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BEFORE THE

POSTAL REGULATORY COMMISSION

REPORT ON USPS FIVE DAY PROPOSAL

Docket No. N2010-1

COMMENTS OF CAROL KLIEWER

DIRECTOR OF DISTRIBUTION & LOGISTICS

HARLAND CLARKE HOLDINGS CORP.

Madame Chairman and Members of the Commission,

My name is Carol Kliewer. I am the Director of Distribution and Logistics for Harland Clarke Holdings Corp. I have been with Harland Clarke for 25 years and have seen many changes in both my company and the mailing industry.

I began my career as an Industrial Engineer helping our production facilities become more efficient by deploying new technology and improving processes. Subsequent roles have been in Operations, Information Technology and Procurement. For the last 10 years, I have managed logistics and product delivery for the enterprise. This consists of over 145 million shipments to consumers from 11 locations annually.

I am the Secretary and Treasurer as well as a member of the Executive Committee of the Parcel Shippers Association. I also represent Check Payment Systems Association on the Mailers Technical Advisory Committee (MTAC) and have participated on several MTAC teams on key topics that impact our industry. We have recently joined PostCom to get a different perspective on delivery from a diverse class of mailers.

I thank you for the invitation to provide testimony relative to the United States Postal Service's proposal to change from a model in which mail service is delivered 6 days a week to one that is delivered 5 days a week.

TO GIVE YOU NEEDED BACKGROUND:

Harland Clarke Corp. — one of the business segments in the holding company — is a leading provider of best-in-class integrated payment solutions, marketing services, security services, and customized stationery and business products.

Harland Clarke serves clients ranging in size from major corporate brands and trade groups to micro-businesses and individual consumers. Checks and related products is our largest product line, and we serve an estimated 11,000 banks, credit unions and investment firms, and their respective account holders. We have served the financial services industry since our original company's founding in 1874. Our business was built on printing security printing products…mainly checks.

We distribute many of the products we produce for our clients through the United States Postal Service.

In 2009, Harland Clarke Corp. mailed:

More than 67 million Standard Mail machinable parcels;
More than 70 million pieces of First Class letters and postcards; and
More than 10 million First Class, Priority and Parcel Select pieces.

Even with these numbers, we have seen our core product negatively impacted by an increase in electronic transactions. Check decline is a reality Harland Clarke faces, so we understand what the USPS experiences when fewer people use its services.

As a business, we continue to take actions that address these changing consumer preferences. In order to deliver bottom-line results, we have to manage costs and reduce overhead to align with the lower volumes and resulting lower revenue. We have had to make tough decisions to reduce our capacity, including closing facilities and reducing our labor force, in order to respond to the realities of a declining market. The decisions we make every day are relevant to Harland Clarke Holdings Corp. and its businesses and brands.

Even in a declining market and slow economy, our goal is to thrive. So as check usage has continued to decline in the past decade, we have aggressively expanded our scope of products and services. Through marketing services and retail channels, we now serve clients in multiple industries that go beyond financial services and include retail, healthcare, insurance, and telecommunications. **As a result of this expansion, in 2010, we expect to increase the number of letters and postcards we distribute.**

RELATIVE TO THE POSTAL SERVICES DESIRE TO CHANGE TO A MONDAY THROUGH FRIDAY FIVE-DAY DELIVERY MODEL:

Harland Clarke believes that a healthy and efficient USPS is important to our national economy and to our company's fiscal well-being. Why?

First, the USPS is our primary delivery carrier providing consistent delivery at an affordable price for our customer base.

Second, the USPS plays a key role in how our clients view Harland Clarke. Many of our customers' first impression of Harland Clarke is when they receive their check packages in the mail. Our brand is delivered by your service.

For our business and for our customers: It is critical that the USPS continue to strive for consistency in delivery. We have seen performance changes as a result of cost-cutting initiatives and modifications to holiday schedules. Regardless, **today and going forward: the USPS must perform under service guidelines established in the PAEA Act of 2006.**

All parties involved in the management and oversight of the USPS must make tough decisions to preserve a viable postal system:

There has to be a focus on the customer to make sure that the USPS retains and grows its current customer base.

The organization needs to focus on the big issues like labor and infrastructure that represent the majority of its cost structure – then align its overhead to reflect lower volumes.

The USPS should be given the flexibility to close locations, where and when feasible. It needs to be able to react quickly to stay ahead of market changes.

If these needed actions are not taken by the Postal Service, then its customers – mailers like Harland Clarke -- are the ones tasked with making the tough decisions. **We may have to compensate for the USPS' inability to effect critical changes.**

TO CLARIFY: HARLAND CLARKE SUPPORTS ANY SERIOUS EFFORTS BY THE USPS TO REGAIN FISCAL STABILITY.

We do not oppose moving from six- to five-day delivery provided the USPS is able to achieve the cost savings proposed and doesn't allow exceptions to consume the proposed savings.

As I have stated, we understand the need to reduce costs. In the past three years, Harland Clarke has been subjected to significant increases in postal rates; increases far exceeding the CPI. We believe that our very efficient and consistent package is unfairly grouped with Not Flat Machinables (NFM) which we feel are more labor intensive to process than our "check box".

The dramatic price increases we have seen over the past few years are forcing us to look at alternative ways to deliver our product, including alternative delivery providers. Frankly, as the postal rates for our products increase, more businesses are stepping into the arena and offering cost effective options that will result in even less volume and revenue for the Postal Service.

Harland Clarke hopes that the current cost reduction effort will significantly minimize or even eliminate the need to increase costs to the USPS's customers. **We do not support a reduction in service if it will have no significant impact in reducing or eliminating future price increases to include the proposed exigent rate case.**

Many of our clients' customers rely on affordable, consistent delivery offered by USPS and with recent increases, some of these "computer shy" customers have been forced to transition to the electronic world. When this happens, we have a reduction in check usage and the USPS loses first class letter volume due to the change in bill payment method. It is not realistic to expect customers of the USPS, including Harland Clarke, to pay increased costs and receive less service if the USPS is unwilling to address core cost issues.

IN CLOSING, let me reiterate that Harland Clarke wants the USPS to be successful. We expect the USPS, the Postal Regulatory Commission, Board of Governors, and Congress to make tough decisions that reflect business reality. We fear that conducting 'business as usual' and failing to take action could result in the financial collapse of this great American institution and further damage our economy.

I thank you for the opportunity to speak to you on behalf of Harland Clarke Corp, Madame Chairman and Members of the Commission.

I would be pleased to answer any questions you have of me.