



January 31, 2005

Hon. Steven W. Williams, Secretary
Postal Rate Commission
1333 H Street, NW, Suite 300
Washington, D.C. 20268-0001

RE: Docket No. MC2002-2

Dear Mr. Williams:

In accordance with the Commission's Opinion and Recommended Decision in Docket No. MC2002-2, Experimental Rate and Service Changes to Implement Negotiated Service Agreement with Capital One, attached is the Postal Service's first Data Collection Report for the time period September 1, 2003 to September 30, 2004. I have also attached the Excel spreadsheet of the contribution analysis.

Sincerely,

Nan K. McKenzie
Attorney

Attachments

**DOCKET NO. MC2002-2
DATA COLLECTION REPORT
SEPT. 01, 2003 TO SEPT. 30, 2004**

MC2002-2 Data Collection Plan:

The data collection plan issued by the Postal Rate Commission for the Capital One NSA in Docket No. MC2002-2 requires the Postal Service to provide the following information for the first year of the agreement:

1. Volume of First-Class Mail solicitations by rate category in eligible Capital One permit accounts.
2. Volume of First-Class Mail customer mail by rate category in eligible Capital One permit accounts.
3. Amount of discounts paid to Capital One for First-Class Mail by incremental volume block.
4. Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to Capital One.
5. Number of electronic address correction notices provided to Capital One for forwarded solicitation mailpieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).
6. Number of electronic address correction notices provided to Capital One for solicitation mailpieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).
7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.
8. For each First Class solicitation mailing list run against NCOA, Capital One will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.
9. For each Change of Address record that is used to forward a piece of Capital One solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.
10. As part of each data collection plan report, the Postal Service will provide an evaluation of the impact on contribution. It will also provide an assessment of trends of Capital One's First-Class Mail volume as compared to overall First-Class Mail volume.
11. As part of each data collection report, the Postal Service will provide the number of requests made for comparable NSAs, the industry of each requestor, the volume of First-Class Mail mailed annually by the requestor within the following ranges — less than 100 million pieces, 100 to 250 million pieces, and more than 250 million pieces — and the status of negotiations, or if negotiations were terminated, the reason(s) therefore.
12. Volume of Standard Mail solicitations by rate category in eligible Capital One permit accounts.

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The Capital One NSA has two major value components designed to increase contribution: declining block rates that will induce the growth of additional First-Class mail volume and savings from the substitution of ACS for manual returns. As set forth in Appendix A, the Postal Service estimates that the benefits from the first year of the agreement (September 2003 to September 2004) to be:

Net Revenue¹: \$12.4 million
Savings from ACS Provision²: \$9.3 million

The benefits to the USPS from the first year of the NSA agreement, \$21.7 million, are based on the value determinants presented in the Docket No. MC2002-2. Since the NSA was implemented on September 1, 2003 instead of the beginning of the fiscal year, October 1, 2003, this first report covers 13 calendar months instead of 12 months.

The cost of forwards is not included in the contributions analysis shown in Appendix A. Instead Appendix B provides an estimate of the net savings associated with forwards, which is based on a forwarding sensitivity analysis.

¹ Appendix A page 1

² Appendix A page 1

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Data Collection Requirement 1:

- *Volume of First-Class Mail solicitations by rate category in eligible Capital One permit accounts. (September 2003-September 2004)*

Nonautomated Presorted Letters	
First Ounce	29,905,633
Additional Ounces	12,466
Nonmachinable Pieces (a)	3,032
Heavy Piece Deduction	877
Total Nonautomated Presorted Letters	29,905,633
Automation Presort Letters and Flats	
Letters	
	753,182,242
Mixed AADC Letters (b)	65,324,656
AADC Letters (b)	43,358,796
3-Digit Letters	395,058,189
5-Digit Letters	249,440,601
Additional Ounces	277,869
Heavy Piece Deduction	3,074
Flats	
	76,911
Mixed ADC Flats (b)	25,277
ADC Flats (b)	18,189
3-Digit Flats (c)	33,258
5-Digit Flats (c)	187
Additional Ounces	2,411
Heavy Piece Deduction	149
Nonmachinable Pieces (a)	6,148
Total Automation Presort Letters and Flats	753,259,153
Automation Carrier Route Letters	
First Ounce	59,791,957
Additional Ounces	6,392
Heavy Piece Deduction	21
Automation Carrier Route Letters	59,791,957
Total Capital One First-Class Presort Letters	842,956,743

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Data Collection Requirement 2:

- *Volume of First-Class Mail customer mail by rate category in eligible Capital One permit accounts (September 2003-September 2004)*

Nonautomated Presorted Letters		
	First Ounce	40,044,423
	Additional Ounces	56,416
	Nonmachinable Pieces (a)	12,000
	Heavy Piece Deduction	6,965
Total Nonautomated Presorted Letters		40,044,423
Automation Presort Letters and Flats		
Letters		495,622,235
	Mixed AADC Letters (b)	26,448,557
	AADC Letters (b)	49,931,579
	3-Digit Letters	272,260,289
	5-Digit Letters	146,981,810
	Additional Ounces	411,599
	Heavy Piece Deduction	13,517
Flats		392,902
	Mixed ADC Flats (b)	42,132
	ADC Flats (b)	12,113
	3-Digit Flats (c)	333,323
	5-Digit Flats (c)	5,334
	Additional Ounces	162,455
	Heavy Piece Deduction	30,112
	Nonmachinable Pieces (a)	360,557
Total Automation Presort Letters and Flats		496,015,137
Automation Carrier Route Letters		
	First Ounce	17,251,833
	Additional Ounces	19,901
	Heavy Piece Deduction	357
Automation Carrier Route Letters		17,251,833
Total Capital One First-Class Presort Letters		553,311,393

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Data Collection Requirement 3:

- *Amount of discounts paid to Capital One for First-Class Mail by incremental volume block. (September 2003-September 2004)*

The thresholds and discounts for the NSA are calculated and reconciled on a yearly basis. The schedule of the declining block discounts available to Capital One for a full year is as follows³:

<i>First Class Mail Presort Volume Range</i>		<i>Discount</i>
0	1,225,000,000	-
1,225,000,001	1,275,000,000	\$0.030
1,275,000,001	1,325,000,000	\$0.035
1,325,000,001	1,375,000,000	\$0.040
1,375,000,001	1,450,000,000	\$0.045
1,450,000,001	1,525,000,000	\$0.050
1,525,000,001	1,600,000,000	\$0.055
1,600,000,001	Above	\$0.060

To compensate for the 13 month reporting period, the annual threshold was adjusted from a 12 month period to a 13 month period:

Original Threshold (1,225,000,000) / (divided by) Original term in months (12)
* (multiplied by) Actual months (13) = adjusted threshold (1,327,083,333)

Although the new threshold for the first year was set at 1,327,083,333, the volume tiers and effective discounts remained the same. The new structure and corresponding discounts are:

<i>First Class Mail Presort Volume Range</i>		<i>Discount</i>	<i>Total Discount Paid in Tier</i>
0	1,327,083,333	-	\$-
1,327,083,334	1,377,083,333	\$0.030	\$1,500,000
1,377,083,334	1,427,083,333	\$0.035	\$673,613
1,427,083,334	1,477,083,333	\$0.040	\$-
1,477,083,334	1,552,083,333	\$0.045	\$-
1,552,083,334	1,627,083,333	\$0.050	\$-
1,627,083,334	1,702,083,333	\$0.055	\$-
1,702,083,334	Above	\$0.060	\$-

The total discount paid for the 13 month period was \$2,173,613. This adjustment will not affect Year 2 of the agreement.

³ See Capital One NSA Rate Schedule 610A.

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Data Collection Requirement 4:

- *Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to Capital One (September 2003-September 2004)*

<i>Time Period</i>	<i>Number of Physical Returns (millions)</i>
September-03	1.45
October-03	2.77
November-03	2.10
December-03	2.43
January-04	0.67
February-04	0.40
March-04	1.46
April-04	0.40
May-04	0.57
June-04	0.43
July-04	0.70
August-04	0.43
September-04	0.75

The total number of physical returns was 14.53 million pieces.

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Data Collection Requirement 5:

- *Number of electronic address correction notices provided to Capital One for forwarded solicitation mailpieces, including the number of notices processed by CFS units and separately for PARS (when fully operational) (September 2003-September 2004)*

<i>Time Period</i>	<i>Number of ACS Forwards Notices (millions)</i>
September-03	1.23
October-03	2.37
November-03	2.86
December-03	3.33
January-04	1.55
February-04	1.19
March-04	1.65
April-04	0.73
May-04	1.29
June-04	1.16
July-04	1.20
August-04	1.79
September-04	2.03

The total number of electronic correction notices provided to Capital One for forwarded solicitation mailpieces was 22.37 million notices. During the referenced time-period all notices were processed by CFS units since PARS was not fully operational.

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Data Collection Requirement 6:

- *Number of electronic address correction notices provided to Capital One for solicitation mailpieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS when fully operational). (September 2003-September 2004)*

Time Period	Number of ACS UAA Notices (millions)
September-03	2.01
October-03	4.70
November-03	5.08
December-03	6.50
January-04	3.43
February-04	2.87
March-04	4.49
April-04	1.60
May-04	2.77
June-04	2.64
July-04	2.73
August-04	3.51
September-04	3.60

The total number of electronic correction notices provided to Capital One for mailpieces that would otherwise be physically returned was 45.93 million notices. During the referenced time-period all notices were processed by CFS units since PARS was not fully operational.

Period	First-Class Marketing Marketing Volume	Physical Returns	Electronic Returns	ACS Capture Rate	3-Month Average ACS Capture Rate
September-03	54.44	1.45	2.01	58.06%	
October-03	89.92	2.77	4.70	62.94%	
November-03	89.23	2.10	5.08	70.73%	65.09%
December-03	84.32	2.43	6.50	72.77%	69.03%
January-04	57.32	0.67	3.43	83.60%	74.24%
February-04	59.70	0.40	2.87	87.64%	78.48%
March-04	55.14	1.46	4.49	75.54%	80.99%
April-04	37.66	0.397	1.60	80.12%	79.88%
May-04	56.15	0.572	2.77	82.90%	78.53%
June-04	50.40	0.426	2.64	86.09%	83.40%
July-04	62.53	0.679	2.73	80.10%	82.92%
August-04	43.99	0.425	3.51	89.19%	85.30%
September-04	102.09	0.747	3.60	82.80%	84.16%
Totals	842.89	14.53	45.93	75.96%	

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Please note that there can often be a lag between the month in which the solicitation is mailed and the month when Capital One receives information that about undeliverable-as-addressed pieces, either through ACS notices or the manual return of the pieces. Solicitations mailed towards the end of the month will often result in ACS notices or manual returns occurring in the following month.

The Postal Service and Capital One most recent controlled ACS test which controls for the lag variance showed an ACS success rate of 88%. The Postal Service believes this is the best estimate of ACS success rate at this time.

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Data Collection Requirement 7:

- *Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.*

The compliance activity consisted of numerous activities across different departments of the Postal Service. As this was the first NSA some procedures and activities which were performed for the Capital One NSA are not expected to be repeated in future periods and were only specific to the Capital One NSA due to the fact that this was the only NSA in process.

Department	Activity and Description	Work-Hours	Time Frame
Pricing Strategy	<u>Volume Reconciliation:</u> process of reconciling USPS permit volume counts with Capital One internal volume counts	14	Month
Pricing Strategy	<u>NSA Data Collection Plan:</u> Fulfilling and ensuring compliance with the Data Collection Plan	40	Year
Address Management	<u>ACS Support:</u> Providing ACS counts and support for ACS related issues during the NSA period	160	Year
Address Management	<u>NSA Data Collection Plan:</u> Providing analysis and support for data collection plan	40	Year
Finance	<u>RPW Reporting:</u> Setting up the Cap1/NSA process for the first time for allocating discounts within RPW reporting (one-time event)	15-18	Year
Finance	<u>Accounting Procedures:</u> Development of accounting controls and procedures for refund process	10	Year
Finance	<u>Accounts Payable & Receivables:</u> Payment of refund and collection of any overpayment.	8	Quarter
Law	<u>Legal Advice:</u> Advice on compliance and preparation of data collection plan	20	Year

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Data Collection Requirement 8:

- *For each First-Class solicitation mailing list run against NCOA, Capital One will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.*

Please see Appendix C.

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Data Collection Requirement 9:

- *For each Change of Address record that is used to forward a piece of Capital One solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.*

A literal application of this provision would require presenting discrete information from each of over 22 million forwarding events. In light of the technical effort required to retrieve this information, and the cost of providing it, the Postal Service has concluded that the most effective and efficient way to comply would be to summarize the data, as follows:

1. Total Number of Change of Address Records Used to Forward Capital One Solicitation: 16,835,905
2. Family vs. Individual Moves: Of the 16.8 million COA records used, 9,635,106 (57.2 percent) were designated "Family" moves and 6,606,797 or (39.2 percent) were designated "Individual" moves. The remaining forwards were designated "Business" moves.
3. Single or Multiple Use of COA Records to Forward Capital One Solicitations:

The chart below identifies the number of COA records that were used and the number of notices that represent an additional use of a COA record to forward Capital One's solicitation mail. The overall trend for the number of notices that represent an additional use of a COA record to forward Capital One's solicitations shows a decline which indicates that Capital One's combined use of ACS and NCOA are resulting in the elimination of future forwards.

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	COA Record	Additional Use of COA Record	Total ACS notices	% of Notices Repeat
Sep-03	690,079	540,967	1,231,046	43.94%
Oct-03	1,591,064	776,894	2,367,958	32.81%
Nov-03	2,047,995	808,395	2,856,390	28.30%
Dec-03	2,614,781	714,643	3,329,424	21.46%
Jan-04	1,318,302	233,432	1,551,734	15.04%
Feb-04	996,285	193,289	1,189,574	16.25%
Mar-04	1,400,262	251,761	1,652,023	15.24%
Apr-04	541,695	189,174	730,869	25.88%
May-04	855,086	431,590	1,286,676	33.54%
Jun-04	781,314	379,974	1,161,288	32.72%
Jul-04	962,412	233,203	1,195,615	19.50%
Aug-04	1,616,493	177,343	1,793,836	9.89%
Sep-04	1,420,129	608,068	2,028,197	29.98%
Totals	16,835,905	5,538,733	22,374,630	24.75%

The chart below illustrates that a significant majority of forwarding notices for a given COA record are provided only once. Moreover, only a tiny percentage of records are used more than three times to forward mail.

Number of ACS Notices	Number of Records	Percent of Total Records	Total Number of Transactions
1	13,323,253	79.14%	13,323,253
2	1,976,512	11.74%	3,953,022
3	1,240,927	7.37%	3,722,781
4	127,134	0.76%	508,537
5	160,721	0.95%	803,606
>5	7,358	0.04%	63,431
Totals	16,835,905	100%	22,374,630

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4. Age of COA: The chart below breaks down the total ACS notices for forwards by the age of the COA in months on the date the CFS used the record to label the piece for forwarding.

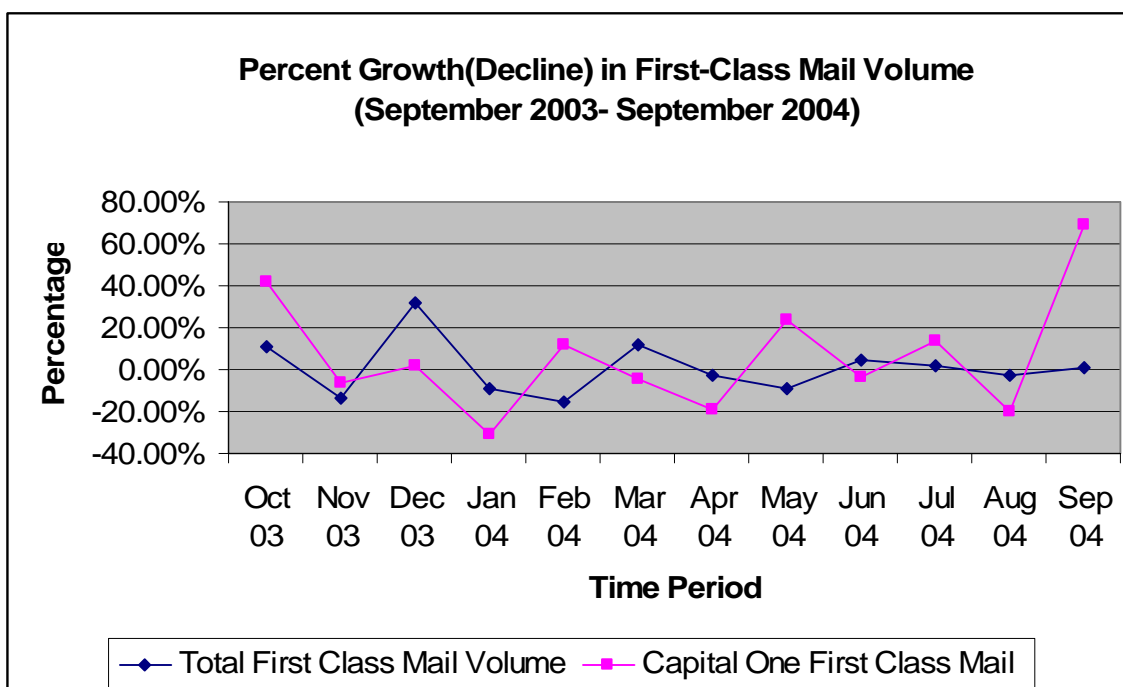
Age of COA	Percent
1	26.02%
2	21.41%
3	14.55%
4	9.71%
5	7.03%
6	4.88%
7	4.31%
8	3.86%
9	2.54%
10	2.47%
11	1.58%
12	1.62%

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Data Collection Requirement 10:

- As part of each data collection plan report, the Postal Service will provide an evaluation of the impact on contribution. It will also provide an assessment of trends of Capital One's First-Class Mail volume as compared to overall First-Class Mail volume.

The following assessment on trends of Capital One' First-Class Mail volume is based on the 13 month time period from September 03 to September 04. Compared to the overall First-Class Mail volumes for the same time period Capital One's First Class Mail volume exhibited strong growth whereas First-Class Mail as a whole showed a slight decline.



In terms of SPLY First-Class Mail volume in the Postal Service declined approximately 2.2% while Capital One First-Class Mail volume increased a little over 4.6% versus SPLY.

For a detailed explanation on the impact of the NSA on contribution, please refer to Appendix A.

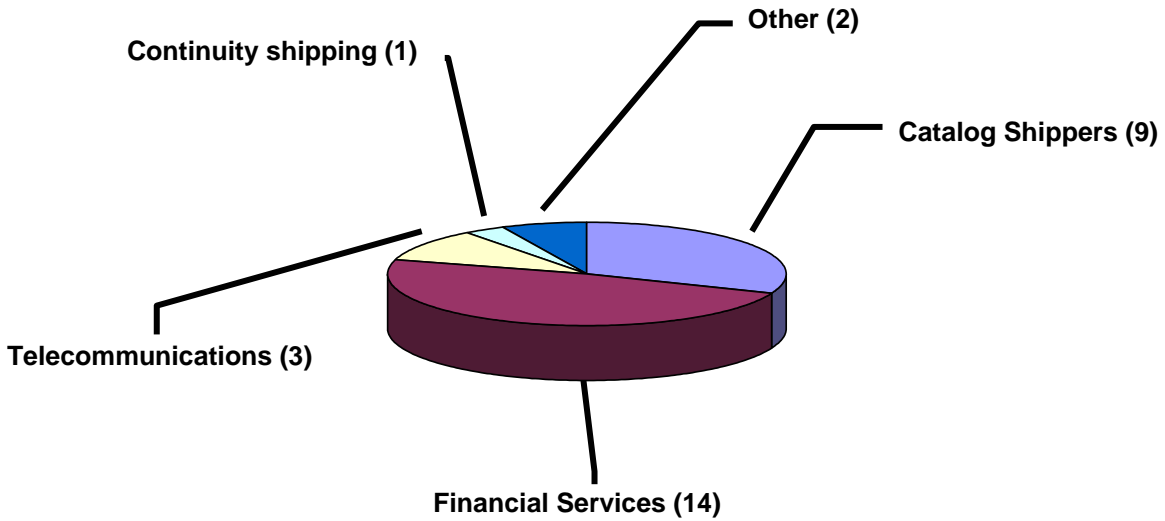
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Data Collection Requirement 11:

- As part of each data collection report, the Postal Service will provide the number of requests made for comparable NSAs, the industry of each requestor, the volume of First-Class Mail mailed annually by the requestor within the following ranges — less than 100 million pieces, 100 to 250 million pieces, and more than 250 million pieces — and the status of negotiations, or if negotiations were terminated, the reason(s) therefore.

NSA discussions formally begin when the Postal Service provides a draft Non-Disclosure Agreement to the customer for their review and signature. Active discussions begin when the Postal Service receives a signed NDA.

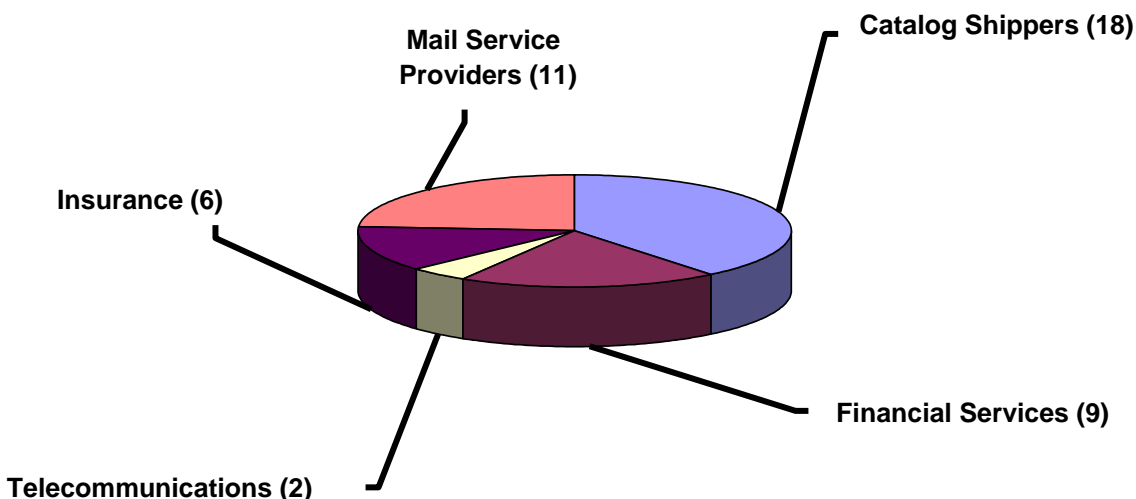
Active NSA Discussions



Active NSA Discussions	
Number of Customers	Number of First-Class Mail letters
9	< 100 million
7	100 – 250 million
13	> 250 million

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Terminated NSA Discussions



Terminated NSA Discussions	
Number of Customers	Number of First-Class Mail letters
26	< 100 million
7	100 – 250 million
13	> 250 million

NSA discussions are terminated when customers fail to return the signed NDA, or when either the customer or the Postal Service is unwilling to pursue an NSA comparable to Capital One. There are a variety of reasons for termination of NSA discussions. Some agreements proposed by customers would not result in an increase in First-Class Mail volumes or carried unacceptable levels of risk for the Postal Service. Also, many mailers stated that they are hesitant to pursue agreements comparable to the Capital One NSA past the initial development stage, because of a lack of adequate resources or funding, or an uncertainty about the outcome of litigation. Other companies stated that they did not pursue the discussions once they realized that their NSA would likely be considered a baseline NSA, because they did not mail enough First-Class Mail solicitations to provide a significant opportunity for ACS cost savings. Other mailers stated that their interest in a comparable NSA declined when they assessed the risk that the discounts would be capped based on cost savings. It appears that only the largest customers believe the cost of litigation can be recouped over the life of the NSA.

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Data Collection Requirement 12:

- *Volume of Standard Mail solicitations by rate category in eligible Capital One permit accounts. (September 2003 – September 2004)*

Standard Mail Volume by Rate Category	
Mail Category	Volume
Mixed AADC Auto	30,897,704
AADC Auto	76,591,255
3-Digit Auto	228,721,041
5-Digit Auto	584,664,392
Basic Nonauto	27,978,864
3/5 Digit Nonauto	73,508,046
Basic Nonauto Letters	16,351,237
Basic Auto Letters	19,036,488
Saturation Letters	-
Total Standard Mail Volume	1,057,749,027

Capital One's Standard Mail did not decline during the first year of the agreement; it increased slightly by almost 1.6%.

USPS Capital One NSA September 03-September 04

Appendix A: page 1

USPS Value Calculation

Rate Case Projection (Sept 2003- Sept 2004)		
(1) Total Actual Volume	1,396,268,136	
(2) Threshold	1,327,083,333	(Rate Case forecast adjusted)
(3) Volume Above Threshold	69,184,803	
(4) Projected Volume	1,310,833,333	(Rate Case forecast adjusted)
(5) Leakage Volume	0	
(6) Incremental Pieces	85,434,803	
(7) Standard Mail Volume	1,057,749,027	
(8) Standard Mail Volume	1,037,444,407	(SPLY)
(Sept 03- Sept 04)		
	MC2002-2 Based Valuation	MC2002-2 Adjusted Valuations
New Mail Contribution		
(9) Increased Volume	85,434,803	85,434,803
(10) Capital One Revenue per Piece	\$0.291	\$0.292
(11) Capital One Cost per Piece	\$0.120	\$0.121
(12) Capital One Contribution per Piece	\$0.171	\$0.171
(13) Capital One Contribution	\$14,585,125	\$14,596,491
(14) Discount on Volume	\$2,173,613	\$2,173,613
(15) New Mail Contribution (net discounts)	\$12,411,512	\$12,422,878
Discount Leakage		
(16) Leakage Volume	0	0
(17) Total Discount Leakage	\$0	\$0
Return Cost Savings		
(18) Manual Return Cost	\$0.535	\$0.535
(19) Electronic Return Cost	\$0.332	\$0.332
(20) Return Cost Savings	\$0.203	\$0.203
(21) # of ACS Returns	46,073,291	46,073,291
(22) ACS Savings	\$9,352,878	\$9,352,878
Forwarded Cost Savings		
(23) Cost of Providing ACS notices for forwards	\$0.061	\$0.061
(24) Number of ACS notices provided	22,374,630	22,374,630
(25) Total Forwarding Costs	\$1,355,902.59	\$1,355,902.59
(26) Total USPS Value	\$20,408,487.31	\$20,419,853.73

*The MC2002-2 Based valuation is developed assuming costs and revenues based on a mail profile of Capital One that did not change from the original filing in MC2002-2. The MC2002-2 Adjusted valuation is based on the actual costs and revenues associated with the actual mail profile for Capital One.

1	USPS Permit System
2	MC2002-2 Threshold of 1.225 billion adjusted for 13 months (1.225 / 12 * 13)
3	(1) - (2)
4	MC2002-2 forecast of 1.21 billion adjusted for 13 months (1.21 / 12 * 13)
5	If Projected volume (4) greater than threshold (3) = (4) - (3). If threshold is greater than projected volume 0.
6	(1) - (4)
7	USPS Permit System
8	USPS Permit System
9	(6)
10	MC2002-2 Valuation is from COS Rate Case Unit Cost worksheet. For actual from COS Actual Unit Cost
11	MC2002-2 Valuation is COS from Rate Case Rev worksheet Revenue per piece. For Actual from COS Actual Rev
12	(10) - (11)
13	(12) * (9)
14	Discount Calculation Worksheet
15	(13) - (14)
16	(5)
17	Discount leakage value
18	USPS-LR-1/MC2002-2, page 1
19	USPS-LR-1/MC2002-2, page 2
20	(18) - (19)
21	USPS Memphis ACS Records / Capital One Records
22	(20) * (21)
23	MC2002-2
24	USPS Memphis ACS Records / Capital One Records
25	(23) * (24)
26	(15) + (22) - (17) -(25)

USPS Capital One NSA September 03-September 04

Appendix A: page 2

Capital One MC2002-2 revenue per piece

Capital One First-Class Mail
By Rate Category
FY 2001 Presorted Letter Volumes at Current Rates (Eff. 6/30/2002)

	(1) FY 2001 Volume	(2) Current Rates	(3) = (1) * (2) Revenue
Nonautomated Presorted Letters			
First Ounce	57,664,168	\$ 0.352	\$ 20,297,787
Additional Ounces	27,107	\$ 0.225	\$ 6,099
Nonmachinable Pieces (a)	17,338	\$ 0.055	\$ 954
Heavy Piece Deduction	3,992	\$ 0.041	\$ 164
Total Nonautomated Presorted Letters	57,664,168		\$ 20,305,003
Revenue Adjustment Factor (1)			0.985164
Total Nonautomated Presorted Letters Revenue			\$ 20,003,763
Automation Presort Letters and Flats			
Letters			
Mixed AADC Letters (b)	0	\$ 0.309	\$ -
AADC Letters (b)	0	\$ 0.301	\$ -
3-Digit Letters	538,406,052	\$ 0.292	\$ 157,214,567
5-Digit Letters	369,430,336	\$ 0.278	\$ 102,701,633
Additional Ounces	575,791	\$ 0.225	\$ 129,553
Heavy Piece Deduction	16,200	\$ 0.041	\$ 664
Flats			
Mixed ADC Flats (b)	0	\$ 0.341	\$ -
ADC Flats (b)	0	\$ 0.333	\$ -
3-Digit Flats (c)	0	\$ 0.322	\$ -
5-Digit Flats (c)	0	\$ 0.302	\$ -
Additional Ounces	121,071	\$ 0.225	\$ 27,241
Heavy Piece Deduction	26,595	\$ 0.041	\$ 1,090
Nonmachinable Pieces (a)	277,567	\$ 0.055	\$ 15,266
Total Automation Presort Letters and Flats	907,836,388		\$ 260,090,015
Revenue Adjustment Factor			1.000542
Total Automation Presort Letters and Flats Revenue			\$ 260,230,998
Automation Carrier Route Letters			
First Ounce	63,511,973	\$ 0.275	\$ 17,465,793
Additional Ounces	2,293	\$ 0.225	\$ 516
Heavy Piece Deduction	0	\$ 0.041	\$ -
Automation Carrier Route Letters	63,511,973		\$ 17,466,309
Revenue Adjustment Factor			1.000972
Automation Carrier Route Letters Revenue			\$ 17,483,282
Total Capital One First-Class Presort Letters	1,029,012,529		\$ 297,718,044
	Revenue per Piece		\$ 0.2893

(1) Revenue adjustment factors increase (or decrease) revenue calculated by multiplying rate category volumes times rates to match booked revenues.

Notes:

Capital One volume based on postage statement data from the PERMIT system.

CAPITAL ONE FIRST-CLASS MAIL PRESORT LETTERS/FLATS UNIT COST ESTIMATES

Capital One Solicitation Return Percentage =	7.7%	(1) Adjusted for Actuals
Capital One Statement Return Percentage =	1.2%	(2)
Average Presort Letters Return Percentage =	1.23%	(3)
Before Rates Customer Mail Volume =	842,956,743	(4) Adjusted for Actuals
Before Rates Solicitation Mail Volume =	553,311,393	(5) Adjusted for Actuals
Manual Returns Unit Cost =	\$0.535	(6)
Electronic Returns Unit Cost =	\$0.332	(7)
Address Change Service (ACS) Success Rate =	71.1%	(8) Adjusted for Actuals
Contingency Factor =	1.030	(9)

Rate Category	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX							DOCKET NO. R2001-1 PRC FIGURES - CAPITAL ONE MAIL MIX						
	TY 2003 Total Unit Cost (Dollars)	TY 2003 Mail Proc Unit Cost (Dollars)	TY 2003 Delivery Unit Cost (Dollars)	TY 2003 Other Unit Cost (Dollars)	TY 2003 Total Unit Cost (Dollars)	FY 2001 Mail Volume (Pieces)	FY 2001 Mail Volume (Percent)	TY 2003 Total Unit Cost (Dollars)	FY 2001 Mail Volume (Pieces)	FY 2001 Mail Volume (Percent)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
Nonautomation Presort Letters		\$0.163	\$0.063	\$0.018	\$0.244	3,702,479,000	7.84%	\$0.244	57,664,168	5.01%				
Automation Presort Letters														
Automation Mixed AADC		\$0.055	\$0.045	\$0.018	\$0.118	2,634,662,000	5.58%	\$0.118	58,754,928	5.10%				
Automation AADC		\$0.046	\$0.044	\$0.018	\$0.107	2,820,125,000	5.97%	\$0.107	62,890,886	5.46%				
Automation 3-Digit		\$0.042	\$0.043	\$0.018	\$0.104	22,474,263,000	47.60%	\$0.104	538,406,052	46.78%				
Automation 5-Digit		\$0.032	\$0.041	\$0.018	\$0.091	14,038,959,000	29.73%	\$0.091	369,430,336	32.10%				
Automation Carrier Route		\$0.021	\$0.064	\$0.018	\$0.103	1,020,856,000	2.16%	\$0.103	63,511,973	5.52%				
Automation Presort Flats														
Automation Mixed ADC		\$0.448	\$0.095	\$0.018	\$0.562	52,631,000	0.11%	\$0.562	31,247	0.00%				
Automation ADC		\$0.348	\$0.095	\$0.018	\$0.461	28,190,000	0.06%	\$0.461	16,737	0.00%				
Automation 3-Digit		\$0.348	\$0.095	\$0.018	\$0.461	187,788,000	0.40%	\$0.461	318,683	0.03%				
Automation 5-Digit		\$0.235	\$0.095	\$0.018	\$0.348	254,253,000	0.54%	\$0.348	5,376	0.00%				
WEIGHTED AVERAGE / TOTAL	\$0.115	\$0.052	\$0.045	\$0.018	\$0.115	47,214,206,000	100.00%	\$0.108	1,151,030,386	100.00%	\$0.0135	\$0.1212	\$0.0092	\$0.1168
Total Unit Cost Estimates, Including Contingency =											\$0.1248		\$0.1203	
											Current (24)		After Rates (25)	

- (1) Capital One witness Jean
- (2) Capital One witness Jean
- (3) USPS-LR-J-69 (FCM UAA % from Table 4.2 allocated by Return to Sender % from Table 4.3.3)
- (4) COS-T-2, Exhibit 6
- (5) COS-T-2, Exhibit 6
- (6) "MANUAL RETURNS UNIT COST" Spreadsheet
- (7) "ELECTRONIC RETURNS UNIT COST" Spreadsheet
- (8) USPS witness Wilson
- (9) Docket No. R2001-1
- (10) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3
- (11) Letters: Docket No. R2001-1, PRC LR-4, "FCLETSPRCFA.XLS", page 1
Flats: Docket No. R2001-1, PRC LR-4, "FCFLATSPRCFA.XLS", page 1
- (12) Docket No. R2001-1, PRC LR-7, Page 2
- (13) (10) - Weighted Average(11) - Weighted Average(12)
- (14) (11) + (12) + (13)

- (15) FY 2001 Billing Determinants
- (16) (15) / [Sum (15)]
- (17) Line Item (14), Total - Allocated by (19)
- (18) Attachment A, Page 1
- (19) (18) / [Sum (18)]
- (20) (6) * [(4) * [(2) - (3)] + (5) * [(1) - (3)]] / [(4) + (5)]
- (21) Sum (17) + (20)
- (22) [[(8) * (7) + [1 - (8)] * (6)] * (5) * [(1) - (3)]] + (6) * (4) * [(2) - (3)] / [(4) + (5)] - (3) * ((6) - (7)) * (8) * (5) / ((4) + (5))
- (23) Sum (17) + (22)
- (24) (21) * (9)
- (25) (23) * (9)

USPS Capital One NSA September 03-September 04

Appendix A: page 4

Capital One Sept 03- Sept 04 unit revenue per piece

Capital One First-Class Mail
By Rate Category
FY 2004 Presorted Letter Volumes

	(1) FY 2004 Volume	(2) Current Rates	(3) = (1) * (2) Revenue	
Nonautomated Presorted Letters				
First Ounce	69,950,056	\$ 0.352	\$ 24,622,420	5%
Additional Ounces	68,882	\$ 0.225	\$ 15,498	0%
Nonmachinable Pieces (a)	15,032	\$ 0.055	\$ 827	0%
Heavy Piece Deduction	7,842	\$ 0.041	\$ 322	0%
Total Nonautomated Presorted Letters	69,950,056		\$ 24,639,066	
Revenue Adjustment Factor (1)			0.985164	
Total Nonautomated Presorted Letters Revenue			\$ 24,273,527	
Automation Presort Letters and Flats				
Letters				
Mixed AADC Letters (b)	91,773,213	\$ 0.309	\$ 28,357,923	7%
AADC Letters (b)	93,290,375	\$ 0.301	\$ 28,080,403	7%
3-Digit Letters	667,318,478	\$ 0.292	\$ 194,856,996	48%
5-Digit Letters	396,422,411	\$ 0.278	\$ 110,205,430	28%
Additional Ounces	689,468	\$ 0.225	\$ 155,130	0%
Heavy Piece Deduction	16,591	\$ 0.041	\$ 680	0%
Flats	469,813			
Mixed ADC Flats (b)	67,409	\$ 0.341	\$ 22,986	0%
ADC Flats (b)	30,302	\$ 0.333	\$ 10,091	0%
3-Digit Flats (c)	366,581	\$ 0.322	\$ 118,039	0%
5-Digit Flats (c)	5,521	\$ 0.302	\$ 1,667	0%
Additional Ounces	164,866	\$ 0.225	\$ 37,095	0%
Heavy Piece Deduction	30,261	\$ 0.041	\$ 1,241	0%
Nonmachinable Pieces (a)	366,705	\$ 0.055	\$ 20,169	0%
Total Automation Presort Letters and Flats	1,249,274,290		\$ 361,867,850	
Revenue Adjustment Factor			1.000542	
Total Automation Presort Letters and Flats Revenue			\$ 362,064,002	
Automation Carrier Route Letters				
First Ounce	77,043,790	\$ 0.275	\$ 21,187,042	6%
Additional Ounces	26,293	\$ 0.225	\$ 5,916	0%
Heavy Piece Deduction	378	\$ 0.041	\$ 15	0%
Automation Carrier Route Letters	77,043,790		\$ 21,192,974	
Revenue Adjustment Factor			1.000972	
Automation Carrier Route Letters Revenue			\$ 21,213,569	
Total Capital One First-Class Presort Letters	1,396,268,136		\$ 407,551,098	100%
	Revenue per Piece		\$ 0.2919	

(1) Revenue adjustment factors increase (or decrease) revenue calculated by multiplying rate category volumes times rates to match booked revenues.

Notes:

Capital One volume based on postage statement data from the PERMIT system.

a. Following the implementation of Docket No. R2001-1, the nonstandard surcharge was expanded and renamed to include nonmachinable mail. No additional Capital One volume is assumed to be subject to the nonmachinable surcharge.

CAPITAL ONE FIRST-CLASS MAIL PRESORT LETTERS/FLATS UNIT COST ESTIMATES

Capital One Solicitation Return Percentage =	<u>7.7%</u>	(1) Adjusted for Actuals
Capital One Statement Return Percentage =	<u>1.2%</u>	(2)
Average Presort Letters Return Percentage =	<u>1.23%</u>	(3)
Before Rates Customer Mail Volume =	<u>842,956,743</u>	(4) Adjusted for Actuals
Before Rates Solicitation Mail Volume =	<u>553,311,393</u>	(5) Adjusted for Actuals
Manual Returns Unit Cost =	<u>\$0.535</u>	(6)
Electronic Returns Unit Cost =	<u>\$0.332</u>	(7)
Address Change Service (ACS) Success Rate =	<u>71.1%</u>	(8) Adjusted for Actuals
Contingency Factor =	<u>1.030</u>	(9)

	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
	DOCKET NO. R2001-1 PRC FIGURES - NATIONWIDE MAIL MIX							DOCKET NO. R2001-1 PRC FIGURES - CAPITAL ONE MAIL MIX						
Rate Category	TY 2003 Total Unit Cost (Dollars)	TY 2003 Mail Proc Unit Cost (Dollars)	TY 2003 Delivery Unit Cost (Dollars)	TY 2003 Other Unit Cost (Dollars)	TY 2003 Total Unit Cost (Dollars)	FY 2001 Mail Volume (Pieces)	FY 2001 Mail Volume (Percent)	TY 2003 Total Unit Cost (Dollars)	FY 2001 Mail Volume (Pieces)	FY 2001 Mail Volume (Percent)	Current Returns Adjustment Unit Cost (Dollars)	Current w/Rets Adj Total Unit Cost (Dollars)	After Rates Returns Adjustment Unit Cost (Dollars)	After Rates w/Rets Adj Total Unit Cost (Dollars)
FIRST-CLASS MAIL LETTERS														
Nonautomation Presort Letters		\$0.163	\$0.063	\$0.018	\$0.244	3,702,479,000	7.84%	\$0.244	69,950,056	5.01%				
Automation Presort Letters														
Automation Mixed AADC		\$0.055	\$0.045	\$0.018	\$0.118	2,634,662,000	5.58%	\$0.118	91,773,213	6.57%				
Automation AADC		\$0.046	\$0.044	\$0.018	\$0.107	2,820,125,000	5.97%	\$0.107	93,290,375	6.68%				
Automation 3-Digit		\$0.042	\$0.043	\$0.018	\$0.104	22,474,263,000	47.60%	\$0.104	667,318,478	47.79%				
Automation 5-Digit		\$0.032	\$0.041	\$0.018	\$0.091	14,038,959,000	29.73%	\$0.091	396,422,411	28.39%				
Automation Carrier Route		\$0.021	\$0.064	\$0.018	\$0.103	1,020,856,000	2.16%	\$0.103	77,043,790	5.52%				
Automation Presort Flats														
Automation Mixed ADC		\$0.448	\$0.095	\$0.018	\$0.562	52,631,000	0.11%	\$0.562	67,409	0.00%				
Automation ADC		\$0.348	\$0.095	\$0.018	\$0.461	28,190,000	0.06%	\$0.461	30,302	0.00%				
Automation 3-Digit		\$0.348	\$0.095	\$0.018	\$0.461	187,788,000	0.40%	\$0.461	366,581	0.03%				
Automation 5-Digit		\$0.235	\$0.095	\$0.018	\$0.348	254,253,000	0.54%	\$0.348	5,521	0.00%				
WEIGHTED AVERAGE / TOTAL	\$0.115	\$0.052	\$0.045	\$0.018	\$0.115	47,214,206,000	100.00%	\$0.108	1,396,268,136	100.00%	\$0.0135	\$0.1219	\$0.0092	\$0.1175
Total Unit Cost Estimates, Including Contingency =												\$0.1255	\$0.1210	
												Current	After Rates	
												(24)	(25)	

(1) Capital One witness Jean
 (2) Capital One witness Jean
 (3) USPS-LR-J-69 (FCM UAA % from Table 4.2 allocated by Return to Sender % from Table 4.3.3)
 (4) COS-T-2, Exhibit 6
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 (6) "MANUAL RETURNS UNIT COST" Spreadsheet
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 (9) Docket No. R2001-1
 (10) Docket No. R2001-1, PRC LR-2, Volume 4, "TYBR", page 3
 (11) Letters: Docket No. R2001-1, PRC LR-4, "FCLETSPRCFA.XLS", page 1
 Flats: Docket No. R2001-1, PRC LR-4, "FCFLATSPRCFA.XLS", page 1
 (12) Docket No. R2001-1, PRC LR-7, Page 2
 (13) (10) - Weighted Average(11) - Weighted Average(12)
 (14) (11) + (12) + (13)

(15) FY 2001 Billing Determinants
 (16) (15) / [Sum (15)]
 (17) Line Item (14), Total - Allocated by (19)
 (18) Attachment A, Page 1
 (19) (18) / [Sum (18)]
 (20) (6) * [(4) * [(2) - (3)] + (5) * [(1) - (3)]] / [(4) + (5)]
 (21) Sum (17) + (20)
 (22) [[(8) * (7) + [1 - (8)] * (6)] * (5) * [(1) - (3)]] + (6) * (4) * [(2) - (3)]] / [(4) + (5)] - (3) * ((6) - (7)) * (8) * (5) / ((4) + (5))
 (23) Sum (17) + (22)
 (24) (21) * (9)
 (25) (23) * (9)

USPS Capital One NSA September 03-September 04**Appendix A: page 6***Capital One UAA volumes*

Period	First-Class Mail Marketing Volume	Physical Returns	Electronic Returns	% of Electronic Returns	Return Rate
September-03	54.44	1.45	2.01	58.06%	6.36%
October-03	89.92	2.77	4.70	62.94%	8.31%
November-03	89.23	2.10	5.08	70.73%	8.04%
December-03	84.32	2.43	6.50	72.77%	10.59%
January-04	57.32	0.67	3.43	83.60%	7.16%
February-04	59.70	0.40	2.87	87.64%	5.48%
March-04	55.14	1.46	4.49	75.54%	10.79%
April-04	37.66	0.397	1.60	80.12%	5.30%
May-04	56.15	0.572	2.77	82.90%	5.96%
June-04	50.40	0.426	2.64	86.09%	6.08%
July-04	62.53	0.679	2.73	80.10%	5.46%
August-04	43.99	0.425	3.51	89.19%	8.94%
September-04	102.09	0.747	3.60	82.80%	4.25%
Totals	842.89	14.53	45.93	75.96%	7.17%

USPS Capital One NSA September 03-September 04

Appendix A: page 7

ACS notices breakdown

	COAS	NIXIES	TOTAL	% COAS	% Nixies
Sep 2003	1,231,046	1,573,517	2,804,563	43.89%	56.11%
Oct 2003	2,367,958	4,703,402	7,071,360	33.49%	66.51%
Nov 2003	2,856,390	5,076,125	7,932,515	36.01%	63.99%
Dec 2003	3,329,424	7,083,112	10,412,536	31.98%	68.02%
Jan 2004	1,551,734	3,430,700	4,982,434	31.14%	68.86%
Feb 2004	1,189,574	2,865,525	4,055,099	29.34%	70.66%
Mar 2004	1,652,023	4,493,997	6,146,020	26.88%	73.12%
Apr 2004	730,869	1,599,939	2,330,808	31.36%	68.64%
May 2004	1,286,676	2,773,862	4,060,538	31.69%	68.31%
Jun 2004	1,161,288	2,636,252	3,797,540	30.58%	69.42%
Jul 2004	1,195,615	2,733,451	3,929,066	30.43%	69.57%
Aug 2004	1,793,836	3,507,099	5,300,935	33.84%	66.16%
Sep 2004	2,028,197	3,596,310	5,624,507	36.06%	63.94%
TOTALS	22,374,630	46,073,291	68,447,921	32.69%	67.31%

**DOCKET NO. MC2002-2
DATA COLLECTION REPORT
SEPT. 01, 2003 TO SEPT. 30, 2004**

Appendix B:

The impact of the NSA on the Postal Service contribution was a net increase of \$21 million. This increase consists of increased contribution from First-Class Mail volumes of \$12.9 million and ACS savings from the elimination of physical returns with ACS notices of \$9.3 million.

Forwarding Analysis:

The Commission in its Opinion and Recommended Decision in Docket No, MC2002-2 discussed the impact of forwards on the NSA contribution. Below is a forwarding analysis with the information currently available.

The total costs of providing ACS forwarding notices equals the cost of providing an ACS notice (\$0.061⁴) times the total number of ACS forwarding notices provided to Capital One. The Postal Service in the first year of the agreement provided 22,374,630 ACS notices for a total cost of \$1.36 million. The cost of providing the ACS notice would lower the value of the NSA to \$20.3 million for the first year.

Calculating the benefits of providing the ACS forwarding notices requires the Postal Service to make assumptions regarding Capital One's mailing practices and frequency of mailings to prospective customers. The value of eliminating repeat forwards will be seen in a decreasing UAA rate in the out-years of the agreement. A sensitivity analysis is provided below that illustrates that the elimination of even a single forward would yield benefits that exceed the costs associated with providing the ACS notices.

Number of Forwards Avoided	Additional Cost Savings	Total NS Value
1.00	\$5,168,620.38	\$25,577,107.69
2.00	\$10,337,240.76	\$30,745,728.07
3.00	\$15,505,861.14	\$35,914,348.44
4.00	\$20,674,481.52	\$41,082,968.82
5.00	\$25,843,101.90	\$46,251,589.20
6.00	\$31,011,722.27	\$51,420,209.58
7.00	\$36,180,342.65	\$56,588,829.96
8.00	\$41,348,963.03	\$61,757,450.34
9.00	\$46,517,583.41	\$66,926,070.72
10.00	\$51,686,203.79	\$72,094,691.10
11.00	\$56,854,824.17	\$77,263,311.48
12.00	\$62,023,444.55	\$82,431,931.86
15.00	\$77,529,305.69	\$97,937,792.99
20.00	\$103,372,407.58	\$123,780,894.89

⁴ MC2002-2 Witness Crum

**DOCKET NO. MC2002-2
DATA COLLECTION REPORT
SEPT. 01, 2003 TO SEPT. 30, 2004**

The sensitivity analysis is based on the 16,835,897 COA records which produced a forwarding notice. The value of eliminating a future forward is \$0.307 per forward. This analysis demonstrates that it is more than likely the savings from eliminating repeat forwards may well equal or exceed the savings from conversion to ACS for UAA mail that would have otherwise been returned. However, because Capital One cannot provide an estimate of the number of forwards avoided, the Postal Service has not included this calculation in its valuation of the NSA.

Appendix C

2003 NCOA RUNS

SOL ID	DATE OF RUN	TOTAL INPUT QUANTITY	TOTAL MATCH QUANTITY		
7731	7/12/2003	23,506,051	1,073,974		
7931	7/14/2003	31,691,501	1,453,181		
7871	7/23/2003	14,448,902	636,809		
7721	8/8/2003	8,836,937	242,814		
7807	8/21/2003	13,146,486	567,275		
8088	9/5/2003	14,948,297	660,091		
7166	9/27/2003	15,050,836	613,159		
8094	9/27/2003	44,338,343	1,851,303		
8044	9/29/2003	22,834,360	1,068,412		
8094D	10/27/2003	130,165	392	CBAS TEST	
7908	11/5/2003	3,405,199	111,080		
8094RND1	11/12/2003	290,161	1,272	CBAS TEST	
8088RND1	11/18/2003	105,577	2,373	CBAS TEST	
7731RND1	11/19/2003	134,463	826	CBAS TEST	
8088RND2	12/2/2003	102,927	365	CBAS TEST	
7731RND2	12/2/2003	134,137	603	CBAS TEST	
8290	12/2/2003	6,357,853	275,632		
7847	12/10/2003	9,526,195	360,611		
7908REMAIL	12/12/2003	1,329,316	8,506		
8490	12/30/2003	12,400,194	569,666		

Appendix C

2004 NCOA RUNS

SOL ID	DATE OF RUN	TOTAL INPUT QUANTITY	TOTAL MATCH QUANTITY		
8238T	1/13/2004	15,043,951	232,399		
8238	1/6/2004	18,367,509	1,012,036		
8112T	1/14/2004	37,726,785	786,715		
8112	1/14/2004	47,392,386	2,467,646		
8491T	1/23/2004	8,626,125	101,496		
8491	1/17/2004	11,091,801	521,310		
8369	1/20/2004	13,587,795	521,364		
8077	1/23/2004	19,742,767	1,095,478		
7910REMAIL	1/14/2004	1,329,316	15,264		
7911REMAIL	2/3/2004	1,285,479	3,788		
7987	2/6/2004	6,809,257	218,614		
8499	2/11/2004	200,000	9,917		
8369REMAIL	2/23/2004	3,050,046	16,722		
7988REMAIL	3/4/2004	1,111,972	4,205		
8638	3/10/2004	25,527,536	1,135,121		
8638T	3/17/2004	15,537,417	151,947		
8574	4/1/2004	32,195,132	434,255		
7989REMAIL	4/7/2004	1,311,309	6,500		
8586	4/7/2004	17,842,114	201,736		
7990REMAIL	4/26/2004	650,000	2,334		
DEPOSITS MINI USA	6/4/2004	1,030,470	38,571		
DEPOSITS MINI USA	6/16/04	1,014,917	43,319		
8680T	6/16/2004	17,015,949	241,742		
8680	6/19/2004	21,435,067	792,325		
8605	6/30/2004	19,005,030	324,590		
8579	7/7/2004	39,583,719	974,803		
DEPOSITS MINI USA	7/26/2004	465,964	10,154		
8587	8/31/2004	20,258,470	392,791		
8776	9/3/2004	40,551,393	964,760		
8749T	9/17/2004	18,344,783	382,138		
8749	9/22/2004	22,608,267	906,412		
8749T RUN 2	10/6/2004	2,334,095	93,974		
SAVINGS	10/22/2004	1,426,090	22,324		
SOL 8342	11/25/2004	57,448,404	761,296		
SOL 6228	11/25/2004	949,649	58,019		
SOL 8347	11/26/2004	19,334,023	285,127		