E-Stamp Corporation-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

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DIRECT TESTIMONY

OF

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ON BEHALF OF

E-STAMP CORPORATION

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AUTOBIOGRAPHICAL SKETCH

My name is Michael Jones and I am the Director of the USPS Programs group at E-Stamp Corporation.

I received my bachelor's degree in Finance from Lehigh University in 1987.

My background prior to my position at E-Stamp was in the precious metals industry. I was a trader in New York and then worked with numismatic coins in Los Angeles. During this time, I became familiar with postal rates and regulations as an integral part of my business dealt with mailing precious metals domestically. On any given day, I was responsible for mailing between $100,000 to $1,000,000 worth of material, as well as receiving high valued packages from customers around the country on a daily basis.

My familiarity with the workings of the postal service has served me well during my time at E-Stamp. My duties at E-Stamp include responsibility for E-Stamp's compliance with postal regulations, particularly as they pertain to the specific regulations and specifications written for the PC Postage industry.

At E-Stamp, I am expected to be expert on USPS rates, regulations, processes and procedures and am asked to consult internally on these subjects on a regular basis. As the Director of USPS Programs for E-Stamp, I am knowledgeable of nearly every aspect of USPS related business that E-Stamp engages in. This includes how our products are required to work and how PC Postage mailpieces are handled in the mailstream.

On several occasions, I have worked with the USPS Sorting Center in San Francisco in order to test various aspects of PC Postage mail. These tests included

verifying the scannability of FIM D's printed on envelopes, FIM D's pre-printed on patented 2- and 3- windowed envelopes, scannability and accuracy of POSTNET barcodes printed on envelopes, and the scannability of fluorescent labels produced by multiple vendors. On occasion, the test results I developed were then reverified by USPS Engineering in Virginia.

Currently, I am working with the USPS and Canada Post to perform high speed scannability testing on PC Postage indicia. These results will then be passed on to the Universal Postal Union; the adoption of PC Postage globally still has some logistical issues that need to be decided.

For the rate increase that went into effect January 10, 1999, I was responsible for coordinating all rate table updates for E-Stamp's product. This was the first rate change during the history of E-Stamp and our product was the first PC Postage product to deal with a rate increase. I spent all of 1998 following the rate case as part of the research necessary to make sure our product and infrastructure were in a position to effectively handle the increase. In a PC Postage product, a rate change effects not only the rate tables, but the following as well:

- Server database
- Software user interface
- Rate calculator wizards
- Software help files
- Printed user manual
- Corporate web site
- Marketing collateral materials

This was a major undertaking, and it had never been done before. The unique solution was to have the rates, interface, and other software components dynamically update for all postage printed with a date of 1/10/1999 or later. The same approach will be taken this year for all of E-Stamp's current products.

In areas of address quality and cleansing, I directly interface with the National Customer Support Center in Memphis, Tennessee. My department has been working closely with this organization to insure compliance and to address customer concerns.

Other functional areas of the USPS that I am in regular contact with include Treasury and Marketing in Washington, DC, Expedited Services in Atlanta, GA and Accounting in Eagan, MN.

As an expert on PC Postage, I am regularly asked to attend PC Postage industry meetings hosted by the USPS Postage Technology Management department, which is responsible for overseeing the PC Postage program.

E-STAMP CORPORATION

E-Stamp Corporation is a business established for the purpose of being a Product Service Provider in the PC Postage industry. E-Stamp is the pioneer of PC Postage and has become well known as the company to get the first new form of postage approved since 1920. E-Stamp had the first product to enter the rigorous Beta Test program run by the USPS, and in August, 1999, became the first company to roll out a fully approved PC Postage product nationwide. E-Stamp is only the fifth company ever granted a license by the USPS to produce postage equipment (in this case, software and hardware).

The founders of E-Stamp first approached the USPS with the concepts of PC Postage in 1992. By 1994, the company was operating under the name Post 'n Mail. In 1996, E-Stamp was founded and Post 'n Mail was merged under the E-Stamp banner. In 1997, E-Stamp became the fifth recognized postage vendor. 1998 saw the historic first IBI produced in an event at the National Postal Museum in Washington, DC. 1999 saw the National Launch of the Internet Postage product and 2000 saw the initial beta testing of E-Stamp's newest product.

E-Stamp Corporation is publicly traded on the NASDAQ under the symbol ESTM.

INTRODUCTION.

The purpose of my testimony is to explain the nature and requirements of an Open System of PC Postage; to explain the Postal Service's specifications that it requires before it certifies such a system; and to propose a limited discount for PC Postage systems that meet all of the Postal Service requirements for automation compatibility and the other very rigid requirements for Open System PC Postage.

I. THE CONCEPT OF PC POSTAGE AND ITS REQUIREMENTS.

PC Postage is the trademarked name that covers what is becoming a spectrum of postage products that meet various category specifications. For the most part, PC Postage refers to a new type of product whereby a user loads software onto a PC and connects to a Product Service Provider via the Internet to apply for a USPS License. Upon being granted a license, the user can then connect to the Product Service Provider's server again to purchase postage. Once postage has been purchased and downloaded into what is known as a Postal Security Device (PSD), the user has the ability to print postage from the PC using a regular deskjet or inkjet printer. A principal feature of PC Postage is that the postage is produced as a two-dimensional barcode, or indicia, which is so secure that every single indicia printed will be unique. This is designed to eliminate the fraud that had been prevalent with postage meters and other methods of postage evidencing. PC Postage is also designed to use the equipment that customers already have, PCs and printers. There is no requirement that PC Postage be used with an IBM-compatible PC rather than a Macintosh. The term "PC" is used generically in this respect to mean personal computer.

The PC Postage program has been designed by the USPS, in every facet, to be the most cost efficient and secure method of postage evidencing in the history of postal service. Simultaneously, the USPS also sees PC Postage as having the potential to retain current customers and regain lost customers in the face of electronic alternatives to mail and competing carriers.

The Postal Service's specifications that it requires PC Postage vendors to meet include automation compatibility standards. The only difference between bulk mail preparation and the single piece mail prepared with PC Postage is the lack of presorting. In fact, it can be argued that PC Postage prepared mail is more efficient than regular automation compatible presort mail. When bulk presort mail is prepared the shipper must complete certain documentation; deliver the mail to a specified location; and postal workers must be involved to accept, inspect and perform accounting functions in order to complete the process. All of that manual intervention is eliminated with PC Postage because the mailer simply deposits the mail into the mailstream using conventional methods (collection box, post office, mail carrier). Inspections are not necessary because the software has insured compliance and all accounting functions have already been handled by the vendor. Thus, there is not only a great deal of work sharing being performed in the use of PC Postage, but there is a substantial amount of cost avoidance occurring when a customer chooses to use PC Postage over other methods of postage evidencing.

II. OPEN SYSTEM VERSUS CLOSED SYSTEM PC POSTAGE SPECIFICATIONS.

Any product that produces PC Postage creates some savings for the Postal Service. However, postal specifications published more recently do not require all mail

pieces produced by PC Postage products to meet all the standards of automation compatibility as previously outlined. One of these deviations is the Closed System specification. This system does not have nearly as many requirements as the Open System. So far only one product has been approved under the Closed System: Neopost's Simply Postage. Since this product does not require an address to be associated with the indicia, a POSTNET bar code is not created. In contrast, all Open System products are required to perform address cleansing and to create full delivery point POSTNET bar codes, as well as have the entire delivery point listed in the indicia.

This requirement for address cleansing should not be dismissed lightly. We have found that it is one of the most disliked features of the PC Open System; however, our customers have no choice but to perform this function. For all other discounted postage products the customers only have to perform this address cleansing on a voluntary basis and then only in order to receive a discount for the work they have done. We have found that the requirement to perform address cleansing while paying full postage is a major barrier to customer acceptance of PC Postage.

A. The Use Of Fluorescent Labels.

Another Postal Service requirement is that First-Class postage printed on labels, as opposed to envelopes, must be printed on fluorescent labels. This requirement was hastily added by the Postal Service in the latter part of 1999. The Service believed that customers could not be trusted to paste labels with FIMs in the proper position on the envelope which could cause the mail pieces to be rejected by the sorting equipment with a consequent loss of the cost savings. The Postal Service decided the only way to

assure that First-Class mail pieces using labels would be handled by the sorting equipment correctly would be to require the labels to have fluorescent strips. At the same time, however, this requirement makes the FIM unusable and does not allow the same efficiency in the sortation process.

B. Additional Addressing Problems.

Another difficulty with address cleansing, and a source of numerous customer complaints against the USPS address-matching CD-ROM, is that it is not current nor completely accurate. Because Open System PC Postage products will not allow a mail piece to be created unless an exact match against the Postal Service database can be made, customers find that they can no longer create mail pieces to every address on their current mailing lists, even if they know with certainly that some of those addresses are correct. This also is creating a barrier to full customer acceptance.

In the near future the Service will create an address matching CD-ROM that will allow for an override feature for addresses that cannot be matched against the USPS address database. In some cases it will be permissible to still create a mail piece if the City, State and Five Digit ZIP Code can be matched. The remaining digits of the delivery point will be made up of zeros. Because the address can be verified by the local post office, the mail piece will have to go through a final sortation at the local level.

This override capability we trust will create some relief for these customers, but the barrier created by a lack of a discount for PC Postage will still stand in the way of PC Postage gaining full acceptance. Even with the override capability, all PC Postage (Open System) products will still have to be CASS certified as is required in the AMS

CD-ROM licensing agreement that all Open System PC Postage providers are required to sign.

III. THE NECESSITY FOR PC POSTAGE DISCOUNTS.

Other postal customers use CASS certified products, perform address cleansing, print POSTNET bar codes and FIMS, all so that they will qualify for discounted rates. It is perfectly clear that many if not most of those customers would not find enough value in taking these measures and the cost and inconvenience of them but for the discount. It is naïve to believe that PC Postage customers will willingly incur these burdens with no trade off in the form of a discount. Unless a discount is offered, PC Postage will not be able to attract enough customers to convert in order to establish this form of postage evidencing as a mainstream postage solution.

A. The Burdens of Address Cleansing and Other Automation Requirements.

The Postal Service realizes savings on all postage printed by PC Postage products, whether they are created with an Open or Closed System, whether the mail pieces are First-Class Mail or Parcel Post, whether printed on envelopes or on a label. Additionally, if the mail piece is created with a product which has a FIM, POSTNET bar code, with a cleansed address printed directly on the envelope, the Postal Service saves an even larger amount of money. We are aware that at an early stage in the evolution of a new product, such as PC Postage, discounts are usually only granted if the Service can clearly define the exact amount of savings through historical data or through modeled costs. We acknowledge that to date there has not been enough historical data collected to provide the necessary statistics for all PC Postage products.

Nevertheless it is perfectly evident that PC Postage provides substantial savings to the Postal Service and can justify a discount for those customers who use it. For some products we see no reason to wait for historical date. E-Stamp witness Roger Prescott (T-2) provides evidence of the dimensions of the cost avoidance for certain PC Postage products for which we are requesting a 4 cents discount be recommended in this proceeding. Mr. Prescott's analysis is based on the comparability of the E-Stamp product to existing First-Class automation compatible mail.

B. Other Designed Economies From The Use Of PC Postage.

In addition to the cost avoidances due to automation capability, PC Postage mail pieces have built in additional savings to the Postal Service because of the other processes to which the vendors must adhere. An example is the unique method by which customer refunds are handled. All substantial costs are borne by the PC Postage vendors, whereas these costs are wholly borne by the USPS when dealing with postage meter customers/vendors or with customers who use regular stamps. Even the forms of payment allowed by the USPS have been chosen based on what is the most economical to the Postal Service. If one uses a postage meter, one can pay by check. Check acceptance is the most costly method of payment for the Postal Service to handle. A PC Postage user can only pay via ACH (free to the USPS) or by credit card (fees are subsidized by the vendors per the USPS credit card agreement). In each design aspect of the PC Postage program, costs to the Postal Service have been reduced or eliminated, and the impetus has been placed on the customers and the vendors to do the work or take on the costs. No other form of postage is as economical or secure for the Postal Service to sell.

IV. THE PROPOSED DISCOUNT FOR PC POSTAGE.

There are two types of Open System PC Postage which merit consideration of discounts:

1. Category 1: Any mail piece created with an Open System PC Postage product regardless of mail class and other mail piece characteristics. This implies that a certain level of address cleansing has been performed and that POSTNET bar code has been printed. We do not propose a discount for this category in this proceeding, although we believe a discount is warranted for all mail pieces based on the USPS specifications as they are to date. Although Bulk Mail discounts are generally available to a small amount of customers who do large amounts of mailing, PC Postage products will be available to large numbers of customers who do small to moderate size mailings. Every PC product will create the same type of savings for the Postal Service as the mail produced by the traditional bulk mailers. Since we are currently in the first full year of implementation of these postage products, it is reasonable to accumulate data based on a reasonable volume level before considering a discount for this broader category of postage product. We would certainly hope that the Postal Service will have data available and will make a proposal in the next rate case.

2. Category 2: Any First-Class Mail piece created with an Open System PC Postage product that is printed directly on an envelope, utilizes a FIM-D, has an address that is an exact match to the AMS CD-ROM database, and has a full delivery point POSTNET bar code printed with the address as well as the delivery point included

in the indicia, and does not weigh more than 3.3103 ounces, or whatever new breakpoint is determined for letter mail.

As to Category 2 of PC Postage products, we are asking the Postal Rate Commission to recommend a 4 cents per piece discount now. This discount will apply to all PC Postage Open System Single Piece First-Class Mail letters that meet all of the qualifications for automation compatibility as are stated in the specifications published by the USPS for this category of product. Although cost savings are enjoyed for every piece of PC Postage mail, First-Class Mail pieces created from Open Systems have the ability to maximize the work share aspects of automation capability to provide the deepest savings for the Service. As E-Stamp witness Prescott documents, the cost avoidance is substantial, and the proposed pass through of 4 cents is conservative.

Allowing a discount for this category at this time will provide a very needed boost to the entire PC Postage category and will be an incentive that allows PC Postage to reach its full potential. Without a discount resulting from this proceeding, the Postal Service will have difficulty trying to convince customers that there is much of a benefit to them to use PC Postage products when it will be much more economical and convenient for customers to continue to use the present less efficient postage evidencing methods. At the same time, USPS will lose the ability to leverage the value of PC Postage to win back customers who switched away from using postage as a method to move information and documents.

V. CONDITIONS FOR A PC POSTAGE PRODUCT DISCOUNT.

Because of the nature of the PC Postage Open System products, discounts for this category can be enforced through the product software and customers will not have the ability to apply the discount indiscriminately. Unlike a postage meter where the user can select the postage amount and must be relied upon not to attempt to defraud the Service, a PC Postage customer will have the postage amount determined automatically by the product and the customer will not be able to override the calculated value. Existing and future software products can programmatically determine that all of the automation capability selections have been made in the user interface and that the address has been matched against the USPS database. Upon meeting all of these criteria, the software can then allow the postage to be printed at the Category 2 discounted rate. If any of the criteria are not met, the mail piece would programmatically be determined to be ineligible for the Category 2 discount.

Consequently, if a customer decides to print on a fluorescent label, selects a mail class other than First-Class, is attempting to send to an address that cannot provide an exact match to the AMS CD-ROM, or the mail piece exceeds weight limits for FCM letters, then the postage for that mail piece cannot be printed at the discounted rate that we are requesting in this proceeding.

Because the Postal Service must approve all PC Postage products after a test and evaluation, the validity of the programmatically controlled discount can be verified for each product in service. Therefore, mail pieces printed at these discounted rates would not have to be inspected for qualification by postal employees and special

handling of these mail pieces at the time of acceptance would not be necessary. Only pieces that can be proven to qualify, which will be controlled by the approved software, will be permitted to be mailed at the discounted rates. Only products that have passed the rigorous approval process of the Postal Service will have the capability to print discounted postage. All pieces mailed at a discount will be recorded in the log file kept for each device. The log files can be audited to prove that only qualified pieces were receiving the discounts. All accounting functions will be performed in real time as the mail pieces are generated, thus saving the Service the costs associated with maintaining all of the postage accounts required by permit mailers. Audits are performed on an ongoing basis by the PC Postage products to ensure the financial integrity of the category.

All of the above can be done with only minor modifications to what is already in place with the Postal Service and with each vendor. The necessary level of effort would be inconsequential compared to the benefit to all parties if these discounts are approved.

We would hope that in the future, and after a thorough examination of the savings from all PC products, and not just First-Class letter products, that there will be a case made to provide discounts for all PC Postage products.

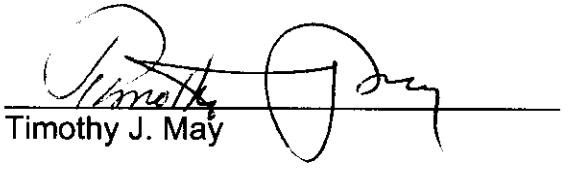
VI. CONCLUSION.

Based on the demonstrated savings already being enjoyed, and the need to create an incentive to convert users to this highly efficient postage delivery system, we urge the Commission to recommend a 4¢ discount on all fully automation compatible

First-Class single piece mail that meets the rigid requirements as outlined above. In considering this proposal we urge the Commission to consider who, in addition to the Postal Service, will be the prime beneficiaries of this discount. A customer who is currently a bulk mailer and uses a PC Postage product to create a mail piece as part of a bulk mail shipment, and meets all the current bulk mail requirements, could be able to print discounted postage using a PC Postage product. However, these products were designed for mailers with a lower average volume, necessitating a single piece discounted rate. Using a consolidation service is not really a solution for the Small Office/Home Office (SOHO) market place because any discounts afforded through such consolidation services would probably not offset the fees for the service itself to the average small mailer. Only a single piece discount makes sense to the SOHO market and that is precisely for whom PC Postage products were designed.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: May 22, 2000