

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON DC 20268-0001**

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POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

**INITIAL COMMENTS ON RECONSIDERATION  
OF COALITION OF CATALOG MAILERS  
(May 4, 2007)**

The Coalition of Catalog Mailers (“CCM”) respectfully submits initial comments on the rate increases for Standard Mail Regular flats proposed in the Commission’s Recommended Decision of February 26, 2007 (“Commission’s Decision”). As the Governors of the United States Postal Service (the “Governors”) have recognized, “[t]he long-term interests of the Postal Service and its customers are served by a healthy catalog industry.”<sup>1</sup> The Commission’s recommended rate increases seriously threaten the vitality of the catalog industry. CCM supports the Governors’ request for reconsideration and urges the Commission to moderate these extraordinary rate increases. A reasonable transition period will allow catalog companies time to change their businesses in the most efficient manner possible to adjust to the new shape-based rate structure.

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<sup>1</sup> Decision of the Governors of the United Postal Service on the Opinion and Recommended Decision of the Postal Regulatory Commission on Changes in Postal Rates and Fees, Docket No. R2006-1 (March 19, 2007) (“Governors’ Decision”) at 9.

## I. INTRODUCTION

On February 26, 2007, the Commission recommended rates for Standard Mail Regular flats that represent significant increases over the rates proposed by the Postal Service. On March 19, 2007, the Governors requested reconsideration of certain aspects of the Commission's Decision, including those rate increases. CCM subsequently filed a Notice of Intervention and Motion to Reopen the Record for testimony addressing the unique obstacles that catalog mailers face in responding to unexpectedly high rate increases without adequate lead time. In its Order dated April 27, 2007 ("Order No. 13"), the Commission granted CCM's Motion for Late Intervention<sup>2</sup> but denied its Motion to Reopen and Supplement the Record. The Commission, however, stated:

Although the Commission does not reopen the record, CCM will have the full opportunity to present the arguments of its members to the Commission, based on the existing record. As discussed above, the Governors have asked the Commission to allow parties to present their views to "address any unique problems created by the Commission's recommendations."

Order No. 13 at 11.

Accordingly, these comments address the unique problems that catalogers will have in adjusting to the unusually steep and unanticipated rate increases. These difficulties are distinct from the typical implementation issues that arise any time rates are increased. Section II describes the inability of catalog companies to respond quickly

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<sup>2</sup> The Commission also addressed the Governors' "message that the Governors would like the Commission to specifically allow catalog groups the opportunity to be heard on reconsideration issues." It concluded that "for the Commission's reconsideration to be meaningful, affected mailers should be given an opportunity to be heard and have their views considered." Order No. 13 at 5. We are grateful that the Commission granted CCM's intervention Motion and found that "CCM is entitled to the opportunity to point out ... material in the record that may support its position on reconsideration." *Id.* at 12-13 n.16.

to significant and abrupt rate increases.<sup>3</sup> Section III demonstrates that the existing record contains sufficient evidence to support rate relief. Section IV addresses certain issues relating to the structure of rate relief.

## **II. A GRADUAL TRANSITION TO SHAPE-BASED RATES WILL HELP PRESERVE THE VITALITY OF THE CATALOG INDUSTRY.**

### **A. The Commission's Rate Increases Are Steep and Abrupt.**

CCM's concern is the abrupt introduction of large rate increases for Standard Mail Regular flats. The Governors indicated that catalog mailers "that pay the piece rates for automation flats entered at Sectional Center Facilities (SCF) closest to the delivery destination (DSCF) face a 41.1 percent increase under the Commission's proposal, but would have experienced an 18.5 percent increase under the Postal Service's proposal."<sup>4</sup> Governors' Decision at 9. After weighting for dropship discounts, we calculate that the effective overall rate increases proposed by the Postal Service were 18.9 percent and 7.7 percent for automated, piece-rated flats presorted to 3 and 5 digits, respectively. The Commission, however, recommended dramatically higher rates, so that the final effective overall rate increases were 42.2 and 19.2 percent, respectively.<sup>5</sup> From any perspective, these are drastic rate increases.

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<sup>3</sup> Some of these difficulties are reflected in comment letters of individual catalog companies submitted to the Commission in this docket. A sample of those letters are attached as Appendix A.

<sup>4</sup> The Governors also noted that the risks of misjudging how mailers and mail volume will respond increase significantly with rate changes of this magnitude. Governors' Decision at 9.

<sup>5</sup> These weighted average rates take into account dropship discounts by weighting the proposed rates by the disaggregated volumes for MADC, ADC, 3-digit, and 5-digit flats tendered at origin, destination bulk mail center (DBMC), and destination sectional facility (DSCF). Volumes are from R2006-1, library reference PRC-LR-15, PRCRegNPRates.xls, sheet TYARVolDisaggregated.

However, it is not only the magnitude of these increases that threatens the catalog industry. Although catalog companies have had since May, 2006 to plan for the rate increases originally proposed by the Postal Service, they have had only a few weeks to address the much higher rates actually recommended by the Commission. The abruptness of these additional rate increases will impose serious financial hardship that can be avoided.

**B. Catalogers Cannot Quickly Adjust Their Operations To Adapt to Steep and Abrupt Rate Increases.**

The catalog industry consists of both business-to-consumer and business-to-business enterprises. Although there are many large well-known catalogers, much of the industry includes small entrepreneurs offering niche products, such as rare books or workplace safety equipment. In fact, many catalogers began as small entrepreneurs that offered specialty products and whose primary marketing vehicle was the catalog. Unlike retail-based companies that also send catalogs, these smaller companies have always relied heavily on the Postal Service for revenue generation.

Whether a catalog company is large or small, extensive planning and sample testing drives its catalog design decisions. To produce a catalog that will generate the optimal number of responses, catalog companies spend time and resources, not only on mailing lists, but also on aesthetic aspects, such as shape, color, page layout, paper size and weight, page placement of each product, etc. Catalogers

often conduct tests with small sample sizes and many variables<sup>6</sup> to determine the most effective page layout, photo placement, or cover page. This extensive and detailed testing drives catalogers' mailing decisions. Given the number of factors that contribute to producing a catalog, a typical cataloger's planning cycle is longer than other direct mailers.<sup>7</sup>

Direct mail plays a unique role in catalogers' business plans. For example, in order for a typical cataloger to receive a continuous income stream, it must induce a customer to make a series of purchases through repeated mailings. That is, even if a customer responds to a Spring apparel catalog, the cataloger must still send Summer and Fall catalogs in order to continue to generate revenue. The cataloger's revenue stream is thus heavily dependent upon the frequency of regular mailings to the same customer. In contrast, a single response from a customer to a credit card solicitation may initiate services that result in a continuous income stream.

As discussed above, mail is a key component of catalogers' business plans and drives revenue. Postage constitutes a substantial portion of catalogers'

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<sup>6</sup> These traditionally small test mailings may not be eligible for 3-digit or 5-digit rates, and thus may be subject to especially steep increases under the Commission's Decision.

<sup>7</sup> The Mail Order Association of America ("MOAA"), in its Answer to Motion of CCM to Reopen and Supplement the Record, proposed that the Commission could take official notice of the following:

[C]atalogs, which every consumer receives, have production difficulties that differ from those that would affect other types of mail, *i.e.* advertising material within a shared mailing, which generally are small, simple pieces designed to be valid for a limited period of time. Under those circumstances advertisers are in a position to adjust prices quickly as necessary to take account of increased postage costs. Multipage catalogs face a longer production lead time and prices that will remain in effect for an extended period. In sum, *catalog production, including the physical production as well as the choice and pricing of the products contained in the catalog, is something that requires advance planning and cannot quickly be modified on the basis of an unexpected postage rate increase.*

*Id.* at 2 (emphasis added).

expenses. Most catalog companies compete with non-catalogers as well as other catalogers, and therefore have limited ability to pass through postage increases to their customers. Without a transition period to revamp catalog operations, catalogers are faced with the immediate choice of (a) maintaining volumes and incurring increased expenses that directly reduce profitability or (b) reducing volume and foregoing future revenue streams that would have been generated by the canceled mailings.<sup>8</sup>

Furthermore, catalogers cannot alter their cost structure in time to adjust to the steep rate increases. Catalogers typically have contractual commitments to vendors for extended periods of time, and may need to lay off employees (with severance pay) if catalog operations are hastily curtailed. Incurring vendor costs for services not needed (e.g., liquidated damages) or employee termination costs (e.g., severance payments) is economically inefficient and could be regarded as “economic waste.” This economic waste could be substantially mitigated if steep increases in postage rates, to the extent they are deemed necessary, are phased in over a reasonable period. It is not difficult to see that these rate increases threaten the vitality

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<sup>8</sup> The Direct Marketing Association has noted:

[T]he unanticipated severity of the PRC's recommendations places greater pressure on mailers to adjust their mailing profiles. Unfortunately, these mailers do not have sufficient time to adjust before the expected implementation of these excessive increases. The likely timeframe for the rate increases simply does not give mailers adequate time to prepare and test alternatives to flat-shaped mail . . . . If these new rates are put into effect in May, there will be no time for mailers to find alternatives for mailings scheduled for summer and early fall, much less to test the response rate for different size catalogs and determine what will be effective with target audiences. Also, the lack of a heavyweight letter category (as proposed by DMA and other mailers), up to 4 ounces, which can run on the automated letter sorting machines, is an impediment to shifting from flat-shaped to letter-shaped mail for catalogers facing the highest rate increases. Migration will not occur quickly enough to provide the mail volume and revenues necessary for breakeven operation.

Letter dated March 8, 2007 from Direct Marketing Association to Chairman Miller, Postal Regulatory Commission, accessed via [www.the-dma.org/government/GovernorsLetter.pdf](http://www.the-dma.org/government/GovernorsLetter.pdf) on May 2, 2007.

of the catalog industry and that those catalogers that do survive will have a greater incentive to turn to other forms of marketing.

**C. Rate Relief Will Help Catalogers Survive The Shift to Shape-Based Rates.**

Rate relief will allow catalogers to reduce economic waste and will help preserve the overall health of the catalog industry. Alterations in size, layout, and weight of catalogs can be designed, sampled, and implemented carefully to preserve an acceptable response rate. Where feasible, catalogers will be able to convert flat mailings to letters in an orderly fashion. Staffing levels can be naturally adjusted, and vendor contracts can be renegotiated. Across the industry, catalogers will be able to make methodical, informed decisions that will give the industry the best chance to survive and thrive. The Postal Service has offered to work with the catalog industry to move towards more efficient mailing practices, and catalogers are eager to explore, plan, and implement cost saving processes.

**III. THE COMMISSION MAY RELY UPON THE EXISTING RECORD TO GRANT RATE RELIEF.**

The Commission has repeatedly recognized the need to moderate the impact of substantial rate increases in its consideration of the fourth statutory ratemaking factor under 49 USC Section 3621 (4) (2005)( “[t]he effect of rate increases upon . . . business mail users”).

In referring to Periodicals in this docket, the Commission explained that “only a limited portion of the costs associated with identifiable cost drivers” would be recovered in the recommended rates in order to “moderate the impact on mailers.” Commission’s Decision at iv. With respect to the rates for Periodicals:

[S]ignificant steps are taken to temper rate impact. This tempering means that costs are not recognized as fully as they might otherwise be, but that negative rate impacts are not as significant as they might be.

*Id.* at 350. There seems to be no reason why the Commission did not treat catalog mailers similarly.

It is possible that the Commission erroneously assumed that flats could be instantaneously converted to letters to adapt to the new shaped-based rate structure.

The premise underlying certain statements in the Decision seems to be:

*Mailers should be able to convert lightweight pieces to more efficient, less costly letters if they feel that these cost-based rates are no longer the most cost effective way to send their mailings.*

Commission's Decision at 350 (emphasis added). In reality, it is impractical to convert catalogs from a flat format to a letter format (e.g., by folding). Not only is this impossible for many catalogs because letters may not exceed 0.25 inches in thickness or weigh more than 3.3 ounces, but such a drastic change in the appearance of the mail piece is likely to significantly reduce response rates.

Valpak witness Robert Mitchell conceded:

*Many flats could not in any reasonable way be converted into a letter. Others are part of a business model that would not be served by a letter instead of a flat. Decisions to change format are often accompanied by other changes as well, such as different quality or thickness of paper or the inclusion of art or photographs.*

R2006-1 Tr. 25/8836 (emphasis added). The Commission may rely upon this record evidence to correct its assumption that flats could be easily and immediately converted to letter format.<sup>9</sup>

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<sup>9</sup> The Commission also cited the Bookspan NSA "wherein Bookspan is expected to convert *flat-shaped advertising pieces* to letter-shaped pieces in exchange for a lower letter rate." Commission's Decision at 87 (emphasis added). Despite the fact that the Bookspan flats were not intended to be catalogs, the Commission concluded in this docket that "mailers have some choice over mail characteristics." *Id.*

The testimony of Postal Service witness Kiefer provides a basis in the record for tempering the rate impact of the Standard Mail flats rate increases. Kiefer's testimony criticizes witness Mitchell's attempt to "fix" the letter-flat cost differential "virtually in one step." R2006-1 Tr.33/011134A. USPS-RT-11 at 21 (footnote omitted) "The upshot of Mitchell's desire to fully recognize the letter-flat cost difference in rates is to place an excessive adjustment burden on Standard Mail Regular flats." *Id.* at 21. Kiefer testified that the rate increases proposed by Mitchell represented a lack of "adequate concern for impacts on mailers." *Id.*

I am sympathetic to the view, strongly advocated by Valpak in this docket, that Standard Mail flats should bear a greater share of the Standard Mail institutional cost burdens. Yet, at the same time, I understand that most Standard Mail flats are making significant positive contributions, and I am sensitive to the impacts that rapid changes in relative prices might have on the businesses of those customers who mail Standard Mail flats. Therefore, *I strongly believe that changes in relative letter-flat prices should be evolutionary, not revolutionary. Witness Mitchell's approach would jump instantly to his preferred rate relationships, heedless of the consequences his proposed pricing would have on mailers' businesses. I believe that relative letter-flat prices should adjust gradually, even after considering that the "evolution" has been delayed because of a number of unrelated factors.*

R2006-1 Tr.33/011133-34A. USPS-RT-11 at 20, 21 (emphasis added). CCM agrees with the Postal Service that Kiefer's testimony provides a record basis that would "amply support" reconsideration of the Standard Mail Regular flat rates. See Response of the United States Postal Service to Motion of CCM to Reopen and Supplement the Record at 2.<sup>10</sup> CCM respectfully submits that the Commission should conclude that tempering

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The Governors' responded: "While the Commission concluded that the record regarding the capability of conversion did not preclude its recommendations, we are not so confident . . . . We are not confident that Bookspan provides a completely reliable guide for Standard Mail rates in current circumstances. Furthermore, the ability to convert from flat-shaped to letter-shape is not shared by all mailers of Standard flats equally." Governors' Decision at 10.

<sup>10</sup> The Mail Order Association of America's ("MOAA") Initial Brief succinctly stated the issue for

of rate impacts is justified because steep, unexpected increases in Standard Mail Regular flats rates will create unnecessary harm to catalogers and reduce mail volumes to the Postal Service.

#### **IV. THE COMMISSION SHOULD NOT REBALANCE WITHIN STANDARD MAIL FLATS.**

CCM acknowledges the difficulty of fashioning specific rate relief to mitigate the effect of moving to the new shape-based rate structure. We defer at this time to the Postal Service, which first sought “rebalancing” of Standard Mail letter and flat rates. Other parties have also suggested alternative approaches that would either recalculate volume forecasts or would impose the costs on the Postal Service, at least until the next set of rates are adopted. At this time, CCM reserves its response to specific proposals to its reply comments. We do note that the Commission should not surprise any other mailers with substantial new rate increases of the size that triggered this reconsideration.<sup>11</sup>

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the Commission:

Imposing a rate increase on Standard Mail Regular of the size proposed by witness Mitchell would undoubtedly result in rate shock for mailers dependent upon that subclass. His proposed 17.5 percent average rate increase for Standard Mail Regular is larger than should be imposed upon any class or subclass of mail unless absolutely necessary because of attributable costs or other factors. It would be bad policy to impose such a drastic increase upon Standard Mail Regular, a subclass of mail which together with Standard Mail ECR, is going to become ever more important to the Postal Service in sustaining sufficient volumes to continue to provide a viable service for all mailers.

Mail Order Association of America’s Initial Brief at 10. At that time, there was sufficient evidence in the record for the Commission to agree to MOAA’s request for tempering of the Standard Mail flats rate impact, and that same record evidence is present for the Commission to Act upon in reconsideration.

<sup>11</sup> The Postal Service has noted that basic issues of fairness and equity are presented: “A reasonable objective would be to provide some rate relief, *particularly for those catalog and other flat mailers who otherwise bear percentage rate increases substantially above the expectations they had based upon the Postal Service’s proposed rates.*” Initial Statement at 11 (emphasis added).

Rebalancing within flat rate cells would be inappropriate for three reasons. First, a large number of catalogers send both heavy and light catalogs and reapportioning costs would effectively deprive them of any relief at all.<sup>12</sup> Second, rebalancing within flats may distort the incentives created by the existing rate relationships to encourage economically efficient choices.<sup>13</sup> Third, volumes in flat rate cells may not be large enough to bear meaningful relief without creating a second wave of serious adverse impacts.

## **V. CONCLUSION**

A healthy, growing catalog industry benefits the Postal Service as well as the entire mailing industry. Imposing unexpected rate increases of the magnitude recommended by the Commission without adequate lead time will threaten the vitality of the catalog industry and result in unnecessary harm to catalog companies. CCM supports the Governors' position that a "more gradual transition to cost-based pricing proposed by the Postal Service would have better served to balance the considerations of both efficiency and the long-term health of the catalog industry." Governors' Decision at 9.

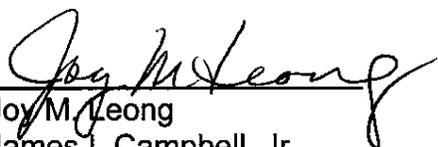
For the foregoing reasons, CCM respectfully requests that the Commission revise its recommended rates for Standard Mail flats to allow a reasonable transition to shape-based rates.

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<sup>12</sup> As the Governors pointed out, [t]he Commission's rate design significantly increases the price not only of light-weight flats but also most heavy-weight flats." Governors' Decision at 10.

<sup>13</sup> See Initial Statement at 11 (Postal Service's concern to prevent "disruptive rate relationships" and "confusing and/or anomalous signals to mailers").

Respectfully submitted,



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Counsel for

The Coalition of Catalog Mailers

**Appendix A**  
**Comment Letters from Individual Catalog Companies**

1. Blair Corporation
2. Cornerstone Brands, Inc.
3. Mason Companies, Inc.
4. Smith + Noble
5. The Territory Ahead, Inc.
6. The Wine Enthusiast Companies

# BLAIR

CORPORATION

220 HICKORY STREET • WARREN, PENNSYLVANIA 16366-0001

AMEX: BL

April 9, 2007

The Honorable Dan G. Blair  
Chairman  
Postal Regulatory Commission  
901 New York Ave, NW, Suite 200  
Washington, DC 20268-0001

Dear Chairman Blair,

Blair Corporation relies heavily on The United States Postal System for the delivery of our millions of Standard Mail flats. I am contacting you today with a tremendous sense of urgency on behalf of Blair Corporation to describe the significant impact the recommended rate increases on this mail class would have on my company, which is struggling to stop declining sales.

Blair is engaged in the business of direct mail marketing. Although the Postal Service is not the only marketing channel available to us, we rely heavily on the mail to reach consumers, primarily through catalogs. In 2006, we spent more than \$40 million on postage.

When the most recent rate case was filed in May, 2006, we anticipated an increase in our rates applicable to flats to be approximately 7% to 13%; and we budgeted accordingly. Even at that level of increase, we projected that our volume of Standard Mail flats would basically remain unchanged or slightly decline in the period after the new rates took effect. It is important to remember that we are currently locked into mailing campaigns until the early fall, so if we absorb this new increase we could conceivably be forced to stop mailing as 2008 begins, because our postal budget will have been entirely consumed.

As a result of the Commission's proposed rates, we face rate increases nearly double what we expected when the initial rate case was filed. Unless those increases are moderated significantly during this reconsideration period, we have no choice: we are currently reducing the volume of catalogs that we mail by over 10 million. A reduction in catalog mailings ultimately means a reduction in sales, which needs to be made up in some way. To that end, we will reprogram our marketing budgets into other non-postal channels that are considerably less costly and will yield the kind of return necessary to maintain our business.

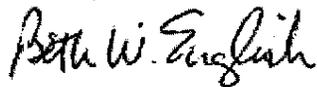
I ask the Commission, during this reconsideration period, to review and reduce the rates that it has proposed for catalogs and other flat-shaped mail, particularly automation compatible flat-shaped Standard Mail.

Unfortunately, the Commission was led to believe that companies like Blair would be able to convert much, if not all, of its volume into letters to take advantage of favorable letter rates. This is not possible! Due to lower response rates, deliverability issues and the fact that our printing and paper have been contracted for many months to come, Blair cannot convert its millions of catalogs into letters.

It is imperative that the Postal Regulatory Commission re-examine the Standard Mail flats rates it has proposed and substantially reduce those increases, not just for the benefit of Blair, but also to ensure the viability of the Postal Service.

Thank you for your consideration.

Best regards,

A handwritten signature in cursive script that reads "Beth W. English".

Beth English  
Vice President, Advertising  
Blair Corporation  
220 Hickory Street  
Warren, PA 16365

# Cornerstone Brands, Inc.

1000 West Peachtree Street  
Atlanta, Georgia 30308  
Phone: 404.211.1100  
Fax: 404.211.1101

April 6, 2007

The Honorable Dan G. Blair  
Chairman  
Postal Regulatory Commission

Honorable Chairman Blair,

I am writing to protest the implementation of the Standard Mail rates recommended by the Postal Regulatory Commission. This recommendation has come as quite a shock to the catalog industry, and will have a devastating impact on our future circulation and the mailstream that is the growth opportunity for the Postal Service. We trust that you, too, find this unacceptable.

Our business includes more than ten different catalog brands (Ballard Designs, Frontgate, Grandin Road, Splash, Improvements, Alstos, Smith + Noble, The Territory Ahead, and TravelSmith). The impact of the new rates would result in well over a five million dollar increase in costs. To combat these rate increases, we will be forced to lower circulation and move more of our efforts to the internet. To be faced with this dramatic change is unacceptable. There is no explanation for why the Postal Rate Commission severely punished the catalog industry, while providing benefits to the letter size, priority mail, and overnight mail. No other business partners in the world would do such a thing to their valued customers.

We urge you to act decisively and approve the rates recommended under the USPS proposal submitted in May, 2006.

Sincerely,



Roxane Al-Fayez  
President & CEO  
Cornerstone Brands, Inc.

cc: Honorable James C. Miller III, Chairman, Board of Governors  
Honorable John E. Potter, Postmaster General & CEO



March 5, 2007

The Honorable James C. Miller, III  
Chairman, Board of Governors  
United States Postal Service  
475 L'Enfant Plaza SW, Room 10300  
Washington, DC 20260-1000

RE: OPPOSITION of Standard Rates proposed by PRC

Honorable Chairman Miller,

As President and CEO of Mason Companies, Inc., I am writing you to express our complete and utter dismay at the proposed Standard Rates proposed by the Postal Regulatory Commission (PRC). We urge the Board of Governors for the United States Postal Service to reject these proposals and to seriously contemplate the devastating impact that these rates would have upon the nation's direct mail businesses, for-profit and not for profit alike. As you are well aware, these direct mail businesses make up the vast majority of "customers" of the United States Postal Service (USPS) and there is no doubt that these customers, us included, will have no alternative but to drastically cut mailings to offset these draconian rate increases.

Mason Companies is a family-owned business which has been located in Chippewa Falls, Wisconsin since its founding in 1904. We currently employ approximately 500 people and provide a substantial impact to the economic stability and vitality of North-Western Wisconsin. This proposal will likely have an impact on the 500 jobs here in Chippewa Falls. In addition, with the vast number of direct mailers impacted by the proposed rate increases, may negatively influence jobs within the postal service as well. With our nine catalog titles, and the over one hundred million pieces of mail and over 4 million packages we put into the postal stream each year, mailers like us are an important part of the USPS client family. There is no doubt that many in that family are contemplating such drastic measures in light of these rate proposals.

If implemented, the proposed PRC rates will have a markedly negative impact on our business. We will see a 19.5% increase in catalog postage which is currently at a little over \$23,000,000.00 for fiscal 2007. We will see a package rate increase of 16.5% above the current expenditures of just over \$17,000,000.00 for the same period. It is true that we had budgeted for substantial rate increases this spring given the USPS

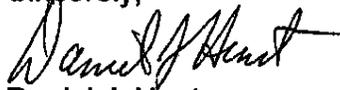
financial predictions. The proposed increases however are twice of that which we were told to expect by the postal representatives. Increases of 20% and 17%, in a budget of over \$40,000,000.00, cannot be sustained by this or any other similarly situated business and there will be no alternative but to cut mailings drastically.

As part of the USPS family, we have worked closely over the years to implement and innovate new ways to service to our customers and minimize our large mailing impact on the postal system. In our strategic planning we had contemplated continuing this partnership with the postal service, but given the PRC proposal, we have been forced to review this affiliation. While we do not wish to diminish our involvement with the service, sound business logic dictates that we at least review the issue and plan for contingencies.

As you can certainly see, companies such as ours are made to carry the burden of the PRC's perceived shortcomings in the proposed USPS rate increases; increases we might add would increase our postage payments to the USPS by over \$7,000,000.00. If the PRC is truly looking to set a tone of cooperation and partnership between the USPS and its clientele, they could not have devised a better way in which to destroy it.

We understand that you have received many comments similar to ours and can only hope that you will give serious and contemplative thought to these proposed PRC rates. Given that incalculable impact these rates will have on the USPS itself, not to mention clients such as ourselves, we are confident that you will come to the same conclusion as we did last week...the proposed PRC rates cannot be sustained by any stretch of the imagination.

Sincerely,



Daniel J. Hunt  
President/CEO

- c: The Honorable Dan G. Blair, Chairman Postal Regulatory Commission  
The Honorable John E. Potter, Postmaster General, US Postal Service  
Board of Governors Secretary, USPS Wendy Hocking  
Senator Herb Kohl, WI  
Senator Russ Feingold, WI  
Rep. David Obey, WI  
Rep. Ron Kind, WI  
Stephanie Hendricks, DMA

**smith+noble**

April, 3 2007

Members of the Postal Regulatory Commission  
901 New York Avenue, NW Suite 200  
Washington, DC 20268-0001

Re: Standard Mail Flats

As a catalog mailer, I am writing to describe to the Commission the business disaster that my company faces unless the Commission reconsiders and adjusts the rates it has recommended to the Board of Governors applicable to Standard Mail automation flats. While we recognize that this unfortunate situation is not entirely of the Commission's making, the Commission can and it must avert the catastrophe which will fall not only on our company, but upon the postal system as a whole if the current rates applicable to flats are left as the Commission originally proposed.

Our company is engaged in the business of selling window treatments. Although the Postal Service is not the only marketing channel available to us, we rely heavily on the mail to inform consumers about the products that we sell. In 2006 we mailed approximately 30 Million catalogs. Working closely with our printer and other service providers we try, to the maximum extent possible, to take full advantage of the work share discounts offered by the Postal Service. Smith+Noble "Selective Binds" our titles together to achieve postal savings. In 2007 we are Co-Mailing six times with another cataloger to achieve more cost savings.

When the most recent Rate Case was filed, in May 2006, we anticipated an increase in our rates applicable to flats on the order of 9%. We budgeted accordingly. Even at that level of increase, we projected that our volume of Standard Mail flats would basically remain unchanged in the period after the new rates took effect. Unfortunately, however, as a result of the Commission's rates, we face rate increases of 20%. This is 11% more than what we expected when the case was filed. Unless those rate increases are moderated significantly, we have no choice: we are going to reduce the volume of mail that we produce by as much as 8% and we are going to reprogram our marketing budgets into other non-postal channels that, even if they are not as effective as the mail, are considerably less costly and will yield the kind of return on our marketing spend that we need to maintain our business. Once we pull out of the mail, we are very unlikely to come back in future marketing cycles.

We urgently ask the Commission, therefore, to reconsider the rates that it has proposed for catalogs and other flat-shaped mail, particularly automation compatible flat-shaped Standard Mail. We are not trying to affix blame for the consequences that the Commission plainly did not foresee when it issued its Recommended Decision. Apparently, the Commission was led to believe that companies like Smith+Noble would

be able to convert much, if not all, of our volume into letters to take advantage of the favorable letter rates. That view is divorced from the realities of the marketplace in which we conduct business. In the first instance, there are technical and practical constraints on the conversion of flat-shaped pieces to letters. Some catalogs are simply too thick and, in many cases, a reduction in the paper weight used is not an option.

Most importantly, our decision as to the type of mail piece we use to reach our customers is driven by marketing considerations: it makes no business sense to convert a flat-shaped mail piece into a letter when the letter yields an inferior response rate, particularly when compared with non-postal channels that are even cheaper than letters. In short, at least in our case, unless the flats rates are significantly moderated, there will be an absolute and probably unrecoverable loss of mail volume to the Postal Service.

We therefore urgently request that the Postal Regulatory Commission re-examine the Standard Mail flats rates it has proposed and moderate those increases, not just for the benefit of our company, but also to ensure the viability of the Postal Service. In common with other mailers, Smith+Noble also sends a substantial amount of Standard Letter Mail to customers and prospective customers. From a business perspective, we see no reason and no justification for imposing a 20% increase on our catalog postage rates.

Thank you for allowing us to make our views known on this very important issue.

Sincerely,



Jonathan Bernstein  
President  
Smith+Noble

April 9, 2007

The Honorable Dan G. Blair  
Chairman  
Postal Regulatory Commission  
Fax: 202-789-6886

Dear Chairman Blair:

I am writing on behalf of The Territory Ahead, Inc. and its two catalog titles: The Territory Ahead and Isabella Bird. I wish to request that the Postal Regulatory Commission reduce its recommended postage increase for Standard Mail flats.

Established in 1988, The Territory Ahead is a catalog, Internet, retail and electronic retailing company known for providing its customers with uniquely designed, well crafted, non-commodity men's and women's apparel and accessory products. In addition to outstanding merchandise, we offer our customers convenience, superior service and an unconditional guarantee.

Isabella Bird was launched in 1998 as a separate catalog title offering women's apparel and accessories. As with The Territory Ahead, all products are designed in-house.

The Territory Ahead and Isabella Bird collections can be found in catalogs, on the Home Shopping Network (HSN), on the Internet ([www.territoryahead.com](http://www.territoryahead.com) and [www.isabella.bird.com](http://www.isabella.bird.com)) and in retail stores in Chicago, IL; Boston, MA; Santa Barbara, CA; Palo Alto, CA; Costa Mesa, CA; Bellevue, WA; and Boulder, CO. The corporate headquarters is located in Santa Barbara, California.

The Territory Ahead is primarily a catalog company. Currently, 89% of our revenue stems from catalog sources. While our presence on the Internet is growing rapidly and our retail stores, all but one having been opened in the last four years, are booming, the company's principal focus and reliance is on printed catalogs. Recent circulation volumes show that this dominant sector of our business is growing. Catalog circulation in 2005 was 42 million, growing to 45 million in 2006, and our plan in 2007 is to circulate 50 million catalogs.

The impact of the PRC recommended rates on our catalog business is large. Using the USPS proposed rates as the guideline for planning our postage expense from May 2007 forward, we had budgeted, for The Territory Ahead title, an 8% increase in postage, or \$22.50 per thousand catalogs mailed. The PRC recommended increase, by contrast, comes out to a 17% increase, or \$36.50 per thousand. For Isabella Bird, we had budgeted an 11% increase, or \$26.50 per thousand catalogs mailed. The PRC rates result in a 24% increase, or \$50.00 per thousand. The PRC proposed rates would increase total company expenses, and consequently reduce company profits, by \$583,000. Fully annualized, the proposed rate structure would increase company expenses by \$815,000, almost 10% of

projected earnings. Please note that this postage expense increase is the increment over what the USPS had recommended.

Given the enormity of the proposed increase, we are considering our alternatives. First, we see little chance of converting to Standard Mail letter size mailings. This would be a drastic change to our product presentation and would surely alter our customers' ability to easily recognize us as a familiar mail offering and would likely lead to a fall-off in response to our catalogs. Secondly, the option of raising prices to cover the postal rate increase has been rejected, since we already take every opportunity to advance prices to the maximum extent that the market will bear. Further increases, whatever the expense justification, would reduce unit volume, thereby jeopardizing sourcing and operational efficiencies.

The best alternative before us, should the recommended PRC increases be implemented, is to dial back circulation to a level that holds per catalog productivity at current levels. We estimate that the reduction would be in the range of 10%, initially. The clear implications of that will be an acceleration of investment in our non-catalog channels, specifically retail, Internet, and electronic retailing (HSN). Once started on this path, I see little chance that the direction would change with the passage of time. Postage expense, at 51% of our catalog expense and rising, will absolutely force us to diversify away from dependence on printed materials as rapidly as we can. I suspect other catalogers will do the same thing; i.e., reduce circulation and invest in alternative marketing and distribution channels.

As a company that has been built on the success of mailed catalogs, we ask that you reconsider your rate recommendations for Standard Mail flats. We believe that doing this is not only in the interest of the mailing community, but also vital to the future of the United States Postal Service.

Sincerely yours,

George D. Ittner  
President  
The Territory Ahead  
419 State Street  
Santa Barbara, CA 93108  
Fax: 805-962-3974

# THE WINE ENTHUSIAST®

April 9, 2007

Postal Regulatory Commission  
Regarding Order No. 8, Docket No. R2006-1  
901 New York Avenue, NW  
Suite 200  
Washington, DC 20268-0001

Dear Members of the Postal Regulatory Commission,  
As a catalog mailer, I am writing to describe to the Commission the potential loss of business my company faces unless the Commission reconsiders and adjusts the rates it has recommended to the Board Of Governors in regards to Standard Mail flats.

Our company is engaged in the business of wine storage and accessories. Although the postal service is not the only marketing channel available to us, we rely heavily on the mail to inform people about our products. In 2006 we mailed approximately 8 million flats. We work closely with our printer and lettershops to prepare the mail so that we are able to take full advantage of the discounts offered by the postal service.

When the most recent case was filed in May 2006, we anticipated an increase at a maximum of 12% and budgeted accordingly. Unfortunately, as a result of the Commission's rates, we face increases that are more than double (around 28% based on our drops). Our budget has been set and the only way to stay within our budget is to mail less than expected in 2007. To be faced with this dramatic change and having only a short window to come up with a contingency plan for 2007 is unacceptable. No other business partner in the world would do such a thing to their valued customers.

Unless those rate increases are adjusted we have no choice but to reduce our volume of mail and to put our money into other methods. Once we pull out of the mail and make more use of other channels, we are very unlikely to come back to our usual volume.

We urgently ask that the Postal Regulatory Commission reconsider the proposed rates for Standard Mail flats. Thanks you for your time and attention.

Sincerely,

Laura Reedy  
Director of Production  
Wine Enthusiast Companies  
103 Fairview Park Drive  
Elmsford, NY 10512