Client Alert

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Celgene's Pending Sanctions Motions against Kyle Bass's Hedge Fund

By Cary Miller and Matthew I. Kreeger

The Patent Trial and Appeals Board (PTAB) previously authorized Celgene Corporation ("Celgene") to move for sanctions against the Coalition for Affordable Drugs ("Coalition"), an entity affiliated with a Kyle Bass hedge fund that had filed several *inter partes* review (IPR) petitions against Celgene and other biotech companies. As expected, Celgene's recently filed motion focuses on the Coalition's underlying goal of "profit[ing] by affecting stock prices."

The thrust of Celgene's motion is that the Coalition's IPR petitions are "an unwarranted burden on the [PTAB] . . . and on innovators like patent owner Celgene Corporation . . . and its shareholders." Celgene argues that the Coalition's abuse of process began years ago. In 2014, Erich Spangenberg, a so-called "patent troll," allegedly threatened to file IPRs against the two Celgene patents presently at issue. When Celgene refused to pay Mr. Spangenberg, however, he did not file the IPR petitions. Instead, Mr. Spangenberg and his company became consultants to Mr. Bass and his hedge funds, which formed the Coalition and other companies. Celgene maintains that the "primary purpose" of the Coalition and Mr. Bass's other companies is to generate returns through short sales of pharmaceutical stocks after filing IPR petitions, as it did against Celgene's patents in 2014.

According to Celgene, however, "IPRs [were] not designed for this purpose." "[I]f the Board permits this strategy to continue," Celgene argues, "it will be inundated with similar petitions." Celgene cites portions of the legislative history for the 2007 Patent Reform Act and the American Invents Act (AIA) to support its position that Congress never intended to allow parties with "no litigable patent claim" to use IPRs in order to "reap profits from their investments, while harming public companies and the investing public."

In its opposition brief, the Coalition maintains that profit is "at the heart of nearly *every* patent and nearly *every* IPR." In particular, it contends that dismissing its petitions would conflict with Supreme Court precedent "finding it in the public's interest for economically motivated actors to challenge patents." The Coalition suggests that its petitions benefit the public, as "each petition that knocks down a barrier to generic entry benefits the public." The Coalition states that Celgene did not provide any evidence that it had ever demanded payment from Celgene, and it further argues that Celgene provided no authority that sending "emails attaching draft petitions that do not make a demand and were never filed" constitutes an abuse of process. Per the Coalition, short selling is a "common, legal, and regulated" conduct that does not qualify as misconduct, abuse, or an improper use of IPR proceedings.[1] The Coalition further asserts that its behavior is protected by the *Noerr-Pennington* doctrine. Finally, the Coalition asserts that the PTAB cannot dismiss the IPR petitions before instituting IPRs because there has been no "improper use of the proceedings."

[1] The Coalition filed its opposition brief along with an expert declaration relating to the legality of short sales. It filed an unopposed motion to withdraw the expert declaration on August 19, 2015.

In reply, Celgene emphasizes that the Coalition does not dispute that it had demanded payment in exchange for not filing IPRs in 2014. Celgene also emphasizes that the Coalition had formed for-profit shell companies with no competitive interest in the challenged patents and was using IPRs simply to "execute [on] its investment strategy." While acknowledging that the Supreme Court has encouraged "interested persons" such as licensees to challenge patents, Celgene contends that that the Coalition is not such an interested person. Celgene counters the Coalition's invocation of the *Noerr-Pennington* doctrine by arguing that its IPR filings were a "series of legal proceedings" that were undertaken for harassment. Finally, Celgene argues that the Board has discretion to dismiss IPR petitions before proceedings are instituted.

The PTAB is expected to rule on Celgene's sanctions motion in October 2015, when it decides whether to institute the IPR proceedings.

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.

OTHER COALITION IPRS

Celgene's sanctions motion is the latest attempt at precluding companies such as the Coalition from using the IPR process to further their business models. Previously, Acorda had argued in a preliminary response that two IPR petitions filed by the Coalition should be denied for failure to name all of the affected real parties in interest. Like Celgene, Acorda argued that "allowing hedge funds to use the IPR process to manipulate financial markets is inconsistent with Congressional intent."

In two decisions dated August 24, 2015, the PTAB denied the Coalition's two IPR petitions on the basis that the Coalition had not shown that the two cited references were prior art under 35 U.S.C. § 102(b). As a result, the Coalition had not established a reasonable likelihood that it would prevail on at least one of the challenged claims. While the PTAB did not conclusively decide if the Coalition's behavior "was inconsistent with Congressional intent" in the Acorda IPRs, it may issue guidance on that subject in the Celgene cases.

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