

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

THE MANGROVE PARTNERS MASTER FUND, LTD.,
Petitioner,

v.

VIRNETX INC.,
Patent Owner.

Case IPR2015-01046
Patent 6,502,135 B1

Before MICHAEL P. TIERNEY, KARL D. EASTHOM, and STEPHEN C. SIU,
Administrative Patent Judges.

SIU, *Administrative Patent Judge.*

DECISION

Denying Motion for Additional Discovery
37 C.F.R. § 42.51

A conference call in the above proceeding was held on November 24, 2015, among respective counsel for The Mangrove Partners Master Fund, Ltd. (“Petitioner”) and VirnetX Inc. (“Patent Owner”), and Judges Tierney, Easthom, and Siu. During the conference call, Patent Owner was authorized to file a Motion

for Additional Discovery (subsequently filed December 9, 2015, Paper 22, “Motion”) regarding whether additional parties should have been named as a real party-in-interest in this *inter partes* review proceeding and Petitioner was authorized to file an Opposition to Patent Owner’s Motion for Additional Discovery (subsequently filed December 14, 2015, Paper 24, “Opposition”).

Patent Owner “requests discovery that will further show that Mangrove Partners, Nathaniel August, the US Feeder, the Cayman Feeder, Mangrove Capital, and the investors (collectively, ‘the other Mangrove entities’), are RPIs” because, according to Patent Owner, “Patent Owner’s discovery requests meet the factors set forth in *Garmin Int’l, Inc. v. Cuozzo Speed Techs, LLC*, IPR2012-00001, Paper No. 26 (Mar. 5, 2013).” Motion 4–5. We disagree with Patent Owner’s contention. For example, Patent Owner does not demonstrate sufficiently that Patent Owner’s request for additional discovery shows more than a mere possibility that something useful will be discovered. *Garmin Int’l, Inc. v. Cuozzo Speed Techs, LLC*, IPR2012-00001, Paper No. 26 (Mar. 5, 2013). Hence, Patent Owner has failed to demonstrate that additional discovery is “necessary in the interest of justice.” 35 U.S.C. § 316(a)(5).

Patent Owner argues that “Nathaniel August is President and majority owner of the Mangrove partners Hedge Fund” and that “the Mangrove Partners Hedge Fund has ‘*complete* discretion’ to control the investments of the US Feeder, the Cayman Feeder, and Petitioner.” Motion 1–2 (citing Ex. 2001, 3, 17; Ex. 2002, 1–2). Even assuming that “Mangrove Partners Hedge Fund has ‘*complete* discretion’ to control the investments of” various entities to be true, as asserted by Patent Owner, Patent Owner does not assert or provide a sufficient showing that Mangrove Partners hedge fund also has “complete discretion” and control over the preparation or filing of the Petition. Patent Owner relies on a “Uniform

Application for Investment Adviser Registration” and cites evidence that states that “Mangrove Partners . . . provides investment management services on a discretionary basis to the Funds” and that “Mangrove has discretionary authority to manage the assets of each Fund.” Ex. 2001, 3, 17; Ex. 2002, 1–2. None of these documents appear to pertain or even refer to the Petition. Hence, the evidence does not show beyond speculation that in fact something useful will be uncovered.

Patent Owner argues that “funds from . . . investors were used for this proceeding.” Motion 2 (citing Ex. 2001, 3–4, 6; Ex. 2041, 6–10, Ex. 2015, 34–35). Upon review of the evidence relied upon by Patent Owner, we do not identify (nor does Patent Owner point out) support for Patent Owner’s contention that “funds from . . . investors were used for this proceeding.” In the cited evidence, a “Mangrove Partners” brochure (Ex. 2001) merely states that “Mangrove Partners . . . provides investment management services on a discretionary basis to the Funds,” that the “Funds’ shared investment objective is to organically compound their net worth while minimizing the chances of a permanent loss of capital,” and that “[a] minimum initial investment of \$1,000,000 is generally required to invest in any of [the] private funds.” Ex. 2001, 3–4, 6. An excerpt from “Hedge Fund Regulation” entitled “Form Over Substance: Hedge Fund Structures” (Ex. 2015) describes “[a]n alternative approach is to use a ‘master-feeder’ structure” in which “the domestic partnership and offshore corporation are established to raise capital from their respective investor constituencies and then ‘feed’ their capital into a ‘master fund’ where the investment portfolio is held and managed” and provides a diagram in what appears to illustrate this process. Ex. 2015, 34–35. A “Uniform Application for Investment Adviser Registration (FORM ADV) (Ex. 2041) indicates, for example, that a “related person” is not “exempt from registration,” is not registered “with a foreign financial regulatory authority,” and shares both a

“supervised person” and a “physical location.” Ex. 2014, 6. Patent Owner has not shown sufficiently how any of the evidence relied upon support or even suggest that “funds from . . . investors were used for this proceeding,” much less that any specific investor played any role in controlling the preparation or filing of the Petition. Indeed, none of the statements appear to be related to the Petition in any way. In addition, Patent Owner’s theory, carried to its logical limit, incorrectly would capture as a real party-in-interest every major (or relatively minor) shareholder who invests in a corporation or fund. Hence, Patent Owner does not provide sufficient evidence to demonstrate more than a mere possibility that something useful will be discovered.

Patent Owner argues that “The Mangrove Partners Hedge Fund and Nathaniel August have repeatedly signed documents on behalf of Petitioner, the US Feeder, the Cayman Feeder, and Mangrove Capital” and the entities have “acted as a collective, referring to themselves as ‘Mangrove.’” Motion 2 (citing Ex. 2007, 11–12; Ex. 2008, 12; Ex. 2009, 11; Ex. 2010, 11; Ex 2011, 11; Ex. 2012, 11; Ex. 2013, 5, 11; Ex. 2014, 1, 3–4). We are not persuaded by these arguments. Even if Patent Owner’s argument that various individuals allegedly “signed documents” (none of which appear to pertain to the preparation or filing of the Petition – see, e.g., Exs. 2007–2014) or that the entities referred to themselves as “Mangrove,” Patent Owner does not explain more than a mere possibility that something useful will be discovered. Hence, the evidence (e.g., Exs. 2007–2014) does not show beyond speculation that in fact something useful will be uncovered.

Patent Owner argues that “Petitioner has never denied involvement of the other Mangrove entities in this proceeding” and “file[d] a ‘contingent motion to amend the real parties in interest.’” Motion 3. Even if “Petitioner has never denied” that the other Mangrove entities are real parties-in-interest, as Patent

Owner appears to contend, we are not persuaded that Patent Owner has demonstrated sufficiently more than a mere possibility that something useful will be discovered. For example, Patent Owner has not demonstrated adequately how Petitioner's alleged silence regarding this matter or Petitioner's filing of a contingent motion pertains to any alleged control exercised by the other Mangrove entities over the preparation or filing of the Petition in this matter. Nor do the alleged actions (or inaction) of Petitioner indicate more than a mere possibility that something useful will be discovered.

Patent Owner argues that "Petitioner's counsel indicated that Petitioner was willing to name all of the entities discussed [in the Motion], other than the investors, as RPIs," "if Patent Owner agreed to waive its right to challenge Petitioner's failure to properly identify the RPIs." Motion 3–4. Based on this alleged discussion, Patent Owner argues that "Petitioner's willingness to negotiate . . . shows that [Petitioner] . . . recognizes that there is an issue." *Id.* at 4. Patent Owner does not demonstrate sufficiently that Petitioner's alleged "willingness to negotiate" constitutes more than a mere possibility that something useful will be discovered. For example, it is entirely possible that Petitioner is merely willing to negotiate in order to resolve the issue raised by Patent Owner.

In considering the parties' arguments, we determine that Patent Owner has not met its burden in showing additional discovery is in the interests of justice as required under 37 C.F.R. § 42.51(b)(2).

Accordingly, it is

ORDERED that Patent Owner's Motion for Additional Discovery is denied.

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