Considerable attention has focused on US District Court Judge Jackson's preliminary fact findings about the Microsoft half of the Wintel monopoly. But the November 5, 1999, decision of the US Court of Appeals for the Federal Circuit, exonerating allegedly monopolistic conduct of the Intel half of Wintel-dom, has gone almost unremarked.

This month's Micro Law updates the July-August 1998 Micro Law column (pp. 4-6, 78-81) on Wintel restraints on technology advances and refusals to deal based on intellectual property (IP) rights. It is reasonably likely that this controversy will end up in the Supreme Court in a year or two, because of the conflicting decisions in different federal courts of appeals discussed here.

The Intel Case

The earlier Micro Law described the Federal Trade Commission's case charging Intel with abuse of its monopoly power over x86 microprocessor chips or a high-performance subset of them. The FTC complained that Intel blackjacked DEC, Compaq, and Intergraph in much the same way. Each alleged victim had patents that it claimed Intel customers (or, in DEC's case, Intel itself) were infringing. Intel demanded that DEC, Compaq, and Intergraph stop enforcing the patents against Intel's customers or, which is the same thing, grant royalty-free licenses to Intel, which would then pass them on to its customers. Otherwise, Intel would refuse further access to technical information (such as new interrupts and bug fixes) needed to develop new computer systems ("boxes") incorporating new Intel chips as they came on the market.

(That kind of technical information is essential to any systems manufacturer whose business model calls for it to bring new products to the market before its competitors have sewed up the market. For that reason, Intel has generally made such information broadly available, subject to nondisclosure agreements. However, the Federal Circuit's opinion referred to Intel's providing such information as the conferral of "special benefits.")

DEC and Compaq knuckled under, but Intergraph fought back. It sued Intel for patent infringement (a tactical error, as explained later) and complained to the FTC (a safer move). The FTC sued Intel in 1998, and early in 1999 the parties agreed to a consent decree. Under the consent order, Intel promised not to withhold, for
I would have thought it routine and in no way “special” to provide it to large-volume purchasers, such as computer system OEMs.

reasons relating to any IP dispute, any technical information customarily furnished to microprocessor chip customers. This promise did not apply, however, if the chip customer tried to get an injunction against Intel’s alleged patent infringement, that is, a court order shutting down Intel’s infringing manufacturing operations. (As a practical matter, that proviso puts the patent-owning chip customer in a very poor bargaining position against Intel in trying to negotiate a royalty or other license terms. The threat of an injunction is the major bargaining chip that a patent owner has against a patent infringer.)

After the FTC-Intel settlement, Intergraph’s patent infringement case against Intel proceeded in Alabama, Intergraph’s home state, where it filed the suit. Before the FTC-Intel settlement, however, the Alabama court entered a preliminary injunction against Intel. The court’s order commanded Intel not to discriminate against Intergraph by withholding vital technical information during the pendency of the litigation. Intel appealed that ruling to the Federal Circuit, which has exclusive jurisdiction over appeals in cases that involve patent infringement or patent law. Now, a year and a half later, the Federal Circuit has reversed the preliminary injunction ruling.

The 1998 Micro Law column first analyzed the legal issues on the basis of a postulated spectrum of IP-related refusals to deal. At one end of the spectrum was a so-called plain vanilla case. The IP owner simply refuses to deal, on a blank slate of no prior dealings. This kind of refusal to deal seems to be “per se lawful.” Changing the facts made the outcome less certain. A history of past dealings suddenly terminated, as occurred in a Supreme Court case involving two ski lift operators at Aspen, might change the outcome. Also, the federal appeals court in Boston has said that proof of an attempt to subvert the development of competing software could make illegitimate a refusal to provide technical information on the hardware that the software serviced.

Under this approach, a plain vanilla IP-related refusal to deal was absolutely privileged. But once the facts were clouded by other factors, the IP owner might have to offer a justification for its refusal to deal. In the Intergraph-Intel case, the Alabama judge said that Intel’s refusal to deal was pretextual, and that Intel’s illegitimate motive was to force Intergraph to surrender its own IP rights to Intel. The district court considered that a confiscation of competitive patents by a chip monopolist.

The 1998 column then explored another possible approach. The usually pro-patent Federal Circuit might prefer to put the shoe on the other foot and say that Intergraph has the burden of showing at the outset why Intel lacks the right to refuse to deal. Further, it might say Intergraph must preliminarily show that Intel’s hard-ball tactics are part of a deliberate scheme to monopolize some relevant market (such as the graphics board market). The court might also say that Intergraph must show that the scheme is likely to succeed in giving Intel such a monopoly or at least “come dangerously close.” Otherwise, Intel never has to justify anything. Further, the Federal Circuit might say that refusing to deal with somebody who sues you (as here) is always legitimate.

Legal theories

The court then turned to the possible legal theories that the district court had invoked. First, the claim had been made that Intel controlled a competitively essential facility and had denied Intergraph access to it. The Federal Circuit held that the essential facility theory can apply only if one competitor denies another competitor access to an essential facility. For example, in the Aspen ski lift case mentioned earlier, both companies were ski lift
competitors. For reasons already given, this difference in the facts quashed Intergraph's antitrust case.

The court then addressed Intergraph's argument that Intel's refusal to deal with it was illegitimate because it was coercive ("coercive reciprocity"). That is, Intel was trying to force Intergraph to give up its patent rights to get needed technical information. First of all, the court said, Intel did not refuse to sell x86 chips to Intergraph; Intel only refused to give special benefits and preferred treatment to Intergraph. No precedent requires special benefits to be given to a legal adversary, such as someone suing for patent infringement. (This comment misstates the factual situation if there is nothing "special" in the chip industry about identifying interrupts and bug fixes.) Anyway, the court added, the conduct may have harmed Intergraph, but it did not harm the general competitive process in any market in which the parties competed with one another. The antitrust laws do not address mere injury to competitors as contrasted with injury to competition.

The district court had ruled that Intel tried to "leverage" its x86 monopoly as a means of acquiring monopoly in the graphics subsystem and workstation markets, by trying to exclude Intergraph from those markets. But no actual harm to competition in those markets had been shown—that is, no raised prices or decreased output. Absent proof of such actual anticonpetitive effects, the Federal Circuit held, there could be no antitrust violation. Specifically, it is not enough for a violation to show that the defendant gained a competitive advantage. The proof must go farther and show likelihood of actual acquisition of further monopoly power. (The first monopoly must be "dangerously likely to beget a second monopoly").

The Federal Circuit gave short shrift to Intergraph's and the district court's other legal theories, singly and taken in combination. As to the latter, the Federal Circuit stated that the proper view of "putting everything all together" is this:

We reject the notion that if there is a fraction of validity to each of the basic claims and the sum of the fractions is one or more, the plaintiffs have proved a violation of section 1 or section 2 of the Sherman Act.

In a nutshell, the legal rule of the Intel case is this: IP owners have a substantially absolute right to refuse to deal if they act individually rather than conspiratorially. However, there may be an exception if their use of refusal to deal makes them likely to succeed in monopolizing a distinct second market in which the victim operates.

**Similar decisions**

It is interesting to compare what happened in the Intel case with two similar recent decisions, both involving suits by independent service and repair organizations (ISOs) against major photocopy equipment manufacturers, Eastman Kodak and Xerox. At the time of the preliminary injunction decision in the Intel case, the Kodak case had already been decided in favor of the ISOs. The Xerox case has just been argued (Dec. 8, 1999) before the Federal Circuit, and it awaits decision (probably a year from now). It is likely that the panel of Federal Circuit judges in the Xerox case, although different from the panel in the Intel case, will reach the same result.

Both the Kodak and Xerox cases involved refusals by manufacturers to provide diagnostic software and repair hardware parts to ISOs, because the manufacturers wanted to keep the service and repair business for themselves. The software was protected by copyright. Most of the hardware was unpatented, but a small fraction of the parts (for example, a replacement photocopy drum and a special rubber belt) were patented.

Kodak made no issue of the infringement other than to assert its IP rights somewhat belatedly as a justification for the refusal to deal. The case was appealed under the regular federal appeal statute to the Federal Court of Appeals in San Francisco (the so-called regional circuit). As explained in the 1998 Micro Law, the court of appeals said that Kodak's IP-rights justification was "pretextual" in intent. This was apparent because only 0.5% or less of all the items that Kodak refused to sell to ISOs were patented. Kodak was using its monopoly control over the repair parts to beget a further monopoly that it wanted to gain in the service business, rather than intending to protect the integrity of its IP. The appeals court found that bad-intentioned leverage to be an antitrust violation, and the Supreme Court denied further review.

Xerox in defending its later ISO case followed a different tactic, whose effect Intergraph also triggered in its case against Intel. Xerox filed a counterclaim for patent infringement. (When Xerox refused to sell parts to ISOs, it found alternative sources for many of the parts. Using and selling unlicensed patented items, as the ISOs did, is patent infringement.)

Under the federal appeal statute, when a defendant files a counterclaim for patent infringement, even if only on one patented part (say, the special rubber belt replacement part for repairing Xerox machines) out of a thousand repair parts involved in a case, the appeal goes to the Federal Circuit. The tail is allowed to wag the dog, for appeal purposes. Intergraph, by suing Intel for patent infringement, of course triggered the same appeal statute. The Federal Circuit judges and those of the San Francisco appeals court have perceptibly different attitudes toward the antitrust laws and patent system. Let's just say that they rank them differently, relatively, in their respective hierarchies of values. That factor may explain the striking conflict in results in the intrinsically similar Kodak and Intel cases. It may also help predict the outcome in the Xerox case.

**Tactics**

Using 20-20 hindsight, one may therefore assess the different tactics of counsel in these cases. Xerox prudently added a patent infringement counterclaim when the ISOs sued it, ensuring an appeal trip to the Federal Circuit. Kodak did not. In both cases, counsel for the plaintiff ISOs had no control over this point, and they therefore did not choose the appeal forum. Similarly, Intergraph (not Intel)
chose the Federal Circuit instead of the Atlanta federal appeals court when it sued Intel for patent infringement. Did it have any choice about doing Intel this favor? Intergraph did not need to sue Intel for patent infringement. It could have sued Intel simply for turning off the spigot on information about microprocessor interrupts, bug fixes, and the like, as Intergraph did anyway along with its patent infringement suit. If Intel had tried to counterclaim for a declaration that it was not committing patent infringement (or contributory patent infringement via its customers), Intergraph could probably have finessed that suit. It could have written Intel a very carefully worded legal letter, promising nonassertion of patent rights against Intel (granting a “personal, nontransferable covenant not to sue”). Federal Circuit precedent indicates that doing this will prevent a “case of actual controversy” over patent infringement from arising between the parties. That in turn would prevent Intel from maintaining any legitimate patent-related counterclaim in the case.

(If Intel persisted by filing an illegitimate such counterclaim, Intergraph could have asked the district court to dismiss the counterclaim without prejudice to its being refiled as a separate action, which Intergraph could then move to dismiss or allow to proceed—whichever seemed best. The separate case would be appealable to the Federal Circuit, but that would not affect the main case. The ISOs in the Xerox case might have tried a similar separation tactic, but in their fact pattern it would have been much less likely to work, since they were on the receiving end of Xerox’s patent suit.)

If Intergraph somehow felt that it had to sue somebody for the ongoing patent infringement, it could have filed a later, separate case in which it sued one or more customers that were using and selling the allegedly infringing Intel chips or systems of which the chips were components. That case would go to the Federal Circuit, but so what? The antitrust case against Intel would follow an appeal route similar to that of the Kodak case, to the regional circuit (here, Atlanta).

(You can get bifurcated appeals in mixed patent-nonpatent controversies when there are separate actions. In a recent example, the plaintiff owned a business-method computer-program patent for calculating how much money parents should invest each month to build a nest egg for children’s college tuitions. The plaintiff sued the State of Florida for infringing the patent by operating a prepaid college tuition program. It filed a second suit against Florida for making allegedly false statements about the system. Both cases were filed in the same New Jersey trial court. In both cases the main defense was sovereign immunity. The patent case went to the Federal Circuit in Washington, D.C. The other case went to the regional federal appeals court in Philadelphia. Then both appeals of those decisions went to the Supreme Court, which found sovereign immunity in both cases.)

**Merits**

This is a lot to say about tactics and not much to say about the merits. However, such tactical considerations may translate into very substantial dollars and cents in terms of outcome. In Part 2 of this update, Micro Law will further compare these cases in terms of their merits, and propose an analytic approach based on neither the “intent” and “pretext” standards of the Kodak case nor the “absolute rights” of IP owners of the Intel case.