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USPTO Permits Hedge Fund Patent Challenges

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Since February 2015, hedge fund manager Kyle Bass has filed more than 30 petitions seeking *Inter Partes* review of U.S. patents covering approved pharmaceutical products. Kyle Bass even formed a special entity for this purpose–the Coalition for Affordable Drugs–with a stated goal of targeting patents that "have little value other than to drive up prescription drug prices." Pharmaceutical patent owners hoped that the USPTO's Patent Trial and Appeal Board (PTAB) would sanction Kyle Bass for "abusing" the IPR process, or dismiss the petitions for having been filed for an "improper purpose," but the PTAB has declined to do so.

Celgene's Motion For Sanctions

Celgene Corp. filed motions for sanctions in the IPRs launched by Kyle Bass and the Coalition for Affordable Drugs against its patents relating to Thalomid® (thalidomide) and Revlamid® (lenalidomide). However, the PTAB refused to sanction Bass on the grounds raised by Celgene.

In particular, the PTAB determined that profit motives were not sanctionable; rather, "[p]rofit is at the heart of nearly every patent and nearly every *inter partes* review." The PTAB also noted that the IPR statute does not restrict IPR petitioners to "competitors." In making this point, the PTAB distinguished the IPR statute's general language providing that "a person who is not the owner of a patent" can file an IPR petition from the more restrictive language used for covered business method reviews, "which require a party or privy to have been sued or charged with infringement of the patent." The PTAB also cited the broad purpose of the America Invents Act (which created IPR proceedings) to improve patent quality:

> The AIA was designed to encourage the filing of meritorious patentability challenges, by any person who is not the patent owner, in an effort to further improve patent quality.

Thus, the PTAB concluded that Celgene had not met its burden of showing by a preponderance of evidence that Kyle Bass and the Coalition for Affordable Drugs were abusing the IPR process.

Only One Hedge Fund IPR Instituted

Although the PTAB will permit Kyle Bass to continue to file IPR petitions against pharmaceutical patents, it only will institute an IPR proceeding if the petition establishes a "reasonable likelihood" that the petitioner will prevail on the merits. To date, the PTAB has only decided to institute an IPR proceeding based on ***one*** of Kyle Bass's petitions, against a patent covering Shire's Lialda® product. (You can read about the decision to institute here.) Thus, Kyle Bass may be finding that pharmaceutical patents have more value–and more validity–than he thought.

IPRs Are More Threatening Than Oppositions

Stakeholders who are familiar with EPO Opposition proceedings may wonder why U.S. patent holders are so concerned about IPRs, but significant differences between Oppositions and IPRs make IPRs more threatening. For example:

- an IPR can be filed at any time during the patent's term
- the PTAB construes the claims more broadly in an IPR than a court would, possibly making the claims vulnerable to more prior art
- the ability to amend claims in an IPR is limited by statute and nearly impossible in practice
- IPRs are conducted within a short time period and often involve expert testimony and depositions, requiring patent owners to dedicate significant resources to defend their patents

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This entry was posted on Thursday, October 22nd, 2015 at 7:00 am and is filed under Opposition, United States of America
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