent owner otherwise entitled to relief for infringement . . . of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his refusal to license or use any rights to the patent."<sup>59</sup> The language of the statute seems to explicitly relieve patent holders from the burden of defending their IP rights against antitrust claims based on their refusal to deal; their right to exclude others appears to be unconditional.<sup>60</sup> Yet at the heart of the FTC's Complaint, and the subsequent Decree, are actions by a patent holder to exercise its exclusionary right.

In order to find an antitrust violation, a court would have to examine whether, as the FTC alleged, Intel used its patents to acquire or maintain power beyond that granted by the IP rights themselves.<sup>61</sup> While a patent may be a formal license to exclude competitors from a market (albeit a narrow one), that patent right may still be found to have been exercised anticompetitively.<sup>62</sup> With a few notable exceptions,<sup>63</sup> though, the courts have allowed patent holders to exercise their rights without limitation.<sup>64</sup> Such a holding would have benefited Intel, who argued that their refusal to distribute ATI to their customers/competitors was within the scope of their IP rights, and not an antitrust violation.<sup>65</sup>

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57. See generally 35 U.S.C. § 271(d) (1994).

58. U.S. DEPARTMENT OF JUSTICE & THE FEDERAL TRADE COMMISSION, "ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY," (April 6, 1995), available at < <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm> > [hereinafter Antitrust Guidelines].

59. 35 U.S.C. § 271(d) (1994).

60. See *id.*

61. See Complaint para.11.

62. See *Beal Corp. Liquidating Trust v. Valleylab, Inc.*, 927 F. Supp. 1350, 1361 (D. Colo. 1996) ("[T]he exercise of a patent privilege does not immunize concerted and contractual behavior that threatens competition.").

63. See *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 479 (1992).

64. See *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994); *In re Indep. Serv. Orgs. Antitrust Litig.*, 989 F. Supp. 1131, 1134 (D. Kan. 1997).

65. See Intel Corp.'s Answer to Complaint, In the Matter of Intel Corp., (Docket No. 9288) (July 13, 1998), available at < <http://www.ftc.gov/os/adjpro/d9288/index.htm> >.

In *Data General Corp. v. Grumman Systems Support Corp.*,<sup>66</sup> for example, the First Circuit held that Data General (“DG”), a computer manufacturer, did not illegally maintain its monopoly in the “aftermarket” for servicing DG computers by unilaterally refusing to license its copyrighted diagnostic program to competitors in that market.<sup>67</sup> This was true even if, as the defendant Grumman alleged, DG’s withdrawal of its licensing program was intended to diminish or eliminate competition in that market.<sup>68</sup> Grumman’s counterclaim that DG had used its copyrights to violate sections 1 and 2 of the Sherman Antitrust Act was insufficiently supported by the evidence; DG’s refusal was, the court held, within the bounds of its copyright.<sup>69</sup>

The *Data General* court reached the same conclusion with regard to the patents at issue in the case. It ruled that section 271(d) of the Patent Misuse Reform Act of 1988 “clearly prevents an infringer from using a patent misuse defense when the patent owner has unilaterally refused a license, and may even herald the prohibition of all antitrust claims and counterclaims premised on a refusal to license a patent.”<sup>70</sup>

The Supreme Court, however, has ruled that there are limits to a patent holder’s exercise of its IP rights. In *Eastman Kodak Co. v. Image Technical Services, Inc.*,<sup>71</sup> the Court reviewed a suit by independent service organizations (“ISOs”), third-party servicers of Kodak photocopiers. Kodak had, for a time, been supporting these businesses, providing supplies and technical information to them.<sup>72</sup> But Kodak subsequently changed its policy, and stopped distributing the supplies and information. The ISOs argued that the exclusionary power of Kodak’s large portfolio of photocopier patents effectively prevented third parties from servicing the machines.<sup>73</sup> The service companies sued Kodak for antitrust violations.

Kodak’s defense was that its refusal to provide supplies and technical information was a legitimate exercise of its IP rights. The Supreme Court, however, denied summary judgment for Kodak, ruling that it was possible to make an antitrust claim even where all the patents in question are

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66. 36 F.3d 1147 (1st Cir. 1994).

67. *See id.* at 1182, 1187-89.

68. *See id.*

69. *See id.* at 1170

70. *Id.* at 1187 (citing Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 192-97 (1988-89)).

71. 504 U.S. 451 (1992).

72. *See id.* at 454.

73. *See id.*

valid.<sup>74</sup> The Court reasoned that the exclusionary exercise of Kodak's IP rights could simply be a pretext for monopolizing the market. Absent any other legitimate business reason, such conduct would be an antitrust violation.<sup>75</sup>

The Ninth Circuit ruled on remand that Kodak's exercise of its patents was simply a means for Kodak to acquire a monopoly in violation of section 2 of the Sherman Act.<sup>76</sup> While *Data General* had held that a rebuttable presumption existed that the exercise of one's legitimate IP rights could not be grounds for an antitrust action, the Ninth Circuit found that this presumption was rebutted by the ISOs. The decisive factor was not Kodak's exercise of its rights, but its motivation and intent in doing so.<sup>77</sup>

But the court in *In re Independent Service Organizations Antitrust Litigation*<sup>78</sup> explicitly rejected the *Image Technical Services* reasoning.<sup>79</sup> The District Court held that a manufacturer could deny access to its patented products (in this case Xerox withheld spare parts to third-party servicers of its photocopying equipment), regardless of whether a monopoly is created by its patents, and without regard to the effect of this withholding on any relevant economic market (including secondary markets).<sup>80</sup>

Thus, the FTC's action against Intel does not appear to be supported by the holdings of recent case law. Intel's exercise of its IP rights, even if they occurred in the context of a monopoly position, as the FTC contended,<sup>81</sup> were still not likely to be found to be an antitrust violation. While some courts have recently held that the exercise of one's IP rights by refusing a license, even in furtherance of dominating a market, does not

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74. *See id.* at 482-86.

75. *See id.* at 483-84.

76. *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 125 F.3d 1195, 1211 (9th Cir. 1997).

77. *See id.* at 1211-12.

78. 989 F. Supp. 1131 (D. Kan. 1997).

79. *See id.* at 1135 ("The Ninth Circuit in *Kodak* . . . maintain[s] that this statutory provision [The Patent Reform Act of 1988] only bars a misuse defense to an infringement claim but does not preclude antitrust claims premised on a unilateral refusal to license a patented work. Such an interpretation is contrary to the statutory language and legislative history of the amendment.") (citations omitted).

80. "[P]roof of intent to monopolize cannot transform a patent holder's unilateral refusal to deal into unlawful exclusionary conduct. The Supreme Court has held that a patent holder's subjective motivation for excluding others from use on an invention is irrelevant." *Id.* at 1140 (citing *Continental Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 429 (1908)).

81. *See* Complaint para. 6.

provide grounds for a charge of anticompetitive activity,<sup>82</sup> the Supreme Court has apparently placed limits on this exception with its ruling in *Image Technical Services*.

### B. Effect of the Decree on Intel's Business Relations with its Customers/Competitors

In the computer technology industry, a corporation's customers are frequently also its competitors. For example, Digital and Intergraph were each (at one time) simultaneously both competitors of Intel, producing their own rival microprocessors, and its customers, purchasing Intel chips for use in Pentium-based systems.<sup>83</sup> Another example of such collaboration among competitors involved Intel's agreement to purchase Digital's Alpha chip fabrication facility and to produce Alpha chips for Digital at a lower cost.<sup>84</sup> In this case the FTC found such a joint venture to be potentially harmful to competition, and objected to the agreement, leading to a compromise where companies other than Intel would also be licensed to manufacture the Alpha chip.<sup>85</sup>

Antitrust law is generally applied with the presumption that interactions between a supplier and its customers are outside its purview, but such laws are invoked when a company takes actions that eliminate opportunities for competitors.<sup>86</sup> For example, in *Official Airline Guides, Inc. v. FTC*,<sup>87</sup> the Second Circuit held that a publisher of airline schedules, with a monopoly share of the market for airline schedules nationwide, was not in violation of antitrust laws when it gave commuter airlines less prominent display in its guides than the large major carriers. As a publisher, Official Airline Guides, Inc. was not a competitor of the airlines, who were, rather, its customers.<sup>88</sup>

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82. See, e.g., *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1182 (1st Cir. 1994); *In re Independent Serv. Orgs. Antitrust Litig.*, 989 F. Supp. 1131, 1134 (D. Kan. 1997).

83. See Complaint para. 17, 23.

84. See Intel Corp.'s Answer to Complaint, *supra* note 36.

85. See *id.*

86. See Rodger, *supra* note 20. While vertical restraints are subject to scrutiny under the antitrust laws, they are less likely to be found inherently anticompetitive. Such restraints typically occur either where a seller attempts to control the resale of a product, or where a seller seeks to limit a buyer's ability to purchase from the seller's competitors. See E. THOMAS SULLIVAN & JEFFREY L. HARRISON, UNDERSTANDING ANTITRUST AND ITS ECONOMIC IMPLICATIONS 149 (2d ed. 1994) The Robinson-Patman Act deals primarily with anticompetitive price discrimination by a seller among buyers, although certain types of nonprice discrimination are also subject to antitrust scrutiny. See *id.* at 306, 315.

87. 630 F.2d 920 (2d Cir. 1980).

88. See *id.* at 924-27

There have been relatively few cases where a unilateral refusal to deal provided a basis for a successful section 2 claim.<sup>89</sup> However, a monopolist's unilateral refusal to deal with its competitors, where that refusal harms competition, may constitute prima facie evidence of exclusionary conduct for the purposes of section 2.<sup>90</sup>

In the Intel situation, the core IP right to exclude appears to run up against the antitrust restrictions on refusal to deal.<sup>91</sup> Whether one set of laws should take precedence may depend upon the facts of each individual case.

The Intel situation shares some characteristics with *Aspen Highland Skiing Corp. v. Aspen Skiing Corp.*<sup>92</sup> There the Supreme Court held that an operator of ski resorts with lift access to virtually all the slopes in a region could not discontinue a cooperative lift arrangement with a smaller operator. Because Aspen Highland Skiing could show no legitimate reason for its actions, apart from putting its only rival out of business, its conduct was found to violate antitrust law.<sup>93</sup> As in *Aspen Skiing*, Intel was threatening to withdraw business from its own customers, allegedly for the sole purpose of eliminating them as competitors.<sup>94</sup>

But *Aspen* was a controversial holding, and some lower courts<sup>95</sup> have favored the view of antitrust law found in *Berkey Photo vs. Eastman Kodak Co.*<sup>96</sup> In *Berkey Photo* the Second Circuit held that Kodak, a monopolist in photo finishing as well as film manufacturing, had no obligation to disclose to its rivals advance data that would help them develop Kodak film, even though Kodak clearly controlled the market.<sup>97</sup>

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89. See *United States v. Griffith*, 334 U.S. 100, 107 (1948) (holding that theater owners who obtained exclusive rights in films in towns without competing theaters could not use their monopoly power to gain competitive advantage in towns with competition); *Otter Tail Power Co. v. United States*, 410 U.S. 366, 366 (1973) (holding unlawful under the 'essential facilities' doctrine a monopoly power company's refusal to supply power to municipalities that wanted to distribute power themselves rather than rely upon that company's distribution services).

90. See *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 483 n.32 (1992) (citing *Aspen Skiing v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985)).

91. David McGowan, *Networks and Intention in Antitrust and Intellectual Property*, 24 J. CORP. L. 485, 485-88 (1999).

92. 472 U.S. 585 (1985).

93. See *id.* at 586.

94. See Complaint para. 12, 19, 29, 35.

95. See, e.g., *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1189 (1st Cir. 1994); *In re Independent Serv. Orgs. Antitrust Litig.*, 989 F. Supp. 1131, 1142-43 (D. Kan. 1997).

96. 603 F.2d 263, 276 (2d Cir. 1979)

97. See *id.* at 290-91; see also Rodger, *supra* note 20.

Evidence that a monopolist's refusal to deal has an anticompetitive effect may be rebutted where the monopolist establishes a legitimate business justification for its conduct.<sup>98</sup> Pursuit of efficiency may be a legitimate competitive reason for an otherwise exclusionary refusal to deal, while the desire to eliminate competition would not be.<sup>99</sup> A valid business justification requires proof that the conduct provides benefits to the competitive process.<sup>100</sup> In its Answer to the FTC Complaint Intel contended, among other defenses, that it "had legitimate business justifications for all of its conduct at issue in this matter."<sup>101</sup>

### C. Reasons Why Intel May Have Settled

Intel's exercise of its IP rights appears to have been within the scope of its patents. Further, recent case law seems to limit the use of antitrust counterclaims to defeat otherwise legitimate infringement claims. So why, then, did Intel settle the case? The reasons may be primarily extralegal, and based on the corporation's experience in the industry.

Intel's deliberate efforts to create brand awareness in its chips had once before been threatened by a public relations crisis.<sup>102</sup> In late 1994, shortly after Intel had released its Pentium chip, and at a time when its "Intel Inside" advertising campaign was prominently etching the brand of the chip maker into the minds of consumers,<sup>103</sup> a mathematician discovered a flaw in the chip that led it to perform certain complex calculations incorrectly.<sup>104</sup> When the flaw became public, Intel at first refused to replace the chips except in the computers of high-end users, who could demonstrate a need for the sophisticated calculations the flaw might disrupt.<sup>105</sup> However, consumers, newly aware of the company and now of the "defective" product they had purchased, demanded replacement of chips for all users.<sup>106</sup> Intel eventually relented, replacing the flawed microproc-

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98. See *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 483 (1992) (monopolist may rebut an inference of exclusionary conduct by establishing "legitimate competitive reasons for the refusal").

99. See *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 608-09 (1985).

100. See *id.*

101. See Intel Corp.'s Answer to Complaint, *supra* note 37, at 11.

102. See David Einstein, *Intel Takes \$475 Million Charge for Flawed Chip*, S.F. CHRON. (Jan. 18, 1995) at D3.

103. See Lisa Dicarolo, "Intel Inside" Shackles PC Makers, ZDNET TECH NEWS (Apr. 6, 1999) (<http://www.zdnet.com/zdnn/stories/news/0,4586,2236842,00.html>).

104. See Einstein, *supra* note 101, at D3.

105. See *id.*

106. See *id.*

essors at a cost of hundreds of millions of dollars.<sup>107</sup> The end result was what one journalist called “one of the most expensive public relations fiascoes in memory.”<sup>108</sup>

Intel also had the Antitrust Division’s ongoing case against Microsoft as evidence of a company suffering public relations fallout from an anti-trust case.<sup>109</sup> At the time the FTC issued its complaint against Intel, the Antitrust Division of the Department of Justice was waging its own anti-trust litigation against Microsoft, the dominant supplier of operating systems that run on Intel microprocessors.<sup>110</sup> The press scrutiny of Microsoft and the trial, in particular the videotaped testimony of its CEO, Bill Gates, led to a poor public perception of the company.<sup>111</sup> Intel may have sought to avoid such a fate for itself by agreeing to a settlement and avoiding a trial.

While Intel likely would have prevailed at trial, it still may have suffered some public relations fallout, at a time when a competitor was able to ship more low-end processors than Intel for use in PCs priced below \$1,000.<sup>112</sup> While the settlement does make demands on the company that may not have been required by a court, these demands may have been preferable to the effects of a public and acrimonious lawsuit. Even more potentially damaging would be a finding that Intel possesses a monopoly in the market for general-purpose microprocessors; such a finding would open Intel to lawsuits by competitors, who would not need to prove Intel’s monopoly status.<sup>113</sup>

#### D. Should Antitrust Concerns Ever Trump IP Rights?

The Department of Justice and FTC released a set of IP Guidelines to assist IP-owners in ensuring that the exercise of their rights remains within

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107. *See id.*; *see also* Kenneth Labich, *Sometimes The Sky is Falling: Bad Things Can Happen to Good Companies, Warns Intel Chief Executive Andrew Grove*, FORTUNE, Oct. 14, 1996, at 216.

108. Einstein, *supra* note 101, at D3.

109. *See Department of Justice Sues Microsoft For Antitrust*, BUSINESSWEEK ONLINE/COURTTV ONLINE (visited January 18, 2000) /[http://www.courttv.com/trials/microsoft/legaldocs/doj\\_suit.html](http://www.courttv.com/trials/microsoft/legaldocs/doj_suit.html).

110. *See id.*

111. *See* Dawn Kawamoto, *Gates Deposition Called Evasive*, CNET NEWS.COM (Aug. 28, 1998) (<http://news.cnet.com/news/0-1005-200-332711.html>).

112. The competitor, Advanced Micro Devices (AMD), had captured 54 percent of the sub-\$1,000 PC market. *See* Benny Evangelista, *Industry Hails AMD Profits as Good Sign*, S.F. CHRON., Oct. 7, 1998, at B1.

113. *See Suit in S.F. to Take Aim at Microsoft: Class action to be filed today—wave of litigation expected*, S.F. CHRON., Nov. 22, 1999, at A1.

the bounds of antitrust law.<sup>114</sup> According to the Guidelines, restraints brought about through one firm's market power over IP that is essential to an industry should not be found per se unlawful so long as the arrangement can be expected to contribute to "an efficiency-enhancing integration of economic activity," and is not one that has been specifically accorded per se treatment. The general question under the rule of reason is whether the arrangement will have anticompetitive effects, and, if so, whether those effects will be outweighed by the procompetitive benefits that result.<sup>115</sup>

The FTC and DOJ may find harm to competition where a horizontal licensing arrangement, common between technology firms, poses a risk of retarding the innovation and development of improved products—such as microprocessors. The potential for competitive harm is also measured with reference to a firm's concentration in, and the barriers of entry into, the relevant markets.<sup>116</sup>

The Guidelines state that the FTC and DOJ are conscious of the role standards play in industry, and the technology industry in particular. They further state that use of common restraints among licensees, or "cross-licensing," may be procompetitive in an industry, contributing to efficient exploitation of the licensed property.<sup>117</sup> However, the Guidelines also note potential anticompetitive effects. For example, while settlements involving cross-licensing may be an efficient alternative to litigation, such settlements among horizontal competitors may diminish competition among would-be competitors in the relevant market. Absent offsetting efficiencies, such settlements may be unlawful.<sup>118</sup>

David McGowan argues that, although antitrust should almost never condemn use of exclusion rights, one exception may exist in cases where patent-holders engage in "coercive reciprocity."<sup>119</sup> This is where the holder of IP right uses that right to impose anticompetitive mutual dealing obligations on another firm.<sup>120</sup> The Intel case may have involved such conduct, as the company allegedly demanded from its customers IP necessary for their development of competing products.<sup>121</sup> However, the standard by which an arrangement will be held to be anti-competitive seems to

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114. See Antitrust Guidelines, *supra* note 57.

115. See *id.* §§ 3.4, 4.2.

116. See *id.* § 4.1.1 (citing the FTC 1992 Horizontal Merger Guidelines, §§ 1.5, 3).

117. See *id.* § 3.4.

118. See *id.* § 5.5.

119. See McGowan, *supra* note 90, at 487-88, 496-97.

120. See *id.* at 496-97.

121. See *Intergraph Corp. v. Intel Corp.*, 3 F. Supp. 2d 1255, 1279 (N.D. Ala. 1998).

be a high one. Further, efforts to enforce against such arrangements may chill legitimate IP claims.<sup>122</sup>

#### IV. CONCLUSION

Given the current state of the law, it appears that conduct by Intel alleged to be unlawful did not go beyond the legitimate exercise of its IP rights. But some limit is needed where an exercise of those rights can be ruled anticompetitive. If a patent holder is engaging in other anticompetitive conduct, then a party's IP rights will not offer protection from liability. But whether antitrust concerns can ever remove core IP rights solely because their exercise causes excessive harm to competition, and under what circumstances, remains an unsettled question.<sup>123</sup>

While the FTC settled its case against Intel regarding its withholding of technical information, it is possible that the agency may still take further action, if other anticompetitive conduct is found. According to the Wall Street Journal, the FTC may still be investigating whether Intel used its dominance in the chip market to increase its share in secondary markets, whether the company harms competition in its maintenance of proprietary industry standards, and whether it "punishes PC makers that don't use Intel chips."<sup>124</sup>

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122. See McGowan, *supra* note 90, at 497.

123. See *id.* at 491.

124. See Wired News Report, *Intel Still in the Hot Seat*, WIRED NEWS (Mar. 10, 1999) (<http://www.wired.com/news/news/business/story/18372.html>).



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