

Client Alert

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A Win for Kyle Bass's Hedge Fund as the PTAB Dismisses Celgene's Sanctions Motions

By Cary Miller and Matthew I. Kreeger

The Patent Trial and Appeals Board (PTAB) dismissed Celgene Corporation's ("Celgene") motions for sanctions against the Coalition for Affordable Drugs ("the Coalition").

As we previously reported ([here](#) and [here](#)), the Coalition is an entity affiliated with a Kyle Bass hedge fund that filed several *inter partes* review (IPR) petitions against Celgene and other biotech companies. Bass's hedge fund apparently has shorted the shares of those companies, such that it stands to profit if their stock prices drop. The PTAB authorized Celgene to file a motion for sanctions for "abuse of process" against the Coalition.

In its sanctions briefing, Celgene had argued that the Coalition's IPRs were an abuse of the IPR process. It asserted that IPRs were not designed to achieve the "primary purpose" of the Coalition and Mr. Bass's other companies, which is to generate profit through short sales of pharmaceutical stocks after filing IPR petitions. "[I]f the Board permits this strategy to continue," Celgene contended, "it will be inundated with similar petitions." Celgene viewed these types of IPR petitions as "an unwarranted burden on the [PTAB] . . . and on innovators like patent owner Celgene Corporation . . . and its shareholders."

In response, the Coalition countered that profit is "at the heart of nearly every patent and nearly every IPR."

The PTAB dismissed Celgene's motions for sanctions. It stated that "Congress did not limit *inter partes* reviews to parties having a specific competitive interest in the technology covered by the patents." The PTAB agreed with the Coalition that profit is at the center of "nearly every *inter partes* review" and stated that having "an economic motive for challenging a patent claim does not itself raise abuse of process issues."

This dismissal of Celgene's sanctions motion means that the IPR proceedings will continue. The PTAB must decide whether to institute the IPR proceedings in October 2015.

PROPOSED AMENDMENTS TO THE IPR PROCESS

Congress is considering amendments to the IPR process. H.R. 9, the Innovation Act of 2015, would preclude institution of IPR petitions unless the petitioner certifies (1) that it does not own a "financial instrument . . . designed to hedge or offset any decrease in market value of an equity security of the patent owner or an affiliate" and (2) that it has not demanded payment from the patent owner or an affiliate in exchange for foregoing filing an IPR, unless the petitioner or any real party in interest has been sued for infringement under the patent at issue. If enacted, this amendment could moot IPR challenges by hedge funds.

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