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Intel Shareholders Blame Execs For Antitrust Woes

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Thursday, Feb 14, 2008 --- Shareholders of Intel Corp. are suing top executives of the microprocessor giant for allegedly engaging in monopolistic behavior that put the company in the crosshairs of angry consumers and competition watchdogs across the globe.

The suit, filed derivatively on behalf of the company, accuses Intel's board of directors and senior officers of breaching their fiduciary duties by “threatening, coercing and bribing” customers in order to drive rivals out of the microprocessor market, exposing the computer chip maker to litigation and regulatory investigations.

“As a direct result of defendants' actions, Intel has systematically and intentionally violated federal and international laws and regulations,” states the complaint, filed Tuesday in the U.S. District Court for the District of Delaware.

“Although the company's management and its board of directors have been on notice of the violations of law for over 15 years, these defendants authorized and/or approved such conduct, or recklessly allowed it to continue unabated to the detriment of the company and its shareholders,” the complaint says.

The actions of the named executives, among them board chairman Craig Barrett and CEO Paul Otellini, put the company under the spotlight of competition regulators in Europe, Japan, South Korea and, most recently, New York State's attorney general, the shareholders said. Intel also faces civil lawsuits in both the U.S. and Japan as a result of the defendants' conduct, they added.

“These charges and investigations have already cost Intel millions of dollars in damages, and will likely result in additional legal fees and expenses, disgorgement of profits illegally retained by the company, additional costs associated with responding to lawsuits and investigations, and irreparable harm to the company's reputation,” the complaint states.

The plaintiffs told the court the executives sought to maintain Intel's grip on the microprocessor market by systematically excluding its biggest competitor Advanced Micro Devices. Intel controls more than 90% of the market share, while AMD has 9%, according to the complaint.

Intel allegedly paid direct purchasers for agreeing to sell only Intel's chips, offered rebates, discounts and subsidies to loyal purchasers and threatened retaliation against purchasers who conducted business with AMD and other rivals, according to the plaintiffs. When these tactics failed, Intel resorted to simple bribery, they said.

Intel faces a trial in Delaware next year in an antitrust suit brought by customers and AMD in 2005. Last month an Idaho law firm filed another suit on behalf of consumers.

International regulators have also come down hard on Intel. In March 2005, Japan's Fair Trade Commission issued recommendations after a probe of the company's business practices. The regulator required Intel to “cease and desist” its breach of the country's anti-monopoly act.

In July 2007, the European Commission issued a statement of objections against Intel and, in September, South Korea's regulators accused the company of breaching antitrust laws.

On Jan 11, New York Attorney General Andrew Cuomo joined the chorus, serving Intel and AMD with subpoenas for information “to show that Intel stifled competition and hurt consumers by illegally coercing computer makers to use its chips.

“The Intel board has proven itself to be unwilling to bring remedial action against wrongdoers that have caused the company substantial harm,” the shareholders said.

The complaint claims the executives breached their fiduciary duties and is seeking a court order forcing them to return their salaries, fees, bonuses, stock awards and other compensation. They also want an injunction against further breaches.

The plaintiffs are represented by Rigrodsky & Long PA and Weiss & Lurie.

Information on representation for Intel was not immediately available.

The case is Martin Smilow v Craig R. Barrett et al., in the U.S. District Court for the District of Delaware.