



August 31, 2010

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SUBJECT: Management Advisory – Postal Service Patent Management (Report Number DA-MA-10-004)

This management advisory presents interim<sup>1</sup> results of our review of the U.S. Postal Service's patent management (Project Number 09YG047DA000). Although we plan to report further on this topic in the future, we felt the results of our initial evaluation of three patents warranted management's immediate attention. Our objective was to determine the commercial significance or revenue-generation potential of Postal Service patents. We conducted this self-initiated review based on financial risks associated with patent management. The U.S. Postal Service Office of Inspector General (OIG) contracted with an intellectual property management firm to study the commercial value of the Postal Service's patent portfolio. See [Attachment A](#) for the contractor's detailed study.

Intellectual property is intangible property created by individuals or organizations that can be owned, transferred, leased through licensing agreements, divided or improved. The Postal Service's general counsel helps the agency identify and protect its intellectual property. One type of intellectual property is a patent.<sup>2</sup> Properly managed, patents can be used to negotiate contracts and business deals, resolve disputes, enhance market share, and produce revenue, which is highlighted later in this review.

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<sup>1</sup> We plan to expand our reporting on Postal Service patent management in the future. As such, we will claim the combined monetary impact at that time.

<sup>2</sup> Patents confer to the inventor the right to exclude others from making, using or selling an object or tool, process, business or marketing system and/or method that is invented.

## Commercial Significance of Patents

To assess commercial significance of Postal Service patents, an intellectual property management company performed an initial evaluation of three of the 97 U.S. patents identified as active and owned by the Postal Service. For the selected patents, they determined the Postal Service could generate \$1.07 billion in annual revenue by licensing the following:

- [REDACTED]
- [REDACTED]
- [REDACTED]

Postal Service policy<sup>3</sup> covering new products and patent licensing agreements<sup>4</sup> seeks to ensure that new and enhanced products consistently meet customer needs, generate new revenue, and strengthen the Postal Service as a viable business. The opportunity to capitalize on active Postal Service patents exists because management has not strategically considered leveraging patents to generate new revenue. In its *Five-Year Strategic Plan*<sup>5</sup> the Postal Service conveys its desire to generate new revenue by leveraging its strengths; however it does not reference intellectual property or patents.

Although the Postal Regulatory Commission (PRC) has the authority to regulate patent commercialization, there are no regulations that prohibit the Postal Service from licensing its patents. According to Postal Service counsel, the PRC has yet to issue regulations on patent commercialization. Commercial benchmarks for an effective licensing and intellectual property management program show that patents are drafted with revenue generation in mind from the outset (not as an afterthought) and are intended to protect ideas that have already come to fruition or commercialization.

Recommendations suggested by the contractor during their study will be addressed in a subsequent report on Postal Service patent management. At this time, we recommend the general counsel, in coordination with the senior vice president, Strategic Planning:

<sup>3</sup> Handbook F-66 D, *Investment Policies and Procedures – Business Initiatives, Alliances, Real Estate Development, and Major Operating Expenses*, Chapter 4, February 2006.

<sup>4</sup> A contract under which the licensor, for an agreed-upon consideration, grants the licensee certain rights with respect to intellectual property (such as trademarks, patents or copyrights) of the licensor.

<sup>5</sup> *Five-Year Strategic Plan for 2009-2013*, October 2008.

1. Establish a strategic plan with timelines to capitalize on the Postal Service's patent inventory strength.

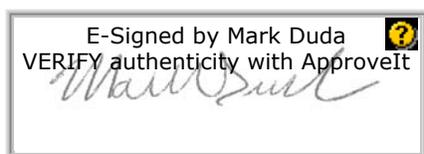
### Management's Comments

Postal Service agreed with our recommendation and will take appropriate action to resolve the identified issues by September/October 2010. Specifically, management will consider issuing a request for proposal to determine whether outside firms exist that could help the Postal Service monetize its intellectual property on a contingency basis. Management set forth a timeline to move forward in this regard. Also, management will consider reevaluating its current pricing model for services related to the address correction patent; however, they noted that various policy and regulatory issues may impact progress regarding any pricing adjustment. See [Appendix B](#) for management's comments in their entirety.

### Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation, and management's corrective actions should resolve the issues identified in the management advisory. The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel Castillo, director, Engineering and Facilities, or me at 703-248-2100.



Mark W. Duda  
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for Support Operations

Attachment

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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service's Law Department helps the agency identify and protect its intellectual property, which is intangible property created by individuals or organizations that can be owned, transferred, leased through licensing agreements, divided or improved. Statutes and case law set the requirements for an asset to qualify as intellectual property and provide the guidelines that determine the boundaries of a piece of intellectual property.

One type of intellectual property is a patent. Patents confer to the inventor the right to exclude others from making, using or selling an object, tool, process, business or marketing system and/or method that is invented. While patents the federal government grants are only effective in the United States, most nations have established some form of patent system.

Utility patents are granted for any new and useful process, machine, article of manufacture, composition of matter or related useful improvement. Utility patents are effective for 20 years from the date an application is filed. As a general matter, only the inventor may apply for a patent. If someone other than the inventor files an application, the patent, if issued, would be invalid and the applicant could be subject to criminal penalties.

The contractor performed an initial evaluation of the 97 U.S. patents identified as active and owned by the Postal Service and determined that 63 patents showed some commercial significance. Three patents were selected to review in detail based on their potential value with the results described in this report. The remaining 60 patents with potential value consisted of:

- Twenty-one that were applicable to Intelligent Mail and Address Quality
- Twenty-three that were applicable to Operations/Engineering
- Sixteen that covered a number of other technical areas

Postal Service is currently selecting additional patents with potential value for review.

## OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine the commercial significance or revenue-generation potential of Postal Service patents. To evaluate patent management, we contracted with an intellectual property firm to study the Postal Service’s active patent portfolio to assess commercial value. The contractor assessed the commercial significance, or Postal Service revenue-generation potential, from licensing each patent. They used a rating and ranking system and evaluated the technology of each patent for the attributes below:

- [REDACTED]

We conducted this review during the period from October 2009 through September 2010, in accordance with the Quality Standards for Inspections.<sup>6</sup> We discussed our observations and conclusions with management on May 12, 2010, and included their suggestions where appropriate. We did not rely upon computer-generated data during our engagement. To evaluate whether the evidence provided by the contractor was reliable we considered:

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<sup>6</sup> These standards were last promulgated by the President’s Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, the Inspector General Act of 1978, as amended by the IG Reform Act of 2008, created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

- The professional reputation, qualifications, and independence of those who performed the work.
- The soundness of the methodology used and the reasonableness of the results.
- Corroborating information provided by OIG counsel with subject matter expertise.

#### **PRIOR AUDIT COVERAGE**

We did not identify any prior audits or reviews related to the objective of this audit.

ATTACHMENT A

