



Attachment C

Postal Regulatory Commission
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Capital One Services, Inc.
15000 Capital One Drive
Richmond, VA 23238

May 30, 2008

Stephen Kearney
Vice President, Pricing and Classification
United States Postal Service
475 L'Enfant Plaza SW
Washington, DC 20260

Dear Steve,

Thank you for your letter of May 27, 2008, which we just received. Capital One is ready, willing, and able to enter into the attached Negotiated Service Agreement, which is identical to the Bank of America NSA, except for the substitution of Capital One's name and volume description. You indicated in your letter that "[c]ertain terms and conditions would necessarily have to be changed." Please indicate any changes you want to make in the attached Capital One NSA by redlining the proposed agreement. In addition, please indicate specifically what exact changes you will require in Paragraphs IV(C)(1)-(3)(a); IV(D)(1)-(2); IV(E)(1)-(2); IV(F)(1)-(3)(a); and IV(G)(1)-(2).

Because time is of the essence, we request that we receive your response by COB Wednesday, June 4, 2008. In light of our previous communications, if we do not receive your response by that time, we will assume that the Postal Service will not sign the attached agreement unless the above-referenced paragraphs are changed. If you do respond by June 4 and your response does not include any changes to these paragraphs, we will conclude that you agree to incorporate them unchanged in the final contract.

In order to expedite this matter, please send your response by email to my email address together with a signed hard copy to my mail address.

Thank you for your prompt attention to this matter.

Sincerely,

Ben Lamm
Director
Direct Marketing Operations

**NEGOTIATED SERVICE AGREEMENT
BETWEEN UNITED STATES POSTAL SERVICE
AND CAPITAL ONE FINANCIAL CORPORATION**

This Agreement ("Agreement") is made as of May __, 2008, (the "Agreement Effective Date") by and between Capital One Services Inc. ("Capital One"), a Delaware corporation with its principal place of business at 1680 Capital One Dr., McLean, VA 22102, for itself and its subsidiaries and affiliates existing during the term of this Agreement, and the United States Postal Service ("Postal Service"), an independent establishment of the Executive Branch of the United States Government established by the Postal Reorganization Act, Public Law No. 91-375, as amended, with its principal office at 475 L'Enfant Plaza, S.W., Washington, D.C. 20260. The Postal Service and Capital One are referred to herein collectively as the "Parties"; each is referred to singly as a "Party."

WHEREAS, it is the intention of the Parties to enter into a Negotiated Service Agreement ("NSA") that will benefit the Postal Service, the postal system as a whole, and Capital One, and that will comply with the requirements of the Postal Reorganization Act, and

WHEREAS, the Postal Service wishes to encourage Capital One to undertake activities that will reduce the cost to the Postal Service of processing Capital One's letter-rated First-Class Mail and Standard Mail, and

WHEREAS, Capital One wishes to undertake such activities when it is deemed by Capital One to be economically and operationally advantageous to do so, and

WHEREAS, both Parties prefer to achieve these goals through performance-based incentives that Capital One will receive if and only if its efforts reduce Postal Service costs, and

WHEREAS, both Parties believe that performance-based incentives are likely to achieve lower combined costs for the Postal Service and Capital One than would a detailed prescription of specific mail preparation requirements,

NOW, THEREFORE, the Parties agree as follows:

I. POSTAL SERVICE FINDINGS

The Postal Service finds that the following key conditions, taken together, support this Negotiated Service Agreement:

- A. For Postal Fiscal Year 2006, Capital One mailed approximately 1.1 billion and 1.3 billion mailpieces, respectively, of letter-rated First-Class Mail and Standard Mail.
- B. Although the address quality of this mail satisfies Postal Service requirements, Capital One could make further improvements. These improvements, while requiring additional capital investment and operating costs by Capital One, would generate cost savings for the Postal Service.
- C. The requirement that Capital One place Four-State Barcodes on all of its letter-rated First-Class Mail and Standard Mail will generate cost savings for the Postal Service by improving scan and read rates, and by enabling more effective tracking of mailpieces.
- D. The specific methods to achieve the improved address quality and to produce a greater reduction in the combined costs of the Postal Service and Capital One for processing Capital One's letter-rated First-Class Mail and Standard Mail will be at the discretion of Capital One.
- E. The adoption of the Four-State Barcode, CONFIRM, and OneCode ACS by Capital One, and the Postal Service's access to internal business records ("DPV reports") maintained by Capital One and other compliance reporting mechanisms, will enable the Postal Service to verify whether Capital One is entitled to any discounts it claims under the Agreement.

II. DEFINITIONS

- A. **ACS ("Address Change Service")** is an automated electronic process offered by the Postal Service to provide mailers with notices of address correction or reason for nondelivery. See DMM 507.3.2.
- B. **"Capital One Mail"** is defined for this Agreement as all letter-rated mail that (1) is entered by or on behalf of Capital One or a subsidiary or affiliate, and (2) relates to the business activities of Capital One or a subsidiary or affiliate. Such mail includes letter-rated cooperative mailings and letter-rated mail entered pursuant to marketing arrangements with other entities.
- C. **Business Entity Identifier ("BEI")**: A BEI is the six or nine digit code embedded in the Four-State Barcode which uniquely identifies a mailer's containers and mailpieces, thereby enabling

the mailer to receive improved tracking from its mailings. BEIs are used exclusively in conjunction with intelligent mail.

- D. **Business Reply Mail (“BRM”)**: Business reply mail service is the service, defined in Domestic Mail Manual (“DMM”) 507.8.0 *et seq.*, that enables a permit holder to receive First-Class Mail and Priority Mail back from customers; the mail owner pays postage and a per piece fee only for the mailpieces returned.
- E. **“CASS” (or “Coding Accuracy Support System”)**: CASS is a system, defined in DMM 708.3.0, used to validate and improve the accuracy of delivery point codes, ZIP+4 codes, 5-digit ZIP Codes, and carrier route codes on mailpieces. CASS provides a common platform to measure the quality of address matching software and to diagnose and correct software problems.
- F. **CONFIRM Service**: A service for tracking individual mailpieces, based on the scanning of barcoded information on the mailpieces, offered by the Postal Service pursuant to DMM 503.13.0 *et seq.*
- G. **Courtesy Reply Mail (“CRM”)**: Courtesy reply mail, defined in DMM 201.3.14.2, consists of reply mail other than BRM or meter reply mail (“MRM”) enclosed in other mail, with or without prepayment of postage, for return to the address on the reply piece.
- H. **DMCS (or “Domestic Mail Classification Schedule”)**: A document, published by the Postal Regulatory Commission at <http://www.prc.gov/main.asp?Left=contents.asp&Right=home.asp>, providing a unified codification of the rates and classifications recommended by the Commission and approved by the Governors of the Postal Service.
- I. **DMM (or “Domestic Mail Manual”)**: A codification of rates, classifications, and mail preparation requirements published by the Postal Service. The DMM is available on the USPS website at <http://www.usps.com/publications/manuals/welcome.htm>, and is incorporated by reference at 39 C.F.R. § 111.1.
- J. **DPV Report**: A report produced by checking the address list of a mailing against a Delivery Point Validation (“DPV”) database certified or approved by the Postal Service. This verification procedure allows the mailer to check the validity of any individual house, apartment, post office box, rural box, mail drop, or commercial address that receives mail.

- K. **EDL (or “Enhanced Distribution Label”)**: A 24-digit barcoded label for trays and sacks, used in conjunction with the Postal Service’s Web Automated Tray Label Assignment System (“ATLAS”).
- L. **eDropShip**: A Web-based system, currently still in the design and development stage, that will allow mailers to verify the status of all mailings which they have scheduled through the Facility Access and Shipment Tracking System (“FAST”).
- M. **FAST (or “Facility Access and Shipment Tracking System”)**: FAST is an Internet-based appointment system for entry of dropshipped (or destination entered) mail. See <http://www.usps.com/nationalpremieraccounts/fast.htm>.
- N. **Four-State Barcode (or “OneCode”)**: The name given by the Postal Service to a new barcode design. The OneCode barcode can carry a unique identifying number to the mailpiece, enabling tracking, tracing, and information identifying the sender and the destination address, in addition to mail sorting. See <http://www.usps.com/postalone/welcome.htm>.
- O. **IBI Meter**: Postage meters are devices that allow download, storage, and accounting of postage in the device. Meters print indicia that may be IBI (“information based indicia”) or non-IBI, to indicate postage payment. IBI are digitally generated indicia that include a two-dimensional barcode.
- P. **Intelligent Mail®**: The trade name of a suite of products and services offered by the Postal Service that enables the use of machine readable barcodes to uniquely identify mail. This enables large mailers to track the progress of their mail through the stages of processing to delivery.
- Q. **Letter-Rated Mail**:
1. Letter-rated First-Class Mail is defined for this Agreement to include mailpieces, not exceeding 3.5 ounces in weight, entered at First-Class Mail automation letter rates (DMCS Rate Schedule 221). This definition excludes cards (DMCS Rate Schedule 222).
 2. Letter-rated Standard Mail is defined for this Agreement to include mailpieces, not exceeding 3.3 ounces in weight, entered at Standard Mail Regular Automation letter rates

(DMCS Rate Schedule 321B) or Standard Mail Enhanced Carrier Route letter rates (DMCS Rate Schedule 322).

- R. **Metered Reply Mail:** Reply mail prepared by the sender with reply postage prepaid using meter indicia. *See* DMM 604.4.4.2.
- S. **Milestone Dates:**
1. The “Agreement Effective Date” is defined as the date on which both parties have signed this Agreement.
 2. The “Approval Date” is defined as the date the Postal Regulatory Commission (“the Commission”) has recommended approval of this Agreement.
 3. The “Commencement Date” is defined as the date the Board of Governors of the Postal Service specify that the rate, classification, and fee changes, as specified in this Agreement and recommended by the Commission, take effect.
- T. **OneCode ACS:** A functionality of OneCode that facilitates electronic Address Change Service (“ACS”) – i.e., notification from the Postal Service regarding whether a mailpiece may be delivered to the addressee as it is addressed. This functionality allows the mailer to specify when and how to notify the mailer (or list owner), and what to do with the mailpiece, when it needs to be forwarded or is undeliverable as addressed.
- U. **Permit Account:** An account for advance deposit of funds with the Postal Service that allows a mailer to enter mail bearing a permit indicia of postage at a specified post office. *See* DMM 604.5.0 *et seq.*
- V. **Postal Accountability and Enhancement Act:** Public Law No. 109-435, Dec. 20, 2006, 120 Stat. 3198.
- W. **“Postal Fiscal Quarters”** are defined as follows:
1. Quarter one: the period from October 1 through December 31.
 2. Quarter two: the period from January 1 through March 31.
 3. Quarter three: the period from April 1 through June 30.

4. Quarter four: the period from July 1 through September 30.
- X. "Postal Fiscal Year" is defined as the period of time from October 1 of one year through September 30 of the following year.
- Y. **PostalOne!®**: the Postal Service's name for a Web-based alternative to existing manual mailing processes, offered by the Postal Service, with an electronic suite of services designed for business mailers. PostalOne!® features an automated, streamlined alternative to the existing hardcopy documentation used in the business mail acceptance process. The PostalOne!® system links a customer's mailing information electronically with USPS acceptance, verification and payment systems. See <http://www.usps.com/postalone/>.
- Z. **Postal Regulatory Commission ("Commission")**: The five-member independent regulatory commission, established by the Postal Accountability and Enhancement Act, that recommends changes to postal rates and classifications. See Public Law No. 109-435 § 601 *et seq.*
- AA. **Postal Reorganization Act**: Public Law No. 91-375, Aug. 12, 1970, 84 Stat. 719, as codified and subsequently amended at Title 39, United States Code.
- BB. **Qualified Business Reply Mail ("QBRM")**: QBRM is a subset of Business Reply Mail available for specific automation-compatible letter-rated mailpieces. Mailpieces that qualify as QBRM receive a lower automation postage rate and reduced per piece fees than ordinary BRM. See DMM 507.8.2-8.4.
- CC. "Qualifying Permit Numbers" are defined for this Agreement as permit accounts that Capital One has designated for entry of Capital One Mail eligible for rate discounts under Section IV of this Agreement.
- DD. "Schedule A First-Class Mail" is defined for this Agreement to include the following kinds of Capital One Mail entered as letter-rated First-Class Mail:
1. Card statements and other account statements.
 2. Benefit statements.

3. Actual card (plastic) mailings.
4. Specific account correspondence (e.g., notifications regarding change in credit line, interest rate, or other account terms).

EE. "Schedule B First-Class Mail" is defined for this Agreement as Capital One Mail that is entered as letter-rated First-Class Mail and contains one or more of the following kinds of matter, but does not contain any matter described in Section II.DD:

1. The following kinds of portfolio offers:
 - a. Additional card offers to existing card holders (e.g., upgrade to a platinum card, or application for a new card).
 - b. Special offers to existing account holders.
 - c. Balance transfer offers to existing card holders.
 - d. Convenience checks to existing card holders.
2. Any other letter-rated mail, not identified in Section II.DD, that advertises, promotes or offers a financial product or service of Capital One or a subsidiary, affiliate, or a partner in a cooperative venture or strategic alliance with a Capital One entity.
3. Privacy statements.

FF. **Seamless Acceptance:** A computerized Web-based method for entry of bulk mail, currently under development by the Postal Service, that is intended to bypass or automate most of the steps involved in acceptance of bulk mailings by the Postal Service. See section III.E of this Agreement. Instead of a hard copy mailing statement, the mailer will submit an electronic version of the mailing statement and a Mail.dat file to the Postal Service. The Postal Service will verify the mailer's information by using barcode readers to scan each mailpiece in the mailing upon induction into the system, and a computer will determine the billing determinants of the entire mailing, compare it to the data provided in the Mail.dat file, and deduct the appropriate amount from the funds on deposit. Discrepancies that exceed established tolerances will trigger a manual review.

GG. UAA: Undeliverable-as-addressed.

III. OPERATIONAL COMMITMENTS OF CAPITAL ONE

A. Four-State Barcode:

1. Capital One will implement use of the Four-State Barcode by the Commencement Date of this Agreement.
2. Capital One will use the Four-State Barcode on all Capital One Mail entered under a Qualifying Permit Number as letter-rated First-Class Mail or Standard Mail.

B. OneCode ACS:

1. Capital One will implement use of OneCode ACS by the Commencement Date of this Agreement.
2. Upon implementation of OneCode ACS, Capital One will place OneCode ACS markings on all Capital One Mail entered under a Qualifying Permit Number as letter-rated First-Class Mail and Standard Mail.
3. Conditions and exceptions:
 - a. Capital One's obligation to use OneCode and OneCode ACS is conditioned on the continued availability of the option of receiving both electronic address notification and physical return of the same mailpiece of UAA letter-rated First-Class Mail and Standard Mail.
 - b. Capital One shall be entitled to remove an individual customer from the OneCode ACS program if the customer complains that the ACS process has generated unwanted forwarding of letter-rated mail properly addressed to the customer's current address.
 - c. Capital One shall be entitled to confirm a OneCode ACS transaction directly with the customer before modifying the customer's official address records. (For example, if the ACS return indicates that the addressee is deceased, Capital One may choose to

validate this statement with the executor or administrator of the estate of the addressee.)

4. Nothing in this Agreement shall relieve Capital One from complying with all otherwise applicable Move Update requirements for letter-rated First-Class Mail mailpieces under DMM 233.3.5 *et seq.*, and all CASS requirements otherwise applicable under DMM 708.3.0 *et seq.*
5. Nothing in this Agreement shall preclude Capital One from implementing additional address hygiene procedures consistent with those specified in the Agreement.

C. CONFIRM Service:

1. Capital One will implement use of CONFIRM Service before the Commencement Date of this Agreement.
2. Upon implementation of CONFIRM Service, Capital One will use it for all Capital One Mail entered under a Qualifying Permit Number as letter-rated First-Class Mail and Standard Mail.

D. Waiver of physical return of certain letter-rated First-Class Mail and Standard Mail mailpieces:

1. During the term of this Agreement, Capital One will accept electronic information about the following kinds of UAA mail instead of their physical return:
 - a. At least 10 percent of the total mailpieces of Capital One's Schedule A First-Class Mail entered per year.
 - b. All Schedule B First-Class Mail.
 - c. All letter-rated Standard Mail.
2. Except when Capital One has waived return rights, the Postal Service will provide electronic information about all UAA pieces of Schedule A First-Class Mail in addition to physical return of the mailpieces.
3. Capital One shall indicate on each mailpiece of letter-rated First-Class Mail whether the mailpiece is entered as Schedule A or Schedule B First-Class Mail and, if the

former, whether Capital One waives physical return of the mailpiece if UAA. The indication shall be by Four-State Barcode, in conjunction with the designation of permit number.

E. Seamless Acceptance:

1. The procedures set forth in Section III.E.2 below are referred to herein collectively as "seamless acceptance." Capital One will use seamless acceptance for Capital One Mail entered under a Qualifying Permit Number as letter-rated First-Class Mail and Standard Mail.
2. To enable Capital One to implement seamless acceptance, Capital One may implement, but is not limited to, any or all of the following procedures:
 - a. Capital One will use the Four-State Barcode on all of its letter-rated mailpieces, and the Enhanced Distribution Label ("EDL") where applicable, and optionally, the Mailer Placard to identify uniquely all mailpieces, trays, and pallets in mailings. Each mailpiece will include a unique Four-State Barcode including the delivery point. Each tray will be labeled with an EDL.
 - b. Capital One will use the *PostalOne!* Transportation Management to assign surface and air transportation from its mailing facilities. Capital One will be required to purchase, install and integrate *PostalOne!* Transportation Management shipping systems at its First-Class Mail production facilities. This requirement may be satisfied by the use of Code-Plus certified desktop systems software. Capital One will process, sort and dispatch all letter-rated First-Class Mail trays through its *PostalOne!* Transportation Management systems.
 - c. Capital One will submit electronic mail documentation, including unique barcode data for all letter-rated mailpieces and trays, using *PostalOne!* Mail.dat® files or Web Services.
 - d. Capital One will use its unique BEI on all mailpieces entered under Qualifying Permit

Numbers, including letter-rated mailpieces entered by another company on behalf of Capital One. The BEI will be designated by use of Capital One's unique Permit imprint/indicia or a unique IBI meter indicia.

3. Capital One will use a Mail.dat file (or Web-services) in conjunction with Four-State Barcodes to enable the Postal Service to use performance-based verification procedures for mail entered by Capital One.
4. Exception: Capital One will, to the extent commercially reasonable, implement Seamless Acceptance 90 days after its deployment by the Postal Service. For the purpose of this provision, "deployment by the Postal Service" shall be defined to have occurred when Capital One has provided Mail.dat files to the Postal Service in conjunction with use of the OneCode barcode, and the Postal Service's Seamless Acceptance systems have become functional (i.e., past the beta testing stage).

F. FAST and eDropship:

1. Capital One will use the automated scheduling services provided to the FAST system through the *PostalOne!* electronic data exchange services to enter its letter-rated Standard Mail mailpieces with destination entry discounts. This requirement is subject to the following conditions and exceptions:
 - a. Capital One and its third-party service providers may use alternative scheduling methods if warranted by delays in the testing and availability of *PostalOne!* from the Postal Service for third-party service providers.
 - b. Capital One and its service providers may use alternative scheduling methods when USPS/FAST system outages occur.
2. Within 60 to 90 days after the Postal Service has notified Capital One that eDropship is available for First-Class Mail, Capital One will subscribe to the service and begin using it through the *PostalOne!* electronic data exchange services for all entry of Capital One letter-rated First-Class Mail mailpieces.

- G. Barcoding of Courtesy Reply Mail, Business Reply Mail, and Qualified Business Reply Mail:
1. Capital One will implement use of the Four-State Barcode on all Courtesy Reply Mail, Business Reply Mail, and Qualified Business Reply Mail envelopes enclosed in its mail by the Commencement Date. All mailpieces will be machinable, automation compatible, and properly marked with a OneCode Four-State Barcode.
 2. Notwithstanding Section III.G.1, Capital One may use up existing inventories of nonbarcoded envelopes until 12 months after the Commencement Date.
 3. Capital One also reserves the right to omit a barcode from a CRM, BRM or QBRM envelope when it is mailed as part of a joint marketing arrangement or other cooperative arrangement with a nonparty to this Agreement, and the nonparty objects to the printing of a barcode on the envelope.
 4. Capital One will use commercially reasonable efforts to encourage its customers to send mail to Capital One that is machinable, automation compatible, and properly marked with a OneCode Four-State Barcode. Capital One assumes no responsibility or liability, however, for the preparation of mailpieces by Capital One customers in customer-supplied envelopes, including envelopes received from Capital One in the past.

IV. RATE DISCOUNTS FOR IMPROVEMENTS IN CAPITAL ONE ADDRESS QUALITY

- A. The Postal Service shall pay rate discounts in the form of refunds to Capital One for improved address quality and mail processing in accordance with this section. Except as provided in Section III of this Agreement, the specific means by which Capital One achieves improved address quality and mail processing are left to the sole judgment of Capital One. In exercising its judgment, Capital One will use Six Sigma and other generally accepted techniques for process management and optimization.
- B. General Terms and Conditions:

1. The discounts specified in this Agreement are available only for Capital One Mail that complies with the machineability requirements specified in DMM 201 *et seq.*
2. The discounts specified in this Agreement shall be calculated as adjustments to the rates of postage otherwise established by the DMM. Capital One may receive more than one type of discount under this Agreement for the same mailpiece.
3. Capital One shall pay the rates and fees for First-Class Mail and Standard Mail OneCode ACS and other services used under this Agreement in accordance with the generally applicable rate and fee schedules specified by the DMM.
4. Discounts shall be determined quarterly, over the life of the Agreement, based on Capital One's actual mail volumes and address quality for each quarter just ended.
 - a. The Postal Service shall pay the discounts in the form of a refund to Capital One as soon as practicable, but not later than 45 days after the end of each Postal Fiscal Quarter.
 - b. The Postal Service shall pay refunds to Capital One by electronic funds transfer, or another method of cash payment that is mutually acceptable to the parties.
 - c. Along with each refund payment, the Postal Service shall provide Capital One with sufficient information to enable Capital One to allocate the refund to individual lines of business in proportion to their contribution to the eligibility of Capital One for the refund payment.
5. For the purposes of this Agreement, the following rounding convention will apply: Numbers expressed as percentages will be rounded to the nearest tenth of a percent. Numbers expressed in dollars and cents will be rounded to the nearest one thousandth of a cent. For example, \$0.0025549 would be rounded to \$0.00255, whereas 10.150 percent would be rounded to 10.2 percent.

C. Discounts for improved mail processing performance for letter-rated First-Class Mail mailpieces:

1. Letter-rated First-Class Mail mailpieces shall be eligible for rate discounts for improved “mail processing” performance as follows:

Incremental Improvement	Rate Incentive (Per Piece)
0.1%	\$0.00032
0.2%	\$0.00065
0.3%	\$0.00097
0.4%	\$0.00129
0.5%	\$0.00162
0.6%	\$0.00194
0.7%	\$0.00227
0.8%	\$0.00260
0.9%	\$0.00292
1.0%	\$0.00325
1.1%	\$0.00358
1.2%	\$0.00391
1.3%	\$0.00424
1.4%	\$0.00457
1.5%	\$0.00483
1.6%	\$0.00506
1.7%	\$0.00529
1.8%	\$0.00552
1.9%	\$0.00575

2. The baseline value from which incremental improvements shall be computed is a read/accept rate of 96.8 percent.
3. The “mail processing” formula that the Postal Service will use to calculate the rate discounts Capital One will receive under Section IV.C.1 of the Agreement is defined as follows:
 - a. The Postal Service will determine the total number of letter-rated First-Class Mail mailpieces of Capital One Mail that are read and accepted during their first pass through Postal Service mail sorting equipment during an applicable quarter.
 - b. The Postal Service will divide the number identified in Section IV.C.3.a above by the total number of letter-rated First-Class Mail mailpieces

of Capital One Mail that receive a first pass through Postal Service mail sorting equipment during the same quarter.

- c. The Postal Service will subtract the baseline value specified in Section IV.C.2 from the percentage obtained in Section IV.C.3.b to obtain the “incremental improvement” within the meaning of the table in Section IV.C.1 of this Agreement.

D. Discounts for reduced return rates for letter-rated First-Class Mail mailpieces:

- 1. Letter-rated First-Class Mail mailpieces shall be eligible for rate discounts for improved return rates as follows:

Incremental Improvement	Rate Incentive Per Piece: Schedule A First-Class Mail	Rate Incentive Per Piece: Schedule B First-Class Mail
10.0%	\$0.00022	\$0.00360
20.0%	\$0.00037	\$0.00390
30.0%	\$0.00053	\$0.00420
40.0%	\$0.00068	\$0.00450
50.0%	\$0.00083	\$0.00480
60.0%	\$0.00099	\$0.00510
70.0%	\$0.00114	\$0.00540
80.0%	\$0.00130	\$0.00570
90.0%	\$0.00145	\$0.00600

- 2. The baseline UAA rates from which incremental improvement will be computed are 0.7 percent for Schedule A First-Class Mail and 2.7 percent For Schedule B First-Class Mail.
- 3. The Postal Service will use the following formula to calculate the rate discounts Capital One will receive under Section IV.D.1 of the Agreement:
 - a. The Postal Service will identify the number of UAA letter-rated First-Class Mail mailpieces of Capital One Mail that have been returned to the sender by the Postal Service, as determined through OneCode ACS, for the applicable quarter.

- b. The Postal Service will divide the number identified in Section IV.D.3.a above by the total number of letter-rated First-Class Mail mailpieces of Capital One Mail for the applicable quarter.
- c. The percentage obtained in Section IV.D.3.b will be subtracted from the applicable baseline UAA rate identified in Section IV.D.2, and the difference divided by that baseline UAA rate. The result, expressed as a percentage, will serve as the "Incremental Improvement" percentage used to determine the applicable rate incentive in Section IV.D.1.

E. Discounts for reduced forwarding rates for letter-rated First-Class Mail mailpieces:

- 1. Letter-rated First-Class Mail mailpieces shall be eligible for rate discounts for reduced forwarding rates as follows:

Incremental Improvement	Rate Incentive Per Piece
10%	\$0.00013
20%	\$0.00030
30%	\$0.00047
40%	\$0.00064
50%	\$0.00081
60%	\$0.00098
70%	\$0.00116
80%	\$0.00133
90%	\$0.00150

- 2. The baseline forwarding rate from which incremental improvement will be computed is 1.7 percent.
- 3. The Postal Service will use the following formula to calculate the rate discounts Capital One will receive under Section IV.E.1 of the Agreement:
 - a. The Postal Service will identify the number of UAA letter-rated First-Class Mail mailpieces of Capital One Mail that have been forwarded by the Postal Service, as determined through OneCode ACS, for the applicable quarter.

- b. The Postal Service will divide the number identified in Section IV.E.3.a above by the total number of letter-rated First-Class Mail mailpieces of Capital One Mail for the applicable quarter.
 - c. The percentage obtained in Section IV.E.3.b will be subtracted from the baseline forwarding rate identified in Section IV.E.2, and the difference divided by that baseline forwarding rate. The result, expressed as a percentage, will serve as the "Incremental Improvement" percentage used to determine the applicable rate incentive in Section IV.E.1.
- F. Discounts for improved mail processing performance for letter-rated Standard Mail mailpieces:
- 1. Letter-rated Standard Mail mailpieces shall be eligible for rate discounts for "mail processing" performance as follows:

Incremental Improvement	Rate Incentive Per Piece
0.1%	\$0.00024
0.2%	\$0.00049
0.3%	\$0.00073
0.4%	\$0.00097
0.5%	\$0.00122
0.6%	\$0.00146
0.7%	\$0.00171
0.8%	\$0.00195
0.9%	\$0.00220
1.0%	\$0.00244
1.1%	\$0.00269
1.2%	\$0.00294
1.3%	\$0.00319
1.4%	\$0.00343
1.5%	\$0.00363
1.6%	\$0.00379
1.7%	\$0.00396
1.8%	\$0.00419
1.9%	\$0.00466

- 2. The baseline value from which incremental improvements shall be computed is a read/accept rate of 96.9 percent.

3. The Postal Service will use the following formula to calculate the rate discounts Capital One will receive under Section IV.F.1 of the Agreement:
 - a. The Postal Service will determine the total number of letter-rated Standard Mail mailpieces of Capital One Mail that are read and accepted during their first pass through Postal Service mail sorting equipment in an applicable quarter.
 - b. The Postal Service will divide the number identified in Section IV.F.3.a above by the total number of letter-rated Standard Mail mailpieces of Capital One Mail that receive a first pass through Postal Service mail sorting equipment in the same quarter.
 - c. The Postal Service will subtract the baseline value identified in Section IV.F.2 from the percentage obtained in Section IV.F.3.b to obtain the “incremental improvement” percentage within the meaning of the table in Section IV.F.1 of this Agreement.

G. Discounts for reduced UAA rates for letter-rated Standard Mail mailpieces:

1. Letter-rated Standard Mail mailpieces shall be eligible for rate discounts for reduced UAA rates as follows:

Incremental Improvement	Rate Incentive Per Piece
10%	\$0.00040
20%	\$0.00060
30%	\$0.00100
40%	\$0.00110
50%	\$0.00130
60%	\$0.00150
70%	\$0.00170
80%	\$0.00170
90%	\$0.00170

2. The baseline UAA rate from which incremental improvement will be computed for Standard Mail letters is 6.4 percent.

3. The Postal Service will use the following formula to calculate the rate discounts Capital One will receive under Section IV.G.1 of the Agreement:
 - a. The Postal Service will identify the number of UAA letter-rated Standard Mail mailpieces of Capital One Mail that have been returned by the Postal Service, as determined through OneCode ACS, for the applicable quarter.
 - b. The Postal Service will divide the number identified in Section IV.G.3.a above by the total number of letter-rated Standard Mail mailpieces of Capital One Mail for the applicable quarter
 - c. The percentage obtained in Section IV.G.3.b will be subtracted from the baseline UAA rate identified in Section IV.G.2, and the difference divided by that baseline UAA rate. The result, expressed as a percentage, will serve as the "Incremental Improvement" percentage used to determine the applicable rate incentive in Section IV.G.1.

V. EFFECTIVE DATE, IMPLEMENTATION, ENFORCEMENT, MODIFICATION AND TERMINATION OF AGREEMENT

A. Term of Contract:

1. The discount terms and other substantive provisions of this Agreement shall take effect on the Commencement Date.
2. This Agreement shall terminate three years after the Commencement Date unless termination occurs sooner under Section V.E of the Agreement.

B. Regulatory Approval:

1. Upon approval of the Board of Governors of the Postal Service and in accordance with the Postal Reorganization Act, the Postal Accountability and Enhancement Act, and the Rules of the Postal Regulatory Commission, the Postal Service will file a request with the Commission for recommended changes in rates, fees, and classifications necessary to allow implementation of this Agreement.

2. The Parties will file other pleadings, testimony, and briefs as reasonably calculated to gain Commission approval of the Agreement.
3. Each Party will submit drafts of its litigation filings to counsel for the other Party sufficiently in advance of the filing deadline to provide a reasonable opportunity for review of the documents.
4. Neither Party will advocate positions to the Commission that have not been consented to by the other Party. Such consent shall not be unreasonably withheld. This provision applies only to the proceeding in which the Parties seek regulatory approval of this Agreement.
5. Each Party will bear its own litigation costs.

C. Compliance:

1. Designation of Qualifying Permit Numbers
 - a. To serve as a Qualifying Permit Number as of the Commencement Date of the NSA, a permit account must be so designated by Capital One at least 30 days before the Commencement Date.
 - b. Additional Qualifying Permit Numbers must be designated by Capital One at least 10 business days before each month to for the designation to become effective for that month.
 - c. All Qualifying Permit Numbers shall remain in effect until revoked by Capital One.
2. Designation of Return Addresses:
 - a. Capital One shall inform the Postal Service of all return addresses covered by this Agreement at least 30 days before the Commencement Date of the Agreement.
 - b. Capital One must give the Postal Service notice of any change of return address 10 business days before entering any mailpieces bearing the new return address.

3. Capital One will document the number of pieces of UAA letter-rated First-Class Mail and Standard Mail mailpieces for which the Postal Service provides physical return each quarter.
4. Capital One will provide, within 10 business days of the end of each Postal Fiscal Quarter, copies of all relevant DPV reports for mail qualifying under terms of the Agreement. Copies will be provided electronically in a format to be agreed upon by the parties.

D. Appeals:

1. Capital One may appeal a Postal Service decision regarding the amount of discounts paid under Section IV of this Agreement by submitting a written appeal within 30 days of receipt of notification of the decision to the Postage and Classification Service Center ("PCSC") in New York.
2. The decision of the Manager, PCSC, will be administratively final. Capital One, however, does not waive any appeal rights provided by federal law or Postal Service regulations.
3. Any decision that is not appealed as prescribed becomes the final Postal Service decision.
4. The foregoing appeal process relates only to the issues identified above that arise from implementation of this Agreement.

E. Termination of Agreement Before Three Years:

1. Either Party may terminate this Agreement under any of the following conditions:
 - a. The Board of Governors of the Postal Service fails to approve the filing with the Postal Regulatory Commission of a request for approval of the Agreement.
 - b. The Commission fails to issue a timely Recommended Decision.

- c. The Commission's Recommended Decision modifies the terms of the Agreement, and the modifications materially alter the value of the Agreement adversely to either party.
 - d. The Governors of the Postal Service reject or fail to act on a Commission Recommended Decision approving the Agreement, or alter the terms of the Agreement in a way that materially changes its value adversely to Capital One.
 - e. The governing law (U.S. Code, DMCS or DMM) is modified by Congress, a court or the Postal Regulatory Commission in a way that materially and adversely alters the value of the Agreement for either party.
 - f. The governing law is modified by the Postal Service in a way that materially and adversely alters the value of the Agreement for Capital One.
2. The Postal Service shall also be entitled to terminate this Agreement if any of the following conditions occurs, the Postal Service gives Capital One written notice of the occurrence of the condition, and Capital One fails to cure the condition within 90 days after receipt of such notice:
- a. Capital One fails to provide accurate data to the Postal Service, and the failure is material.
 - b. Capital One fails to present properly prepared and paid mailings to the Postal Service, and the failure is material.
 - c. Capital One fails to comply with a material term of this Agreement.
 - d. Capital One fails to use the Agreement.
3. Capital One shall also be entitled to terminate this Agreement if the Postal Service fails to comply with a material term of this Agreement, or if all of the following conditions occur:

- a. The Postal Service fails to establish and maintain a system or functionality needed by Capital One to qualify for a discount offered under this Agreement.
 - b. The failure significantly reduces the value of the Agreement for Capital One.
 - c. Capital One gives the Postal Service written notice of the failure.
 - d. The Postal Service does not cure the condition within 90 days after receipt of such notice.
- F. Should a significant and unanticipated process problem develop with any of the programs identified in Section III of the Agreement, and that process problem prevents Capital One from fulfilling its operational commitments under that section, Capital One and the Postal Service will negotiate in good faith to develop an alternative approach to the circumstance. Capital One may suspend use of any program that is affected by the process problem until the problem is resolved.
- G. This agreement shall not be amended except expressly, in writing, by authorized representatives of the parties.
- H. Capital One may assign its rights and responsibilities under this Agreement to an entity acquired by or merged with Capital One at any time before the expiration of this Agreement. No assignment shall be effective without the written approval of the Postal Service, but such approval shall not be unreasonably withheld.
- I. Public Communications:
1. Unless disclosure of a matter relating to this Agreement is required by law, the form, substance, and timing of any press release or other public disclosure of such matter shall be mutually agreed to by Capital One and the Postal Service in writing. Consent to such disclosure shall not be withheld unreasonably.
 2. When disclosure of a matter relating to this Agreement is required by law, the disclosing Party shall notify the non-disclosing Party, and the Parties shall make reasonable efforts to cause a mutually agreeable disclosure to be issued.

J. Notices:

1. All notices under this Agreement shall be in writing and sent by either U.S. Certified Mail, return receipt requested, postage paid, addressed to the Party to be served notice, or by Express Mail, at the following addresses. All such notices and communications shall be effective upon receipt.

2. Designated recipients of notice on behalf of Capital One:

Capital One Services Inc.
1680 Capital One Dr.
McLean, VA 22102-3407

3. Designated recipients of notice on behalf of the Postal Service:

Mr. Michael K. Plunkett
Vice President (A), Pricing and Classification
United States Postal Service
475 L'Enfant Plaza SW, Room 5127
Washington DC 20260-5127

Managing Counsel,
Corporate Law and Intellectual Property
United States Postal Service
475 L'Enfant Plaza SW
Washington DC 20260-1135

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed today.

UNITED STATES POSTAL
SERVICE

CAPITAL ONE SERVICES INC.

By: _____

By: _____

Michael K. Plunkett
Vice President (A), Pricing and
Classification