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LITIGATION, AND MANAGEMENT

defined but-for scenario, an understanding of how incremental sales would have changed the plaintiff's cost structure, and the market conditions in which the plaintiff would have produced these units. Financial documents and data can form the basis of this analysis, but an understanding of the data and underlying accounting methods is necessary to complete an accurate incremental cost analysis.

From an economic perspective, commercial success could in principle be defined by a single criterion: Does the patented invention earn a positive net return (risk-adjusted) on invested capital after accounting for all relevant costs associated with developing and commercializing the patent as well as any alternatives available to the patent holder? Patents exist to protect the human and financial investment used to develop new products, services, or processes. This investment, however, is only beneficial, from a social perspective, if consumers are willing to purchase an embodiment of the invention at such a price as to fully compensate the inventor for all costs incurred in bringing the product to market.² Put simply, patents are not needed to protect inventors from making poor investment decisions.

The courts' use of the previously mentioned factors is not necessarily in conflict with this definition, and many—perhaps most—previous decisions made by courts are likely to have been consistent with it. Given the limitations on available data, it is entirely reasonable that an analysis of commercial success should consider and place significant weight on the traditional measures such as market share or revenue growth. However, under certain circumstances, rapid sales growth and gains in market share will not necessarily reflect a profitable underlying invention. Moreover, calculating the proper measure of profitability can be a complicated task and should be considered in an appropriate context—for example, relative to an appropriate benchmark or alternative. Consequently, it is our opinion that courts should look more deeply into the economic characteristics of the product before arriving at a determination of the commercial success of the patent.

A Summary of the Case Law

In *Graham v. John Deere Co.*, the seminal case identifying commercial success as a relevant secondary consideration in a determination of patent validity, the Supreme Court of the United States cited an article in the *University of Pennsylvania Law Review* that focused on the consumer perspective for evaluating the commercial success of a patent. The article stated that “[t]he operative facts...are the actions of buyers rather than those of producers.”³ Case law since *Graham* has generally followed this

² One could imagine that, for reasons of public policy, a patented invention related to health care could be sold at an artificially low price, or even given away, but such a strategy would not reduce the true value of the invention.

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