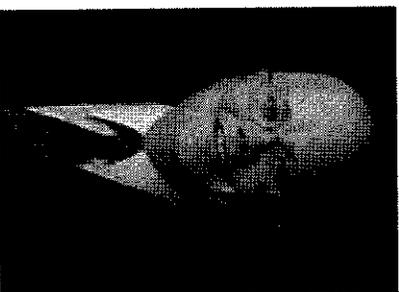


WELCOME!

Today's Presenter:



David E. Williams

Vice President, Network Operations

September 19, 2011



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Briefing on Network Optimization



Network Optimization Overview

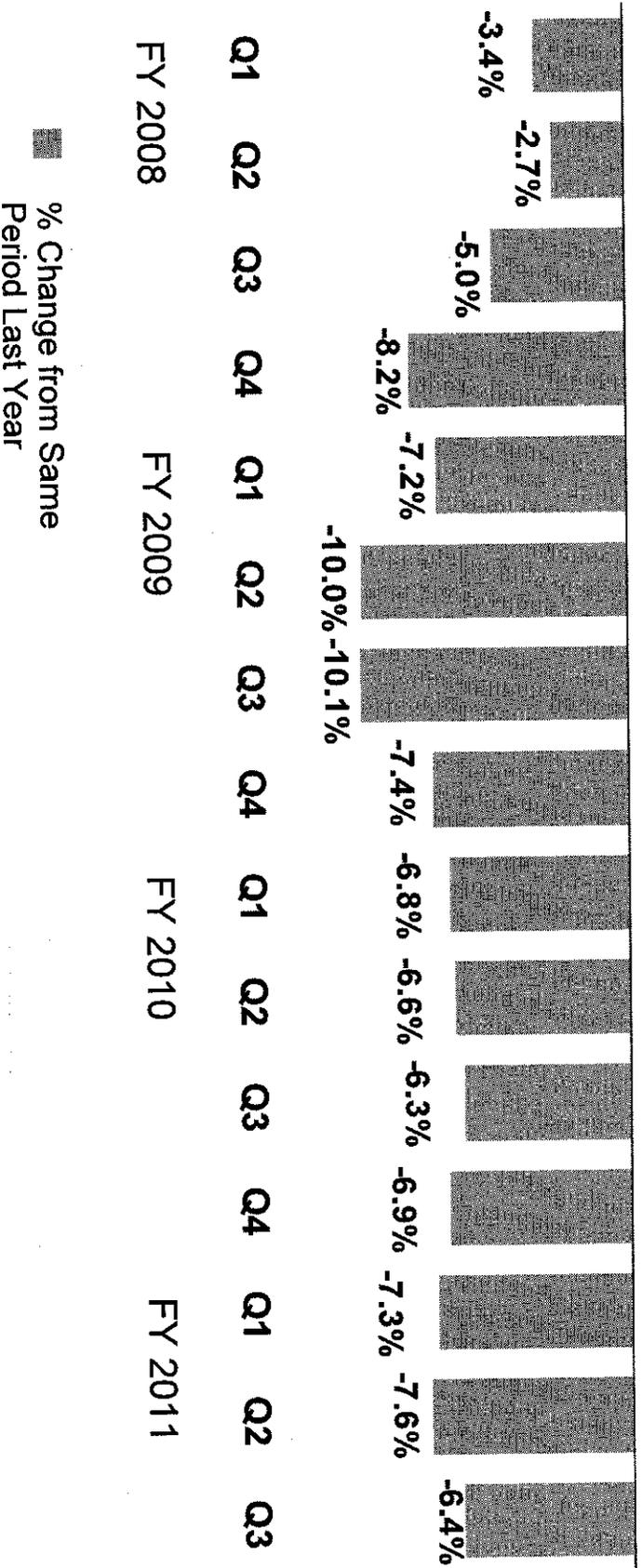
- **Urgent Financial Situation**
- **External Support for Network Optimization**
- **Proposed Network Optimization Concept**
- **Workforce Impacts**
- **Summary**



Urgent Financial Situation

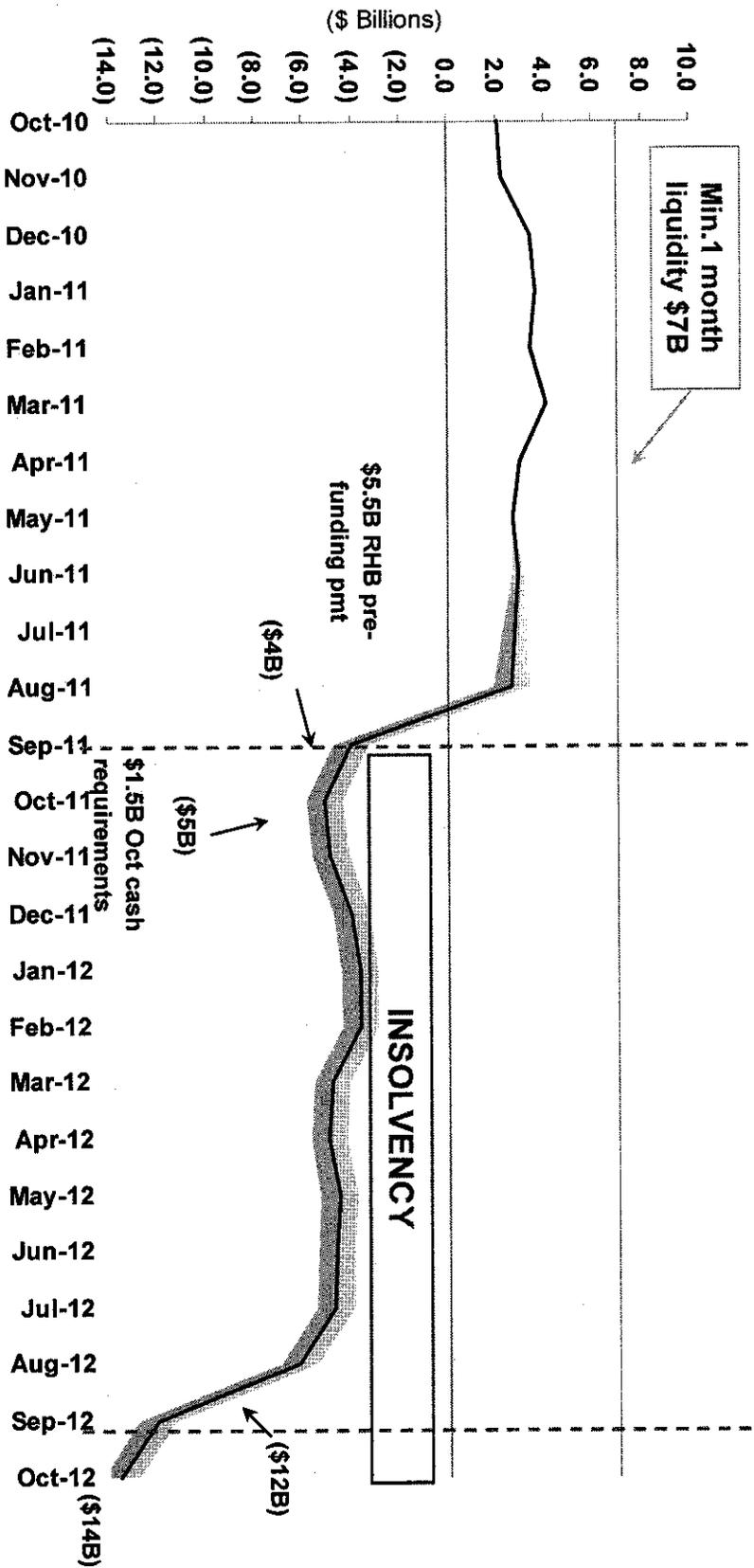
First-Class Mail Volume

Expect Continued Dramatic Declines



Urgent Financial Situation

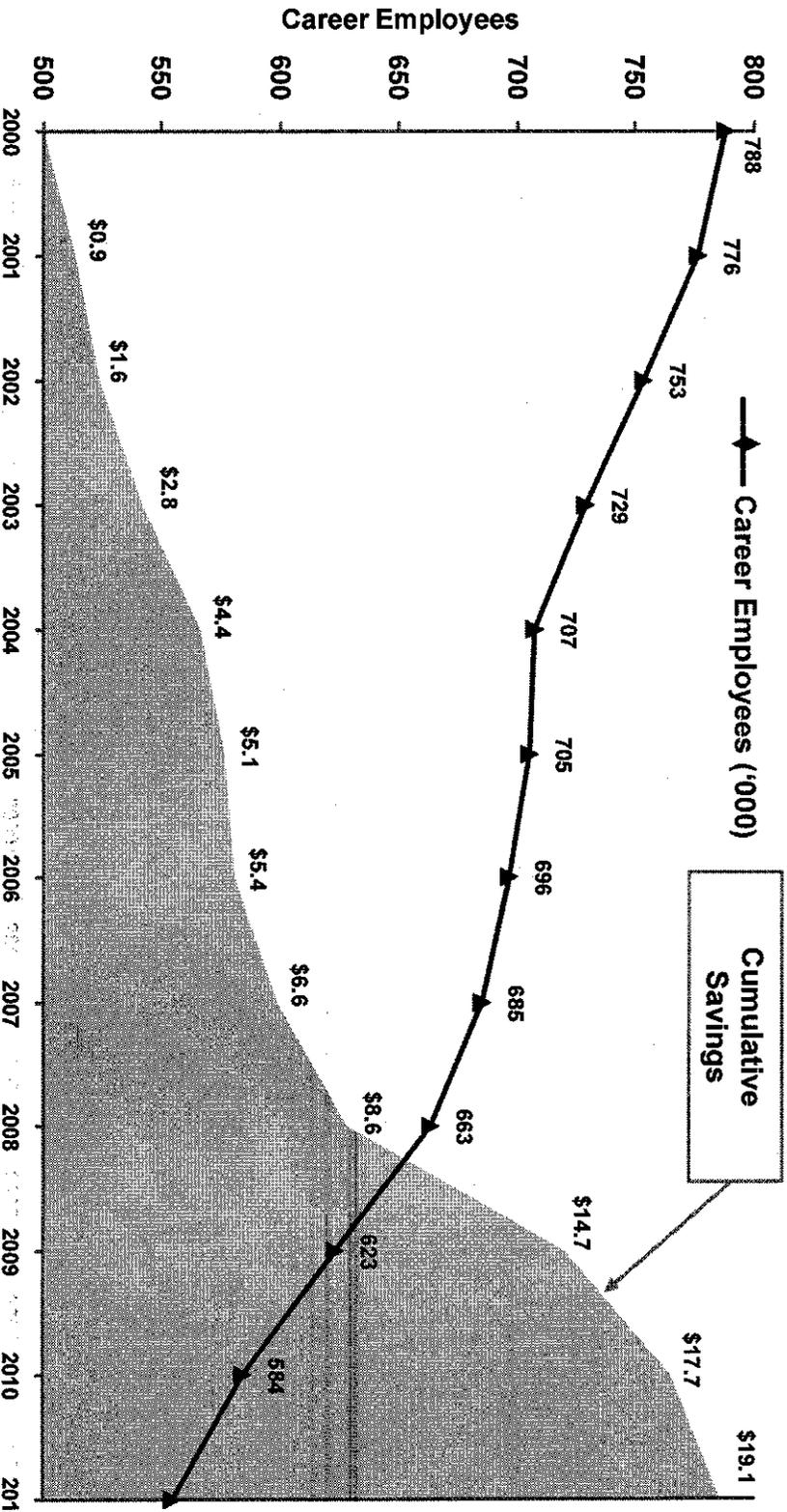
Available Liquidity and Expected Losses



Urgent Financial Situation

Major Actions Have Been Taken

Cumulative Savings and Career Employees





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Addressing the Challenge: Network Optimization



External Support for Network Optimization

- **Postal Accountability and Enhancement Act (PAEA)**

“...the Postal Service has more facilities than it needs and the streamlining of this distribution network can pave the way for the potential consolidation of sorting facilities and the elimination of excess costs.”

– PAEA Section 302

- **Government Accountability Office (GAO)**

“USPS urgently needs to restructure its networks and operations as its financial condition and outlook are reaching a crisis.”

– *Dire Financial Outlook and Changing Mail Use Require Network Restructuring, 6/15/11*



External Support for Network Optimization

- **USPS Office of the Inspector General (USPS OIG)**

“A vast and complex network of processing facilities and transportation links was created... This legacy network was built for a different time and different level of processing capabilities, mail mix, and volume growth.”

– *A Strategy for a Future Mail Processing & Transportation Network*, 7/6/11

- **External Commentary**

“Postal volumes are plummeting... allow the Postal Service to do something to right-size the system to ensure a continuing and self-sufficient universal mail service.”

– *Gene Del Polito, Association of Postal Commerce Article, 5/31/11*

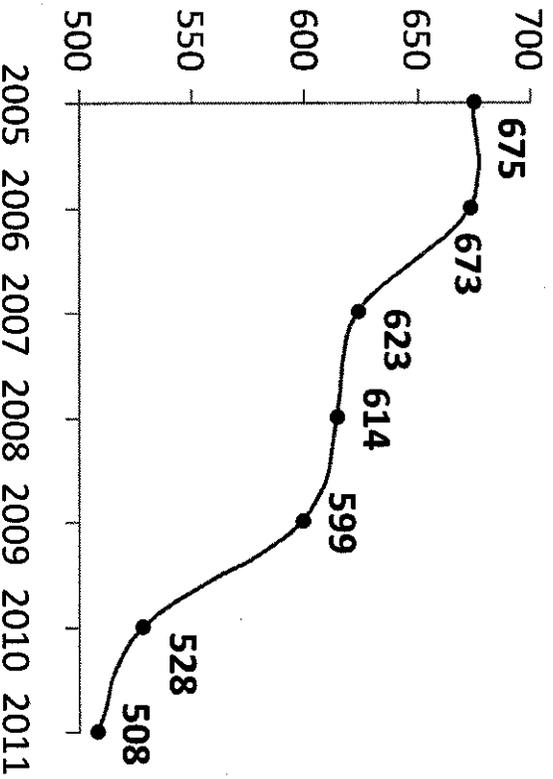


Network Optimization

Current Network Optimization

But, We are Reaching a Limit Given Current Constraints

Decrease in Processing Facilities Since 2005



Network Optimization Efforts

- Consolidating Processing Operations
- Optimizing Transportation
- Increasing Machine Utilization
- Optimizing Workhours



Network Optimization

Proposed Network Optimization Concept

- Revise First-Class Mail (FCM) Service Standards and Entry Times
- Modify FCM Standards from 1-3 Days to 2-3 Days

Would allow full facility consolidation opportunities through operating window changes.

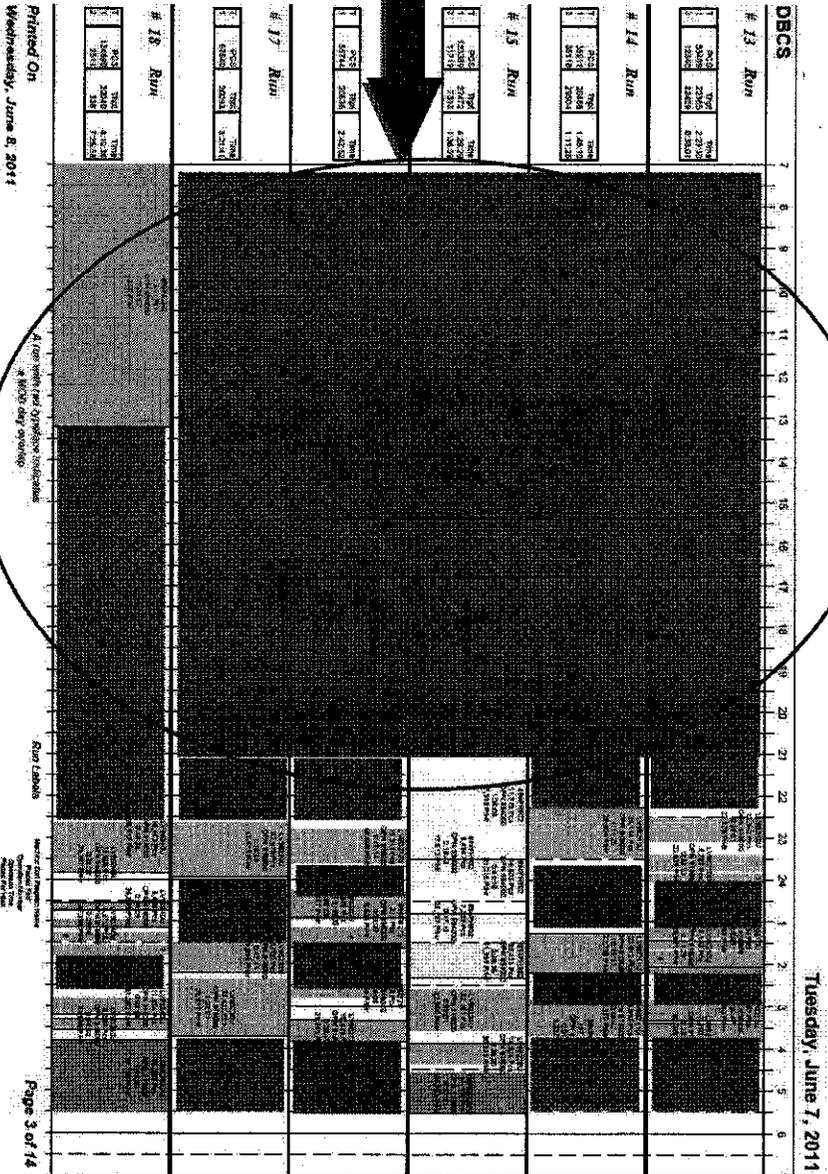
Proposed Network Optimization Concept

- Network constrained by operating windows to meet FCM overnight service
- Longer operating windows allow for:
 - Less equipment
 - Fewer facilities
 - Fewer workhours
- Would use existing Area Mail Processing (AMP) study process to consolidate processing within existing plant infrastructure
- Over 200 processing facilities would be studied

Illustrative Example

Network infrastructure driven by operating windows constrained to meet current First-Class Mail overnight service commitments

Machine Chart - Run



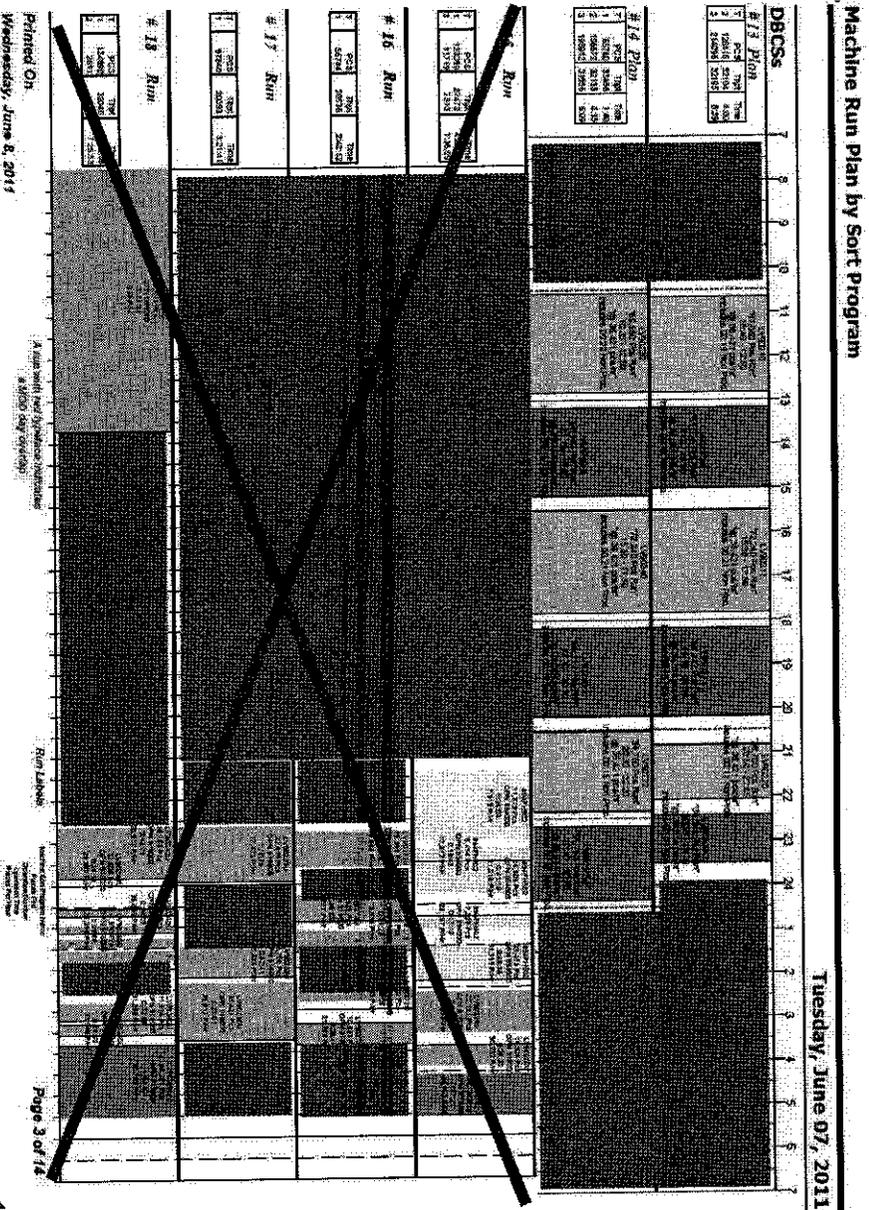
Illustrative Example

Processing Consolidated onto Significantly Fewer Machines

Example:
6 machines
consolidated to 2



Fewer machines
needed for
longer window



Sets Up Optimal Network for Future

Matching Capacity to Future First-Class Mail Declines

- Future network will require significantly less equipment and facilities
 - ~50% reduction across equipment
 - 508 facilities to less than 200 facilities
- Long-term issues persist
 - Shifting of hardcopy communications to digital alternatives
 - Volume lost not returning
- Revenue and volume trends have underperformed even the most pessimistic forecasts



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Network Optimization

Network Optimization Timeline

Date	Event
Sep. 2011	Postal Service Announces Specific Area Mail Processing (AMP) Studies.
Nov. 2011	Issue Notice of Rulemaking in Federal Register. File PRC Request for Advisory Opinion.
Jan. 2012	Earliest Date for a PRC Opinion.
Feb./Mar. 2012	Earliest Revision of First-Class Mail Service Standards. Publication of Final Rule and Implementation.



Area Mail Processing (AMP)

AMP Steps

- Studies initiated in “Top-Down” approach from HQ.
- Local operations experts validate analysis and modify as necessary. Studies returned to Area/HQ for joint functional review.
- During review, public meeting is held to obtain community input. Written comments are solicited.
- Business case, public input, and environmental impacts are considered prior to a final decision.



Area Mail Processing (AMP)

AMP Analysis

- Following costs taken into account:
 - Transportation
 - Mail processing labor
 - Management labor
 - Machine maintenance labor and spare parts/supplies
 - Facility and custodial
- GAO and OIG supported business rules are used to calculate expected costs in a consolidated environment



Area Mail Processing (AMP)

AMP Redactions

Certain information is redacted in the final AMP study

- Customer names / contact information
- Product-specific cost and volume data that is commercially sensitive
- Expected transportation costs that have not gone through the competitive bidding process

- Potentially 35,000 employees will be affected by Network Optimization across all sites
 - 33% of these affected employees are retirement eligible
- In FY2012, we anticipate that some of the affected employees in this group will:
 - Leave the Postal Service through attrition
 - Voluntarily accept another assignment or be involuntarily reassigned through excessing
 - Be laid off, if they are in a non-protected status according to current labor agreements
 - Be laid off through Reduction-in-Force (RIF) procedures
- However, these actions will not close the entire gap and we expect to have excess number of employees
- We will follow all contractual and legal provisions as required
 - But we need to find a way to reduce the workforce more quickly



Summary

- The Postal Service must take every action to right-size the network in response to excess capacity and to the nation's changing use of mail.
- Our commitment to providing excellent delivery service and connecting senders and receivers across the nation remains unchanged.