

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE**

INGEVITY CORPORATION and )  
INGEVITY SOUTH CAROLINA, LLC, )

Plaintiffs, )

v. )

BASF CORPORATION, )

Defendant. )

Civil Action No. 18-1391-RGA-SRF

~~UNDER SEAL~~ Redacted

**REPORT AND RECOMMENDATION**

**I. INTRODUCTION**

Presently before the court in this patent infringement action are the following motions:

(1) the motion to dismiss defendant BASF Corporation's ("BASF") counterclaims, filed by plaintiffs Ingevity Corporation and Ingevity South Carolina, LLC (together, "Ingevity") (D.I. 71); and (2) BASF's motion for leave to amend its first amended answer, affirmative defenses, and counterclaims (D.I. 99).<sup>1</sup> For the following reasons, I recommend that the court deny Ingevity's motion to dismiss BASF's counterclaims, and deny BASF's motion for leave to amend its first amended answer, affirmative defenses, and counterclaims.

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<sup>1</sup> The briefing and associated filings for the pending motions to dismiss and amend are located at D.I. 72, D.I. 73, D.I. 81, D.I. 83, and D.I. 100, D.I. 101, D.I. 105, D.I. 106, and D.I. 116, respectively.

## II. BACKGROUND<sup>2</sup>

Ingevity Corporation manufactures specialty chemicals and high-performance activated carbon materials for use as adsorbents in fuel vapor canisters for automotive vehicles. (D.I. 65 at ¶¶ 6, 22) Ingevity does not manufacture the fuel vapor canisters themselves. (*Id.* at ¶ 22) Ingevity South Carolina, LLC is a wholly-owned subsidiary of Ingevity Corporation, and is the assignee of United States Patent No. RE38,844 (“the ’844 patent”). (*Id.* at ¶ 7) The ’844 patent lists Roger S. Williams as a named inventor, among others. (’844 patent) The ’844 patent has a priority date of November 21, 2001, and will expire on March 18, 2022. (*Id.*; D.I. 65 at ¶ 34)

The ’844 patent discloses methods and systems for reducing evaporative emissions from diurnal breathing loss emissions (“DBLs”)<sup>3</sup> in vehicles by providing fuel vapor canisters with multiple layers of adsorbents to satisfy the fuel emissions standards established by the Environmental Protection Agency (“EPA”) and the California Air Resources Board (“CARB”). (’844 patent, Abstract; D.I. 65 at ¶¶ 13-14, 21) The emissions standards are referred to as the Tier 3 Motor Vehicle Emission and Fuel Standards program (“Tier 3”) and the Low Emission Vehicle III program (“LEV III”), respectively (collectively, “LEV III/Tier 3 regulations”). (D.I. 65 at ¶ 13) The LEV III/Tier 3 regulations establish a testing methodology to measure DBLs emitted from the fuel vapor canister, and new vehicles implement a form of bleed emissions

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<sup>2</sup> The facts in this section are based upon allegations in BASF’s first amended answer and counterclaims, which the court accepts as true for the purposes of the pending motion to dismiss. *See Umland v. Planco Fin. Servs., Inc.*, 542 F.3d 59, 64 (3d Cir. 2008). In connection with the facts relevant to the court’s analysis of BASF’s motion to amend its answer, affirmative defenses, and counterclaims, the court identifies facts alleged in BASF’s proposed second amended complaint. (D.I. 99, Ex. A)

<sup>3</sup> According to BASF’s first amended answer and counterclaims, “DBLs are evaporated gasoline emissions generated by the daily fluctuations in temperature while a vehicle is parked and not in operation. As the fuel tank and other residual gasoline warms during the day, the gasoline vapors contained within the tank expand and escape into the atmosphere.” (D.I. 65 at ¶ 14)

control device to capture the DBLs using two stages of carbon adsorbents. (*Id.* at ¶¶ 14, 20)

The '844 patent provides that:

[o]n the fuel source-side of an emissions control system canister, high working capacity carbons are preferred in a first canister (adsorb) region. In subsequent canister region(s) on the vent-side, the preferred adsorbent should exhibit a flat or flattened adsorption isotherm on a volumetric basis and relatively lower capacity for high concentration vapors as compared with the fuel source-side adsorbent.

('844 patent, Abstract) In a preferred embodiment, the '844 patent discloses an adsorbent formed in the shape of a carbon-containing honeycomb to achieve volumetric dilution in a fuel vapor canister. ('844 patent, col. 7:26-55, 10:17-19) These "honeycomb scrubbers" are a second-stage adsorbent specially designed for use in multi-stage fuel vapor canisters to satisfy the requisite emissions standards by trapping bleed emissions. (*Id.*, col. 4:31-5:55; D.I. 65 at ¶¶ 17, 20) The '844 patent also discloses other carbon adsorbent products, including pelletized and granular-shaped carbon, which can be used in the fuel vapor canisters. (*Id.*, col. 4:20-25) Each independent claim of the '844 patent requires a subsequent adsorbent volume having an incremental adsorption capacity at 25° C of less than 35 g n-butane/L between vapor concentrations of 5 vol % and 50 vol % n-butane ("low IAC limitations"). (*Id.*, col. 10:36-44, 11:42-58, 12:40-13:11, 13:58-14:19)

On March 31, 2010, Ingevity [REDACTED] the '844 patent to [REDACTED] [REDACTED] (D.I. 65 at ¶ 43) In 2013 and 2015, Ingevity executed similar [REDACTED] with [REDACTED] [REDACTED] respectively. (*Id.* at ¶¶ 46-48) [REDACTED]

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<sup>4</sup> In its first amended answer and counterclaims, BASF defines vehicle "platforms" as distinct from "models":

[REDACTED] (*Id.* at ¶¶ 43-48) Each of the

[REDACTED] (*Id.* at ¶¶ 43, 47-48) The [REDACTED]

[REDACTED] (*Id.* at ¶¶ 41, 45, 47-48)

In 2015, BASF developed a honeycomb scrubber which was subsequently marketed as EvapTrap™ XC. (D.I. 65 at ¶ 23) BASF's honeycomb scrubber competes with Ingevity's product as a less expensive alternative. (*Id.* at ¶¶ 23-26) In 2017, BASF began to negotiate sales terms with prospective customers [REDACTED]

[REDACTED] (*Id.* at ¶¶ 27-28)

On January 1, 2017, Ingevity entered into a [REDACTED]

[REDACTED] (D.I. 65 at ¶¶ 32-34) In [REDACTED]

[REDACTED] (*Id.* at ¶ 35) However,

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A "platform" refers to a shared set of design, engineering and manufacturing elements that may be present in many types of automobiles made by any number of manufacturers. These common elements may include the floorplan, axles, wheelbases, steering mechanisms, and engine components. In contrast, a vehicle "model" is the name given by a certain manufacturer to market a range of similar vehicles. Many automobile manufacturers engage in "platform sharing," where different brands use the same components to make their own "model" of that base design.

(D.I. 65 at ¶ 26 n.9)

[REDACTED]

[REDACTED]

[REDACTED]

(*Id.*) Ingevity is [REDACTED]

[REDACTED] (*Id.* at ¶ 38)

On September 6, 2018, Ingevity filed a complaint against BASF, alleging infringement of the '844 patent.<sup>5</sup> (D.I. 1) On February 14, 2019, BASF filed an amended answer to the complaint, which included antitrust counterclaims and counterclaims alleging violations of Delaware state law against Ingevity. (D.I. 65 at ¶¶ 89-115) Specifically, BASF contends that Ingevity violated the Sherman Act and the Clayton Act by tying the availability of [REDACTED] to the '844 patent to the purchase of Ingevity's unpatented honeycomb scrubbers, and by entering into the allegedly anticompetitive [REDACTED]. (*Id.* at ¶¶ 29-30, 51-52) BASF also asserts a cause of action for tortious interference with prospective business relations. (*Id.* at ¶¶ 107-10) Ingevity moved to dismiss BASF's counterclaims on March 18, 2019. (D.I. 72)

On November 5, 2018, BASF petitioned the Patent Trial and Appeal Board ("PTAB") for *inter partes* review ("IPR") of the '844 patent.<sup>6</sup> (D.I. 106, Ex. 1) According to BASF, the '844

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<sup>5</sup> Ingevity filed a prior complaint against BASF on July 19, 2018, alleging direct and induced infringement of the '844 patent and seeking injunctive relief. (C.A. No. 18-1072-RGA, D.I. 1) Because the instant action was filed on September 6, 2018 naming Ingevity South Carolina, LLC as a plaintiff, Ingevity voluntarily dismissed without prejudice Civil Action No. 18-1072-RGA on October 11, 2018. (D.I. 30)

<sup>6</sup> BASF discusses the IPR proceeding in its proposed second amended complaint (D.I. 99, Ex. A at ¶ 40), and Ingevity attaches the IPR petition to its declaration in support of its motion to dismiss (D.I. 106, Ex. 1). Neither party opposes the court's consideration of the IPR petition on the motion to dismiss. *See Immunex Corp. v. Sanofi*, 2017 WL 5641116, at \*3 (C.D. Cal. June 21, 2017) (finding it appropriate to consider an IPR petition on a Rule 12(b)(6) motion in light of the parties' lack of opposition to the court's review, the document's public availability, and the judicial/quasi-judicial nature of the document). The court may consider the IPR petition without

patent is invalid because new evidence produced by [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(D.I. 99, Ex. A at ¶¶ 10-11, 21)

According to BASF, the evidence establishes that a named inventor of the '844 patent, Roger Williams, was present when [REDACTED] inventors conceived of the prior art canister system, but did not disclose his knowledge of [REDACTED] prior conception. (*Id.* at ¶¶ 12-16) The PTAB declined to institute IPR proceedings on BASF's petition. (D.I. 91, Ex. A at 21)

Ingevity's motion for a preliminary injunction was denied on June 3, 2019.<sup>7</sup> (D.I. 96)

On July 23, 2019, BASF moved for leave to file a second amend answer and counterclaims to add affirmative defenses of inequitable conduct and unclean hands, as well as counterclaims for *Walker Process* fraud and sham litigation in violation of the Sherman Act. (D.I. 99, Ex. A)

Pursuant to the operative scheduling order, the deadline to amend the pleadings expired on April 30, 2019. (D.I. 41 at ¶ 2) Fact discovery in this matter is scheduled to close on December 6, 2019. (*Id.* at ¶ 3(a)) Trial will commence on or after September 14, 2020. (*Id.* at ¶ 18)

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converting the motion to dismiss to a motion for summary judgment because it is a matter of public record. *See Kickflip, Inc. v. Facebook, Inc.*, 999 F. Supp. 2d 677, 682 (D. Del. 2013) (quoting *Buck v. Hampton Twp. Sch. Dist.*, 452 F.3d 256, 260 (3d Cir. 2006)).

<sup>7</sup> The court reasoned that the use of multiple adsorbents having different adsorption characteristics is key to the claimed invention. (D.I. 95 at 3) Each claim of the '844 patent requires the use of materials with a certain "incremental adsorption capacity." (*Id.*) Because the intrinsic record provides no direction on which measurement methods should apply to "incremental adsorption capacity," the court found that BASF raised a substantial question of invalidity based on indefiniteness. (*Id.* at 8-9) Therefore, the court concluded that Ingevity failed to show a reasonable likelihood of success on the merits at this stage of the proceedings. (*Id.*)

### III. MOTION TO DISMISS

#### A. Legal Standard

Rule 12(b)(6) permits a party to move to dismiss a complaint for failure to state a claim upon which relief can be granted. Fed. R. Civ. P. 12(b)(6). When considering a Rule 12(b)(6) motion to dismiss, the court must accept as true all factual allegations in the complaint and view them in the light most favorable to the plaintiff. *See Umland v. Planco Fin. Servs., Inc.*, 542 F.3d 59, 64 (3d Cir. 2008). “Courts use the same standard in ruling on a motion to dismiss a counterclaim under Rule 12(b)(6) as they do in assessing a claim in a complaint.” *Goddard Sys., Inc. v. Gondal*, C.A. No. 17-1003-CJB, 2018 WL 1513018, at \*4 (D. Del. Mar. 27, 2018).

To state a claim upon which relief can be granted pursuant to Rule 12(b)(6), a complaint must contain a “short and plain statement of the claim showing that the pleader is entitled to relief.” Fed. R. Civ. P. 8(a)(2). Although detailed factual allegations are not required, the complaint must set forth sufficient factual matter, accepted as true, to “state a claim to relief that is plausible on its face.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007); *see also Ashcroft v. Iqbal*, 556 U.S. 662, 663 (2009). A claim is facially plausible when the factual allegations allow the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. *Iqbal*, 556 U.S. at 663; *Twombly*, 550 U.S. at 555-56.

The court’s determination is not whether the non-moving party “will ultimately prevail,” but whether that party is “entitled to offer evidence to support the claims.” *In re Burlington Coat Factory Sec. Litig.*, 114 F.3d 1410, 1420 (3d Cir. 1997) (internal citations and quotation marks omitted). This “does not impose a probability requirement at the pleading stage,” but instead “simply calls for enough facts to raise a reasonable expectation that discovery will reveal evidence of [the necessary element].” *Phillips v. Cty. of Allegheny*, 515 F.3d 224, 234 (3d Cir.

2008) (quoting *Twombly*, 550 U.S. at 556). The court's analysis is a context-specific task requiring the court "to draw on its judicial experience and common sense." *Iqbal*, 556 U.S. 663-64.

## **B. Analysis**

### **1. Tying**

In support of the motion to dismiss BASF's tying counterclaim, Ingevity asks the court to apply the standard set forth in the Supreme Court's decision in *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980), which addresses tying in the context of a claim for patent misuse. In the framework of whether the tied product is a staple or a non-staple good, Ingevity contends that its honeycomb scrubbers are specialty, non-staple goods which have no uses outside of fuel vapor canisters, and BASF's counterclaims do not allege that the honeycomb scrubbers have any noninfringing uses. (D.I. 72 at 12; D.I. 83 at 1) Accordingly, Ingevity contends that it has a statutory right to control the honeycomb scrubber market. (D.I. 72 at 12-13; D.I. 83 at 1-2)

In response, BASF maintains that its tying counterclaim is brought pursuant to the Sherman Act, 15 U.S.C. §§ 1 and 2, and the analysis for patent misuse under 35 U.S.C. § 271(d) does not apply. Accordingly, BASF represents that the relevant inquiry is whether there is a separate demand in the market for the tied product. BASF contends that the honeycomb scrubbers have a separate demand from the fuel vapor canisters.<sup>8</sup> (D.I. 81 at 15-16) BASF maintains that the '844 patent does not require the use of honeycomb scrubbers, and honeycomb scrubbers have uses other than for fuel vapor canister systems. (*Id.* at 16-17) BASF further

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<sup>8</sup> For purposes of BASF's counterclaim, the tying product is a license for the canisters. (D.I. 65 at ¶¶ 99-102) Ingevity does not manufacture the canisters.



contends that honeycomb scrubbers are a distinct product from the patented fuel vapor canisters, as evidenced by the demand for the purchase of the tied product separate from the tying product. (*Id.* at 17)

I recommend that the court deny Ingevity's motion to dismiss BASF's tying counterclaim. BASF brings its tying counterclaim pursuant to Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2. (D.I. 65 at ¶¶ 98-106) "Tying is selling one good (the tying product) on the condition that the buyer also purchase another, separate good (the tied product)." *Gordon v. Lewistown Hosp.*, 423 F.3d 184, 213 (3d Cir. 2005) (citing *Town Sound & Custom Tops, Inc. v. Chrysler Motors Corp.*, 959 F.2d 468, 475 (3d Cir.), *cert. denied*, 506 U.S. 868 (1992)). In a tying arrangement, the seller exploits its control over the tying product "to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Id.* at 214 (citing *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 11 (1984)). The elements of a tying claim are: "(1) the defendant seller must sell two distinct products; (2) the seller must possess market power in the tying product market; and (3) a substantial amount of interstate commerce must be affected." *Brokerage Concepts, Inc. v. U.S. Healthcare, Inc.*, 140 F.3d 494, 512-13 (3d Cir. 1998).

BASF's pleading adequately establishes that there is a distinct demand for the non-patented honeycomb scrubbers, separate from the market demand for the fuel vapor canisters of the '844 patent. BASF pleads that "the '844 Patent does not cover pelletized carbon, granular carbon, honeycomb scrubbers, or any other carbon adsorbents themselves." (D.I. 65 at ¶ 21) BASF's pleading further alleges that "[t]here is distinct demand for honeycomb scrubbers, separate and apart from demand for licenses to the '844 patent," explaining that "honeycomb scrubbers are only a single component of the fuel vapor canister system and they are sold by

different entities at different levels of the supply chain,” as evidenced by the fact that both Ingevity and BASF produce honeycomb scrubbers, but not canister systems. (*Id.* at ¶ 54) These allegations, taken as true, sufficiently plead that the honeycomb scrubber is a separate product from the patented fuel vapor canister having a distinct demand in the marketplace.

BASF’s tying counterclaim also sufficiently pleads the elements of market power in the tying product market and the effect on interstate commerce. BASF alleges that “Ingevity holds market power over [REDACTED] to LEV III/Tier 3 compliant canister design patents,” and “[t]he ’844 Patent is *the* leading solution to meet the latest diurnal emissions requirements.” (D.I. 65 at ¶ 55) (emphasis in original) The pleading alleges that Ingevity’s anticompetitive acts “artificially rais[ed] prices and exclud[ed] competitive alternatives for LEV III/Tier 3 carbon adsorbents throughout the United States.” (*Id.* at ¶ 91) These allegations are sufficient to raise questions of fact to be explored through discovery. Consequently, I recommend that the court deny Ingevity’s motion to dismiss BASF’s cause of action for tying under the Sherman Act.

In support of its motion to dismiss BASF’s tying claim, Ingevity primarily relies on *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980), in which the Supreme Court held that patent owner Rohm & Haas had not engaged in patent misuse under 35 U.S.C. § 271(d) by linking its licenses to practice the patented process to the sale of propanil. In *Rohm & Haas*, the Supreme Court concluded that patent owners may control the sale of non-staple goods<sup>9</sup> with

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<sup>9</sup> A non-staple good is “one which was designed to carry out the patented process and has little or no utility outside of the patented process.” *Polysius Corp. v. Fuller Co.*, 709 F. Supp. 560, 576 (E.D. Pa. 1989). A staple good is a good “that was not specifically designed for use with a patented process and has substantial, efficient and feasible uses outside of the patent.” *Id.* Even if the court were to conduct the analysis under Ingevity’s proposed standard according to § 271(d), the outcome would remain the same because “[w]hether an item is a staple or not is a question of fact.” *Jac USA, Inc. v. Precision Coated Prods., Inc.*, 2003 WL 1627043, at \*14

infringing uses, but they may not tie the purchase of a staple product to the license for a patented process. *Id.* at 201. However, BASF does not assert a counterclaim for patent misuse pursuant to 35 U.S.C. § 271(d). Instead, BASF pleads a cause of action for tying under Sections 1 and 2 of the Sherman Act. The requirements of each cause of action are distinct: “An antitrust action requires proof of elements such as antitrust injury and market power. A patent misuse claimant must establish the patentee’s bad faith and anticompetitive purpose.” *Eurand Inc. v. Mylan Pharms. Inc.*, C.A. No. , 2009 WL 3172197, at \*2 (D. Del. Oct. 1, 2009) (acknowledging that, “while a finding of patent misuse does not mandate a similar finding of antitrust violation, the issues are closely aligned as both inquire into anticompetitive behavior.”); *see also Performance Aftermarket Parts Grp., Ltd. v. TI Grp. Auto. Sys., Inc.*, 2006 WL 8449931, at \*4-5 (S.D. Tex. Aug. 11, 2006) (separately analyzing patent misuse and antitrust tying causes of action).

## **2. Exclusive dealing**

An exclusive dealing claim may be pursued under Section 1 or Section 2 of the Sherman Act, or Section 3 of the Clayton Act. *See Eisai, Inc. v. Sanofi Aventis U.S., LLC*, 821 F.3d 394 (3d Cir. 2016); *ZF Meritor, LLC v. Eaton Corp.*, 696 F.3d 254, 281 (3d Cir. 2012). “An exclusive dealing arrangement is an agreement in which a buyer agrees to purchase certain goods or services only from a particular seller for a certain period of time.” *ZF Meritor, LLC v. Eaton Corp.*, 696 F.3d 254, 270 (3d Cir. 2012). Exclusive dealing agreements are not unlawful if they are “entered into for entirely procompetitive reasons, and generally pose little threat to competition.” *Id.* The legality of an exclusive dealing agreement is assessed under the rule of reason to determine “whether [the agreement] will foreclose competition in such a substantial

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(N.D. Ill. Mar. 25, 2003) (citing *Hodosh v. Block Drug Co., Inc.*, 833 F.2d 1575, 1579 n.12 (Fed. Cir. 1987)).

share of the relevant market so as to adversely affect competition.” *Id.* at 271 (citing *Tampa Elec. Co. v. Nashville Coal Co.*, 365 U.S. 320, 327-28 (1961)). The exclusion of competitors is actionable under the antitrust laws only when “it impairs the health of the competitive process itself.” *Roland Mach. Co. v. Dressler Indus.*, 749 F.2d 380, 394 (7th Cir. 1984); *see also ZF Meritor*, 696 F.3d at 271, 281.

In conducting the rule of reason analysis, “courts consider not only the percentage of the market foreclosed, but also take into account the restrictiveness and the economic usefulness of the challenged practice in relation to the business factors extant in the market.” *ZF Meritor*, 696 F.3d at 271 (quotation marks omitted). To state a claim, a plaintiff must generally show “significant market power by the defendant, substantial foreclosure, contracts of sufficient duration to prevent meaningful competition by rivals, and an analysis of likely or actual anticompetitive effects considered in light of any procompetitive effects.” *Id.* at 271-72 (internal citations omitted). Courts may also consider whether “the dominant firm engaged in coercive behavior,” “the ability of customers to terminate the agreements,” and “[t]he use of exclusive dealing by competitors.” *Id.* at 272 (internal citations omitted). Agreements that do not contain an express exclusivity provision may still be exclusive in operation. *See GN Netcom, Inc. v. Plantronics, Inc.*, 278 F. Supp. 3d 824, 827 (D. Del. 2017); *ZF Meritor*, 696 F.3d at 281-82.

a. [REDACTED] during the term of the '844 patent

In support of its motion to dismiss BASF’s counterclaim for exclusive dealing, Ingevity contends that its [REDACTED] with [REDACTED] comport with its right to exclude under § 271(d) because the [REDACTED] all expire before or simultaneously with the expiration of the '844 patent. (D.I. 72 at 13-14) Accordingly, Ingevity takes the position that it

may permissibly exclude competitors and control the market for honeycomb scrubbers. (*Id.* at 14)

In response, BASF contends that Ingevity exploited the [REDACTED] to coerce [REDACTED] to purchase carbon adsorbent products exclusively from Ingevity. (D.I. 81 at 11) BASF alleges that the [REDACTED] impose such punitive terms on purchases of non-Ingevity carbon adsorbents that any contracted right to purchase competitive products is illusory. (*Id.* at 11-12) In this regard, BASF maintains that Ingevity deliberately designed its [REDACTED] to prevent customers from purchasing competing carbon adsorbent products. (*Id.*)

I recommend that the court deny Ingevity's motion to dismiss BASF's exclusive dealing counterclaim as it pertains to the [REDACTED] with [REDACTED] BASF's pleading alleges that "Ingevity has already foreclosed at least 50% of the total available sales outlets of carbon adsorbents (including pelletized carbon, granular carbon, and honeycomb scrubbers) for LEV III/Tier 3 compliant fuel vapor canisters." (D.I. 65 at ¶ 49) BASF's allegation of 50% market foreclosure, taken as true at this stage of the proceedings, is sufficient to state a claim for exclusive dealing in accordance with the relevant case authorities. *See United States v. Dentsply Int'l, Inc.*, 399 F.3d 181, 191 (3d Cir. 2005) ("The test is not total foreclosure, but whether the challenged practices bar a substantial number of rivals or severely restrict the market's ambit."). "There is no fixed percentage at which foreclosure becomes 'substantial' and courts have varied widely in the degree of foreclosure they consider unlawful." *Eisai, Inc. v. Sanofi Aventis U.S., LLC*, 821 F.3d 394, 403 (3d Cir. 2016) (internal quotation marks and citations omitted).

BASF's pleading also highlights how the "absence of alternative sales channels" and the exclusive nature of the agreements "has substantially foreclosed BASF from access to the customer base necessary to effectively grow and compete." (D.I. 65 at ¶¶ 49, 93) Other producers with the capacity to produce competing carbon adsorbents do not have the market share to compete with Ingevity's dominance over "nearly 100% of the market for LEV III/Tier 3 carbon adsorbents." (*Id.* at ¶¶ 71-74) BASF's counterclaim posits that Ingevity's conduct has no procompetitive benefit, and "[p]urchasers of carbon adsorbents have paid supracompetitive prices for LEV III/Tier 3 carbon adsorbents" due to Ingevity's restrictive conduct. (*Id.* at ¶ 94)

Although BASF's counterclaim does not represent that the terms of the [REDACTED] [REDACTED] expressly require exclusive dealing with Ingevity for the purchase of carbon adsorbents, the Third Circuit has held that supply agreements threatening to impose large financial penalties for the purchase of competing products can operate as *de facto* exclusive dealing arrangements. *See LePage's Inc. v. 3M*, 324 F.3d 141, 159 (3d Cir. 2003) ("all-or-nothing" discounts induced customers to deal "exclusively with the dominant market player . . . to avoid being severely penalized financially."). In this regard, "[a] license that does not explicitly require exclusive dealing may have the effect of exclusive dealing if it is structured to increase significantly a licensee's cost when it uses competing technologies." U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 4.1.2 (2017). BASF adequately pleads that the challenged [REDACTED] would have the effect of exclusive dealing because [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(D.I. 65 at ¶¶ 40-41, 44-45)

b. [REDACTED]

i. **Market foreclosure**

Ingevity contends that BASF fails to plead a cognizable antitrust claim regarding the [REDACTED] because Ingevity has the right to exclude competitors from the market during the term of the '844 patent for the reasons previously explained. (D.I. 72 at 15) Moreover, Ingevity argues that BASF's counterclaim fails to allege that the [REDACTED] forecloses a substantial portion of the post-patent expiration market from competition, separate and apart from the other [REDACTED], in accordance with the rule of reason in antitrust cases. (*Id.* at 16) Ingevity cites BASF's admission that it shipped EvapTrap™ samples to prospective customers who subsequently sought to purchase BASF's products, and its negotiation of sales terms in 2017, despite its alleged inability to enter the market. (D.I. 83 at 6 n.2)

In response, BASF contends that the court must look at Ingevity's conduct as a whole, and its counterclaims allege that BASF has been foreclosed from a large percentage of the market as a result of Ingevity's exclusive dealing arrangements. (D.I. 81 at 12-13) Even taking the [REDACTED] in isolation, BASF contends that the [REDACTED] substantially forecloses access to the customer base because [REDACTED] is one of the largest purchasers of LEV III/Tier 3 carbon adsorbents. (*Id.* at 13)

I recommend that the court deny Ingevity's motion to dismiss BASF's exclusive dealing counterclaim as it pertains to the [REDACTED]. As discussed at § III.B.2.a, *supra*, "[t]here is no fixed percentage at which foreclosure becomes 'substantial' and courts have varied widely in the degree of foreclosure they consider unlawful." *Eisai, Inc. v. Sanofi Aventis U.S., LLC*, 821 F.3d 394, 403 (3d Cir. 2016) (internal quotation marks and citations omitted). Although BASF's counterclaims do not separately identify the amount of foreclosed access to the customer base

resulting from the [REDACTED] the pleading expressly identifies [REDACTED] as “one of the largest Tier 1 manufacturers of fuel vapor canisters in the world.” (D.I. 65 at ¶ 32) A determination of whether the [REDACTED] alone constituted a “substantial foreclosure” of the relevant market is a fact-intensive inquiry to be explored through fact discovery.

**ii. Price-cost test**

Ingevity contends that BASF’s exclusive dealing counterclaim also fails as a matter of law because BASF does not allege that the post-expiration provisions of the [REDACTED] result in below-cost pricing. (D.I. 72 at 17) Ingevity contends that the price-cost test governs BASF’s allegations because BASF pleads that Ingevity’s pricing will prevent [REDACTED] from exercising its termination option. (*Id.* at 18) As long as Ingevity’s pricing is above cost, Ingevity contends that it can be matched by a competitor and cannot foreclose competition. (*Id.*)

In response, BASF contends that the price-cost test does not apply because the counterclaims do not allege price discrimination, and the Third Circuit has rejected attempts to apply the price-cost test to exclusive dealing claims. (D.I. 81 at 7) According to BASF, the terms and structure of the [REDACTED] are exclusionary, as opposed to the low price. (*Id.* at 8)

Courts use the price-cost test to determine the existence of predatory pricing, defined as “pricing below an appropriate measure of cost for the purpose of eliminating competitors in the short run and reducing competition in the long run.” *ZF Meritor*, 696 F.3d at 272 (internal quotation marks and citations omitted). Pursuant to Third Circuit precedent, “when pricing predominates over other means of exclusivity” in the context of exclusive dealing, “the price-cost test applies.” *Eisai*, 821 F.3d at 409 (citing *ZF Meritor*, 696 F.3d at 275). To satisfy the price-cost test, a plaintiff must show that a competitor has priced its product below an



appropriate measure of its costs. *Id.* at 408. When the alleged wrongdoer prices its products above cost, “the balance always tips in favor of allowing above-cost pricing practices to stand” such that “the above-cost pricing at issue is *per se* legal.” *Id.* at 409.

The price-cost test does not apply to the [REDACTED] in the present case because the terms and structure of the [REDACTED] are exclusionary irrespective of price. The

[REDACTED]

[REDACTED]

[REDACTED] (D.I. 65 at ¶¶ 33-34)

iii. [REDACTED]

Ingevity contends that the court need not consider BASF’s allegations regarding the [REDACTED] because BASF fails to allege that the [REDACTED] forecloses a substantial portion of the market. (D.I. 72 at 18) In addition, Ingevity contends that the [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] (*Id.*) Ingevity distinguishes the [REDACTED] clause from an exclusive

dealing agreement because it is akin to a right of first refusal, which does not have the

anticompetitive effect of foreclosing opportunity to competitors. (*Id.* at 19) Ingevity further

contends that allegations regarding the post-patent expiration terms of the [REDACTED]

[REDACTED] are not ripe because they are based on contingent future events after the expiration of the ’844 patent in March 2022. (*Id.*)

In response, BASF contends that, while [REDACTED] ostensibly has an option to terminate the [REDACTED] in March 2022, the terms of the agreement create strong economic

disincentives to do so. (D.I. 81 at 10) BASF notes that [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] (*Id.*) BASF contends that the antitrust claims are ripe because exclusive dealing agreements excluding competitors violate antitrust laws as soon as they are agreed to by the parties, and Ingevity currently coerces customers to exclusively purchase its honeycomb scrubbers. (*Id.* at 11 n.2)

BASF's pleading describes the [REDACTED]

[REDACTED]

[REDACTED] (D.I. 65 at ¶ 36) [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] (*Id.*) [REDACTED]

[REDACTED]

[REDACTED]

(*Id.*) Although this provision facially permits competition after the expiration of the '844 patent, BASF adequately pleads that the conditions imposed on future competition are anticompetitive.

### **3. Tortious interference with prospective business relations**

Ingevity contends that BASF's state law counterclaim for tortious interference with business relations must be dismissed because there is no underlying tortious conduct where, as here, BASF relies on the same Ingevity customer agreements asserted in support of its antitrust claims. (D.I. 72 at 19-20) Ingevity argues that BASF's counterclaim fails to plead the existence of a reasonable probability of a business opportunity with [REDACTED] or

any other prospective customers, and does not plead how Ingevity's conduct may have intentionally interfered with such business opportunities. (*Id.*)

In response, BASF contends that its tortious interference counterclaim is sufficiently pleaded independent of the antitrust counterclaims, observing that the elements of the cause of action have little overlap with the elements for antitrust exclusive dealing or tying. (D.I. 81 at 18) BASF contends that the tortious interference counterclaim sufficiently alleges that prospective customers refrained from ordering BASF's honeycomb scrubber after being dissuaded by Ingevity's anticompetitive conduct. (*Id.*) Moreover, BASF alleges facts showing Ingevity's efforts to lock manufacturers of fuel vapor canisters into anticompetitive [REDACTED] and [REDACTED] were purposeful. (*Id.* at 19)

I recommend that the court deny Ingevity's motion to dismiss BASF's counterclaim for tortious interference with business relations under Delaware law. To state a claim for tortious interference with business relations under Delaware law, BASF must plead: "(1) the reasonable probability of a business opportunity; (2) the intentional interference by [Ingevity] with that opportunity; (3) proximate causation; and (4) damages, all of which must be considered in light of [Ingevity's] privilege to compete or protect [its] business interests in a fair and lawful manner." *U.S. Bank Nat'l Ass'n v. Gunn*, 23 F. Supp. 3d 426, 436 (D. Del. 2014) (citing *DeBonaventura v. Nationwide Mut. Ins. Co.*, 428 A.2d 1151, 1153 (Del. 1981)).

The pleading identifies a reasonable probability of a business opportunity by alleging that "BASF provided samples of its honeycomb scrubber to [REDACTED] prospective international and domestic customers and testing facilities," who tested BASF's product, confirmed that it outperformed Ingevity's product, and sought to purchase BASF's EvapTrap™. (D.I. 65 at ¶¶ 27, 85-88) Moreover, BASF's EvapTrap™ XC had passed its validation tests for [REDACTED] and began

preparing for production of [REDACTED] in the fourth quarter of 2018 and [REDACTED] for sale in 2019. (*Id.* at ¶ 87) Although [REDACTED]

[REDACTED] (*Id.* at ¶¶ 87-88)

The pleading further alleges sufficient facts regarding Ingevity's [REDACTED] and [REDACTED] to plausibly show that Ingevity's interference was intentional. (D.I. 65 at ¶¶ 31-50) Specifically, the pleading describes the terms of the [REDACTED] [REDACTED] asserting that "[t]he coercive intent and impact of the [REDACTED] is well-illustrated by its own terms and structure." (*Id.* at ¶ 35) In particular, the pleading cites the obstacles and penalties associated with terminating the agreement before the full term, including [REDACTED]

[REDACTED] (*Id.* at ¶ 36) The complaint alleges that "Ingevity's own executive openly confirms that Ingevity's business strategy is to leverage its '844 patent to ensure that customers purchase all of their carbon adsorbents from Ingevity," citing Ingevity's procedure of threatening competitors with litigation to coerce entry into a [REDACTED] with terms favorable to Ingevity. (*Id.* at ¶ 40) These allegations plausibly suggest that Ingevity's interference with potential business opportunities was intentional.

#### **4. Bifurcation and stay**

In the alternative, Ingevity asks the court to bifurcate BASF's counterclaims<sup>10</sup> if the court is not inclined to grant the motion to dismiss. (D.I. 83 at 10) According to Ingevity, bifurcation of the counterclaims would serve the interests of judicial economy because it is likely that resolution of issues regarding the scope and validity of the '844 patent will eliminate or simplify BASF's antitrust counterclaims. (*Id.*)

Having recommended that the court deny the motion to dismiss, I further recommend that the court bifurcate BASF's counterclaims. *See Eagle Pharms., Inc. v. Eli Lilly & Co.*, 18-1121-MSG, 2018 WL 6201704, at \*2 n.3 (D. Del. Nov. 27, 2018) (“[I]t is common practice for courts to stay an antitrust case until after resolution of a related patent case.”); *Apotex, Inc. v. Senju Pharm. Co.*, 921 F. Supp. 2d 308, 314 (D. Del. 2013) (noting that “resolution of underlying patent claims could moot, narrow, or otherwise simplify antitrust claims”). Bifurcation of BASF's counterclaims will not result in prejudice to BASF in the event that BASF prevails on its invalidity defenses pursuant to 35 U.S.C. §§ 102, 103, and 112. (D.I. 65 at 5, ¶ 3)

#### **IV. MOTION TO AMEND**

##### **A. Legal Standard**

Rule 15(a)(2) of the Federal Rules of Civil Procedure provides that a party may amend its pleading after a responsive pleading has been filed “only with the opposing party’s written consent or the court’s leave,” and “[t]he court should freely give leave when justice so requires.” Fed. R. Civ. P. 15(a)(2). The decision to grant or deny leave to amend lies within the court’s

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<sup>10</sup> In its reply brief, Ingevity asked the court to bifurcate and stay BASF's counterclaims in the event that the motion to dismiss is denied. (D.I. 83 at 10) (“If the Court does not dismiss BASF's counterclaims, the Court should bifurcate and stay the claims.”). However, at oral argument on September 17, 2019, Ingevity represented that it sought only bifurcation, and not a stay.

discretion. *See Foman v. Davis*, 371 U.S. 178, 182 (1962); *In re Burlington Coat Factory Secs. Litig.*, 114 F.3d 1410, 1434 (3d Cir. 1997). The Third Circuit has adopted a liberal approach to the amendment of pleadings. *See Dole v. Arco*, 921 F.2d 484, 487 (3d Cir. 1990). In the absence of undue delay, bad faith, or dilatory motives on the part of the moving party, the amendment should be freely granted, unless it is futile or unfairly prejudicial to the non-moving party. *See Foman*, 371 U.S. at 182; *In re Burlington*, 114 F.3d at 1434.

If a party seeks to extend a deadline imposed by the scheduling order, the court must apply the “good cause” standard in accordance with Rule 16 of the Federal Rules of Civil Procedure. *Carrier Corp. v. Goodman Global, Inc.*, 49 F. Supp. 3d 430, 433 (D. Del. 2014). Pursuant to Rule 16(b)(4), “[a] schedule may be modified only for good cause and with the judge’s consent.” “The good cause element requires the movant to demonstrate that, despite diligence, the proposed claims could not have been reasonably sought in a timely manner.” *Venetec Int’l v. Nexus Med.*, 541 F. Supp. 2d 612, 618 (D. Del. 2010). The focus of the “good cause” inquiry is on the diligence of the moving party, rather than on prejudice, futility, bad faith, or any of the other Rule 15 factors.<sup>11</sup> *See Glaxosmithkline LLC v. Glenmark Pharms. Inc.*, C.A. No. 14-877-LPS-CJB, 2016 WL 7319670, at \*1 (D. Del. Dec. 15, 2016). The court considers whether the proposed amended pleading meets the Rule 15(a) standard only after finding the requisite showing of good cause under Rule 16(b)(4). *See E. Minerals & Chems. Co. v. Mahan*, 225 F.3d 330, 340 (3d Cir. 2000).

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<sup>11</sup> Although both parties discuss prejudice in the briefing, prejudice does not factor into the good cause analysis under Rule 16(b)(4). *See Sonos, Inc. v. D&M Holdings Inc.*, C.A. No. 14-1330-RGA, 2017 WL 476279, at \*1 (D. Del. Feb. 3, 2017) (citing *Glaxosmithkline LLC v. Glenmark Pharm. Inc.*, C.A. No. 14-877-LPS-CJB, 2016 WL 7319670, at \*1 (D. Del. Dec. 15, 2016)).

## **B. Analysis**

BASF seeks leave to amend its first amended answer, affirmative defenses, and counterclaims to add the affirmative defense of inequitable conduct and amend its affirmative defenses for patent misuse and unclean hands. (D.I. 99, Ex. B at 6-14) The amended pleading further seeks to add counterclaims for *Walker Process* fraud and sham litigation in violation of the Sherman Act, 15 U.S.C. § 2. (*Id.* at 48-50)

### **1. Inequitable Conduct**

In support of its motion to amend, BASF contends that its motion is timely because discovery produced by [REDACTED] on May 6, May 28, and June 6, 2019 revealed new information that Roger Williams, an inventor of the '844 patent, made false and misleading statements to the U.S. Patent and Trademark Office ("PTO") amounting to inequitable conduct. (D.I. 100 at 9-10) Specifically, BASF alleges that the newly-disclosed evidence shows that

[REDACTED]  
[REDACTED]  
[REDACTED] (*Id.* at 4-5) According to BASF, its *Walker Process* and sham litigation counterclaims are based on the same underlying facts as its allegations of inequitable conduct and, therefore, BASF could not have brought these counterclaims at an earlier time. (*Id.* at 10)

In response, Ingevity contends that BASF's motion to amend is untimely, and BASF cannot establish good cause because Ingevity produced documents to BASF in late 2018 showing that [REDACTED]

[REDACTED] (D.I. 105 at 7) Ingevity directs the court to BASF's October 12, 2018 opposition to Ingevity's motion for a preliminary injunction, which

cites documentation describing an October 1999 meeting between [REDACTED] employees and the inventors of the '844 patent to discuss the use of carbon honeycomb scrubbers in canister systems, and documents showing the public use of the claimed invention before Ingevity's conception date. (*Id.* at 8)

I recommend that the court deny BASF's motion to amend to add the affirmative defense of inequitable conduct because BASF has failed to satisfy the good cause requirement in accordance with Rule 16(b)(4). The deadline for amended pleadings expired on April 30, 2019. (D.I. 41 at ¶ 2) The record before the court shows that, prior to the deadline for amended pleadings, BASF had sufficient information to allege inequitable conduct. The affirmative defense of inequitable conduct in BASF's proposed second amended answer and counterclaims states that,

[REDACTED] months before Plaintiffs' February 14, 2019 submission to the PTAB, Plaintiffs' counsel collected from Ingevity and produced to BASF documents confirming that [REDACTED]

[REDACTED] Accordingly, Plaintiffs' counsel knew or should have known that statements in Ingevity's POPR concerning "industry wisdom" and the state of the art in 2001 were false.

(D.I. 99, Ex. A at 12 ¶ 43) In BASF's October 12, 2018 opposition to Ingevity's motion for a preliminary injunction, BASF described "Ingevity documents indicat[ing] that [REDACTED]

[REDACTED]

[REDACTED] (D.I. 21 at 16 n.13) BASF further indicated that

[REDACTED]

[REDACTED] and "the claimed invention was in public use . . . and/or described in a patent application . . . before Ingevity's alleged August 2001 conception date." (*Id.*) In this regard, BASF's own statements demonstrate that BASF possessed documents showing conception and



reduction to practice by Delphi employees months before the productions made in May and June of 2019. Consequently, BASF's delay in asserting its inequitable conduct allegations after the expiration of the amended pleadings deadline precludes a finding of good cause. Because BASF failed to satisfy the good cause requirement with respect to the affirmative defense of inequitable conduct, the court need not proceed to the Rule 15(a) factors. *See E. Minerals & Chems. Co. v. Mahan*, 225 F.3d 330, 340 (3d Cir. 2000).

## **2. Unclean Hands**

In support of its motion to amend, BASF contends that it has good cause to amend its unclean hands defense because it is based on the same underlying conduct as the defense of inequitable conduct. (D.I. 100 at 16) According to BASF, the proposed amended pleading provides additional details underlying the existing defense of unclean hands. (*Id.*)

In response, Ingevity contends that BASF's unclean hands defense is not based on the same underlying conduct as the inequitable conduct defense, but is instead based on purported misrepresentations made to the court and in Ingevity's interrogatory responses. (D.I. 105 at 18) Ingevity refutes BASF's position that the proposed amended pleading merely provides additional details underlying the existing defense. (*Id.* at 18-19) Specifically, Ingevity argues that BASF's unclean hands defense was originally based on its exclusive dealing and tying antitrust allegations and, in this regard, the proposed amended pleading's reliance on misrepresentations represents an entirely new basis for the unclean hands defense which is not supported by good cause. (*Id.*)

I recommend that the court deny BASF's motion to amend its affirmative defense for unclean hands. To the extent that the proposed amended defense of unclean hands "incorporates Plaintiffs' alleged inequitable conduct," BASF has failed to establish good cause to amend for

the reasons set forth at § IV.B.1, *supra*. (D.I. 99, Ex. 2 at 13, ¶ 47) The proposed amended defense of unclean hands also makes factual assertions based on alleged misrepresentations made to the court and contained in Ingevity's interrogatory responses. (*Id.* at ¶¶ 49-51) BASF fails to satisfy its burden to show good cause to add these allegations after the deadline for amended pleadings. *See Race Tires Am., Inc. v. Hoosier Racing Tire Corp.*, 614 F.3d 57, 84 (3d Cir. 2010) (observing that the burden is on the moving party to "demonstrate good cause and due diligence" under Rule 16(b)(4)). Instead, BASF alleges only that its proposed amended affirmative defense of unclean hands is not futile. (D.I. 116 at 10) Consequently, I recommend that the court deny leave to amend the affirmative defense of unclean hands.

### **3. *Walker Process* & Sham Litigation**

BASF contends that its proposed *Walker Process* and sham litigation counterclaims are not futile because the proposed counterclaims sufficiently allege that the asserted patents were procured through knowing and willful fraud, and the lawsuit is a sham to cover up Ingevity's efforts to interfere directly in BASF's business relationships. (D.I. 100 at 17-19) In response, Ingevity contends that BASF's *Walker Process* and sham litigation amendments should be rejected for failure to satisfy the good cause requirement based on the same reasoning applied to the inequitable conduct defense. (D.I. 105 at 20)

I recommend that the court deny BASF's motion to amend to the extent that it applies to the proposed amended *Walker Process* and sham litigation counterclaims. BASF's proposed amended *Walker Process* and sham litigation counterclaims are based on the same conduct asserted in support of the inequitable conduct defense. Specifically, BASF alleges that Delphi first conceived of the invention and reduced it to practice, but Ingevity deliberately withheld this fact from the PTO during prosecution of the '844 patent. (D.I. 99, Ex. 2 at 48) BASF further

alleges that Ingevity knows the litigation is objectively baseless due to its awareness of “the prior art, invention, conception, and offer for sale/sales by [REDACTED] that were material to patentability.” (*Id.* at 49) For the reasons set forth at § IV.B.1, *supra*, the record reflects that BASF was aware of the facts underlying these assertions prior to the deadline for amended pleadings. Therefore, BASF has failed to establish the requisite good cause to amend its pleading to add *Walker Process* and sham litigation counterclaims.

## V. CONCLUSION

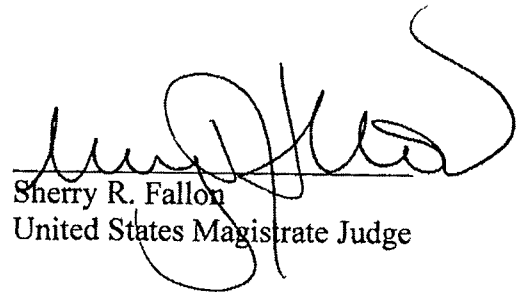
For the foregoing reasons, I recommend that the court deny Ingevity’s motion to dismiss BASF’s counterclaims, and deny BASF’s motion for leave to amend its first amended answer, affirmative defenses, and counterclaims. (D.I. 71; D.I. 99)

Given that the court has relied upon material that technically remains under seal, the court is releasing this Report and Recommendation under seal, pending review by the parties. In the unlikely event that the parties believe that certain material in this Report and Recommendation should be redacted, the parties shall jointly submit a proposed redacted version by no later than **October 29, 2019**, for review by the court, along with a motion supported by a declaration that includes a clear, factually detailed explanation as to why disclosure of any proposed redacted material would “work a clearly defined and serious injury to the party seeking closure.” *See In re Avandia Mktg., Sales Practices & Prods. Liab. Litig.*, 924 F.3d 662, 672 (3d Cir. 2019) (quoting *Miller v. Ind. Hosp.*, 16 F.3d 549, 551 (3d Cir. 1994) (internal quotation marks omitted)). If the parties do not file a proposed redacted version and corresponding motion, or if the court determines the motion lacks a meritorious basis, the documents will be unsealed within thirty (30) days of the date the Report and Recommendation issued.

This Report and Recommendation is filed pursuant to 28 U.S.C. § 636(b)(1)(B), Fed. R. Civ. P. 72(b)(1), and D. Del. LR 72.1. The parties may serve and file specific written objections within fourteen (14) days after being served with a copy of this Report and Recommendation. Fed. R. Civ. P. 72(b)(2). The objection and responses to the objections are limited to ten (10) pages each. The failure of a party to object to legal conclusions may result in the loss of the right to de novo review in the District Court. *See Sincavage v. Barnhart*, 171 F. App'x 924, 925 n.1 (3d Cir. 2006); *Henderson v. Carlson*, 812 F.2d 874, 878-79 (3d Cir. 1987).

The parties are directed to the court's Standing Order For Objections Filed Under Fed. R. Civ. P. 72, dated October 9, 2013, a copy of which is available on the court's website, <http://www.ded.uscourts.gov>.

Dated: October 22, 2019



Sherry R. Fallon  
United States Magistrate Judge