
ANNUAL COMPLIANCE REPORT

Docket No. ACR2009

**REPLY COMMENTS OF VALASSIS DIRECT MAIL, INC.
AND THE SATURATION MAILERS COALITION TO
INITIAL COMMENTS OF VALPAK**

(February 23, 2010)

Valassis Direct Mail, Inc. (Valassis) and the Saturation Mailers Coalition (SMC) hereby submit their reply comments in this proceeding, addressing the initial comments filed by Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.

In its initial comments, Valpak, noting that the costs of detached address labels exceed the DAL surcharge, questions whether an increase in the volume of DALs might make the Postal Service worse off financially, and conversely, whether a reduction in DALs would improve its financial condition. From this, Valpak poses the rhetorical question "of whether the surcharge is high enough." Valpak Initial Comments at 43.

Valpak's comments fundamentally misconstrue the true economic impact of DALs and their accompanying saturation flats on the Postal Service's finances. The saturation flats themselves generate the highest percentage contribution of any mail product in the market-dominant mailstream, a contribution that far-more-than-exceeds any cost shortfall on the DALs. Thus, if the volume of "saturation flats with DALs" were to double due to expanded mailing programs, the Postal Service would be much better off financially, and conversely, would be worse off if all DALs and their accompanying flats left the system. The true impact of a DAL mailing is the combination of these two elements.

Indeed, increasing the DAL surcharge could well have the opposite effect Valpak supposes. The saturation mailers that continue to use DALs are primarily smaller mailers in local markets. For them, an increase in the surcharge is effectively an increase on their entire mail program. A surcharge that causes them to cut back their total mailings will be detrimental to the Postal Service. This decision on the proper pricing-point for the DAL surcharge – balancing DAL costs against revenues from the flats and the potential impact on *total* mail-program volumes and contribution – is precisely the kind of determination that should be left to the Postal Service’s discretion, taking into account market conditions and the totality of the impact on net volumes and contribution.

Respectfully submitted,

/s/

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