

# Newsletter

KIM & CHANG

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### FIRM NEWS

## PATENT

### MEANING OF "EMPLOYER'S EXPECTED PROFIT" WHEN DETERMINING REASONABLE REMUNERATION FOR IN-SERVICE (OR WORK-FOR-HIRE) INVENTIONS

In Korea, an employee has the right to obtain "reasonable remuneration" for an in-service invention when he or she transfers the patent rights or grants an exclusive license to the employer in accordance with a contract or service regulation. A recent district court opinion, *Jung v. Hanlim Pharm. Co.*, Case No. 2007 Gahap 101887 (Seoul Central District Court, decided on Jan. 23, 2009), provides insight on how reasonable remuneration for patent use should be determined.

In *Hanlim*, plaintiff Yu-sup Jung invented an amlodipine nicotinate formulation and method of preparing the same in 2002 while employed at *Hanlim* Pharmaceuticals. The plaintiff assigned his right to obtain a patent on the invention to his employer and retired from his position around April 2003. The plaintiff subsequently filed suit against his former employer requesting KRW 1 billion (approximately USD 650,000) in remuneration for his in-service inventions, including the amlodipine nicotinate formulation. The court held that the plaintiff had the right to request remuneration for his amlodipine nicotinate formulation<sup>1</sup> and ordered the defendant to pay KRW 8.8 million (approximately USD 5,500) as reasonable remuneration.

It is well settled that "reasonable remuneration" should be determined in view of (1) the employer's expected profit from the in-service invention; (2) the degree of the employer's and employee's contribution in perfecting the in-service invention (hereinafter "inventor remuneration rate"); and (3) if more than one inventor exists, the relevant employee inventor's contribution to the in-service invention.

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<sup>1</sup> The *Hanlim* court held that facts arising after the transfer of patent rights, such as whether a patent application was subsequently filed or a patent issued, whether the employer later used the patent, or whether the patent was invalidated, do not affect the employee's right to obtain reasonable remuneration for his or her in-service invention. However, such after-arising facts may be considered in determining the amount of reasonable remuneration.

The *Hanlim* decision is significant, because it provides additional guidelines in applying the first prong of this test. Specifically, after noting that the plaintiff is requesting from his employer reasonable remuneration for using the patented in-service invention<sup>2</sup>, the *Hanlim* court clarified the meaning and application of the “employer’s expected profit from the in-service invention” as follows:

First, the employer’s “expected profit from the in-service invention” refers to the profit obtained by excluding others from making, using, selling, or importing the patented in-service invention. As such, the court noted that if the employer licenses the patented in-service invention to third parties, related license fees and royalties should be considered in determining this value.

Second, the employer’s “expected profit from the in-service invention” must be determined at the time the employee transfers his or her patent rights, including the right to obtain a patent, to the employer (hereinafter “time of transfer”). Moreover, the mere fact that the employer did not use the patented in-service invention after the time of transfer is an insufficient basis for concluding that there is no employer profit. The court also noted, however, that events occurring between the time of transfer and the employee’s request for remuneration, such as whether the employer used the patented in-service invention and, if so, any sales revenue derived therefrom, may be considered in computing the employer’s expected profit.

Third, the employer’s “expected profit from the in-service invention” is not the employer’s net accounting profit, which takes costs and expenses into account. Rather, it is the profit derived solely from the in-service invention. Thus, the employer’s cost of researching and developing the in-service invention does not negate “the employer’s expected profit,” but may be considered when determining the “inventor remuneration rate.”

Both parties filed an appeal against the district court’s ruling and the case is currently awaiting appellate review.

<sup>2</sup> According to the court, there are several categories of remuneration based on the type of profit to be derived from the in-service invention, including remuneration for conceiving the invention, remuneration for patent filing and issuance, and remuneration for patent use. The issue in *Hanlim* was to determine reasonable remuneration for patent use.

## Comments

Laws relating to remuneration for in-service inventions, which were previously governed by the Patent Act, were consolidated in the Invention Promotion Act on March 3, 2006. In *Hanlim*, the court adjudicated the case under Article 40, paragraph (2) of the Patent Act, because the plaintiff had assigned his right to obtain a patent on the amlodipine nicotinate formulation to his employer prior to March 3, 2006. The holding of this decision, however, remains applicable under the Invention Promotion Act since the remuneration provisions are similar under both Acts.

*Hanlim*, although a district court opinion, is significant because it provides guidance in understanding the “employer’s expected profit from the in-service invention” when determining reasonable remuneration. The pending appeal should be closely followed to observe how the High Court addresses this issue.

## THE KOREAN PATENT COURT RECOGNIZES THE RIGHT OF PHARMACEUTICAL PATENTEES TO PROTECT THEIR PRICING

The Korean Patent Court recently issued decisions recognizing the right of patentees to file scope trials<sup>3</sup> against generics based on their regulatory approval status (without actual manufacture or sales of generic products). These decisions are considered to be very significant, in providing another option for pharmaceutical patentees to protect their products (and pricing, as discussed below).

<sup>3</sup> A scope trial is an administrative proceeding to confirm whether a patent covers a certain product, process, etc. It is not directly enforceable, in contrast to a court decision.

## Background

Under Korean law, generics receive insurance pricing based on the order of their application (sooner the application, higher the price). This causes generics to apply for pricing as quickly as possible, even where a patent protects the original drug. At the same time, the price of an original drug is reduced by 20% if a generic indicates immediate launch plans when receiving its pricing, unless the patentee already has a “formal” finding of infringement against the generic product. As a way to obtain such a formal finding without filing a full patent litigation (which would be difficult since the generic was not on the market), patentees have been filing scope trials. However, as a main defense, the generics were arguing that their cited activities (all related to regulatory/pricing approval) did not arise to the level needed to support the patentee’s legal standing to file such scope trials.

In the subject cases, the generics had manufactured a sufficient amount of their products to conduct bioequivalency testing, received final marketing approvals, and received pricing. Thus, the issue on appeal to the Patent Court was whether such activities provided sufficient basis for the patentee’s legal standing. If not, the above scope trial option would have been effectively eliminated for pharmaceutical original developers, leaving them with no practical option to protect their pricing against potentially infringing generic products.

## The Patent Court Decision

First, the Patent Court held that a generic’s bioequivalency testing (and related manufacturing or storage of remaining samples) does not constitute patent infringement, citing the traditional experimental use exemption. However, the Court did find that a generic’s pricing activity does create legal standing, since this enabled immediate commercial sales. Further, the Court noted that even if a generic indicated plans to sell after patent expiration, nothing prohibited its changing its mind in the future; while a patentee was at significant risk not only from the patent infringement, but the potential 20% reduction of its price. Citing the above, the Court held that a patentee had sufficient legal interest to confirm its patent scope, where a generic had received pricing before patent expiration. However, as *dicta*, the Court added that if the remaining patent term was very short, this may argue for a different

outcome since generic entry immediately after patent expiration must not be hindered (while citing that a remaining patent term of 2 to 4 years was not “very short” under the above standard).

## Significance of the Decision

We believe that this decision is quite significant for the below reasons.

- The decision provides very useful guidance on what falls within the scope of the Korean experimental use exemption, i.e., regulatory approval-related testing and related activities such as manufacturing and storage were not considered to be infringement. Indeed, aside from a 2001 District Court decision finding that agrochemical regulatory approval-related field testing was non-infringing, this is the first major decision by the Patent Court (the leading Korean appellate-level IP court) on this issue, specific to the pharmaceutical industry.
- Perhaps more importantly, the decision weighs competing interests between patentees and generics, and attempts to strike a fine balance. That is, while recognizing the generics’ valid interests, the Court also understood that original drug makers must also have practical means to protect their patent rights and pricing (which immediately impacts their bottom line).
- However, the Court’s *dicta* on the potential effect of a short remaining patent term means that this issue will continue to be better defined by future decisions.
- As noted, while the system creating the generics’ race for pricing remains in place, the Court’s decision means that earlier-priced generics could now face earlier scope trial decisions (supported by the longer remaining patent term), which could potentially be cited to cancel the generic’s pricing. In this sense, the Court’s decision may have a real impact on future generic pricing practices.
- It should also be noted that the Korean government is currently considering changes which may completely eliminate the scope trial option to protect pricing, and instead implementing a system requiring the filing of a patent litigation. Interestingly, KIPO (the Korean patent

office) has taken a position against such a change, so future developments certainly merit close monitoring.

## THE SUPREME COURT REJECTS KIPO'S RIGID STANCE AGAINST FUNCTIONAL LANGUAGE IN MEDICINAL USE CLAIMS

The Korean Supreme Court recently rendered a decision which may impact current examination practices regarding the use of functional expressions in medicinal use claims (*In re MCW Research Foundation, Inc.*, Supreme Court Decision No. 2006 Hu 3564 held on January 30, 2009). In the *MCW Research* case, the Korean Intellectual Property Office ("KIPO") issued a final rejection arguing that a claim directed towards "a composition for treating *nitric oxide overproduction*" lacked clarity.

Under the Korean Patent Act, patent claims are required to set forth the subject matter clearly and concisely. Therefore, KIPO took the position that medicinal use claims cannot be defined by functional expressions such as action mechanisms unless a correlation between the claimed action mechanism and the specific disease is clearly established in view of the specification or common knowledge at the time of filing.

More specifically, KIPO was concerned that broad mechanism claims would unduly broaden the claim scope by capturing diseases which had not been discovered prior to the application's filing date. Consequently, KIPO requires a correlation between the claimed action mechanism and the specific disease. In practice, this meant that the specific names of the disease needed to be included in the claim language.

In the *MCW Research* case, the claim contained references to specific diseases. However, the KIPO examiner (and the lower courts) rejected the claim stating that it may be construed to cover diseases other than those recited therein. The Supreme Court rejected this rigid standard and

held that functional language can be allowed *if the medicinal use is clearly recognizable in view of the specification or common technical knowledge*. Based on this standard, the Supreme Court found that claims directed towards "nitric oxide overproduction" was allowable since the patent's specification taught that NO overproduction relates to a broad scope of pathologic conditions/diseases and the working examples showed that the blood pressure levels could be normalized through the reduction of NO overproduction.

Interestingly, the *MCW Research* case was not the first time the Supreme Court tried to broaden the standard to allow functional expressions in medicinal use claims. Back in 2003, in *In re The Children's Medical Center Corporation* (Supreme Court Decision 2003 Hu 1550 dated December 23, 2004), the Supreme Court held that a functional expression such as "inhibition of angiogenesis" was allowable. However, KIPO took a very narrow view of the holding and has continued to require specific names of diseases in medicinal use claims. In fact, in the revised Examination Guidelines for Health Functional Food Inventions of 2009, KIPO explicitly indicated that when uses are expressed as the attribute per se (e.g., such as property, effect, or mechanism of action), it is improper.

Through the *MCW Research* case, the Supreme Court reaffirmed that functional language can be allowed if the medicinal use is clearly recognizable by reference to the specification or common technical knowledge. It is possible that KIPO will again take a narrow view of the Supreme Court's holding. However, it is our hope that KIPO will broaden the scope of allowable claims to include functional language. We will continue to monitor KIPO's response and modify our recommendations accordingly.

## RECENT DEVELOPMENTS IN INTELLECTUAL PROPERTY PROTECTION FOR SEEDS IN KOREA

In recent years, there has been an increased interest in intellectual property protection for seeds in Korea. Such protection for seed varieties may be in the form of both patents and plant variety protection ("PVP") rights.

The October 1, 2006 amendment to the Korean Patent Act abolished the previously existing requirement for patentable plant inventions, i.e., the "asexual reproduction" requirement, from the first promulgation of the modern Korean Patent Act. With the new amendment, the scope of patentable subject matter relating to plants was expanded to include all novel plants regardless of whether the plant is sexually or asexually reproduced.

As a result of the above amendment, the number of patent applications claiming seeds that have been filed with the Korean Intellectual Property Office ("KIPO") has rapidly increased, as shown by the recent statistics published by KIPO below.

### Number of Patent Applications Claiming Seeds Filed with KIPO

Time Period	2004.10 – 2005.09	2005.10 – 2006.09	2006.10 – 2007.09	2007.10 – 2008.09
Number of Patent Applications	33	43	65	66

It is KIPO's view that the above-mentioned 2006 amendment to the Korean Patent Act resulted in a second resurgence for plant-related patents, the first one being the period between 1995 and 2005 triggered by the introduction of genetic engineering technology to plant breeding.

In view of the increase in the number of patent applications being filed for seeds, KIPO announced that it would continue to provide custom-tailored patent education and public relation services for the relevant research and industry.

Further, since implementing a PVP system in 1997 and becoming the 50th member of the International Union for

the Protection of New Varieties of Plants ("UPOV") in 2002, Korea has been gradually expanding the scope of protectable plant species and genera. While during the first year under the PVP system, protection had been offered for only 27 plant varieties such as rice and apple, now 223 varieties are protectable under the PVP system. Korea's Ministry of Food, Agriculture, Forestry and Fisheries, which is in charge of the PVP system, has recently published a plan to provide protection for all plant genera and species by the year of 2009.

Reflecting the increased interest in PVP rights, the Korean Supreme Court recently heard a case for the first time that dealt with PVP rights. Given the relatively short history of the PVP system, there have been few court decisions in Korea relating to PVP rights. The above Supreme Court case involved a dispute between a nursery company and floriculturists and held that PVP rights do not extend to the cutflower roses harvested after the PVP application for the protected variety if the floriculturists planted the seedlings before the filing of the application (Korean Supreme Court Decision No. 2006 Da 24674, October 9, 2008).

Considering the continuous efforts and new technological developments being made in the seed industry, it is expected that more and more applications for patents and PVP right will be filed to obtain protection for seed varieties.

## TRADEMARK

## EXPEDITED EXAMINATION FOR TRADEMARK APPLICATIONS

The recent Implementation Regulations to the Trademark Act, announced on Dec. 31, 2008, provide grounds for an expedited examination for trademark applications, which will come into force on April 1, 2009.

The Korean Intellectual Property Office ("KIPO") has yet to lay down any applicable guidelines or regulations concerning this expedited examination and they are expected to set forth such guidelines or regulations within this March. However, based on our knowledge of KIPO's stance in this regard, the expedited examination can be also requested for an application filed before April 1, 2009, so long as the application is pending as of April 1. Further, KIPO plans on completing its review of a trademark application within around two months from such request for expedited examination. Considering that it generally takes six to eight months upon filing a trademark application for a KIPO examiner to review the same and decide whether to grant registration of the applied mark, this system will significantly expedite the examination process.

The grounds for requesting expedited examination are as follow:

- (i) if the applicant is using or planning on using the mark in connection with all of the designated goods/services under the pending application, or
- (ii) if a third party is using the mark without any justifiable reason.

Thus, in case the above (i) is an appropriate ground to apply, it is advisable to limit the designated goods/services of an application to those that will be in fact used, since actual use of the mark on all of the designated goods/services is required.

We plan to provide more a detailed report on this topic as soon as KIPO sets forth the applicable guidelines or regulations.

## FERRERO S.P.A. SUCCESSFULLY OBTAINS 3D-TRADEMARK REGISTRATIONS FOR ITS CHOCOLATE PACKAGES

Kim & Chang represented Ferrero S.p.A. ("Ferrero") in obtaining the below mark registrations (collectively, the "Subject Marks") for chocolate, etc. One of the most famous chocolates worldwide, FERRERO ROCHER chocolate is one of Ferrero's representative products and the Subject Marks are 3-D marks for FERRERO ROCHER's packages.



Reg. No. 774571  
(Subject Mark 1)



Reg. No. 774572  
(Subject Mark 2)

### Case History

In order to protect its packaging design, Ferrero applied for the Subject Marks designating chocolates, etc., but oppositions were filed by the representative of Montresor Korea (the "Opponent"), a subsidiary of Montresor, which was involved in infringement cases with Ferrero concerning imitation FERRERO ROCHER packaging in China. The Opponent based its opposition on the grounds that the Subject Marks are merely non distinctive shapes of the chocolate packages and consist of only the three-dimensional form necessary to secure the function of the product packaging.

The Korean Intellectual Property Office ("KIPO") accepted the oppositions and Ferrero appealed to the Intellectual Property Tribunal ("IPT") against the final decisions.

### IPT Decisions

The IPT held that the Subject Marks have distinctiveness as source identifiers (Decision Nos. 2007Won11001 and 2007Won11002 ruled on October 24, 2008). The contents of the decisions can be summarized as follows.


As to the Subject Mark 1, the IPT held that the form of scraggy ball-shaped chocolate packaged inside a gold-colored wrapper is different from the commonly associated chocolate forms, such as plate/bar type and smooth round type. Further, the form of chocolate packaged inside a gold-colored wrapper and contained in a folded paper holder is also different from the commonly known packaging form of chocolate, and it cannot be stated that the “FERRERO ROCHER” sticker part is a minor part of the Subject Mark 1 in view of its attached location, letter size, design, etc. Thus, general consumers can distinguish the “FERRERO ROCHER” product from other products through the overall form of the Subject Mark 1.

As to the Subject Mark 2, the IPT first confirmed that the form of each chocolate, which represents one of the essential elements composing the Subject Mark 2, has distinctiveness due to the reasons mentioned above. Further, it can be stated that the “FERRERO ROCHER” element of the Subject Mark 2, which is inscribed on the sticker having the appearance of a belt attached to the exterior of the transparent container, is strongly recognized as being a distinctive identifier in view of its attached position, letter size, design, etc. Accordingly, it is judged that even though the Subject Mark 2 includes some elements suggesting or emphasizing the nature of the designated goods, the Subject Mark 2 is distinctive overall due to its letter part having strong distinctiveness, despite the weak distinctiveness of the arrangement of chocolates and transparent packaging container, which are commonly seen.

Based on the grounds that diverse types of packaging forms exist in the actual marketplace, the IPT dismissed the opponent’s argument that the Subject Marks consist of only an indispensable three-dimensional form securing the function of the product packaging.

Opponent’s above mark should be rejected because it is similar to Ferrero’s famous and “distinctive” Subject Mark 1, not because it is descriptive. Based on the same reasoning of the above IPT decisions acknowledging the distinctiveness of the Subject Marks, KIPO finally rejected the Opponent’s application on January 15, 2009 due to similarity with Ferrero’s mark. The decision became final and conclusive due to lack of an appeal, and the application was thus nullified.

## Final Rejection of the Opponent’s Imitation Mark

The Opponent filed an application for “”, which is confusingly similar to the Subject Mark 1, but the Opponent’s application was preliminary rejected by KIPO based on the grounds of descriptiveness.

Ferrero filed an information brief with the examiner regarding the Opponent’s application, arguing that the

## FIRM NEWS

## AWARDS &amp; RANKINGS

**Kim & Chang Ranked Again as the Only Top Tier Firm in Korea in Managing Intellectual Property ("MIP")'s World IP Survey 2009**

We are proud to announce that for the sixth consecutive year, Kim & Chang is ranked as the only Tier 1 firm for patent prosecution and patent contentious work among Korean law firms in Managing Intellectual Property's annual survey of the world's leading IP law firms. Kim & Chang is the only firm that also captured the top tier honors for trademark prosecution and trademark contention work among Korean law firms. The MIP survey results are a qualitative ranking of the leading firms based on research and interviews with hundreds of practitioners and in-house counsels in 70 jurisdictions. In this regard, we will continue to maintain our premier quality of legal services for our clients and live up to the honor which has been bestowed upon us.

**Kim & Chang Received MIP Korean Firm of the Year Accolade**

We are pleased to announce that for the 4th consecutive year, Kim & Chang has been chosen as the "Korean Firm of the Year," which was presented at the 2009 MIP Awards in London on March 31, 2009. Thank you all for your continued trust and confidence.

## NEW MEMBERS

We are pleased to announce that the following attorneys recently joined Kim & Chang:

**Mr. Kenneth K. CHO**, a US patent attorney who was the Counseling and Acquisition Manager for IP matters for the Consumer Electronics product Division of Philips and a Patent Assertion Attorney with AT&T Corp. has re-joined the firm as of January 20, 2009.

**Mr. Gregory B. KANG**, a US attorney and former patent examiner who previously worked as in-house counsel for the LCD division at Samsung Electronics and was a partner at a boutique IP Law firm in the Washington DC metropolitan area, joined the firm as of January 28, 2009.

**Ms. Hye Joo MIN**, a US attorney who previously worked at Dickstein Shapiro LLP, joined the firm as of January 12, 2009.