Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy
House of Representatives' Committee on Oversight & Government Reform Committee

Pushing the Envelope: The Looming Crisis at USPS
March 2, 2011

Statement of Jim Sampey on behalf of
Cox Target Media, Inc. and Valpak Direct Marketing Systems, Inc.

Chairman Ross, Ranking Member Lynch, and Members of the Subcommittee:

My name is Jim Sampey. I am Executive Vice President and Chief Operating Officer of Cox Target Media, Inc., headquartered in Largo, Florida. We own and operate Valpak Direct Marketing Systems, Inc., one of the largest direct mail companies in North America.

Thank you for this opportunity to testify. I have been with Cox Target Media and Valpak for more than 21 years. I have been a member of our company's senior management team for well over 15 years. (A summary of my job responsibilities and experience is appended to this statement.)

Let me begin by giving you some background on our company and how the Postal Service impacts our business. Valpak has been in business for over 42 years. We pioneered the concept of local cooperative mail in the United States several decades ago.

Our company is owned by Cox Enterprises, Inc., one of the largest media conglomerates in the U.S. with major holdings in newspaper, television, radio, cable, and Internet/interactive industries.

Valpak has more than 900 employees, including part-time and temporary workers. Another 1,000 sales reps and office staff work at Valpak franchises across the country and Canada. Just three years ago, we opened a $220 million manufacturing center in St. Petersburg, Florida, to accommodate our growth for the next 10 to 20 years.

Today, Valpak delivers savings and value to about 40 million households each month. And each year, over 500 million of our familiar blue envelopes carry some 20 billion money-saving offers throughout the country exclusively using the Postal Service. Valpak provides a valuable service — helping American families save money in these tough economic times and helping small businesses grow.

We are a national franchised organization with locations in nearly every state. We have a total of about 180 independently-owned franchises across the United States and Canada. Each year, we assist more than 54,000 advertisers — from local mom and pop businesses to large national companies — in promoting their products and services.

Our company is also aggressively entering the digital space in the online and mobile coupon business. This will allow us to reach new customers with our products and continue to serve as a leader in our industry. Our digital strategies will continue to complement our printed product strategies.

Because we mail about 10 million Valpak envelopes a week, we rely heavily on the timely delivery of our envelopes across the country. Year after year, we applaud the Postal Service for their outstanding service and for helping us be a leader in our industry. But the Postal Service does not just serve us — those tens of thousands of businesses we assist rely on letter carriers in their area for the delivery of their advertisements to their targeted customers. And the timely delivery of their ads is critical because many times these businesses are staffing up to handle the increase in volume based on planned in-home delivery dates and special promotions.

A recent example of our effective partnership with the Postal Service is the successful implementation of the new Intelligent Mail barcode ("IMb") into our production process. IMb is a new technology that the Postal Service uses to track mail through its system. The barcode is placed on the mail pieces, tray tags and pallet placards. The information is communicated electronically to the Postal Service. Valpak was one of the Postal Service's first customers to implement IMb for its outbound mail, an important postal initiative for high-volume mail customers.

The nature of our business means that we watch the Postal Service and its issues very closely. We believe that the Postal Service, until recently under Jack Potter, and now under Pat Donahoe, has done a remarkable job of downsizing the company to adjust to plummeting mail volume.

We think that too many mailers take a short-term view only — and argue for almost any position that might result in lower postal rates now. Valpak takes a longer-term view — because we have no plans to leave. We were one of the few mailers which supported the Postal Service's exigent price increase request (Docket No. R2010–4) — not because we liked it, but because the Postal Service needed the money to operate. If we thought that the Postal Service was being mismanaged, we would feel differently, but that is not the case. We need the Postal Service, and want it to be operating well into the future.

Looking at the larger picture, the Postal Service is the heart of a $1 trillion industry which employs over 8 million people. Congress cannot ignore the broader impact of the Postal Service on this industry, and in turn, the impact of this industry on the nation's economy.

As you will see from our statement, we believe that much of the responsibility for the problems of the Postal Service lies with the Postal Accountability and Enhancement Act ("PAEA"), and we urge the new Congress to fix that flawed legislation now.

A. POSTAL SERVICE FINANCES AND THE POSTAL SERVICE RETIREE HEALTH BENEFIT FUND.

The Postal Service's financial condition is so dire it will not just need, but **require**, Congressional remedial action before the end of FY 2011.

Unfortunately, the source of this financial crisis is often misunderstood. Press and Congressional attention too often focus on the Postal Service's **gross loss.** That reported loss includes "artificial" financial burdens imposed on the Postal Service by Congress such as massive payments into the **Postal Service Retiree Health Benefits Fund** ("PSRHBF") to pre-fund health care benefits for future retirees, as mandated by PAEA.

Real understanding of the Postal Service's finances and evaluation of its business model requires focus on the Postal Service **net profit and loss**, based on its **current** operating revenues and expenditures.

Table 1 below shows Postal Service operating revenues and operating expenses over the four-year period FY 2007–FY 2010 under PAEA.

Table 1
Postal Service Operating Revenue and Expenses
FY 2007 – FY 2010
($, millions)

	FY 2007	**FY 2008**	**FY 2009**	**FY2010**
Operating Revenue (includes net investment/interest income)	74,963	74,932	68,036	66,921
Less: Operating Expenses	71,757	72,138	70,430	69,926
Operating Profit (Loss)	**3,206**	**2,794**	**(2,394)**	**(3,005)**
Funding of PSHRBF	8,358	5,600	1,400	5,500

	FY 2007 - FY 2010
Four-year Operating Profit	**601**
Four-year cost of PSHRBF	**20,858**

Sources: USPS 2010 Annual Report, p. 63; USPS 2009 Annual Report, p. 55.

In Table 1, "**operating expenses**" **include** all costs of health benefits for **current retirees**, but **exclude** money set aside to pay health benefits for **future retirees** — *i.e.*, payments to the PSRHBF are shown separately. (Prior to PAEA, the Postal Service funded retiree health care costs on a **current** basis, but did not prepay **future** costs.) Thus, the $8.5 billion loss reported for FY 2010 includes two components:

- a $3.0 billion loss from operations, referred to here as the **"operating loss,"** and

- the $5.5 billion PAEA-required contribution to the PSRHBF.

Starting in FY 2008, the Postal Service fell victim to the Great Recession, which accelerated the decline in mail volume. The result was an unprecedented decline in total revenues: **$6.9 billion** in FY 2009 and a further **$1.1 billion** in FY 2010.

From FY 2008 to FY 2010, expenses were reduced by $2.1 billion. But no matter how effectively the Postal Service managed its costs, it has been unable to reduce operating expenses as fast as mail volume and revenue have declined. Consequently, since PAEA, the Postal Service swung in four short years from an **operating profit of $3.2 billion** in FY 2007 to an **operating loss of $3.0 billion** in FY 2010.

Table 1 reveals a lesser known fact — that during the last four years the Postal Service actually had a **cumulative operating net income,** or operating "profit," of **$0.6 billion**. Generating a cumulative four-year operating profit of $0.6 billion with declining revenues must be considered an outstanding accomplishment. That amount, however, was far from sufficient to fund the **$20.9 billion** contribution to PSRHBF demanded by Congress under PAEA for the same four-year period.

Moreover, a **collection of loss-generating products** failed to cover their attributable costs by over **$5.09 billion**. Therefore, it is reasonable to conclude that the Postal Service's overall finances have been severely harmed by Postal Service pricing. Had the Postal Service been able to avoid those losses on underwater products, its cumulative operating profit during the last four years would have been around **$5.7 billion**. This demonstrates that if the Postal Service can sharply curtail costs and keep the price for postage where it is then over the long term the Postal Service can have a viable business — despite the Internet.

Although the cumulative record of operating income under PAEA has been commendable, the downward trend in FY 2009 and FY 2010 needs to be reversed, with the Postal Service returned to annual profitability. Operating losses in the most recent two years reflect serious pricing problems the Postal Service has with respect to underwater products. However, even those serious pricing problems are dwarfed by the aggressive funding of retiree health benefits required by PAEA — a statutorily-created problem that can be fixed only by Congress.

Retiree health benefits are a longstanding obligation for all levels of governments, as well as for many large corporations. The Postal Service has been funding pension benefits on a regular basis since 1971. In contrast, retiree health benefits traditionally have been an "off-balance sheet" item for the Postal Service, as well as the rest of the federal government. PAEA's aggressive funding schedule can be viewed as constituting an extraordinary requirement insofar as no other federal, state, or local government is required to pre-fund any of their retiree health care benefits. The driving force underlying the Postal Service's current financial bind is the fact that PAEA requires the Postal Service, **over the course of 10 years**, to deposit in the PSRHBF[1] sufficient funds to pay **all estimated** future retiree health care benefits which have been accumulating over decades — while also continuing to pay health benefits for all current retirees. This aggressive funding schedule mandates annual payments of $5.5 billion, while a variety of operating constraints also are imposed on the Postal Service. They include, for example:

(1) a statutory CPI cap that limits the ability to increase prices;
(2) statutory requirements that have resulted in the underpricing of certain postal products, *e.g.*, Periodicals;
(3) a statutory proscription against closing small post offices solely for economic reasons;
(4) tight restrictions on products which the Postal Service may offer;
(5) by-now-predictable Congressional resistence to closing and consolidation of facilities;
(6) under annual appropriation riders, a requirement to deliver mail 6 days a week; and
(7) statutory debt limit provisions.

In light of the constraints just described, it was completely unrealistic for Congress in December 2006 to expect the Postal Service to be able to generate sufficient free cash flow to meet PAEA's annual funding requirement for the PSRHBF. The CPI price cap alone guaranteed that the Postal Service could not generate such excess cash flow. If the federal government were to attempt to fund all of its retiree health care obligations in the same aggressive manner as PAEA requires the Postal Service to do (*i.e.*, over a 10-year period), massive tax increases far above any politically-acceptable level would be necessary. No doubt, these are just some of the reasons that in 2006 the Board of Governors felt constrained, as

[1] As of October 1, 2010, the balance in the PSRHBF was $42.5 billion. *See* USPS 2010 Annual Report, p. 49. http://www.usps.com/financials/_pdf/annual_report_2010.pdf

fiduciaries for the mailing public, to take the politically-difficult step of strongly opposing passage of PAEA.[2]

In order to pay Congressionally-required contributions to the PSRHBF, which could not be funded with net cash flow from operations, the Postal Service's net worth has plummeted and it has had to resort to extensive borrowing. As a result of this disastrous legislation:

- Postal Service **indebtedness** has increased from **$2.1 billion** at the end of FY 2006, only months before PAEA was enacted, to **$12.0 billion** at the end of FY 2010.[3]

- The Postal Service's **net worth** has gone from a **positive $6.3 billion** at the end of FY 2006 to a **negative $13.9 billion** at the end of FY 2010.

The increased indebtedness has shifted onto the Postal Service's balance sheet a portion of its pre-existing liability for retiree health benefits that previously were neither funded nor accrued in the financial statements. True funding of those benefits will not occur until the Postal Service is able to generate operating profits sufficient at least to reduce its debt to the existing level when PAEA was enacted ($2.1 billion). That cannot happen until Congress enables the Postal Service to implement major cost reductions

One of the nine objectives contained in PAEA, 39 U.S.C. section 3622(b)(5), states that the modern system for regulating rates for market dominant products should be designed:

> To assure **adequate revenues**, including retained earnings, to maintain **financial stability**. [39 U.S.C. § 3622(b)(5) (emphasis added).]

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[2] *See, e.g.,* U.S. Postal Service Board of Governors letter to Senator Susan M. Collins, January 24, 2006 ("[W]e believe there are critical elements missing from this bill, as well as numerous burdensome provisions that would make it extremely difficult for the Postal Service to function in a modern, competitive environment.... [I]n keeping with our concerns that the Postal Service be able to provide the quality of service and reasonable rates … we must oppose the passage of this bill.") http://www.usps.com/communications/news/press/2006/pr06_003.htm.

[3] Postal Service borrowing authority has been restricted, under both the Postal Reorganization Act of 1970 ("PRA") and PAEA, to no more than $3 billion per year, and an aggregate amount of no more than $15 billion. 39 U.S.C. § 2005(a).

The PAEA-imposed burden on the Postal Service to pre-fund all future retiree health care benefits within only 10 years, while operating under a CPI rate cap, has ensured Postal Service **noncompliance** with this critical rate-setting objective.

With the price cap constraint, no rate-making system designed by the Postal Regulatory Commission could have prevented the current financial crisis. Moreover, even without the price cap, it seems unlikely that any rate-making system would have been able to generate sufficient cash flow to fund the PSRHBF as mandated by PAEA, given market considerations (including, most especially, increasing competition from the Internet).

In the current year, **FY 2011**, despite the anticipated decline in volume and revenue, the Postal Service expects operating expenses to increase by $1 billion, resulting in a net operating loss (even before a further scheduled payment of $5.5 billion to the PSRHBF).

In March 2010, the Postal Service published *Ensuring a Viable Postal Service for America: an Action Plan for the Future* ("Action Plan"). The Action Plan was an impressive effort to take a long-range view of Postal Service finances, seeking the following seven legislative changes:

(1) Retiree Health Benefits Fund reform
(2) Flexibility to adjust delivery frequency
(3) Expand retail access while having flexibility to reduce expensive retail facilities
(4) Workforce contracts that are not constrained by craft limitations
(5) Market Dominant products price cap
(6) Streamlining the process for introducing new products
(7) Reducing the role of the Postal Regulatory Commission

Valpak generally agrees with the first six points, but disagrees with reducing the role of the Commission — the regulator of a government monopoly.

The Action Plan proposes a number of changes to the Postal Service's business model. However, the value of the postal monopoly has declined drastically, as evidenced by continued decline in the volume of First-Class Mail and the important contribution which that mail makes. Whatever residual value as the monopoly may still have, if any, is totally inadequate to sustain the infrastructure that Congress has imposed upon the Postal Service — such as maintaining uneconomic post offices, residential delivery 6 days a week, subsidies to Alaska passenger air transportation, etc. Consequently, even if all further payments to the PSRHBF were eliminated immediately, and all of the Postal Service's desired changes to its business model were adopted, such "improvements" apparently would not be sufficient to restore the Postal Service to the status of a healthy self-sustaining entity.

At the end of FY 2011, the Postal Service will not have sufficient liquidity to comply with the pre-funding requirement for the PSHRBF established by PAEA. Assuming that Congress resolves this liquidity problem in a manner that permits financial solvency and continued operation at least to the end of FY 2012, the question raised by (i) the continuing loss of volume in First-Class Mail, (ii) the projected operating loss in FY 2011, and (iii) the lack of any financial cushion in the form of net worth or borrowing capability, is whether the Postal Service's business model is sufficiently robust to repair the financial damage inflicted by PAEA and achieve a return to sustainable profitability. To "right the ship," the Postal Service will need to think in somewhat more aggressive terms than thus far envisioned.

Volume variable costs are proving to be variable, with a lag — *i.e.*, those costs are coming down. That, however, is not sufficient. In this new environment, the Postal Service needs to do far more than simply adjust volume variable costs downward. Substantial reductions in costs traditionally considered "fixed" are required. Moreover, the Postal Service's precarious financial condition would indicate that those reductions need to occur sooner rather than later in order to restore operations to financial viability. The Postal Service needs to focus on increasing **operating income** with a vengeance, by moving simultaneously on several fronts.

1. Utilizing pricing flexibility as quickly as possible, making **every postal product** profitable in the sense that revenue from each product:
   (i) at least exceeds attributable costs, and
   (ii) makes a reasonable contribution to institutional costs (*see* 39 U.S.C. sections 3622(c)(2) and 101(d)).

2. Reducing the costs of **city carrier routes** by:
   (i) eliminating Saturday delivery, and
   (ii) beginning to replace expensive door delivery with curb delivery on all such routes where the revenues from mail delivered are less than the cost of delivery.[4]

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[4] Door delivery to 39 million residential addresses has an average annual cost that exceeds the average cost of curb delivery by almost $5 billion. *See* Government Accountability Office ("GAO") Report No. GAO 10-455 (April 12, 2010), *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Stability*, p. 36, Table 8. The Postal Service should consider all options to reduce these costs, such as charging for high-cost, high-quality delivery service, with a goal of improving the annual operating profit from such delivery by at least $2.5 to $3.0 billion. Door delivery alone has an average daily cost of $1.15. The job description of the Deputy Postmaster General position circulated by the Postal Service's executive search firm states that "[i]n FY 2009 $1.40 in revenue was generated per delivery stop. That number is **expected to drop to $1 by 2020**." Spencer Stuart, Position and Candidate Specification, United States Postal Service Deputy Postmaster General, p. 2 (January 2011) (emphasis added) http://postcom.org/public/2011/USPS%20Deputy%20Postmaster%20General%20SPC.pdf. For the 39 million residential delivery points that receive door delivery, elimination of Saturday delivery alone will not result in revenue per delivery stop exceeding the cost of

3. Reducing the cost of the **retail network** by closing uneconomic, redundant post offices, numbering at least in the hundreds, possibly thousands, within the next 2 to 3 years, replaced by lower cost alternatives.

For many of the above efforts to succeed, the Postal Service will need support from Congress.

The Postal Service's FY 2011 Integrated Financial Plan ("IFP") unhesitatingly states that by September 2011 the Postal Service will be faced with a cash shortfall well in excess of $2.0 billion, and insolvency. This forecast for FY 2011 seems set to demonstrate that the only thing worse than a short-term Congressional fix in FY 2010 may be no fix at all. It thus would appear that this year Congress will be required to address the Postal Service's fiscal situation. In FY 2011, Congress cannot avoid granting any relief from the PAEA funding requirement for the PSRHBF — unless it decides to have the government cease providing mail service to the country.[5]

Broadly speaking, Congress has two options:

- enact some **short-term**, stop-gap fix, as it so often seems to do — one that would allow the Postal Service to continue operating at least for another year, but keep it on the precipice of insolvency.

- enact a **longer-term**, hopefully more permanent, reform — one designed to provide Postal Service management with a more stable planning horizon.

The first option is not a particularly efficient way to run a business. The reputation of the United States Postal Service as a reliable delivery service has great value which Congress should strive to protect, not destroy. A continued high level of uncertainty and anxiety could induce some mailers to leave the Postal Service permanently in favor of competitive alternatives. That would be counterproductive to the goal of a financially-viable Postal Service that should be able to continue contributing to the PSRHBF according to a reasonable schedule. Valpak urges Congress to enact remedial legislation that extends beyond a year-to-year band aid.

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delivery alone. On routes where delivery cost exceeds revenue, no degree of reduction in processing cost can enable an operating profit.

[5] The Postal Service FY 2009 SEC Form 10-K notes that "[a]lthough P.L. 109-435 dictates the funding requirements through 2016, the amounts to be funded and the timing of funding can be changed at any time with passage of a new law or upon an amendment of existing law as passed by Congress and signed into law by the President." *Id.*, p. 20. http://www.usps.com/financials/_pdf/FY_2009_10K_Report_Final.pdf

Valpak also supports Congressional examination of, and action on, the $5.5 billion overfunding of pension benefits for postal employees participating in the **Federal Employee Retirement System** ("FERS")[6] and, even more importantly, the **Civil Service Retirement System** ("CSRS"), where the overfunding is estimated by the Postal Service Inspector General at $75 billion[7] and by the Segal/PRC Report at $50-55 billion.[8] These excess funds should be redirected to pre-funding PSRHBF.[9]

B. POSTAL SERVICE MANAGERIAL PREROGATIVES.

Like PRA before it, PAEA exhorts management to operate the Postal Service in a business-like manner, and toward that end it continued limited grants of managerial discretion to the Postal Service to control costs and operate efficiently. *See, e.g.,* 39 U.S.C. §§ 101, 401, 403, 404(a) and (b). But Valpak believes that, having given the Board of Governors that responsibility, it is essential for Congress to defend and protect the Postal Service's prerogatives to manage the company.

Even before the Postal Service's announcement of its March 2, 2010 Action Plan, it had been working to adjust the size of its workforce and other costs to the plummeting mail volume. Yet the Postal Regulatory Commission and Congress have continued to impose their own ideas of how the Postal Service should be operated. Unfortunately, many of these ideas are not based on a principle of operating the Postal Service in an efficient business-like manner.

Postal Service management has made strenuous efforts to reduce costs in the face of declining mail volume. Much more cost cutting will be needed, though, (i) to restore the Postal Service to profitability by repaying the billions of dollars it has been forced to borrow in order to fund future costs of retiree health benefits, as well as (ii) to pay whatever amount Congress will require for this purpose in the future.

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[6] Postal Service Office of the Inspector General ("OIG"), USPS-OIG Report Number FT-MA-10-001, Aug. 16, 2010.

[7] Postal Service OIG Report Number RARC-WP-10-001, Jan. 20, 2010.

[8] Report to the Postal Regulatory Commission on: Civil Service Retirement System Cost and Benefit Allocation Principles (June 29, 2010) by the Segal Company.

[9] Sadly, irrespective of the merits of the issue, Congress may be reluctant to transfer these funds from CSRS for fear of unmasking Congressional underfunding of these payments for other federal workers.

Many limitations now in the law were enacted by earlier Congresses, which directed those monopoly profits to achieve their political objectives, and at a time of relative economic plenty, when the postal monopoly could be relied upon to generate significant net income. Times have changed. The Postal Service is evolving, and now must implement a new, much leaner business model. Toward that goal, the Congress needs to support fully Postal Service efforts to remove impediments to cost reduction wherever feasible.

1. Six-Day Delivery.

On March 30, 2010, the Postal Service filed a request for the Commission to issue an Advisory Opinion under 39 U.S.C. section 3641 to address the Postal Service's proposal to eliminate regular Saturday delivery. In response, the Commission convened Docket No. N2010-1.

The Postal Service's request was demonstrably necessary to eliminate the substantial cost of Saturday delivery because it no longer can be justified in view of the decrease in mail volume over the past decade. Continuing volume decreases projected in the FY 2011 IFP and the USPS 2010 Annual Report reduce even further any necessity for Saturday delivery. Valpak participated in Docket No. N2010-1, filing both an Initial Brief[10] and Reply Brief[11] explaining why it believed that the record evidence in the docket overwhelmingly supported the Postal Service's proposal.

The Postal Service estimates that 5-day delivery could **save over $3 billion per year**. Since the Postal Service filed its request, 11 months have elapsed. It had been thought that the Commission's Advisory Opinion would be issued in December 2010, but the docket remains open and the issue is still under consideration.

Of course, even if the Commission were to issue an Advisory Opinion supporting 5-day delivery, it will be necessary for Congress to remove the appropriations rider which for nearly 30 years has required the Postal Service to maintain 6-day city and rural residential delivery service at the 1983 level.[12] Even if only to help fund the PSRHBF as required by PAEA, Congress needs to make a tough decision to permit the Postal Service management to adjust delivery service to match the decreasing volume and increasing number of delivery points.

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[10] http://prc.gov/Docs/70/70513/VP%20N2010-1%20Initial%20Brief.pdf

[11] http://prc.gov/Docs/70/70607/VP%20N2010-1%20Reply%20Brief.pdf

[12] *See, e.g.*, Consolidated Appropriations Act, 2010, Pub. L. 111-117, 123 Stat. 3034, at 3200.

With Congress yet to approve any appropriations bills for FY 2011, the federal government has been operating under a series of continuing resolutions. This provides Congress with an opportunity to help the Postal Service to begin right-sizing its retail and operations network in FY 2011. With every passing month the Postal Service is forced to incur the cost of Saturday delivery for yet another month.

2. Closing of Stations and Branches.

The Postal Service has both the authority and the responsibility to create and maintain post offices and other facilities as needed. 39 U.S.C. § 404(a)(3). The Postal Service also has the authority to close or consolidate post offices and other facilities, but closures of independent "post offices" with their own postmasters are subject to certain notice requirements and are subject to appeal to the Commission. 39 U.S.C. § 404(d). The ability to both open and close stations and branches are important managerial prerogatives of the Postal Service. Efforts to impede the Postal Service in these cost-cutting efforts are highly detrimental to Postal Service finances.

In Docket No. N2009-1, the Postal Service requested the Commission to determine whether its plan to consider closing certain stations and branches was a change that needed an Advisory Opinion under section 3641, and if so, to issue an Advisory Opinion. Valpak questioned the jurisdiction of the Commission, filing an Initial Brief[13] and Reply Brief.[14] Nevertheless, the Commission did issue an Advisory Opinion, advising the Postal Service to follow similar procedures when closing stations and branches as are used to close independent post offices. Advisory Opinion Concerning the Process for Evaluating Closing Stations and Branches (Mar. 10, 2010), pp. 61-65.[15]

The Commission has received several appeals under section 404(d) which relate to closure of stations and branches, and continues to entertain their consideration. Congress knew what a "post office" was when it used that term, and limited the Commission's authority to the closing of "post offices." Yet the Commission has refused to dismiss these supposed "appeals" on the ground that certain members of the public did not know the difference between (i) an independent post office and (ii) a station or branch.[16] Deficiencies in the

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[13] http://www.prc.gov/Docs/65/65865/VP%20N2009-1%20Initial%20Brief.pdf

[14] http://www.prc.gov/Docs/66/66094/VP%20N2009-1%20Reply%20Brief.pdf

[15] http://www.prc.gov/Docs/67/67174/Advisory_Opinion_031010.pdf

[16] The Commission holds to the view that it has authority over the closing of stations and branches despite the clear language used by Congress — independent "post offices" only. *See* Docket No. A2010-3, Order No. 477, Order Dismissing Appeal (Jun. 22, 2010), pp. 5-6, http://www.prc.gov/Docs/68/68568/Order_No_477.pdf.

Commission's legal analysis were discussed at length by Valpak, the Association of Priority Mail Users, Inc., and the Postal Service.[17]

Fortunately, Postmaster General Donahoe recently announced that the Postal Service will begin the process of closing 2,000 postal facilities, starting in March 2011. *See* "Postal Service Eyes Closing Thousands of Post Offices," Jan. 24, 2011, *Wall Street Journal*.[18] The Commission will have enough to do without taking on appeals of hundreds of stations and branches not expressly authorized by Congress. Such closures, and the costs savings which they enable, are an essential part of any leaner business model for the Postal Service.

C. UNDERWATER PRODUCTS.

Current postal law mandates that postal rates for each class of mail or type of service, cover attributable costs as well as make a contribution to institutional costs. This requirement was contained in the Postal Reorganization Act of 1970, and continues in current postal law, unamended by PAEA:

> **[p]ostal rates shall** be established to **apportion the costs** of **all postal operations** to **all users of the mail** on a **fair and equitable** basis. [39 U.S.C. § 101(d) (emphasis added).]

PAEA reiterated and clarifies this principle as a "requirement,"[19] as follows:

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17 *See* Docket No. A2010-3, Answering Brief of Valpak Direct Marketing Systems, Inc., Valpak Dealers' Association, Inc., and Association of Priority Mail Users, Inc. (Apr. 19, 2010). http://prc.gov/Docs/67/67733/VP-APMU%20Answering%20Brief.pdf. *See also* Docket No. A2010-3, Comments of United States Postal Service Regarding Jurisdiction Under (Current) Section 404(d) (Apr. 19, 2010) and Docket No. A2011-5, Comments of United States Postal Service (Jan. 31, 2011) ("Congress has been presented with numerous bills that would expand the meaning of the term 'Post Office' to include subordinate stations and branches, but it has declined these opportunities to alter the original meaning of the term 'Post Office.'" p. 2.) http://www.prc.gov/Docs/71/71727/A2011-5%20Comments.pdf.

18 http://online.wsj.com/article/SB10001424052748704881304576094000352599050.html.

19 Although placed in a list of so-called pricing "factors," this principle is identified as the only "requirement" among the "objectives" and "factors" in section 3622(b) and (c), respectively.

> the **requirement** that each **class of mail or type of mail service** bear the direct and indirect **postal costs attributable** to each class or type of mail service through reliably identified causal relationships **plus that portion of all other costs** of the Postal Service **reasonably assignable** to such class or type. [39 U.S.C. § 3622(c)(2) (emphasis added).][20]

In its FY 2009 Annual Compliance Determination ("ACD"), the Commission noted that "The desirability of rates that recover attributable costs and make reasonable contributions to institutional costs is also supported by [39 U.S.C. §] 3622(b)(1) ["To maximize incentives to reduce costs and increase efficiency"], and [39 U.S.C. §] 3622(b)(5) ["To assure adequate revenues, including retained earnings, to maintain financial stability]."[21] FY 2009 ACD (Mar.

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[20] Underwater products are also noncompliant with other provisions of 39 U.S.C. section 3622:

(b)(1) "To maximize incentives to reduce costs and increase efficiency." Under no circumstance can deliberate below-cost pricing be viewed as maximizing incentives to reduce costs.

(b)(5) "To assure adequate revenues, including retained earnings, to maintain financial stability." By definition, when any product is underwater, its revenues are inadequate, and all such products reduce any opportunity to retain earnings as well as undermine financial stability.

(b)(8) "To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail." Postal reorganization under PRA was intended to eliminate subsidization within and between classes of mail. PAEA neither repealed that underlying constraint of PRA, nor did it authorize extensive subsidization within and between products or classes of mail.

(c)(12) "the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services." Any products that impose attributable costs in excess of the revenue which they provide cannot be construed as compliant with the need for the Postal Service to increase its efficiency and reduce its costs.

[21] In its FY 2009 ACD, the Commission applied 39 U.S.C. section 3622(c)(2) at the product level. *See, e.g.*, FY 2009 ACD, pp. 68 (First-Class Presort Parcels), 86 (Standard Mail Flats), 95 (Single-Piece Parcel Post, Bound Printed Matter Parcels, Media Mail/Library Mail, and Inbound Surface Parcel Post), 104 (Registered Mail and Stamped Cards), 106 (Address List Services), 107 (Confirm service), 111 (inbound letter post from Canada and Inbound Surface Parcel Post), and 112 (international inbound Registered Mail). *See also* FY 2008 ACD (Mar. 30, 2009), pp. 72-73, 77.

29, 2010), p. 68, n.5. The Commission has also concluded that underwater rates are unfair to other mailers. *Id.*, p. 31.

If, during an annual compliance review, the Commission finds that any rates are not in compliance with these principles of postal law or implementing regulations, it has no discretion to ignore the problem, because PAEA requires that the Commission: (i) "shall make" a written determination that non-compliant rates are "not in compliance" with PAEA; and then (ii) "shall take appropriate action…."

> (b) Determination of Compliance or Noncompliance.—
> Not later than 90 days after receiving the submissions required under section 3652 with respect to a year, the Postal Regulatory Commission **shall make** a **written determination** as to
> (1) whether any **rates or fees** in effect during such year (for products individually or collectively) were **not in compliance** with applicable provisions of this chapter (or regulations promulgated thereunder); or
> (2) whether any service standards in effect during such year were not met.
> If, with respect to a year, **no instance of noncompliance** is found under this subsection to have occurred in such year, the **written determination** shall be to that effect.
>
> (c) Noncompliance With Regard to Rates or Services.—
> If, for a year, a timely **written determination of noncompliance** is made under subsection (b), the Postal Regulatory Commission **shall take appropriate action** in accordance with subsections (c) and (e) of section 3662 (as if a complaint averring such noncompliance had been duly filed and found under such section to be justified). [39 U.S.C. § 3653 (emphasis added).]

In taking "appropriate action," the Commission exercises its broad remedial powers under 39 U.S.C. section 3662(c) relating to complaints[22]:

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[22] In addition, under 39 U.S.C. section 3662(d), the Commission has further authority in such cases:

> Authority To Order Fines in Cases of Deliberate Noncompliance.—
> In addition, in cases of **deliberate noncompliance** by the Postal Service with the requirements of this title, the Postal Regulatory Commission may order, based on the nature, circumstances, extent, and seriousness of the noncompliance, a **fine** (in the amount specified by the Commission in its order) for each incidence of noncompliance. Fines resulting from the provision of competitive products

> (c) Action Required if Complaint Found To Be Justified.—
> If the Postal Regulatory Commission finds the complaint to be justified, it shall order that the Postal Service take such action as the Commission considers appropriate in order to achieve compliance with the applicable requirements and to remedy the effects of any noncompliance (such as **ordering unlawful rates to be adjusted to lawful levels**, ordering the cancellation of market tests, **ordering the Postal Service to discontinue providing loss-making products**, or requiring the Postal Service to make up for revenue shortfalls in competitive products). [Emphasis added.]

The Postal Service has reported that it has continued to hemorrhage enormous sums on money-losing products in FY 2010, as detailed in Table 2. Despite these large losses, many of which will predictably occur yet again in FY 2012, the Commission has yet to make any finding of noncompliance and take any action designed to reduce the hemorrhaging. Unless the situation starts a dramatic turn-around this year, Congress should be aware that the looming financial crisis will loom even larger next year and again in the year after that.

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shall be **paid from the Competitive Products Fund** established in section 2011. All receipts from fines imposed under this subsection shall be deposited in the general fund of the Treasury of the United States. [Emphasis added.]

Table 2
Loss-Generating Market Dominant Products, FY 2009-2010
(Exclusive of Special Services)

Product	FY 2009 Deficit ($, millions)	FY 2009 Cost Coverage	FY 2010 Deficit ($, millions)	FY 2010 Cost Coverage
First-Class Parcels	N/A	N/A	$1.2	99.9%
Inbound Int. Single-Piece First-Class Mail	$105.2	60.5%	$53.3	79.3%
Standard Mail Flats	$622.3	82.2%	$581.9	81.6%
Standard Mail NFMs and Parcels	$208.1	75.2%	$177.9	77.2%
Periodicals Within County	$14.5	86.2%	$25.4	74.2%
Periodicals Outside County	$642.8	75.0%	$598.0	75.0%
Single-piece Parcel Post	$62.0	91.9%	$134.0	82.1%
Inbound Surface Parcel Post	$2.4	84.5%	N/A	N/A
Bound Printed Matter Parcels	$8.5	97.7%	$27.6	92.1%
Media and Library Mail	$75.0	84.1%	$89.8	80.4%
Total	**$1,740.8**		**$1,689.1**	

Sources: Tables 1-4, FY 2009 Annual Compliance Report (“ACR”); Tables 1-4, FY 2010 ACR.

Although it might have been possible at one time to have believed that the Postal Service could generate sufficient revenue from high-coverage products to offset losses from underwater products, it now should be clear that those days are over. As demonstrated in Table 2, the combined loss of the 11 products in FY 2010 was $1,689.1 million. That amount constitutes the majority (56.4 percent) of the operating loss of the Postal Service.

1. Periodicals Class.

In FY 2010, the Periodicals class completed its fourteenth year of being subsidized by other mailers, adding another **$611 million** to a cumulative deficit that now has exceeded **$4.3 billion** in those 14 years. *See* Table 3. Moreover, in FY 2010, the Periodicals class achieved a new all-time low coverage of **75.46 percent**, with both Periodicals subclasses underwater.

A rate increase averaging **32 percent** would be necessary to bring revenues from Periodicals up to attributable cost in one step, and a rate increase of **16 percent** would be needed this year (and another next year) to bring Periodicals up to attributable cost in two equal steps. Such a large price increase would not have been necessary if smaller price increases had been ordered in the past — illustrating the danger of repeatedly deferring unpleasant but necessary action into the future indefinitely.

Under PRA, it took a decade for the Periodicals class to lose $2.2 billion for the Postal Service. Under **PAEA**, it has taken only **four years** for Periodicals to **lose** an additional **$2.1 billion**. Under PRA, the lowest coverage for Periodicals was 85.08 percent (FY 2005). Under PAEA, the coverage has never exceeded 84 percent, and it now has dropped almost another 10 percentage points.

Table 3
Periodicals Class — Revenue, Costs, Coverage, and Cross-Subsidies
FY 1997 — 2010

	(1)	(2)	(3)	(4)
PRC CRA	Revenue	Costs	Cover-age	Revenue – Costs
Fiscal Year	($, mill.)	($, mill.)		($, mill.)
Under PAEA				
2010	1,878.8	2,489.8	75.46%	-611.0
2009	2,038.0	2,680.0	76.04%	-642.0
2008	2,294.9	2,732.1	84.00%	-437.2
2007	2,187.9	2,635.6	83.01%	-447.7
Subtotal	**6,520.8**	**8,047.7**	**81.03%**	**-2,137.9**

Under PRA				
2006	2,124.8	2,487.6	85.42%	-362.8
2005	2,068.9	2,431.6	85.08%	-362.7
2004	2,100.0	2,323.3	90.39%	-223.3
2003	2,139.6	2,196.2	97.42%	-56.6
2002	2,066.9	2,280.4	90.64%	-213.5
2001	2,106.9	2,367.1	89.01%	-260.2
2000	2,076.3	2,354.8	88.17%	-278.5
1999	2,017.7	2,213.1	91.17%	-195.4
1998	1,972.8	2,129.0	92.66%	-156.2
1997	1,964.6	2,038.5	96.37%	-73.9
Subtotal	**20,638.5**	**22,821.6**	**90.43%**	**-2,183.1**
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TOTAL	**27,159.3**	**30,869.3**	**87.98%**	**-4,321.0**

The problem of underpricing of Periodicals has been raised in each prior Annual Compliance Review.

- In the first Annual Compliance Report under PAEA, Docket No. ACR2007, the Postal Service reported that Periodicals had failed to cover attributable costs, with class-wide cost coverage of **83.01 percent**. *See* Docket No. ACR2007, USPS-FY07-1, FY 2007 Public Cost and Revenue Analysis Report.

- The Postal Service's FY 2008 ACR revealed another losing year for Periodicals. The class's cost coverage for that year was up slightly, to **83.99 percent**. *See* Docket No. ACR2008, USPS-FY08-1, FY 2008 Public Cost and Revenue Analysis Report.

- FY 2009 resulted in another loss for Periodicals, with the Postal Service reporting that cost coverage had plummeted to **76.04 percent**. *See* Docket No. ACR2009, USPS-FY09-1, FY 2009 Public Cost and Revenue Analysis Report.

In all three ACR's, the Commission chose to avoid making a finding of a violation of the policies of Title 39, and ~~has~~ found some reason to defer taking corrective action.

In two successive ACD's, the Commission has deferred action on Periodicals due to the "soon-to-be-released" report of the Joint Task Force on Periodicals required by PAEA section 708 (uncodified). The report has been in preparation for the past several years with promised deadlines for issuance long past.[23] PAEA did not set a deadline for the report, and nothing would indicate that it is going to be submitted to the President and Congress any time in the near future. It is now known, however, that this report is no longer relevant with respect to lawful pricing of Periodicals, as the Postal Service's FY 2010 ACR states that during the course of the preparation of the report it has been determined that there will be nothing the Postal Service can do, within the confines of cost cutting and within-CPI price increases, that will adequately move Periodicals towards covering its costs. FY 2010 ACR, pp. 8-9. Accordingly, there is no justification for delaying Commission action based on the pendency of the long-delayed report of the Joint Task Force.

The Postal Service costing system has been under development and refinement for the last 40 years. Periodicals mailers alleged that Periodicals costing is badly flawed, and it is impossible to conclude that Periodicals cost coverage is under 100 percent.[24] However, the Postal Service Office of the Inspector General conducted an audit of Periodicals data collection systems and issued its report on December 7, 2010. That report concluded: "we found that Postal Service data collection systems and procedures accurately attribute costs to Periodicals based on existing cost attribution models." *See* Postal Service OIG Report No. CRR-AR-11-001 (Dec. 7, 2010), p. 2.[25] Accordingly, there is no justification for delaying Commission action based on supposed flaws in Periodicals costing.

Each time the Commission avoids taking corrective action, the problem worsens, making a corrective price increase larger than if the Commission had acted earlier.

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[23] "The PAEA section 708 provided a study of Periodicals conducted jointly by the Commission and the Postal Service. **That study will be published this spring** [2009] and will, among other things, address service issues of Periodicals mail." FY 2009 ACD, p. 55 (emphasis added).

[24] *See, e.g.,* Docket No. ACR2009, Initial Comments of American Business Media (Jan. 29, 2009), p. 3.

[25] http://www.uspsoig.gov/foia_files/CRR-AR-11-001.pdf

2. Standard Flats.

Standard Flats are one of six products in the Standard Mail class.[26] The Postal Service's Cost and Revenue Analysis ("CRA") report began providing data on the Standard Mail Flats product in FY 2008. In the three years since then, revenues from the Standard Mail Flats product have failed to cover its attributable cost by a cumulative total of $1.4 billion. *See* Table 4.

Table 4

Standard Mail Flats Revenue, Costs and Contribution
FY 2008 – 2010
($, millions)

Fiscal Year	Revenue	Attributable Cost	Contribution	Volume
2008	$3,663.7	$3,891.0	-$227.3	10,010.875
2009	2,866.0	3,488.3	-622.3	7,793.511
2010	2,579.4	3,161.3	-581.9	7,049.230
TOTAL	$9,109.1	$10,540.6	-$1,431.5	

Source: CRA for each respective year.

Although the CRA did not report on Standard Flats as a product in the CRA prior to FY 2008, separate cost and revenue data were available for flats, and from those data flats profitability could be determined. The Standard Mail Flats product is almost exclusively catalogs.

In its current ACR, the Postal Service admits that Standard Flats are not expected to become a profitable product for the Postal Service (despite the fact that operating profit is now a major goal adopted this year by the Postal Service). *See* FY 2010 ACR, p. 8. Unfortunately, this year's ACR minimizes the scope of the problem:

> In each of the last four fiscal years, these two [Standard Mail] products [Flats and NFMs/Parcels] did not cover costs. This is **of concern** to both the Postal Service and the Commission. [FY 2010 ACR (Dec. 29, 2010), p. 24 (emphasis added).]

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[26] The six Standard Mail class products are Letters, Flats, Parcels/NFMs, Carrier Route Letters, Flats, and Parcels, High Density and Saturation Letters, and High Density and Saturation Flats and Parcels. All of those products generate significant contribution, except for Standard Flats and Parcels/NFMs.

Losing $581.9 million in one year should seem to be more than a matter "of concern" to the Postal Service. It certainly would be a huge concern to a for-profit company.

The only good news discernable from Table 4 is that the loss on Standard Flats in FY 2010 compares favorably with the loss in FY 2009 — *i.e.*, a loss of "only" $582 million in FY 2010 versus a loss of $622 million in FY 2009. That reduction in net outflow was attributable solely to the decline in volume, not cost reduction.[27] It is neither fair nor equitable for mailers of other profitable products to be required to continue subsidizing Flats' catalog mailers — particularly not at 8 cents for each catalog sent.

Table 5

Standard Flats Unit Revenue, Cost and Contribution
FY 2009 – 2010

Fiscal Year	Revenue	Attributable Cost	Contribution
2009	$0.368	$0.448	-$0.080
2010	$0.366	$0.448	-$0.083

Source: CRA for each respective year.

PAEA gives the Postal Service significant flexibility and latitude when setting prices for market dominant products within profitable classes. Yet, in every price adjustment it has noticed under PAEA, the Postal Service has used that new-found flexibility to keep each successive price adjustment for Standard Mail Flats **below the systemwide average** for Standard Mail.

[27] In the absence of significant cost reduction, the chief hope for a further reduction in the annual subsidy would appear to lie in a further reduction in volume, a passive strategy not permitted to the Commission under PAEA.

Table 6

Standard Mail and Flats Percentage Price Increase

Docket No.	Flats	Standard Mail
R2008-1	0.865%	2.838%
R2009-2	2.306%	3.781%
R2010-4 (rejected)	5.134%	5.616%
R2011-2	0.835%	1.739%

In the price adjustment filed January 13, 2011, the Postal Service proposed a price increase for Flats (0.835 percent) that is only one-half of the CPI cap and the average increase for all Standard Mail (1.739 percent).[28] Even though the Postal Service is fiscally strapped, it is not clear that the Postal Service is serious intention to increase the coverage of Flats — at least for now. *See* Docket No. R2011-2, United States Postal Service Notice of Market Dominant Price Adjustment (Jan. 11, 2011), p. 16.

Considering the substantial amount of money that the Postal Service already has lost, and continues to lose by virtue of using money extracted from other mailers to subsidize Flats, the discussion in the FY 2010 ACR is quite brief. The Postal Service offers no hope for price adjustments designed to comply with the objectives and factors in section 3622(b) and (c), nor does it offer a defense for continued underpricing of Flats and failure to comply with section 3622(b). The FY 2010 ACR merely states that:

> Table 2 shows that the Flats product has a cost coverage of **81.6 percent** in FY 2010. The Postal Service believes that **pricing** and **efficiency measures need to be taken to ensure that this product covers its costs and makes an appropriate contribution toward institutional costs.** [FY 2010 ACR, p. 31 (emphasis added).]

The inability of the Postal Service to stop the financial hemorrhaging from any underwater class or product is of great importance. Cumulative losses on underwater products

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[28] A price increase of 22 percent is still needed to bring revenue from Standard Flats up to attributable cost — a coverage of only 100 percent.

have helped put the finances of the Postal Service in a significant hole, and continuation of those annual losses threaten to do even more serious damage.

It often is stated that, under PAEA, the rate cap protects other mailers from an increase in their rates on account of subsidies to underwater products. That does not mean, however, that the cumulative effect of recurring deficits from underwater products will not affect other mailers and stakeholders, perhaps severely so, in a variety of ways. An operating deficit is an operating deficit, and the Postal Service has to find ways to pay its bills. Concurrently, the rate cap severely restricts increases in revenue, especially in an environment of little or no inflation. By way of illustration, the pending proposal in Docket No. N2010-1 to eliminate Saturday delivery to every residential address in the country is one such initiative. Its purpose is to help cover operating deficits that in no small way are attributable to underwater products such as Standard Flats. Elimination of Saturday delivery, if adopted, would affect every residential delivery point, and apply equally to all mailers and all products, not just underwater products.

3. Recommendations.

In its FY 2009 ACD, the Commission ordered the Postal Service to implement a plan to remedy the problem of underwater products. FY 2009 ACD, pp. 75, 86-87. But, in Docket No. R2010-4, it rejected the Postal Service's exigent price request which was partly an effort to begin to move Periodicals closer to cost coverage. In light of the Commission's exigent request rejection, the Postal Service now concludes that, despite the most optimistic cost cutting in the future, Periodicals, Standard Mail Flats, and Parcels cannot achieve cost coverage under the rate cap. FY 2010 ACR, pp. 8-9.

If adequate cost coverage cannot be achieved for Periodicals and Package Services through (i) cost cutting and (ii) cap-limited price increases, or as part of (iii) an exigent price adjustment, then the last available tool is for the Commission to do what is within its remedial powers under 39 U.S.C. sections 3653 and 3662(c).

- Valpak urged the Commission to order the Postal Service to increase prices for the **Standard Flats** product one-half of the way to cover its costs — an **11.0 percent** increase in the pending annual compliance review.

- And, similarly for the **Periodicals class**, Valpak urged the Commission to order the Postal Service to increase prices one-half of the way to cover its costs — a **16.0 percent** increase in the pending annual compliance review.

Thereafter, the Commission can consider what further increases will be necessary to have this product and this class make a reasonable contribution to institutional costs.

We bring these matters regarding Underwater Products to the attention of the Congress, because neither the Postal Service nor the Commission have demonstrated a willingness to make the tough decisions necessary to implement the provisions of PAEA under which each product and class must pay its own way. Absent meaningful action, the financial stress from Underwater Products is certain to continue, and perhaps grow even worse. In the next couple of weeks, the Commission will issue its ACD for FY 2010, and we will know whether it has taken the actions required by PAEA. If it does not take action, we urge Congress to step in to ensure that the law it wrote is being faithfully implemented.

Further, the Postal Service has asked Congress to amend the price cap so that it would apply to all Market Dominant products and not separately to each class. In general, we agree, but believe that any such legislation must be accompanied by a clear mandate to focus all future price adjustments so as to eliminate the current enormous losses being incurred from favored mail products.

D. MARKETING MAIL MADE EASY.

We conclude our testimony with some comments on a pending issue, where we believe the Postal Service is headed in the wrong direction with a new marketing incentive. This matter is now pending before the Commission, and we anticipate a decision in the near future.

The Postal Service has asked the Commission to begin testing a new "experimental product" — "Marketing Mail Made Easy" ("MMME") — proposed to be defined as a "new product [that] will reduce barriers to entry, encouraging small and medium-sized businesses to utilize the mail to promote and market their businesses to current and prospective customers simply and at an affordable price." Docket No. MT2011-3, Postal Service Notice (Jan. 12, 2011), p. 1.

Existing High Density and Saturation mail comes from a variety of sources. One source is mailers with shared mail entered by companies such as Valassis, Harte-Hanks, and Valpak. The total mail coverage ("TMC") programs of newspapers is a second source. Yet a third source is mail service providers ("MSPs"). Players in these three groups compete vigorously to get retail businesses to advertise through the mail, and to use their services when so doing.

MMME is designed to modify acceptance rules to urge businesses now using these three ways of mailing to pull their pieces from these existing mail channels, potentially jeopardizing existing mail. The Postal Service needs to consider that the success of new programs like MMME may come from cannibalization of existing mail. Valpak believes it is not a good business decision to harm your current customers in order to try to attract new volume. Valpak and many other companies have urged the Commission to reject this product as it does not comply with law applicable to market tests, and we await its decision.

Jim Sampey
Executive Vice President & Chief Operating Officer
Cox Target Media, Inc./Valpak Direct Marketing Systems, Inc.

Jim serves as Executive Vice President & Chief Operating Officer of Cox Target Media, Inc. Jim leads the sales and marketing teams including National Sales, Franchise Sales, Graphics, Customer Service, Postal Affairs, New Media Business Development, Marketing, Research, Network Promotions and Creative Services for Valpak Direct Marketing Systems, Inc.

Over his 21-year career at Valpak, Jim has held senior leadership positions in sales, operations and information technology. Most recently, he was Executive Vice President of Sales and before that he served as Executive Vice President of Operations. He led the project team responsible for the design and construction of the company's $220 million Valpak Manufacturing Center in St. Petersburg, Florida, which was completed in 2007.

Jim has also served as the company's Vice President of Interactive Promotions, Vice President of Information Technology and Executive Vice President of Cox Direct. He joined Valpak in 1990 as National Sales Manager and a year later was promoted to Vice President of Sales.

Before Valpak, Jim spent eight years in the direct marketing industry focused on database management and data analysis. He worked for Donnelley Marketing as a Regional Sales Manager in the Midwest and prior to that held the same position with Wiland Database Services. Jim also worked for the United Bank of Denver and NCR Corporation.

Jim received his bachelor's degree in business from the University of Dayton.

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Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: James Sampey

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

N/A

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

Cox Enterprises
Cox Target Media
Valpak Direct Marketing Systems, Inc.
Valpak Dealers Association
Employee of Cox Target Media/Valpak Direct Marketing Systems, Inc.

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

N/A

I certify that the above information is true and correct.
Signature:

Date: 2/24/2011