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Intergraph Corporation v. Intel Corporation

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INTERGRAPH CORPORATION V. INTEL CORPORATION

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I. BACKGROUND

The parties involved in this case are Intel Corporation ("Intel") and Intergraph Corporation ("Intergraph").[1] Intel, a manufacturer of semiconductors, appealed the grant of a preliminary injunction granted to Intergraph by the United States District Court for the Northern District of Alabama. Intergraph is an original equipment manufacturer, or OEM, which develops, makes and sells computer workstations. From 1987 to 1993 Intergraph's workstations used a microprocessor based on "Clipper" technology. In 1993 Intergraph discontinued use of the Clipper microprocessor and switched to Intel's microprocessor. By 1994 Intel designated Intergraph as a "strategic customer" and provided Intergraph with proprietary information and early access to samples of new microprocessors under non-disclosure agreements. Intergraph retained ownership of patents relating to the Clipper technology.

In 1996 Intergraph asserted claims of infringement of the Clipper patent against several Intel OEM customers. These customers sought indemnification from Intel, and negotiations ensued between Intel and Intergraph in this matter. Although Intel sought a license to the

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[1] Intergraph Corp. v. Intel Corp., 195 F.3d 1346 (Fed. Cir. 1999).

Clipper patent, Intergraph rejected the proposed terms as inadequate. As negotiations failed between Intel and Intergraph, Intel discontinued providing technical assistance and other special benefits to Intergraph.

Tensions between the two parties escalated and in 1997 Intergraph filed suit against Intel claiming: Infringement of the Clipper patents, fraud, misappropriation of trade secrets, negligence, wantonness and willfulness, breach of contract, intentional interference with business relations, breach of express and implied warranties, and violation of the Alabama Trade Secrets Act. Thereafter, Intergraph amended its complaint to charge Intel with violations of antitrust laws.

After a hearing for a preliminary injunction, the district court held that Intergraph was likely to prevail on its claims that Intel was a monopolist and had violated sections 1 and 2 of the Sherman Act. As a result, the district court issued a preliminary injunction against Intel which included the following provisions: (1) "Intel shall supply Intergraph with all Intel product information, including . . . technical, design, development, defect, specification, support, supply, future product, . . . ;"[2] (2) "Intel shall supply Intergraph with an allocation, and set aside a supply of microprocessors, semiconductors, chips, and buses ("Chips") on an advance basis for product development . . . ;"[3] (3) "Intel shall supply Intergraph with an allocation, and set aside a supply, of Chips which have been manufactured by or on behalf of Intel for distribution ("Production Chips"), as well as all future chips proposed by, or available from Intel . . . ;"[4] and (4) "Intel shall supply Intergraph with Production Chips not yet available from Intel's authorized distributors . . . . "[5] The district court also found that Intel had a contractual agreement to provide the benefits, including Intel's "continued [product] support," contained in the injunction.[6] Intel appealed this decision to the Federal Circuit Court of Appeals.

II. HOLDING, RATIONALE AND DISCUSSION

On appeal, the Federal Circuit held that the antitrust rulings of the district court were incorrect in law or were devoid of sufficient factual support to present a substantial likelihood of establishing an

2. Intergraph Corp. v. Intel Corp., 3 F. Supp. 2d 1255, 1291 (N.D. Ala. 1998).
3. *Id.* at 1292.
4. *Id.*
5. *Id.*
6. *See id.* at 1282.

antitrust law violation with respect to the issues presented.[7] Specifically, Intergraph did not show a substantial likelihood of success on the merits that Intel violated the antitrust laws in its actions with respect to Intergraph, or that Intel agreed by contract to provide the benefits contained in the injunction.[8] In its own words, the Federal Circuit held that "Intel's conduct with respect to Intergraph [did] not constitute the offense of monopolization or the threat thereof in any market relevant to competition with Intergraph."[9] In so holding, the Federal Circuit rejected the district court's findings that Intel competed against Intergraph in two key markets: (1) the market for high end microprocessors, and (2) the submarket of Intel microprocessors.[10]

The Federal Circuit also rejected Intergraph's argument "that it compete[d] in the microprocessor market by virtue of its Clipper patents."[11] According to the court:

> [T]he patent grant is a legal right to exclude, not a commercial product in a competitive market. Intergraph abandoned the production of Clipper microprocessors in 1993, and state[d] no intention to return to it. Firms do not compete in the same market unless, because of the reasonable interchangeability of their products, they have the actual or potential ability to take significant business away from each other.[12]

Relying on this key holding, the Federal Circuit then discussed, *inter alia*, the following theories relied on by the district court in finding a probable violation of the Sherman Act: (1) the "Essential Facility" doctrine; (2) refusal to deal; (3) leveraging; (4) coercive reciprocity and tying; (5) the use of intellectual property to restrain trade; and (6) breach of contract.[13]

A. The "Essential Facility" Doctrine

First, the Federal Circuit held that the district court erred in

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7. *See* Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1352 (Fed. Cir. 1999).

8. *See id.*

9. *Id.* at 1356.

10. *See id.* at 1355.

11. *Id.*

12. *See Intergraph*, 195 F.3d at 1355 (citing U.S. Anchor Mfg., Inc. v. Rule Indus., Inc., 7 F.3d 986, 995 (11th Cir. 1993)).

13. *See id.* at 1367. The Federal Circuit also rejected the district court's finding that Intel was contractually obligated to provide Intergraph with the benefits contained in the injunction, because it found no such contractual promise. *See id.* at 1367.

holding that Intel's actions in withdrawing advance design and technical information violated the Sherman Act under the "essential facility" theory.[14] The essential facility doctrine imposes liability when one firm denies a second firm reasonable access to a product or service that the second firm must obtain in order to effectively compete with the first.[15] In *MCI Communications Corp. v. American Telephone & Telegraph Co.*, the court enumerated the elements of liability under the "essential facilities" theory as "(1) control of the essential facility by a monopolist; (2) a competitor's inability practically or reasonably to duplicate the essential facility; (3) the denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility."[16] Furthermore, "the courts have required anticompetitive action by a monopolist that is intended to 'eliminate competition in the downstream market.'"[17]

The district court found that "the [a]dvance [c]hips [s]amples and advance design and technical information are essential products and information necessary for Intergraph to compete in its markets."[18] According to the district court, Intel's actions in withholding these benefits violated the Sherman Act because "[t]he antitrust laws impose on firms controlling an essential facility the obligation to make the facility available on non-discriminatory terms."[19] Contrary to this finding, the Federal Circuit found that "[a] non-competitor's asserted need for a manufacturer's business information does not convert the withholding of that information into an antitrust violation."[20] The Federal Circuit further noted that "precedent is quite clear that the essential facility theory does not depart from the need for a competitive relationship in order to incur Sherman Act liability and remedy."[21] Specifically, "there must be a market in which plaintiff and defendant compete, such that a monopolist extends its monopoly to the downstream market by refusing access to the facility it controls."[22] As no such competitive relationship is present here, the

14. *See id.* at 1356-57.

15. *See id.* at 1356 (citing Alaska Airlines, Inc. v. United Airlines, Inc., 948 F.2d 536, 542 (9th Cir. 1991)).

16. *See id.* at 1357 (citing MCI Communications Corp. v. AT&T Corp.., 708 F.2d 1081, 1132-33 (7th Cir. 1983)).

17. *See id.* at 1357 (Fed. Cir. 1999) (quoting *Alaska Airlines*, 948 F.2d at 544-45).

18. Intergraph Corp. v. Intel Corp., 3 F. Supp. 2d at 1270.

19. *Id.* at 1277.

20. *Intergraph*, 195 F.3d at 1357.

21. *Id.* at 1356. *See also* Caribbean Broad. Sys., Ltd. v. Cable & Wireless PLC, 148 F.3d 1080, 1088 (D.C. Cir. 1998).

22. *Intergraph*, 195 F.3d at 1357.

essential facility theory did not support the district court's finding of a Sherman Act violation.[23]

B. Refusal to Deal

Second, the district court erroneously found Intergraph likely to prevail on a claim of Intel's violation of antitrust laws based on a theory of refusal to deal.[24] One of the oldest principles of antitrust law is the right to deal, or not to deal, with whomever one pleases. The U.S. Supreme Court has held, "[i]n the absence of any purpose to create or maintain a monopoly, the [Sherman Act] does not restrict the long recognized right of trader or a manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal."[25] However, a "refusal to deal" may raise antitrust concerns when the purpose is to create, maintain, or enlarge a monopoly.[26] Moreover,

> [A] monopolist's unilateral refusal to deal with its competitor (as long as the refusal *harms the competitive process*) may constitute *prima facie* evidence of exclusionary conduct in the context of a section 2 claim. A monopolist may nevertheless rebut such evidence by establishing a valid business justification for its conduct.[27]

In this case, "[a]lthough the district court found that there was a lack of business justification for Intel's actions, there was no showing of harm to competition with Intel; thus the need did not arise to establish the defense of business justification."[28] Furthermore, a manufacturer is "'under no duty to help [plaintiff] or other peripheral equipment manufacturers survive or expand.'"[29] The Federal Circuit further noted the following:

> Although [this court] observed a few rulings wherein a court has, for example, barred the termination of a distributor during litigation, no case has held that the divulgation of proprietary information and the provision of special or privileged treatment to

23. *See id.* at 1358.

24. *See id.* at 1359.

25. *Id.* at 1358 (citing United States v. Colgate & Co., 250 U.S. 300, 307 (1919)).

26. *See id.* at 1358.

27. Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1183 (1st Cir. 1994) (emphasis added) (citing Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 483 n.32 (1992)).

28. *Intergraph*, 195 F.3d at 1359.

29. *Id.* (quoting California Computer Prod., Inc. v. IBM Corp., 613 F.2d 727, 744 (9th Cir. 1979)).

> a legal adversary can be compelled on a "refusal to deal" antitrust premise.[30]

Likewise, Intel was under no such duty to provide Intergraph with "strategic customer" benefits; absent a showing of harm to competition, Intel's decision to discontinue its prior dealings with Intergraph raised no antitrust concerns.[31]

C. Leveraging

Third, the district court erred in holding that Intel's expansion into the computer workstation and graphic subsystems markets (by virtue of Intel's agreement to purchase Chips & Technology Company, an experienced producer of graphics chips and chip sets) constituted a sufficient foundation, by itself, for a finding of illegal leveraging.[32] In deciding the issue, the court stressed the following:

> Intergraph made no proffer to show that Intel possessed market power in either the graphics subsystems market or the workstation market.... An integrated business does not offend the Sherman Act by drawing on its competitive advantages of efficiency, experience, or reduced transaction costs, in entering new fields. These advantages are not uses of monopoly power.[33]

The district court relied on *Berkey Photo, Inc. v. Eastman Kodak Co.* for the proposition that "the Sherman Act is violated if monopoly power in one market provides a 'competitive advantage' in another market, whether or not there is an intent to create a monopoly in the second market."[34] However, the district court failed to consider that "there was no economic evidence or proffer concerning Intel's participation in the downstream market."[35] To establish illegal leveraging of monopoly power the challenged conduct must "threaten[ ] the [second] market with the higher prices or reduced output or quality associated with the kind of monopoly that is ordinarily accompanied by a large market share."[36]

The Federal Circuit observed that "antitrust liability based on

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30. *Id.* at 1358.

31. *See id.* at 1359.

32. *See id.* at 1360.

33. *Id. See also* AD/SAT, A Division of Skylight, Inc. v. Associated Press, 181 F.3d 216, 230 (2d Cir. 1999).

34. *Intergraph*, 195 F.3d at 1359 (citing Berkey Photo, Inc. v. Eastman Kodak Co., 603 F.2d 263, 275 (2d Cir 1979)).

35. *Id.* at 1359.

36. *Id.* (citing 3 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW § 652C, at 90 (rev. ed. 1996)).

leveraging of monopoly power is a concept of imprecise definition, for the courts have varied in their requirements of the nature of the advantage obtained in the assertedly leveraged market."[37] Furthermore, the court noted that the Second Circuit has rejected the type of broad reading of *Berkey Photo* that the district court has adopted.[38] Specifically, the Second Circuit held that a "Sherman Act violation based on leveraging requires a showing of 'tangible harm to competition' in the second market."[39]

The Federal Circuit further noted that other circuits have explicitly rejected *Berkey Photo*.[40] For example, the Third Circuit held that "a section 2 leverage claim requires the use of monopoly power in the second market, and that a mere attempt to gain a competitive advantage is insufficient as a matter of law."[41] The Ninth Circuit stated that "the elements of established actions for 'monopolization' and 'attempted monopolization' are vital to differentiate between efficient and natural monopolies on the one hand, and unlawful monopolies on the other."[42] "*Berkey Photo*'s monopoly leveraging doctrine fails to differentiate properly among monopolies."[43] The Eleventh Circuit addressed this issue as follows: "*Berkey Photo* [does not] extend to a situation in which a monopolist projects its power into a market it not only does not seek to monopolize, but in which it does not even seek to compete."[44] Furthermore, the Eleventh Circuit stated that the use of a position in one market to gain an advantage in another market is not an illegal market restraint unless "a significant fraction of buyers or sellers are frozen out of a market."[45] Thus, the district court's decision was in direct conflict with Eleventh Circuit precedent.[46] In addition, the Federal Circuit concluded that the district court apparently based its decision on a per se theory of *future* Sherman Act violation; however,

37. *Id.* at 1359.

38. *See id.*

39. *Id.* at 1359 (citing Twin Lab., Inc. v. Weider Health & Fitness, 900 F.2d 566 (2d Cir. 1990)).

40. *See Intergraph,* 195 F.3d at 1359-60.

41. *Id.* at 1360 (citing Fineman v. Armstrong World Indus., Inc., 980 F.2d 171 (3d Cir. 1992)).

42. *Id.* (citing *Alaska Airlines*, 948 F.2d at 548-49).

43. *Id.* (citing *Alaska Airlines*, 948 F.2d at 548-49).

44. *Id.* (citing Aquatherm Indus., Inc. v. Florida Power & Light Co. 145 F.3d 1258, 1262 (11th Cir. 1998)).

45. *Id.* (quoting Amey, Inc. v. Gulf Abstract & Title, Inc. 758 F.2d 1486, 1503-04 (11th Cir. 1985)).

46. *See Intergraph,* 195 F.3d at 1360.

the Federal Circuit rejected this unwarranted "enlargement of antitrust theory and policy to prohibit downstream integration by a monopolist into new markets."[47]

D. Coercive Reciprocity and Tying

Fourth, the district court erred in finding that Intel engaged in unlawful "coercive reciprocity," defined by the district court as "the practice of using economic leverage in one market coercively to secure competitive advantage in another," by its proposals to settle the patent disputes.[48] "To violate the Sherman Act the entity that coerces reciprocal dealing must be a monopolist in one product and thus be positioned to require dealing in the coerced product, which but for the monopolist's coercion could be acquired elsewhere."[49] For example, in *Betaseed, Inc. v. U&I Inc.*, Betaseed excluded competition in the market for beet seeds because it was "the only processor of sugar beets geographically accessible to the U & I company," and it would only process beets grown from Betaseed's seeds.[50]

Unlike *Betaseed*, Intel's licensing proposals furthered no illegal relationship.[51] Intel did not demand that Intergraph buy its products, and the record described no market in which Intel's licensing proposals were shown to have distorted competition.[52] The Federal Circuit noted that the district court failed to explain its holding that Intel's proposal to trade a license for the Clipper patent in exchange for continuation of the "strategic customer" program violated both sections 1 and 2 of the Sherman Act.[53] The district court failed to set forth the following necessary elements under sections 1 and 2 of the Sherman Act: (1) "specific intent to monopolize;" (2) conduct that threatens actual monopolization; and (3) "harm to competition."[54]

Moreover, "[c]ommercial negotiations to trade patent property rights for other consideration in order to settle a patent dispute is neither tying nor coercive reciprocity in violation of the Sherman

47. *Id.* at 1360.

48. *Id.* at 1360-61.

49. *Id.* at 1361.

50. *Id.* (citing Betaseed, Inc. v. U&I Inc., 681 F.2d 1203, 1216 (9th Cir. 1982)). *See* Spartan Grain & Mill Co. v. Ayers, 581 F.2d 419 (5th Cir. 1978).

51. *Id.* at 1361.

52. *See Intergraph*, 195 F.3d at 1361.

53. *See id.* The Sherman Act does not require parties to bargain as equals.

54. *Id.*

Act."[55] Therefore, the Federal Circuit found that the district court erred in ruling that Intel's activities violated sections 1 and 2 of the Sherman Act under the theories of coercive reciprocity and tying.[56]

E. Use of Intellectual Property to Restrain Trade

The Federal Circuit further held that the district court erred in finding that Intel was using its intellectual property to restrain trade; specifically, the district court incorrectly rejected Intel's argument that its proprietary information and pre-release products were subject to copyright and patent protection.[57] The antitrust laws do not negate the patentee's right to exclude others from patent property.[58] To wit, "[a] patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the [monopoly] power he lawfully acquired by refusing to license the patent to others."[59]

The Federal Circuit noted that, in supporting its finding that Intel was using its intellectual property to restrain trade, the district court relied on the proposition that "[u]nlawful exclusionary conduct can include a monopolist's unilateral refusal to license a [patent or] copyright or to sell a patented or copyrighted work."[60] However, the district court apparently misconstrued the teachings of the Ninth Circuit. In effect, the Ninth Circuit developed the following rebuttable presumption: "'while exclusionary conduct can include a monopolist's unilateral refusal to license a [patent or] copyright,' or to sell its patented or copyrighted work, a monopolist's 'desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.'"[61] Furthermore, the "Ninth Circuit . . . found 'no reported case in which a court imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright.'"[62] Similarly, the Federal Circuit found

55. *Id.* at 1362.

56. *Id.* at 1361.

57. *See id.* at 1362.

58. *See Intergraph*, 195 F.3d at 1362. *See also* Cygnus Therapeutics Sys. v. ALZA Corp., 92 F.3d 1160 (Fed. Cir. 1996).

59. *Id.* at 1362-63 (citing Miller Insituform, Inc. v. Insituform of N. Am., Inc., 830 F.2d 606, 609 (6th Cir. 1987)).

60. *Id.* at 1362 (citing Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1218 (9th Cir. 1997)).

61. *Image Technical Services*, 125 F.3d at 1218 (quoting *Data Gen. Corp.*, 36 F.3d at 1187).

62. *Id.* at 1216.

no such antitrust liability in this case.[63]

The Federal Circuit then noted that what was at issue before the district court was not licenses to Intel's patents and copyrights; rather, Intergraph sought a preferred position as to the products that embody this intellectual property before they are commercially available, as well as access to trade secrets.[64] Even though a key intellectual property right at issue was trade secrets and not copyrights or patents, the Federal Circuit had no difficulty holding that "the owner of proprietary information has no obligation to provide it, whether to a competitor, customer, or supplier."[65] Thus, "a customer who is dependent on a manufacturer's supply of a component can not [sic] on that ground force the producer to provide it; there must also be an anticompetitive aspect invoking the Sherman Act."[66] In sum, the Federal Circuit found no antitrust liability under a use of intellectual property to restrain trade theory.

F. Breach of Contract

Finally, the Federal Circuit found that the district court also based its grant of injunction on a contract theory.[67] Here, the district court cited a letter from Intel to Intergraph stating that Intergraph would be treated as "a strategic customer in present and future programs" that are "currently being managed under Non-Disclosure Agreements."[68] The Federal Circit rejected this alternative basis for the injunction, focusing on the total lack of detail in the supposed contract.[69] Specifically, the court set forth the following:

> [T]he letter's broad usages, its lack of specificity, and its silence on virtually all of the elements of a contract, negate its interpretation as replacing the non-disclosure agreements with specific obligations, and separate it from the sort of document subject to a "gap-filler" expedient. There [was] no gap-filling exercise that can reasonably include all of the terms of the district court's injunction

63. *See Intergraph*, 195 F.3d at 1362 (quoting *Image Technical Services*, 125 F.3d at 1216). *See* CSU, L.L.C. v. Xerox Corp., 203 F.3d 1322 (Fed. Cir. 2000) (holding that Xerox was under no obligation to sell or license its patented parts or its copyrighted works and did not violate the antitrust laws by refusing to do so).

64. *See Intergraph*, 195 F.3d at 1363.

65. *Id.*

66. *Id.*

67. *See id.* at 1366.

68. *Id.* (citing *Intergraph*, 3 F. Supp. 2d at 1267).

69. *See id.*

order.[70]

III. CONCLUSION

In sum, the Federal Circuit held that the antitrust rulings of the district court were incorrect in law or were devoid of sufficient factual support to present a substantial likelihood of establishing an antitrust law violation with respect to the issues presented.[71] This decision reinforces the well-established proposition, ignored by the district court, that the mere presence of monopoly power is not actionable; a successful antitrust claim requires harm to competition.

Likewise, this decision is support for the proposition, repeatedly championed by the Federal Circuit but open to some question in the Ninth Circuit, that the exercise of rights inherent in intellectual property will rarely, if ever, lead to antitrust liability.

70. *Intergraph*, 195 F.3d at 1366 (citing ALA. CODE §§ 7-2-305 to -310 (1965)).

71. *See Intergraph*, 195 F.3d at 1352.