

The Economic Impact of Codifying Fintiv

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The term “Fintiv” refers to a threshold, procedural set of factors the Patent Trial and Appeal Board (PTAB) of the U.S. Patent and Trademark Office (USPTO) currently uses to decide which patents will be reviewed by the PTAB. Based on the *Apple v. Fintiv* case, the *Fintiv* factors refer to the PTAB’s ability to launch a review of a patent that is also at issue in a parallel infringement case in a different forum (e.g., federal court or the U.S. International Trade Commission). Under *Fintiv*, the PTAB can elect not to conduct an *inter partes* review (IPR) or post-grant review (PGR) of the patent, thereby deferring to the district courts to handle validity of the patent(s)-at-issue instead. Currently, the PTAB is considering whether to make *Fintiv* permanent. This paper argues and shows that making *Fintiv* permanent could generate a direct economic cost of at least \$283 million. Based on the data used, as explained further below, and because it is difficult to quantify the indirect costs, this estimate is likely an underestimate of the rule’s true economic cost.

Introduction

On May 14, 2020, the PTAB designated the *Apple Inc. v. Fintiv* Opinion precedential, which established the exercise of the Patent Trial and Appeal Board’s (PTAB) discretion to deny institution of an IPR or PGR (post-grant validity proceedings). The *Fintiv* factors lay out considerations for PTAB judges to weigh in determining whether to launch a review of a patent-at-issue in a parallel infringement case—either in federal court or in the US International Trade Commission. Thus, under these factors, a Petitioner that complies with all statutory rules for requesting that the PTAB review validity of a patent, including paying the appropriate fees, could nevertheless have their petition denied at the discretion of the PTAB.

If the PTAB denies the petition, then this administrative tribunal of the USPTO will not review the patent and the question of validity of the patent will be left to other forums, such as district courts or the International Trade Commission, or it may not be reviewed at all. This has substantial economic costs. First, district courts trials run for multiple years, whereas PTAB decisions are usually concluded within one year from initiation. This delay increases the cost of litigation. Second, the discovery phase of PTAB trials is significantly narrower than in district courts, which means less litigation costs for both parties. And finally, if the PTAB were to hear the case and render the patent invalid (even in-part), this streamlines the district court proceedings. This paper aims to quantify these effects and show that these effects are statistically significant.

To calculate litigation costs, we gather data on all damages and merge multiple data sources together. While it is impossible to know the true litigation cost, since attorneys and corporations do not disclose these publicly, we can estimate the cost based on other data sources. For example, the American Intellectual Property Law Association (AIPLA) conducts an annual economic survey. In their survey, the average cost for a patent litigation case is based on the amount at risk. In 2020, the surveyed table of litigation costs is given in the following table:

LESS THAN \$1 MILLION AT RISK		
	Initial case management,	\$50,000
	Inclusive of discovery, motions, and claim	\$300,000
	Inclusive of pre and post-trial, and appeal when applicable	\$675,000
	Cost of mediation	\$35,000
\$1-\$10 MILLION AT RISK		
	Initial case management,	\$75,000
	Inclusive of discovery, motions, and claim	\$650,000
	Inclusive of pre and post-trial, and appeal when applicable	\$1,000,000
	Cost of mediation	\$75,000
\$10-\$25 MILLION AT RISK		
	Initial case management,	\$113,000
	Inclusive of discovery, motions, and claim	\$1,000,000
	Inclusive of pre and post-trial, and appeal when applicable	\$3,000,000
	Cost of mediation	\$80,000
MORE THAN \$25 MILLION AT RISK		
	Initial case management,	\$250,000
	Inclusive of discovery, motions, and claim	\$2,150,000
	Inclusive of pre and post-trial, and appeal when applicable	\$4,000,000
	Cost of mediation	\$150,000

The total litigation cost in Table 1 is the sum of the individual costs across the different stages of the case. For example, for cases with more than \$25 million at risk, the total cost is the sum of the costs for case management, discovery, appeal, and mediation, or \$6.55 million. To measure how much is at risk, we use the data on ex-post damages awarded by juries in US patent litigation cases. This is a measure, albeit not perfect, of how much is at risk in a legal dispute. Even though the damage amount may change at appeal, the top-line damage number conveys how much a defendant will pay to litigate or defend a patent dispute. This is likely the chief financial concern for corporations in this space. The figures in the table above are per-party. The total cost for both parties will be double the cost per party.

Notice there is an increasing relationship between the legal costs and the amount at risk. This should be intuitive since corporations are rationally interested in spending more and devoting more resources on a litigation if the stakes are higher. That could mean hiring more, or better, attorneys. It could also mean that more attorney hours are necessary to handle the increased complexity and number of legal issues that exist with increased stakes (e.g., increased discovery, patents, and products at issue).

I harvest data on damages from data aggregators like LexisNexis and Rocket Docket. To get a measure of litigation cost per month over a specific period of time, I obtained the jury verdicts for a given period from the harvested data. I then run each damage amount through table one

above, to thereby estimate the total cost over that time. It is important to note that this measure of risk is based only on cases that reached jury verdicts over the period of time in question. It does not include litigation costs for cases that do not make it to trial (such as costs for cases that are dismissed or settled prior to trial). Therefore, this is likely an underestimate of true litigation costs because the vast majority of cases do not reach trial.

To see a simple example, observe that beginning in September 2014, Wi-LAN Inc. and Apple Inc. were involved in a patent infringement lawsuit. Wi-LAN accused Apple of infringing its patents and Apple challenged such claims and also challenged the validity of Wi-LAN's patents. In mid-2020, a jury awarded the patent owner damages in excess of \$108,977,000. According to Table 1, this would lead to a cost of roughly \$6,550,000 per party, or \$13,100,000 for both parties, since the case went all the way to trial. Further, this was merely one out of 21 such actions involving Wi-LAN that were filed around the same time.

It is important to remember this is only a measure of the direct litigation cost, not the indirect costs. The indirect costs can include the opportunity cost of litigating rather than operating or innovating. While this is hard to measure, it is likely much larger than the direct costs. For example, consider a company that faces \$100 million in damages. This company cannot invest that amount into activities that would increase the value of the firm in the long run, such as research and development. A full analysis of the full cost of litigation, both indirect and direct costs, is outside the scope of this paper. But the numbers below are a lower bound on the true cost since they only include the direct cost.

To calculate the effects of *Fintiv*, I calculate the total litigation cost per party per month in a period before and after the *Fintiv* decision, which is short enough to focus on the fixed effect of the *Fintiv* rule. In our data set, there have been 27 months since *Fintiv* was deemed precedential (May 2020 to August 2022), so the pre- and post-*Fintiv* periods are each 27 months long. Figure 1 plots the total litigation cost per party over the two periods. The total cost in the pre-*Fintiv* period was \$699,156,000 per party from February 2018 to May 2020. The total litigation cost in the post-*Fintiv* period from May 2020 to August 2022 was \$868,181,000 per party. This is a difference of \$169,025,000 per party over just a 2+ year horizon before and after the *Fintiv* decision. As noted above, this is likely an underestimate since it is based on data from cases that reached a jury verdict over this 54 month period and excluded costs for cases that were terminated prior to trial. Further, fewer than usual trials occurred during this period because of the coronavirus pandemic, yet again leading these figures to underestimate the true total litigation costs per party.

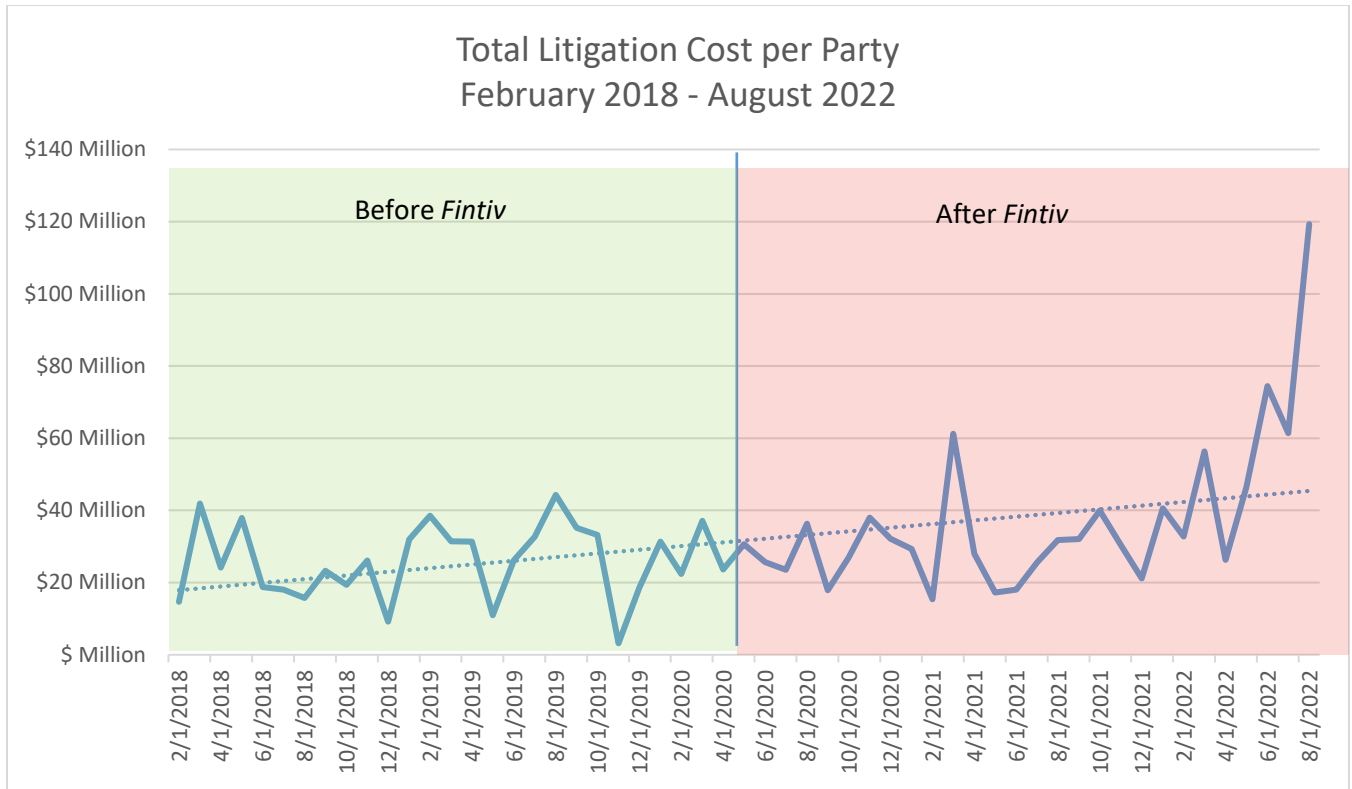


Figure 1 displays the total amount spent on litigation each month compiled from the dataset. The period before the *Fintiv* decision is shown in green, and the period after is shown in red. The line in between sits around the decision date in May 2022. The trendline shows a steady increase in the total amount spent over the years, and the amount is displayed in millions. This graph shows the 54 month period of time spanning from February 2018, 27 months before the decision, to August of 2022, 27 months after the decision.

In the pre-*Fintiv* 27-month period from February 2018 to May 2020, the litigation cost per party was \$25,077,958 per month. In the post-*Fintiv* period from May 2020 to August 2022, the litigation cost per party was \$32,154,851 per month. This is a difference (increase) of $\Delta = \$7,076,893$ per party per month. This is the difference in litigation costs in the economy because of *Fintiv*.

To calculate the difference in perpetuity, we can calculate the net present value of this difference over all months after *Fintiv*. Using a standard 5% discount rate, the net present value of *Fintiv* per party is

$$NPV = \sum_{t=0}^{\infty} \Delta \left(\frac{1}{1+r} \right)^t = \frac{\Delta}{r} = \frac{\$7,076,893}{0.05} = \$141,537,860$$

Therefore, the net present value of the effect of *Fintiv* per litigation (i.e., assuming two parties per suit) is twice this, or \$283,075,720. This is the total lifetime difference in litigation costs due to *Fintiv*, or a measure of the economic costs of *Fintiv*.

Conclusion

Codifying *Fintiv* restricts the discretion of the PTAB and shifts more litigation to other, more costly, forums, such as federal district courts. The PTAB can serve a useful, more efficient function by invalidating patents through its panel of expert judges instead of relying on the uncertain assessment from nonexpert juries in the court system. The data shows that when *Fintiv* came into place, total litigation cost did increase. Insofar as litigation is a deadweight loss and a drain on economic productivity, this is a problem for economic growth and innovation. The quantities and the magnitude of *Fintiv* is sufficiently large to warrant further economic study of the costs and benefits of codifying the *Fintiv* factors.