

## USPS-FY09-39 FY 2009 Competitive Products Fund Reporting Materials

### **I. PREFACE**

#### **A. Purpose and Content**

USPS-FY09-39, Competitive Products Fund Reporting Materials, includes a copy of the Postal Service's annual report to the Secretary of the Treasury regarding the Competitive Products Fund, required by section 2011(i), and other Competitive Products Fund materials provided in accordance with Commission Rules 3060.20 through 3060.23. Specifically, this year that other material includes PRC Forms CP-01, CP-02, and CP-03. The initial date for filing PRC Form CP-04 (Statement of Allocated Assets and Liabilities for Competitive Products) is not until after FY 2010.

#### **B. Predecessor Document**

Predecessor materials were not formally filed as part of Docket No. ACR2008. Instead, the Treasury Report for FY08 was filed by letter to the Commission dated December 30, 2008. The PRC Forms for FY08 were submitted by letter dated Jan. 15, 2009, although some of the figures reported in those forms were later superseded by figures in the Commission's ACD, as reflected in the Postal Service's letter of July 15, 2009, regarding calculation of the assumed income tax.

#### **C. Methodology**

These materials draw up cost and revenue data reported throughout the Postal Service's FY09 ACR, and therefore are implicitly based on the methodologies upon which the ACR is based. For purposes of specifically developing the PRC Forms, the procedures employed track those previously endorsed by the Commission.

#### **D. Input/Output**

For PRC Forms CP-01 and CP-02, inputs are this year's FY09 CRA and last year's PRC Forms CP-01 and CP-02 (albeit modified to reflect the Commission's FY08 ACD). Inputs for PRC Form CP-03 come from accounting records.

### **II. ORGANIZATION**

USPS-FY09-39 consists of one pdf file which includes this Preface, and three Excel files. Hardcopy printouts of those files are also provided.

**The Postal Service's Annual Report to the  
Secretary of the Treasury  
Regarding the Competitive Products Fund  
For Fiscal Year 2009,  
Required by 39 U.S.C. § 2011(i),**



December 29, 2009

Mr. Richard L. Gregg  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Room 2112 MT  
Washington, DC 20220-2112

Dear Mr. Gregg:

My colleagues and I have appreciated your engagement with us during a very challenging year, and we look forward to working with you and others at the Department of the Treasury in the coming months.

Pursuant to 39 U.S.C. 2011(i)(1), the United States Postal Service hereby submits the enclosed *Competitive Products Fund Report (CPFR)* for the fiscal year ending September 30, 2009.

Additional information regarding the Postal Service is available elsewhere. The *2009 United States Postal Service Annual Report* is available on [www.usps.com](http://www.usps.com), as is our *2009 Comprehensive Statement on Postal Operations*. In addition, we file an *Annual Compliance Report* with the Postal Regulatory Commission within 90 days of the end of each fiscal year. We expect to discuss aspects of these reports with management of the Federal Financing Bank in the coming weeks.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Pedersen".

Robert J. Pedersen  
Treasurer

Enclosure

## Competitive Products Fund Report For Fiscal Year Ending September 30, 2009

### BACKGROUND

On December 18, 2008, the Postal Regulatory Commission (PRC) issued Order No. 151, Docket No. RM2008-5 Order Establishing Accounting Practices and Tax Rules for Competitive Products. With respect to the Competitive Products Fund (CPF), a fund established in the United States Treasury (listed in Table III of the Monthly Statement of the Public Debt as of September 30, 2009), the PRC rules are based on a theoretical, on-paper-only enterprise. Necessarily, the PRC's rules are distinct from generally accepted accounting principles (GAAP).

The PRC's Order No. 151 provided for a one-time extension of the assumed "Federal income tax" due for the fiscal year ending September 30, 2008, until July 15, 2009. This tax is payable from one postal fund to another, rather than to the Internal Revenue Service. In Fiscal Year 2008, the Competitive Products Fund generated pretax earnings of \$14.4 million, which produced a tax obligation of \$4.9 million. As required by law, this amount was transferred to the Postal Service Fund on July 15, 2009. The Postal Service Fund is also held within the U.S. Treasury and is listed in Table III of the Monthly Statement of the Public Debt as of September 30, 2009.

The PRC's Order No. 151 also directs the Postal Service to produce its first Statement of Allocated Assets and Liabilities for Competitive Products within 90 days of the close of Fiscal Year 2010.<sup>1</sup> This Statement will be produced in accordance with rules set forth by the PRC.

As discussed in our *2009 United States Postal Service Annual Report* ("Annual Report"), the law divides our services into two broad categories: market-dominant and competitive (or "Competitive Products Fund"). Throughout this document and in the day-to-day operation of the organization, we refer to market-dominant services as "Mailing Services" and competitive services as "Shipping Services". Mailing Services include, but are not limited to, First-Class Mail, Standard Mail, Periodicals, and Package Services. Price increases for these services are subject to a price cap based on the Consumer Price Index — All Urban Consumers (CPI-U). Shipping Services include Priority Mail, Express Mail, Bulk Parcel Post, and Bulk International Mail, and the regulations for Shipping Services effectively set a price floor rather than a price ceiling.

Although the law divides our services into market-dominant and competitive categories, and we track revenues by product and mail class, we operate one fully-integrated network. We operate in one segment throughout the United States, its possessions and territories. Our *Annual Report* includes financial statements for a single entity, the Postal Service, which are produced in accordance with GAAP.

### RISK FACTORS

The risk factors identified in this section are discussed in our *Annual Report*, and they are particularly relevant to our Shipping Services.

- Adverse changes in the economy directly impact our business, adversely affecting our results of operations.

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<sup>1</sup> Hereafter, all years referenced are government fiscal years unless otherwise noted.

- Our ability to generate sufficient cash flows is substantially dependent on our ability to execute strategies to increase efficiency, reduce costs and generate revenue.
- Adverse events may call into question our reputation for quality and reliability, which could diminish the value of the Postal Service brand and potentially adversely affect our business and results of operations.
- Fuel expenses are a material part of our operating costs. A significant increase in fuel prices could adversely affect our costs and results of operations.
- We rely extensively on technology to operate our systems. A significant failure in a material system could impair our reputation for reliable service and adversely affect our results of operations.
- A failure on our part to protect the privacy of information we obtain from customers could damage our reputation and result in a loss of business.
- We are subject to the risk of biohazards and other threats placed in the mail.
- We are also subject to risks and uncertainties that affect many other businesses, including:
  - market acceptance of new service and growth initiatives;
  - adverse weather conditions or natural disasters, such as hurricanes, which can damage property and disrupt our operations; and
  - international conflicts or terrorist activities and the effects these events may have on business or results of operations.

These risks and others could clearly affect the liquidity of the Competitive Products Fund that is held within the U.S. Treasury.

## **RESULTS OF OPERATIONS**

Using PRC methodology, Shipping Services revenue of \$8.13 billion decreased by \$0.25 billion, or 3%, in 2009 compared to 2008, as volume declined by 11%, to 1.4 billion pieces. All subgroups within Shipping Services experienced volume declines with the exception of our Parcel Return Service. In 2009, Shipping Services accounted for almost 1% of total Postal Service mail volume and 12% of total revenue.

Before further discussion, it may be useful to define several terms that are part of our regulatory lexicon. Coverage is defined as the ratio of revenue to attributable costs, using PRC-determined methodology. Institutional costs are those costs that are not attributable. When a product's revenue exceeds its attributable costs, the difference represents contribution toward covering institutional costs.

For Shipping Services, coverage increased in 2009, in part due to reductions in transportation costs. In addition to covering attributable costs, Shipping Services are required, by the PRC, to bear 5.5% of postal-wide institutional costs. Total costs for Shipping Services are by definition equal to their attributable costs plus 5.5% of postal-wide institutional costs. In 2009, the contribution from Shipping Services equaled 6.8% of the institutional costs of the Postal Service. The difference between this 6.8% and the required 5.5% threshold is the "net income" for Shipping Services, and it is used to calculate the required tax transfer from the Competitive Products Fund in the U.S. Treasury to the Postal Service Fund, also within the Treasury. For 2009, this non-GAAP net income totaled \$368 million. Tax due will be transferred from the Competitive Products Fund to the Postal Service Fund by January 15, 2010.

**PRC Forms CP-01, CP-02, and CP-03**

**For Fiscal Year 2009**

**Table 1  
Proposed Competitive Products Income Statement  
(\$ in 000s)**

PRC Form CP-01

	FY 2009	FY 2008	\$ Change from SPLY	% Change from SPLY
Revenue				
(1) Mail and Services Revenues	8,132,800	8,381,705	(248,905)	-3.0%
(2) Investment Income	2	0	2	N/A
(3) Total Competitive Products Revenue	8,132,802	8,381,705	(248,903)	-3.0%
Expenses				
(4) Volume Variable Costs	6,093,400	6,566,072	(472,672)	-7.2%
(5) Product Specific Costs	81,300	33,743	47,557	140.9%
(6) Total Competitive Products Attributable Cost	6,174,700	6,599,815	(425,115)	-6.4%
(7) Net Income Before Institutional Cost Contribution	1,958,102	1,781,890	176,212	
(8) Required Institutional Cost Contribution	1,589,874	1,767,505	(177,631)	-10.0%
(9) Net Income (Loss) Before Tax	368,228	14,385	353,843	
(10) Assumed Federal Income Tax *	128,880	4,935	123,945	2511.7%
(11) Net Income (Loss) After Tax	239,348	9,450	229,898	
Line (1): Total revenues from Competitive Products volumes and Ancillary Services				
Line (2): Income provided from investment of surplus Competitive Products revenues				
Line (3): Sum total of revenues from Competitive Products volumes, services, and investments				
Line (4): Total Competitive Products volume variable costs as shown in the Cost and Revenue Analysis (CRA) report				
Line (5): Total Competitive Products product specific costs as shown in the CRA report				
Line (6): Sum total of Competitive Products costs (sum of lines 4-5)				
Line (7): Difference between Competitive Products total revenues and attributable costs (line 3 less line 6)				
Line (8): Minimum amount of Institutional Cost contribution required under 39 CFR 3015.7 of this chapter.				
Line (9): Line 7 less line 8				
Line (10): Total assumed Federal income tax as calculated under 39 CFR 3060.40				
Line (11): Line 9 less line 10				

\* Note: 2009 Assumed Federal Income Tax is estimated based on the corporate tax rate.

Table 2 Annual Summary of Competitive Products Financials (\$ in 000s)				
PRC Form CP-02				
		Beginning Value	Change from Prior Year	Ending Value
(1)	Cumulative Net Income (Loss) After Assumed Federal Income Tax *	\$58,576	\$239,348	\$297,924
(2)	Total Financial Obligations (List of Financial Obligations)	\$0	\$0	\$0
(3)	Total Financial Investments (List of Financial Investments)	\$9,450	\$2	\$9,452
Line 1:	Beginning Value: Sum total of Net Income (Loss) as of October 1 of Reportable Fiscal Year			
	Change from Prior Year: Amount of Net Income (Loss) of Reportable Fiscal Year			
	Ending Value: Sum of Beginning Value and the Change from Prior Year			
Line 2:	Beginning Value: Sum total of Financial Obligations as of October 1 of Reportable Fiscal Year			
	Change from Prior Year: Amount of Net Financial Obligations of Reportable Fiscal Year			
	Ending Value: Sum of Beginning Value and the Change from Prior Year			
Line 3:	Beginning Value: Sum total of Financial Investments as of October 1 of Reportable Fiscal Year			
	Change from Prior Year: Amount of Net Financial Investments of Reportable Fiscal Year			
	Ending Value: Sum of Beginning Value and the Change from Prior Year			

\* Note: 2009 Assumed Federal Income Tax is estimated based on the corporate tax rate.

Table 3  
Competitive Products Property and Equipment Assets (FY 2009)  
(Actual \$)

PRC Form CP-03

Finance Number	Finance Location	Asset Identifier	Asset Description	Cost	Accumulated Depreciation	Net Book Value
VP Shipping	475 L'Enfant Plaza, Wash, Dc 20260	1155272	Telephone System - Misc Eq	\$15,274.00	\$13,873.88	\$1,400.12
VP Shipping	475 L'Enfant Plaza, Wash, Dc 20260	1597470	Copying Machine	\$10,543.00	\$10,191.57	\$351.43
Global Bus. Dev.	1735 N Lynn St, Arlington, VA 22209	868056	Micro Computer System	\$4,166.00	\$4,166.00	\$0.00
ClickNShip	475 L'Enfant Plaza, Wash, Dc 20260	1057123	Micro Computer System	\$4,812.00	\$4,812.00	\$0.00
ClickNShip	475 L'Enfant Plaza, Wash, Dc 20260	1138602	Micro Computer System	\$11,610.00	\$11,610.00	\$0.00
ClickNShip	475 L'Enfant Plaza, Wash, Dc 20260	1138603	Micro Computer System	\$5,290.00	\$5,290.00	\$0.00
ClickNShip	475 L'Enfant Plaza, Wash, Dc 20260	1147567	Micro Computer System	\$23,138.00	\$23,138.00	\$0.00
ClickNShip	475 L'Enfant Plaza, Wash, Dc 20260	1147568	Micro Computer System	\$23,138.00	\$23,138.00	\$0.00
ClickNShip	475 L'Enfant Plaza, Wash, Dc 20260	1147569	Micro Computer System	\$23,138.00	\$23,138.00	\$0.00
ClickNShip	475 L'Enfant Plaza, Wash, Dc 20260	1602540	Micro Computer System	\$9,702.00	\$9,702.00	\$0.00
Total			Total	\$130,811.00	\$129,059.45	\$1,751.55