



**OFFICE OF  
INSPECTOR GENERAL**  
UNITED STATES POSTAL SERVICE

# Patent Review Process

## Management Advisory Report

Report Number  
HR-MA-15-002

March 6, 2015

A close-up photograph of a filing cabinet drawer. The drawer is white with a black label that reads "PATENTS" in bold, black, sans-serif capital letters. The drawer is slightly open, and the background shows other drawers with labels like "COMPANY" and "CUSTOMERS" in a blurred state.



# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

### Highlights

***The Postal Service does not have formal written procedures for actively reviewing new products and services for patent infringement, including right-to-use opinions.***

### Background

This report responds to a congressional inquiry from Representative Blake Farenthold of Texas about the U.S. Postal Service's procedures for preventing infringement of private patents when it releases new technology. In addition, he asked how the Postal Service's right-to-use opinions compare to those of private industry. These opinions analyze patent activity to determine the likelihood of patent infringement.

Patents grant the patent owner certain rights to exclude others from using an invention. Generally, the U.S. government and related entities, such as the Postal Service, are liable for reasonable and complete compensation to a patent owner for infringement. However, private companies may also be liable for triple damages or temporarily or permanently ordered not to use the patented item.

The Postal Service has one full-time registered patent attorney who prepares patent analyses, which includes researching existing and related patents and reviewing case law and known competitor products for any patent concerns. The Postal Service also contracts with outside patent counsel to prepare right-to-use opinions. As of January 2014, the U.S. Patent and Trademark Office had issued over 8 million patents. In the past 20 years, the Postal Service has obtained a total of 257 patents.

Our objective was to assess the Postal Service's processes and controls for preventing private patent infringement.

### What The OIG Found

We judgmentally selected eight of 36 capital investments funded for technology during fiscal years 2012 and 2013 and [REDACTED]

[REDACTED] This analysis consisted of researching existing and related patents and reviewing case law and known competitor products for any patent concerns.

[REDACTED] The Postal Service's patent analyses were consistent with patent law best practices.

However, the Postal Service does not have formal written procedures for actively reviewing new products and services for patent infringement, including right-to-use opinions. Instead, it informally educates those departments most likely to be impacted by patent issues and relies on department managers to initiate reviews with the Law Department. After the Law Department review, a Postal Service vice president approves the investment for funding.

In addition, the Postal Service does not always seek right-to-use opinions for new products because the reviews are costly. In addition, a court case found no affirmative obligation for a company to obtain a right-to-use opinion to avoid a ruling for willful infringement.

The average industry cost of a right-to-use opinion is \$10,000 to \$20,000; however, the cost of a fully detailed opinion could



***Without written processes, there is reduced assurance that new technology will be reviewed for potential infringement, which could lead to litigation and additional costs to the Postal Service.***

cost much more due to the complexity and type of technology in question.

Without written processes, there is reduced assurance that new technology will be reviewed for potential infringement, which could lead to litigation and additional costs to the

Postal Service. Further, as the Postal Service ventures into new technology and innovation, an effective control system consisting of well-defined procedures and records is critical to protecting its brand and goodwill.

### **What The OIG Recommended**

We recommended management formalize written procedures for the patent review process, including right-to-use opinions, and provide formal training on those procedures.

# Transmittal Letter

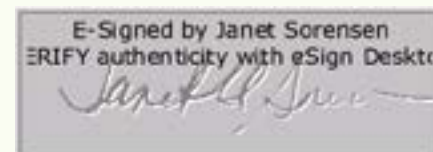


OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

March 6, 2015

**MEMORANDUM FOR:** THOMAS J. MARSHALL  
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT

DEBORAH A. DAVIS  
CHIEF COUNSEL, PROCUREMENT/  
INTELLECTUAL PROPERTY



**FROM:** Janet M. Sorensen  
Deputy Assistant Inspector General  
for Revenue and Resources

**SUBJECT:** Management Advisory Report – Patent Review Process  
(Report Number HR-MA-15-002)

This report presents the results of our review of the Postal Service's Patent Review Process (Project Number 14YR003HR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, director, Human Resources and Support, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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# Findings

***The Postal Service voluntarily obtained a right-to-use opinion along with two infringement opinions for three of 38 new or enhanced products and services launched in calendar years 2009 through 2014.***

## Introduction

This report presents the results of our review of the U.S. Postal Service's Patent Review Process (Project Number 14YR003HR000). The report responds to a congressional inquiry from Representative Blake Farenthold of Texas about the Postal Service's procedures for protecting private patents when it releases new technology. In addition, he inquired about how the Postal Service's use of right-to-use opinions compares to use by private industry. These opinions analyze patent activity to determine the likelihood of patent infringement. Our objective was to assess the Postal Service's processes and controls for preventing private patent infringement. See [Appendix A](#) for additional information about this audit.

Patents grant the patent owner certain rights to exclude others from using an invention. Generally, the U.S. government and related entities, such as the Postal Service, could be liable for reasonable and complete compensation to a patent owner for an infringement. However, for cases of patent infringement in private industry, a finding of willful patent infringement results in enhanced damages. Private companies could be sued and liable for triple damages or temporarily or permanently ordered not to use the patented item.

The Postal Service has one full-time registered patent attorney who prepares patent infringement analyses, which includes researching existing and similar patents and reviewing case law and known competitor products for any patent concerns. The Postal Service also contracts with outside patent counsel to prepare right-to-use opinions. As of January 2014, the U.S. Patent and Trademark Office (USPTO) had issued over 8 million patents. In the past 20 years, the Postal Service has obtained a total of 257 patents.

## Conclusion

We judgmentally selected eight of 36 capital investments<sup>1</sup> funded for technology during fiscal years (FY) 2012 and 2013 and [REDACTED]. This analysis consists of researching existing and related patents and reviewing case law and known competitor products for any patent concerns. None of the eight investments infringed on existing patents and all were subsequently funded. The Postal Service's patent analyses were consistent with patent law best practices.

However, the Postal Service does not have formal written procedures for actively reviewing new products and services for patent infringement, including right-to-use opinions. Instead, it informally educates the departments most likely to be impacted by patent issues and relies on department managers to initiate reviews with the Law Department. After the Law Department review, a Postal Service vice president approves the investment for funding.

Further, the Postal Service does not always seek right-to-use opinions for new product offerings because the reviews are expensive and because a court case found "there is no affirmative obligation to obtain an opinion of counsel" when finding for willful infringement in patent litigation. [REDACTED]

Without written processes, there is reduced assurance that new technology will be reviewed for potential infringement, which could lead to litigation and additional costs to the Postal Service. Further, as the Postal Service ventures into new technology and

<sup>1</sup> Money invested in a business venture with an expectation of income and recovered through earnings generated by the business over several years. Generally, managers and Postal Career Executive Service postmasters may approve capital investments up to \$250,000 and vice presidents may approve capital investments up to \$5 million.

**This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.**

innovation, an effective control system consisting of well-defined procedures and records is critical to protecting its brand and goodwill.

## Patent Review Process

In our review, eight of 36 capital investments funded for technology during FYs 2012 and 2013, [REDACTED]

[REDACTED] eight capital investments included technology we believed was most likely to be pursued for a patent (see Table 1). [REDACTED] all were



subsequently funded.

## Table 1. Capital Investments and Their Proposed Investment Amounts

Source: Postal Service decision analysis reports.

### Informal Review Process

The Postal Service has an informal process for actively reviewing new products and services for patent infringement and for seeking and issuing right-to-use opinions. The Law Department informally educates those departments most likely to be impacted by patent issues through presentations and guidance. In addition, the Postal Service relies on department managers to contact the Law Department for reviews. Department managers conduct internal interviews to identify potential patentable products and services and complete and submit an invention disclosure form<sup>3</sup> to the Law Department. The patent attorney uses this disclosure form to evaluate whether the item is patentable.

The patent attorney generally conducts an analysis and researches existing and related patents before submitting new products or services for funding, using methods such as reviewing case law and known competitor products for any patent concerns. At this time, the patent attorney also determines whether to obtain outside counsel to draft and file a patent application with the USPTO. According to senior management at USPTO, there is no difference in the process private and government entities use to obtain a patent. When compared to the best practices outlined in the *Patent Law Best Practices*<sup>4</sup> guide, the Postal Service appears to be following the guide's "Main Phases of the Patenting Process" to mitigate the risk of infringing or being infringed upon.

However, since there is no formal written requirement for managers to seek this consultation, there are concerns that inexperienced managers or those unfamiliar with the review process may not initiate contact with the patent attorney. There is also no guarantee that experienced managers who are retiring or leaving the Postal Service will tell new managers they need a patent attorney's review of new products and services. The Postal Service's sole patent attorney advised us that, due to the large number of individuals involved in the process of funding new products and services, he believes someone would notify the Law Department at some point in the process. However, a formal process would help ensure this occurs.

### Right-to-Use Opinions



The Postal Service's determination of when to seek an outside opinion versus an internal infringement analysis also varies because the opinions can be expensive. The average cost of a right-to-use opinion is \$10,000 to \$20,000; however, the cost of a thorough opinion may cost much more. For example, according to the patent attorney, one fully detailed opinion the Postal Service paid for had an estimated cost of about \$500,000. In 2012, in an annual economic survey of its members, the American Intellectual Property Law Association found that in-house counsel reported that less than 10 percent of their average

<sup>2</sup> Accounting Service Center Payroll Automation.

<sup>3</sup> The disclosure form contains a description of the invention (with supporting drawings, why the invention is important, and any known "prior art" and contributors).

<sup>4</sup> Roberto Capriotti, K&L Gates LLP, *Emerging Technology and Patent Law Best Practices*, 2014, page 34.



intellectual property budget of \$7.5 million was devoted to right-to-use opinions and counseling. As a result of high costs, the frequency of right-to-use opinions compared to new technology launches is low.

In addition, there is no legal obligation to obtain the opinion of patent counsel as the U.S. Court of Appeals for the Federal Circuit held in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007). In that case, Convoke Incorporated<sup>5</sup> and the Massachusetts Institute of Technology<sup>6</sup> sued Seagate Technology<sup>7</sup> for patent infringement. Prior to the litigation, Seagate Technology obtained the opinion of counsel that its product did not infringe on Convoke's patents and that their patents were unenforceable or invalid; however, Convoke sued Seagate for willful infringement. The court found "there is no affirmative obligation to obtain an opinion of counsel" when finding for willful infringement in patent litigation. Prior to this precedent, counsel's opinion was critical in determining whether infringement was willful. Since the Postal Service is protected by a federal statute limiting damages for patent infringement,<sup>8</sup> its need for a right-to-use opinion is not comparable to that of a private sector organization. But well-defined and documented processes and records that demonstrate process capability are needed for effective internal controls.<sup>9</sup> As the Postal Service ventures into new and changing technology and innovation, having formal written processes in place becomes critical to protecting its brand and goodwill. Without written procedures, the Law Department cannot ensure work is consistent and new products will be reviewed for potential infringement at all levels. In addition, reviewing for potential infringement could help protect the Postal Service from litigation.

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5 An engineering company that specializes in generating optimized trajectories to improve the performance of motion control systems.

6 A private research university in Cambridge, MA.

7 A data storage company.

8 28 U.S.C. §1498; *see also Decca Ltd. v. United States*, 640 F.2d 1156, 1166-67 (Fed. Cl. 1980) (finding that the government is statutorily authorized, pursuant to section 1498, to take a license in any United States patent and cannot be enjoined from doing so; "The redress provided by section 1498 for ... a direct infringement is 'reasonable and entire' compensation for the patent license taken by the Government....")

9 [bizmanualz](#), posted November 5, 2007.

# Recommendations

***We recommend management formalize written procedures for the patent review process to mitigate the risk of patent infringement, and to document criteria used to determine whether to use right-to-use opinions or an alternative analysis. We also recommend management provide formal training on written procedures developed for the patent review process.***

We recommend the executive vice president, general counsel, in conjunction with the chief counsel, Intellectual Property:

1. Formalize written procedures for the patent review process to include, but not be limited to, instructions for U.S. Postal Service employees to ask the Law Department to review new products or technology to mitigate the risk of patent infringement, and to document criteria used to determine whether to use right-to-use opinions or an alternative analysis.
2. Provide formal training to U.S. Postal Service management on written procedures developed for the patent review process.

## Management's Comments

Management agreed with the finding and recommendations in the report.

Regarding recommendation 1, management agreed to develop written procedures on when the Law Department should be consulted with intellectual property matters, such as inquiries on the patent review process and when right-to-use opinions should be used. The target implementation date is March 31, 2015.

Regarding recommendation 2, management agreed to develop training for Postal Service management concerning the written procedures developed for the patent review process. The target implementation date is June 30, 2015.

See [Appendix B](#) for management's comments, in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

# Appendices

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## Appendix A: Additional Information

### Background

A patent is a type of intellectual property (IP) that grants the owner certain rights to exclude others from using a new invention. As of January 2014, the USPTO had issued over 8 million patents. The Postal Service has obtained a total of 257 patents.

Determining whether patent infringement has occurred requires comparing the new product with the purpose and claims of the existing patent, not its specifications.<sup>10</sup> Infringement analysis is a two-step process:

- The claims are properly interpreted.
- A comparison of the properly interpreted claims is made with the product.<sup>11</sup>

A right-to-use opinion, typically rendered by patent counsel, analyzes the proposed business activity to determine if it is likely to infringe on a third party's patent rights. The analysis compares the claims of third-party patents to the proposed business activity. It also involves reviewing possible material transfer or contractual obligations and providing legal interpretation of the scope of the claims involved.

If a private company willfully infringes another's patent, it may be liable for triple damages,<sup>12</sup> which could be millions of dollars.<sup>13</sup> Private companies may also be temporarily or permanently banned from using a patented article. In contrast, the only remedy available to a patentee whose patented product or method is used by the Postal Service is to sue in the U.S. Court of Federal Claims for reasonable and complete compensation for such use or manufacture.<sup>14</sup>

### Objective, Scope, and Methodology

Our objective was to assess the Postal Service's processes and controls for preventing private patent infringement.

To accomplish our objective, we:

- Interviewed the Postal Service general counsel; the vice presidents of Engineering Systems, Secure Digital Solutions, New Products and Innovation; and other managers to identify patent process.
- Reviewed 36 approved capital investments made between FY 2012 and 2013 for various Postal Service programs and systems and judgmentally selected eight of them based on whether the programs or systems were most likely to be pursued for a patent due to technology or modifications to existing technology. We interviewed the sponsors of those eight investments.
- Obtained a list of 38 new or enhanced products the Postal Service launched between CYs 2009 and 2014 to compare the number of products to the number of opinions the Postal Service obtained during the same time period.

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<sup>10</sup> *Johnson & Johnston Assocs. v. R.E. Serv. Co.*, 285 F.3d 1046, 1052 (Fed. Cir. 2002) (*en banc*).

<sup>11</sup> *Cybor Corp. v. FAS Techs.*, 138 F.3d 1448, 1454 (Fed. Cir. 1998) (*en banc*).

<sup>12</sup> 35 U.S.C. §284.

<sup>13</sup> *Monsanto Company v. DuPont*, No. 4:09-cv-00686-ERW (E.D. Mo. Aug. 1, 2012); *Apple v. Samsung*, No. 11-CV-01846-LHK (N.D. Cal. Aug. 24, 2012); and *Carnegie Mellon University v. Marvell Technology Group, LTD., et al.*, No. 2:09-CV-00290-NBF (W.D. Penn. Jan. 14, 2013).

<sup>14</sup> 28 U.S.C. §1498.



- Contracted a subject matter expert to assist in determining private industry best practices for preventing patent infringement and how they compare to the Postal Service's practices.

We conducted this review from April 2014 through March 2015, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on February 4, 2015, and included their comments where appropriate. We did not assess the reliability of any computer-generated data for the purposes of this report.

## Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Towards A Postal Service Intellectual Property Strategy</i>	<a href="#">RARC-WP-14-003</a>	12/18/2013	None
<b>Report Results:</b> Our report determined the Postal Service has the opportunity to take better advantage of its intellectual assets, including the innovations of its employees, and technical capabilities built over many years. The existing intellectual assets are available to build a unique and effective IP strategy for the Postal Service to support its current operations and future growth. The IP strategy must consider each major product and technology area within the Postal Service and the approach and tactics selected should correspond to the distinctive differences between those areas. While some investment is required, tactics such as defensive publishing are cost-effective and can supplement patents without significant capital investment, a paramount concern given the Postal Service's financial position. A flexible IP strategy that combines existing models, in concert with appropriate return on investment mechanisms, will provide the most effective path to extracting value from the significant Postal Service IP assets and to align the future development of valuable IP with organizational goals.			
<i>Revenue Generation Patents</i>	<a href="#">HR-MA-13-004</a>	9/26/2013	\$183.4
<b>Report Results:</b> Our report determined that management has not implemented our recommendations to develop an effective patent management process and licensing program or to draft claims to recover the commercial value of patents due to funding constraints. We determined, in conjunction with an intellectual property management firm, that 18 additional patents held a commercial value of \$183.4 million. The OIG recommended the general counsel and executive vice president work closely with subject matter experts to review patents with revenue generation potential and draft claims as appropriate. Management agreed with the recommendation and will work with other functional groups within the Postal Service to develop an appropriate strategy for intellectual property monetization that can be presented to senior management.			

## Appendix B: Management's Comments

THOMAS J. MARSHALL  
GENERAL COUNSEL  
AND EXECUTIVE VICE PRESIDENT



February 24, 2015

LORI LAU DILLARD  
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report – Patent Review Process  
(Report Number HR-MA-15-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

### **Recommendations**

We recommend the executive vice president, general counsel, in conjunction with the chief counsel, Intellectual Property:

1. Formalize written procedures for the patent review process to include, but not be limited to, instructions for U.S. Postal Service employees to ask the Law Department to review new products or technology to mitigate the risk of patent infringement, and to document criteria used to determine whether to use right-to-use opinions or an alternative analysis.

### **Management Response/Action Plan:**

Although the Postal Service has an informal process for its patent review process, management agrees that formal written guidance would have value. The Law Department will develop written procedures for our clients to utilize to provide guidance to them concerning when the Law Department should be consulted in connection with intellectual property matters. Such procedures will describe the patent review process, including when legal review of new products and services should be considered in order to mitigate the risk of patent infringement, and will also describe the criteria the Law Department applies in determining whether to seek a right-to-use opinion.

Target Implementation Date: March 31, 2015

Responsible Official: Chief Counsel, Procurement & Intellectual Property

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2. Provide formal training to U.S. Postal Service management on written procedures developed for the patent review process.

**Management Response/Action Plan:**

The Law Department agrees to be responsible for developing training for Postal management concerning the written procedures described in response to Recommendation 1.

Target Implementation Date: June 30, 2015

Responsible Official: Chief Counsel, Property & Intellectual Property



Thomas J. Marshall

**Attachments**

cc: Deputy General Counsel  
Managing Counsel, Procurement & Property Law  
Chief Counsel, Procurement & Intellectual Property  
Corporate Audit and Response Management



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