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## District Court Decision Opens Door to Additional Patent Term Adjustment

By Janet Xiao

In *Exelixis, Inc. v. Kappos*,<sup>1</sup> a federal district court overturned the USPTO's interpretation of the patent term adjustment ("PTA") statute, finding that a Request for Continued Examination ("RCE") filed after three years from the patent application filing date does not impact PTA. The decision, if not reversed on appeal, could significantly extend the term of many patents. Although it is likely that the USPTO will appeal the decision and the finality of the district court's holding remains uncertain, holders of patents should review their patents and consider taking relevant action in view of this decision.

### PATENT TERM ADJUSTMENT STATUTE AND USPTO INTERPRETATION

35 U.S.C. § 154 establishes that the term of a U.S. patent expires 20 years from the earliest effective non-provisional U.S. filing date of the patent application. To compensate for USPTO delays during the patent examination process, Congress enacted 35 U.S.C. § 154(b)(1), which provides "guarantees" against three different types of delays:

Part A delay, when the USPTO fails to take an action within a certain period of time (such as issuing a first office action within 14 months, issuing a second action or allowance within four months of a response, and issuing a patent within four months of the issue fee payment). 35 U.S.C. § 154(b)(1)(A).

Part B delay, when the USPTO fails to issue a patent within three years from the filing date of the patent application. 35 U.S.C. § 154(b)(1)(B).

Part C delay, when the application is involved in an interference or appeal, or is subject to a secrecy order. 35 U.S.C. § 154(b)(1)(C).

The potential impact of an RCE on Part B delay is laid out in 35 U.S.C. § 154(b)(1)(B) ("subparagraph B"), which states:

(B) GUARANTEE OF NO MORE THAN 3-YEAR APPLICATION PENDENCY.- Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the United States Patent and Trademark Office to issue a patent within 3 years after the actual filing date of the application in the United States, not including-

(i) any time consumed by continued examination of the application requested by the applicant under section 132(b);

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<sup>1</sup> *Exelixis v. Kappos*, No. 1:12cv96 (E.D. Va. Nov. 1, 2012), the U.S. District Court for the Eastern District of Virginia (Ellis, III, J.).

# Client Alert.

the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued.

The USPTO's interpretation of subparagraph B is set forth in 37 C.F.R. § 1.703(b):

(b) The period of adjustment under § 1.702(b) is the number of days, if any, in the period beginning on the day after the date that is three years after the date on which the application was filed under 35 U.S.C. 111(a) or the national stage commenced under 35 U.S.C. 371(b) or (f) in an international application and ending on the date a patent was issued, but not including the sum of the following periods:

(1) The number of days, if any, in the period beginning on the date on which a request for continued examination of the application under 35 U.S.C. 132(b) was filed and ending on the date the patent was issued....

Thus, under the USPTO's interpretation, filing of an RCE at any time during the patent examination period would "wipe out" any possible PTA that would otherwise have accrued after the RCE filing under Part B delay.

## THE EXELIXIS V. KAPPUS DECISION

In *Exelixis v. Kappos*, patent applicant Exelixis filed an RCE after the three-year anniversary from the patent application filing date ("the three-year deadline"). When determining PTA for the granted patent, the USPTO calculated the Part B delay by subtracting the number of days attributable to the RCE (114 days), namely, from date of filing the RCE to the patent issue date, from the total days from the three-year deadline to the patent issue date (199 days).<sup>2</sup> Exelixis argued that the period attributable to RCE should not be subtracted, and that it should be entitled to a total of 199 days of Part B delay.<sup>3</sup>

On summary judgment, the district court agreed with Exelixis, finding the USPTO's calculation contrary to the plain language of the statute. According to the court,

RCE[s] have no impact on the PTA after the three year deadline has passed and subparagraph (B) clearly provides no basis for any RCE[s] to reduce PTA; instead, RCE[s] operate only to toll the three year guarantee deadline, if, and only if, they are filed within three years of the application filing date.<sup>4</sup>

The court reasoned that subparagraph B describes two separate calculations. The first portion of subparagraph B describes the calculation of the three-year period; that is, the three-year clock begins to run on the date the application is filed except for certain tolling events, including the filing of an RCE. The second portion of subparagraph B, namely, "the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued," describes the calculation of PTA.<sup>5</sup>

According to the court, the "not including" phrase of subparagraph (B) followed by the exceptions clearly modifies and

<sup>2</sup> *Exelixis* at page 4.

<sup>3</sup> Exelixis pointed out that if the question presented were decided to the contrary, it would be necessary to resolve a second question, namely, whether the period of time between the date of the Notice of Allowance and the date of the patent issuance is properly included as "time consumed by continuing examination" under 35 U.S.C. § 154(b)(1)(B)(i). *Exelixis v. Kappos*, Slip op. at footnote 3.

<sup>4</sup> *Exelixis*, Slip op. at page 13.

<sup>5</sup> *Exelixis*, Slip op. at page 11.

## Client Alert.

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pertains to the calculation of the three-year period and thus does not apply to the day for day PTA remedy. In other words, the statute simply treats the time devoted to an RCE as time that should not be counted against the USPTO in the running of the three-year clock. Once the three-year clock has run, PTA is to be awarded on a day for day basis regardless of subsequent events.<sup>6</sup> The court reasoned that such a reading of subparagraph B is compelled by the structure and purpose of the statute, and found it significant that 35 U.S.C. § 154 does not treat the filing of an RCE as “applicant delay” that warrants patent term reduction under the subparagraph that enumerates different types of applicant delays.<sup>7</sup>

The court dismissed the USPTO’s argument that subparagraph B must be interpreted as if it included the word “then” prior to the phrase “not including” so that the time consumed by RCE would be deducted from the PTA calculation, reasoning that such interpretation would essentially amount to an improper rewriting of the statute.<sup>8</sup> The court also rejected the USPTO’s position that it should be accorded deference, noting that “deference is unwarranted when [] the statute is unambiguous.”<sup>9</sup> The court further noted that the disparate treatment based on timing of RCE filing, namely, whether RCE filing affects PTA depends on whether the RCE was filed before or after the three-year deadline, can be minimized by the USPTO. The court reasoned that if the USPTO takes steps to issue notices of rejection well within the running of the three-year clock and also requires RCEs to be filed within the three-year period, then the time devoted to RCEs will generally count against the running of the clock and applicants will not be disparately treated.<sup>10</sup>

### IMPACT OF THE EXELIXIS DECISION

The *Exelixis* decision, if not reversed on appeal, could significantly extend the term of many patents. According to the USPTO’s current practice, the filing of an RCE at any time during the patent examination process would “wipe out” any possible PTA that would otherwise have accrued after the RCE filing under Part B delay. Under the *Exelixis* decision, however, if an RCE is filed after the three-year deadline, it would have no impact on the PTA. Thus, many patents that involved the filing of an RCE during the patent examination process may be entitled to a much longer patent term under the *Exelixis* decision.

Although it is likely that the USPTO will appeal the *Exelixis* decision to the U.S. Court of Appeals for the Federal Circuit, patent holders should act now to determine whether their patents may be entitled to longer PTA under the interpretation set forth in the *Exelixis* decision. Immediate action may be needed in order to preserve rights to request additional PTA.

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<sup>6</sup> *Exelixis*, Slip op. at page 12.

<sup>7</sup> *Exelixis*, Slip op. at page 12.

<sup>8</sup> *Exelixis*, Slip op. at page 14.

<sup>9</sup> *Exelixis*, Slip op. at page 15.

<sup>10</sup> *Exelixis*, Slip op. at page 16.

# Client Alert.

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