



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

Revenue Generation Patents Management Advisory

September 26, 2013

Report Number HR-MA-13-004



OFFICE OF
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GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 26, 2013

Revenue Generation Patents

Report Number HR-MA-13-004

BACKGROUND:

Intellectual property is intangible property created by individuals or organizations that can be owned, transferred, or leased through licensing agreements. The U.S. Postal Service's general counsel helps the agency identify and protect its intellectual property. One type of intellectual property is a patent, which conveys to the inventor the right to exclude others from making; using; or selling an object, tool, process, or system that is invented. Patents can be used to negotiate contracts and business deals, resolve disputes, enhance market share, and produce revenue. Patent licensing strategies provide ways to enforce patent rights and obtain revenue.

In two prior reports, we identified six patents that could be used to generate additional revenue estimated at \$763 million. We recommended management develop a strategy for developing patent intellectual property, develop an effective patent management process, and draft claims to recover commercial value lost on highly rated patents.

Our objective was to follow up on prior recommendations and determine the

commercial value of patents that could be used to generate revenue.

WHAT THE OIG FOUND:

Postal Service 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. While this review identified potential licensing strategies to address Postal Service funding constraints, we will conduct a subsequent review of intellectual property strategies for potential use by the Postal Service. Given the Postal Service's financial challenges, its patent portfolio provides an opportunity to generate additional revenue.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service work closely with subject matter experts to review patents with revenue generation potential and draft claims as appropriate.

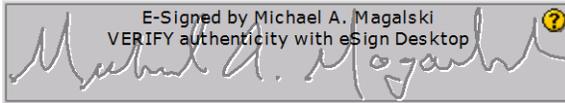
[Link to review the entire report](#)



September 26, 2013

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

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop

A rectangular box containing a handwritten signature in grey ink. The signature appears to be "Michael A. Magalski". To the right of the signature is a small yellow question mark icon.

FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Management Advisory – Revenue Generation Patents
(Report Number HR-MA-13-004)

This management advisory presents the results of our review of the U.S. Postal Service's Revenue Generation Patents (Project Number 13YG021HR000).

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

Attachment

cc: Corporate Audit and Response Management

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Introduction

This management advisory presents the results of our review of the U.S. Postal Service's Revenue Generation Patents (Project Number 13YG021HR000). We contracted with an intellectual property management firm to study the Postal Service's patent portfolio. Our objective was to follow up on prior recommendations and determine the commercial value of patents that could be used to generate revenue. See [Appendix A](#) for additional information about this review.

Intellectual property is intangible property created by individuals or organizations that can be owned, transferred, or leased through licensing agreements. The Postal Service's general counsel helps the agency identify and protect its intellectual property. One type of intellectual property is a patent that conveys to the inventor the right to exclude others from making; using; or selling an object, tool, process, or system that is invented. Patents can be used to negotiate contracts and business deals, resolve disputes, enhance market share, and produce revenue. Patent licensing strategies provide ways to enforce patent rights and obtain revenue.

In two prior reports,¹ we identified six patents that could be used to generate additional revenue estimated at \$763 million. We recommended management develop a strategy for developing patent intellectual property, develop an effective patent management process, and draft claims to recover commercial value lost on highly rated patents.

Conclusion

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. [Table 1](#) shows the 18 specific patents analyzed and identified as active and owned by the Postal Service, grouped in five patent families. [Table 2](#) shows the commercial value of the five patent families is \$183.4 million, net of recovery costs.² See [Appendix B](#) for our calculation of monetary impact.

While this review identified potential licensing strategies to address Postal Service funding constraints, we will conduct a subsequent review of intellectual property strategies for potential use by the Postal Service. Given the Postal Service's financial challenges, its patent portfolio provides an opportunity to generate additional revenue.

¹ *Postal Service Patent Management* (Report Number DA-MA-10-004, August 31, 2010) and *Postal Service Patent Management Continuation* (Report Number DA-MA-11-002, April 8, 2011).

² Costs to recover the estimated commercial value of the patents, including attorneys fees and labor costs.

Table 1: Patents and Related Patent Family Category

U.S. Patent Number	Patent Family Category
[REDACTED]	[REDACTED]

Source: decision/analysis partners LLC.

Table 2: Commercial Value by Patent Family

Patent Family	Commercial Significance
[REDACTED]	[REDACTED]
Total	\$184,432,092
Less Recovery Costs	\$1,050,000
Net Commercial Value	\$183,382,092

Source: decision/analysis partners LLC and U.S. Postal Service Office of Inspector General (OIG) estimate of recovery costs.

Patent monetization derives value from patent assets through arrangements with external parties. Monetization options include licensing, selling, and litigation. A well-executed licensing program can often maximize the value derived from patents when compared to other monetization options. Although the Postal Regulatory

Commission has the authority to regulate patent commercialization, the Postal Service currently has no prohibitions to licensing its patents.

While this review identified potential licensing strategies to address Postal Service funding constraints, we will conduct a subsequent review of intellectual property strategies for potential use by the Postal Service. Potential licensing strategies include:

- Carrot Licensing, in which the patent owner tries to convince the potential licensee of the benefits of licensing and, if accepted, negotiates the level of support accompanying the patent license.
- Privateer arrangements, in which a company outsources its patent monetization function to an entity with experience.

Recommendation

We recommend the general counsel and executive vice president:

1. Work closely with subject matter experts to review patents with revenue generation potential and draft claims as appropriate.

Management's Comments

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. Management will begin implementing the recommendation after the OIG whitepaper is issued that will present a comprehensive strategy for developing, managing, and monetizing intellectual property.

Management neither agreed or disagreed with the monetary impact. However, they stated they were not in a position to assess the accuracy of the value assessments made by the contractor for the 18 patents reviewed, but they agreed that the Postal Service's patent portfolio may have value. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

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

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 Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A: Additional Information

Background

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

One type of intellectual property is a patent. While patents granted by the federal government are only effective in the U.S., most countries have established some form of patent system.

Utility patents are granted for any new and useful process, machine, article of manufacture, 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.

Objective, Scope, and Methodology

Our objective was to follow up on prior recommendations and determine the commercial value of patents the Postal Service could use to generate revenue.

To assess the commercial value that could be generated by licensing selected patents, we contracted with an intellectual property management firm to review 208 active patents in the Postal Service's portfolio. The contractor ranked them according to a number of factors after discussions with the Postal Service's legal team. First, a suitability ranking was assigned and then a "market," or technology sector was assigned, identifying overall commercial markets into which the patent could be licensed, or in which the patent could be infringed. Finally, the contractor scored each patent in the portfolio to objectively assess patent quality, relevant patents and technologies, competition, and competitive trends.

The contractor first identified an initial set of 60 patents, and then 25 patents with high monetization potential. It further refined its analysis to determine five patent families incorporating 18 patents to be analyzed in greater detail. It performed a detailed analysis of each patent family and assessed the commercial value of each patent family.

We conducted this review from March through September 2013 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 August 29, 2013, and included their comments where appropriate.

We did not assess the reliability of any computer-generated data during our engagement; however, to evaluate whether the evidence provided by the contractor was rational, we considered:

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

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in billions)
<i>Postal Service Patent Management Continuation</i>	DA-MA-11-002	4/8/2011	\$2.054
<p>Report Results: The Postal Service currently does not manage its portfolio of patents to maximize commercial significance. Our evaluation of three patents, conducted in conjunction with an intellectual property management firm, determined that the annual commercial value of those three patents in conjunction with three additional patents from a prior report is \$763 million, net of attorney fees. We recommended the Postal Service work closely with subject matter experts to review highly rated patents to draft claims as appropriate, develop a comprehensive strategy for developing patent intellectual property that enhances its products and services and its competitive position in the global market place, and ensure it has an effective patent management process and comprehensive licensing program in place. Management agreed with our recommendations.</p>			
<i>Postal Service Patent Management</i>	DA-MA-10-004	8/31/2010	None
<p>Report Results: The opportunity to capitalize on active Postal Service patents exists because management has not strategically considered leveraging patents to generate new revenue. We recommended Postal Service develop a plan to capture the value of its patents and management agreed with our recommendation.</p>			

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	Revenue Loss ³	\$183,382,092

We calculated revenue loss by reducing the total commercial value by the amount of estimated recovery costs. Specifically, we:

- We identified the total commercial value for the five patent families as \$184,432,092.
- We estimated legal fees of \$10,000 for each of the five patent families for a total of \$50,000.
- We estimated labor costs of \$100,000 per year for a director of Technology Transfer (or similar position) for 10 years for a total of \$1,000,000.

We subtracted legal fees and labor costs (\$1,050,000) from the total commercial value (\$184,432,092) to arrive at net revenue loss of \$183,382,092.

³ Revenue Loss - Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).

Appendix C: Management's Comments

THOMAS J. MARSHALL
GENERAL COUNSEL
AND EXECUTIVE VICE PRESIDENT



September 23, 2013

TO: JUDITH LEONHART
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory - Revenue Generation Patents
(Report Number HR-MA-13-Draft)

Recommendation 1:

The Office of Inspector General (OIG) recommends that the General Counsel and Executive Vice President works closely with subject matter experts to review patents with revenue generation potential and draft claims as appropriate.

Management Response/Action Plan:

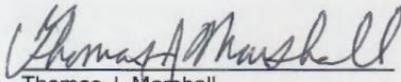
While I am not in a position to assess the accuracy of the value assessments made by Decision/Analysis Partners LLC, for the eighteen patents reviewed in the audit report, I am in agreement that the Postal Service's patent portfolio may have value.

During the beginning of the next fiscal year, another OIG audit will issue that will address current intellectual property (IP) strategy and define the steps, based on current industry best practices, needed to develop a comprehensive strategy for developing, managing, and monetizing IP. I agree to review the audit findings and work with other functional groups within the Postal Service to develop an appropriate strategy for IP monetization that can be presented to senior management.

Target Implementation Date: Ongoing - once the audit report is received, the implementation date can be revised.

FOIA Statement

This report contains information which the General Counsel believes may contain proprietary or other business information that may be exempt from disclosure under the Freedom of Information Act (FOIA). Attached is the report detailing the exact information that should be redacted.


Thomas J. Marshall
General Counsel and Executive Vice President

Attachment

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Ms. Dym
Ms. Davis
Ms. Gallagher

Attachment A: Contractor's Report