

# ATTACHMENT A

LICENSING GROUP



PRIVATE & CONFIDENTIAL

December 11, 2003

Mr. Navin Chandaria  
President and Chief Executive  
LePage's 2000, Inc.  
25300 Northline Road  
Taylor, MI 48180-7900

Dear Navin:

I am pleased to confirm that the United States Postal Service (USPS) has approved the licensing of LePage's to move forward immediately with your commercial retail program in the following markets:

[REDACTED]

The USPS is continually in the process of improving and streamlining its mailing and shipping processes and products in order to

[REDACTED]

Certain suppliers in the market use the Postal Service name and state on their products "Meets U.S. Postal Regulations." The USPS has always investigated instances in which this phrase is fraudulently or incorrectly used and has taken appropriate measures to ensure that our standards are upheld and our licensed trademarks are protected. Please keep forwarding samples of those products you find in the marketplace that appear to be unauthorized to the Postal Service for our review so our legal department can continue to monitor this situation.

Now that we are entering into an agreement with your company,

[REDACTED]. Kindly designate a person from LePage's to whom we can forward current and future potential retailer inquiries. We believe the new program offers your retail partners more support and opportunities. In addition,

[REDACTED]

The opportunities are unlimited for

[REDACTED]

[REDACTED]. Through your products and retailing strategies,

[REDACTED] As you are aware, the real value and power for your retail partners will be in the integrated cross-merchandising opportunities in the associated categories, and that linkage to one of the world's leading brands; the United States Postal Service. It is expected that the impact and strength of the Postal Service and its brand will create further new opportunities in other categories and products.

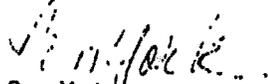
- 2 -

We look forward to working with LePage's and are very encouraged by its innovations and dedication to customer service. We are also pleased when we are able to extend opportunities to minority-owned companies such as yours. The task at hand is now for you to launch the program. We look forward to the next meeting during which I would like to discuss [REDACTED]

[REDACTED] therefore, please do not make any further firm commitments without obtaining approval from my office.

We look forward to rewarding relationship with you.

Sincerely,



Pam York  
Manager, Licensing Group  
United States Postal Service

cc: Mr. Azeezaly Jaffer, Vice President Public Affairs & Communications

# ATTACHMENT B

## LICENSE AGREEMENT

THIS AGREEMENT is made effective January 14, 2005 ("Effective Date"), by and between the **UNITED STATES POSTAL SERVICE** ("USPS" or "Licensor"), an independent establishment of the United States government, and **LEPAGE'S 2000, INC.** (hereinafter referred to Individually or collectively as the "Licensee") with all its wholly owned subsidiaries or affiliates (as listed in Section 20 of the Agreement), a Michigan corporation with its principal place of business at 21450 Trolley Industrial Drive, Taylor, Michigan 48180.

In this Agreement, USPS grants to Licensee a license to use certain names, trademarks, service marks, trade dress and/or copyrights on and in connection with the manufacture, distribution, advertising, promotion and sale of certain goods listed below, on the terms and conditions specified below and in the attached Exhibits A, B, C, D and E which are incorporated herein by reference, Definitions of the various terms used below are listed in Exhibit B:

1. Licensed Properties: The Licensed Properties are the trademarks, service marks, trade dress and/or copyrights listed on Exhibit A to this Agreement.
2. Licensed Articles:

Category A: Mail, Ship, Move and Store Products: Mail, Ship, Move and Store Products are defined as those products, supplies, and materials used specifically in the method and process which prepares, packs, labels, stores, tracks and identifies for transportation from one place to another by postal mail or otherwise. Such products include packaging tapes, adhesive tapes, stretch wrap, adhesive labels, address labels, twine, corrugated boxes, mailing tubes, bubble wrap, bubble paper, bubble mailers, moving boxes, stickers, flags, mailing boxes, craft paper [used as shipping material], paper mailers, labels, sticky notes, glue and partial glue based products, tapes and tape products, rubber bands, storage boxes, and any labels or tags for tracking tracing or identification;

Category B: Stationery Products: Stationery Products are defined as products used in the communication of one person to another using "words on paper" and related paper products used in the celebration of holiday and other gift giving and special occasions. Such products include greeting cards, gift-wrap paper and pop-wrap paper.

From time to time but not more than twice a year, Licensee may submit other, additional products to USPS for possible inclusion as Licensed Articles, USPS will review submissions from Licensee within twenty (20) business days of such submission. If, in its sole discretion, USPS decides to include any submitted products as Licensed Articles, USPS will prepare a written document setting forth the terms and conditions of inclusion which when signed by both parties shall constitute an amendment to this Agreement. Business/office machines, computers, office equipment and tools of measurement or other function (either digital, electronic or mechanical) are expressly excluded from Licensed Articles. Notwithstanding anything to the contrary herein, all decisions regarding interpretation and definition of Licensed Articles, as well as all possible inclusion of products pursuant to a written amendment to this Agreement, shall be at the sole, unfettered discretion of the USPS.

3. Type of License:

A: Mail, Ship, Move and Store Products – This License is exclusive including the Postal Service for products using The Shipping Standard and other Licensed Properties developed jointly by the parties in connection with this Agreement. Such jointly developed Licensed Properties shall not be used under the ReadyPost program or for other Postal Service programs for sale in commercial retail outlets. The Postal Service shall maintain all rights to use all other Licensed Properties in any manner, territory, field of use, channel of distribution, etc., on or in connection with any of its own products or services, whether sold through Postal Service retail outlets or otherwise; nor shall this Agreement be construed to restrict or prevent the Postal Service from contracting for the manufacture or distribution of any Postal Service products or services.

B: Stationery Products - Non-exclusive.

4. (a) Licensed Territory: United States, its territories and possessions, US military bases world wide, Mexico, Canada, NAFTA members and Western Europe (which for the purpose of this Agreement will be defined as members of European Union (EU), including new members to the EU), Australia and New Zealand.

Licensee shall advise USPS of retail customers of Licensee with international distribution; approval to ship these customers internationally will not be unreasonably withheld by USPS.

USPS in its sole discretion shall decide whether during the Term of this Agreement any additional Territories will be included as Licensed Territories.

4. (b) USPS and Licensee acknowledge that success in the United States market is a prerequisite for market entry in foreign markets. Therefore, Licensee efforts initially will focus almost entirely towards establishing a fully developed and successful program in the United States which shall serve as the model for export to the international markets.
4. (c) In the event that Licensee has no sales of any Licensed Articles in a given Territory for six consecutive months after Licensee's first date of sale of the Licensed Article in said Territory, such Territory shall cease to be a Licensed Territory for the remainder of the Term (and any renewal term) of this Agreement.
4. (d) If Licensee withdraws Licensed Article(s) from a specific Territory or fails to ship Licensed Article(s) for six consecutive months after Licensee's first date of sale of such Licensed Article(s) in said Territory, Licensee's rights with respect to those Licensed Articles will terminate. Notwithstanding the foregoing, in such an event Licensee will be given three months from notification to re-establish distribution of Licensed Articles.
5. (a) Channels of Distribution: Licensee agrees to seek premiere channels of distribution including but not limited to: food/grocery stores, drug stores, mass retailers, office superstores, warehouse clubs, dollar stores, Internet/virtual retailers, commercial

stationers, General Services Administration (GSA), US Military locations world wide (excluding Postal Retail outlets on US military sites), commercial markets/industry and internal use, convenience stores, hardware outlets, direct mail, industrial distributors and industrial and commercial users and any other outlets deemed relevant to the product categories and approved in writing by the USPS.

5. (b) USPS grants the first right of refusal for any additional distribution rights of Licensed Articles in any of the Channels of Distribution which are referred to herein, and are not subject to a USPS grant of license which precedes the execution of this Agreement and which shall then become exclusive to the Licensee.

5. (c) This Agreement does not preclude the Licensee from distributing, marketing and selling their own products in regions irrespective of whether exclusivity has been granted or not pursuant to this Agreement.

6. Initial Term: January 14, 2005 through January 15, 2007, Contract Period 1 shall begin January 14, 2005 and shall end January 15, 2006. Each consecutive twelve-month period thereafter shall be deemed a Contract Period, i.e. Contract Period 2 means January 15, 2006 - January 15, 2007

7. (a) Option Renewal Term Net Sales Minimum: [REDACTED]

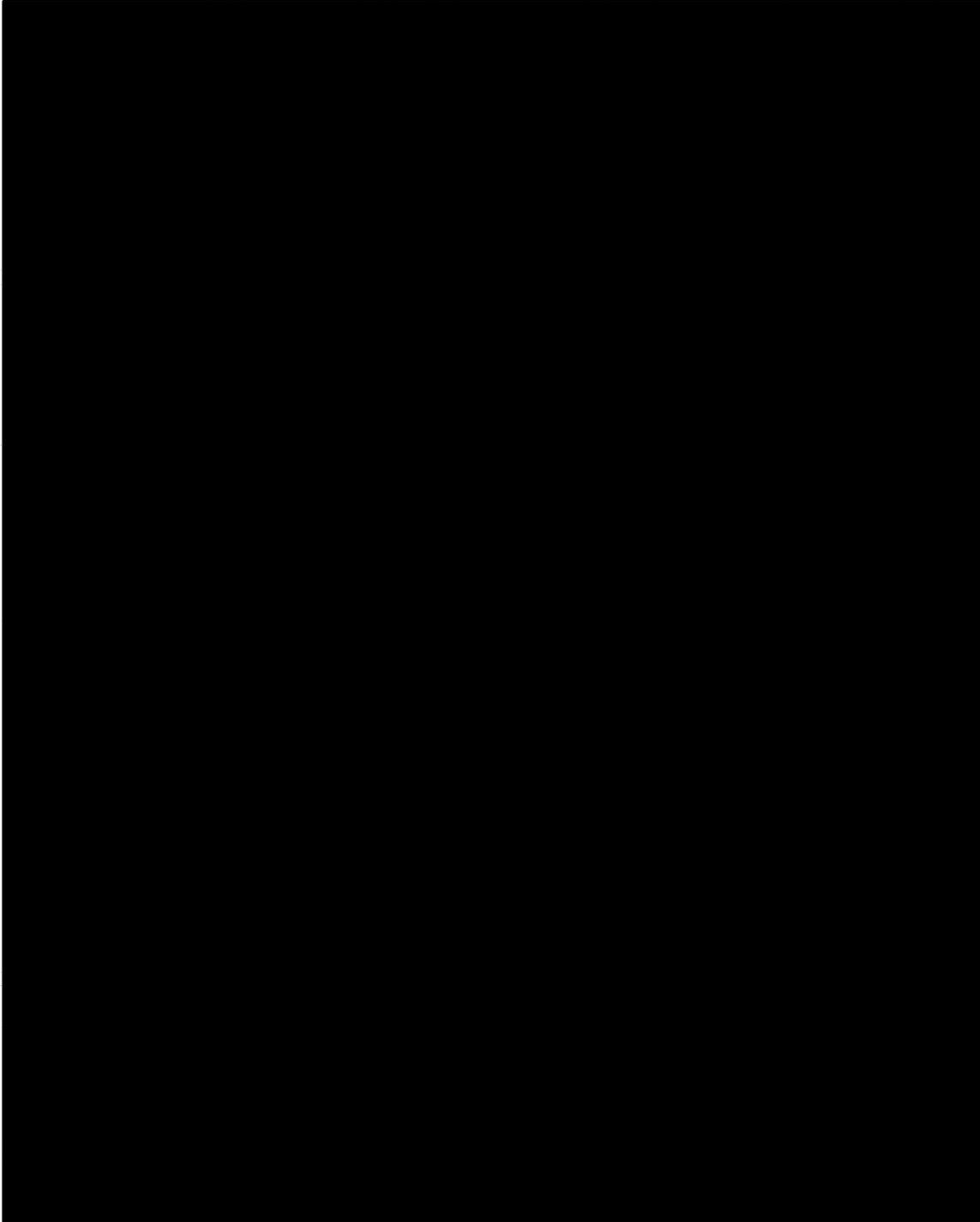
[REDACTED] Upon written notification by Licensee and written verification by Licensee that sales have met or will meet criteria and stating Licensee's desire and intention to continue the license, this Agreement will automatically renew without any further action or burden to Licensee. In the event both conditions of this subsection are not achieved, Licensor, in its sole discretion, can determine whether to renew and the duration of any such renewal.

7. (b) For purposes of this Section 7, Net Sales shall not include any sales of Licensed Articles made by Licensee to USPS Retail Channels and outlets as defined in Section 1(k) of Exhibit B.

8. Renewal Term: Subject to the terms and conditions set forth in this Agreement, [REDACTED]



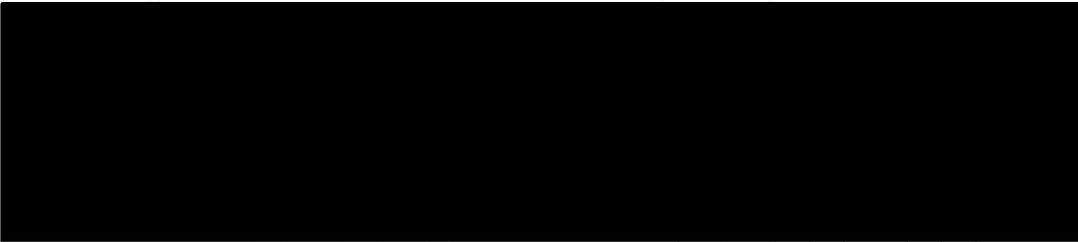
9. Royalty Rate:



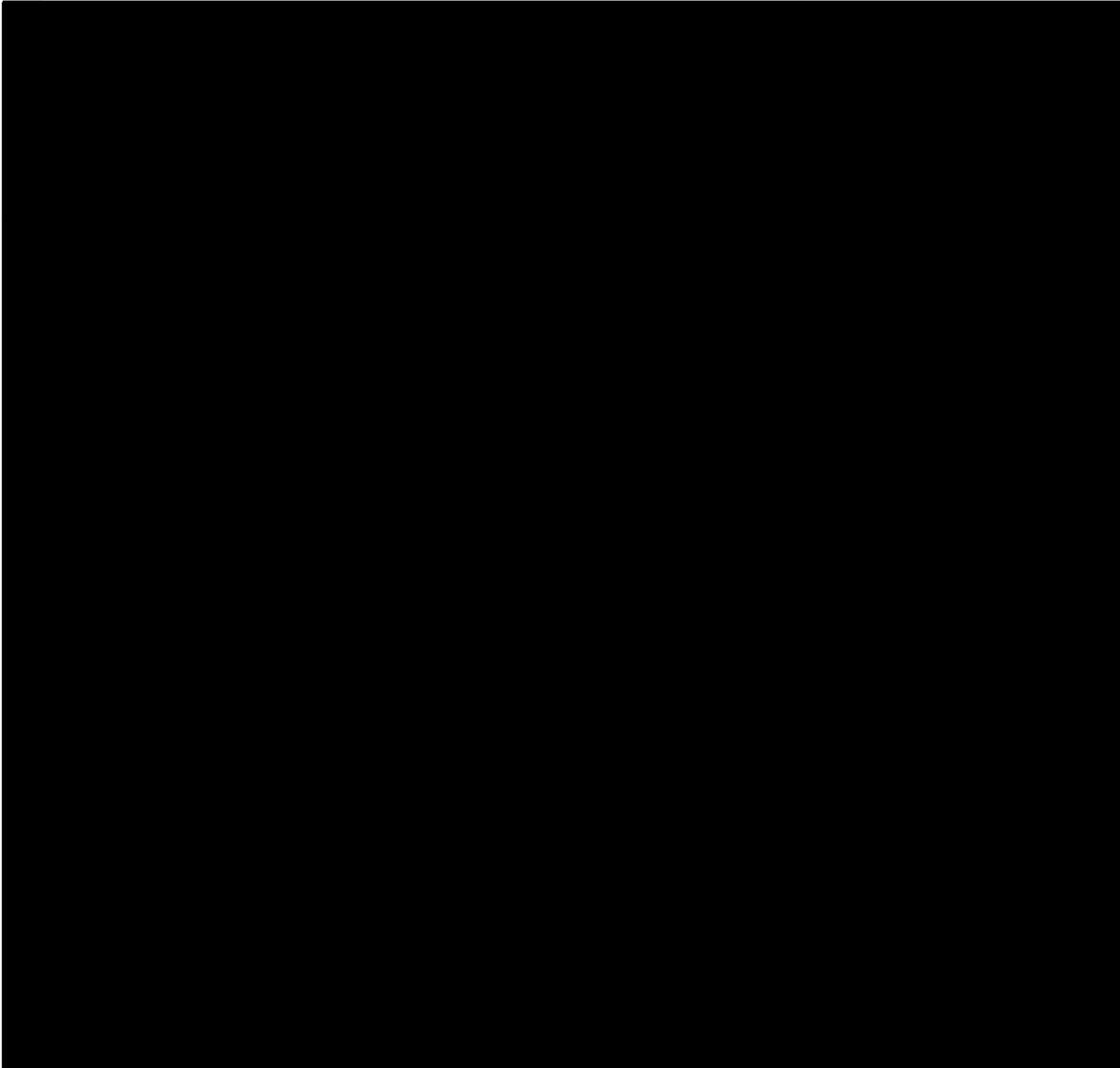
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9.

9. (f) The Licensee reserves the right to renegotiate royalty rates with the Licensor, under the specific and special conditions where; 1) a particular customer of Licensee is conducting a bidding process with respect to certain Licensed Articles; 2) the current royalty rate causes Licensed Articles to be priced non competitive relative to the market; and/or 3) the current royalty rate prohibits Licensee from successfully marketing Licensed Products and realizing a standard industry profit.

Such renegotiated rates will be agreed upon in writing as an amendment to this Agreement before they go into effect. If market conditions change and, as determined by

the USPS, the conditions subparts 1), 2) or 3) of Section 9(f) no longer exist, USPS royalty with respect to Licensed Articles will return to the original schedule set forth in 9 (a), (b) and (c) above.

Under the abovementioned conditions, Licensor agrees to act reasonably and in good faith to effect new royalty rates in furtherance of Licensing Program,

10. (a) Guaranteed Minimum Royalty and Schedule: [REDACTED]

10 (b) [REDACTED]

11. Advertising Commitment: Licensee is committed to spend a commercially reasonable amount of time and money to promote Licensed Articles through Trade and Consumer Advertising, consistent with industry standards.

12. Cooperative Advertising Fund: Licensee will make available to its customers an adequate cooperative advertising allowance consistent with industry standards. [REDACTED]

[REDACTED] The parties shall meet three months prior to end of the Initial Term to discuss whether or not to continue this process into the renewal terms if any.

13. Payments and Royally Statements:

Royalty Payments Shall Be Sent To:

USPS Licensing Program  
PO Box 7247-7087  
Philadelphia, PA 19170-7087

Monthly Sales and Quarterly Royalty Reports Shall Be Sent To:

U.S. Postal Service  
Licensing Program, Royalty Reports  
475 L'Enfant Plaza, SW, Room 1P801  
Washington, DC 20260-0801

14. Notices to USPS Shall Be Sent to USPS Follows

USPS notice: U.S. Postal Service  
Licensing Program  
475 L'Enfant Plaza SW, Rm. 1P801  
Washington DC 20260-0801

15. Notices to Licensee shall be sent to the following addresses:

LePage's Products, Inc,  
41 Lesmill Road  
North York, Ontario  
Canada, M3B 2T3

LePage's Products, Inc.  
21450 Trolley Industrial Drive  
Taylor, Michigan 48180

16. Insurance:

17. Form of Copyright And Trademark Notices: See Exhibit A to this Agreement.

18. Marketing Dates: Approval of prototypes sent to Licensor:

The USPS shall use its best efforts to make an approval determination on prototypes sent by Licensee within 10 days of receipt,

19. Standard Terms and Conditions: See Exhibit B to this Agreement, which is incorporated herein by reference.

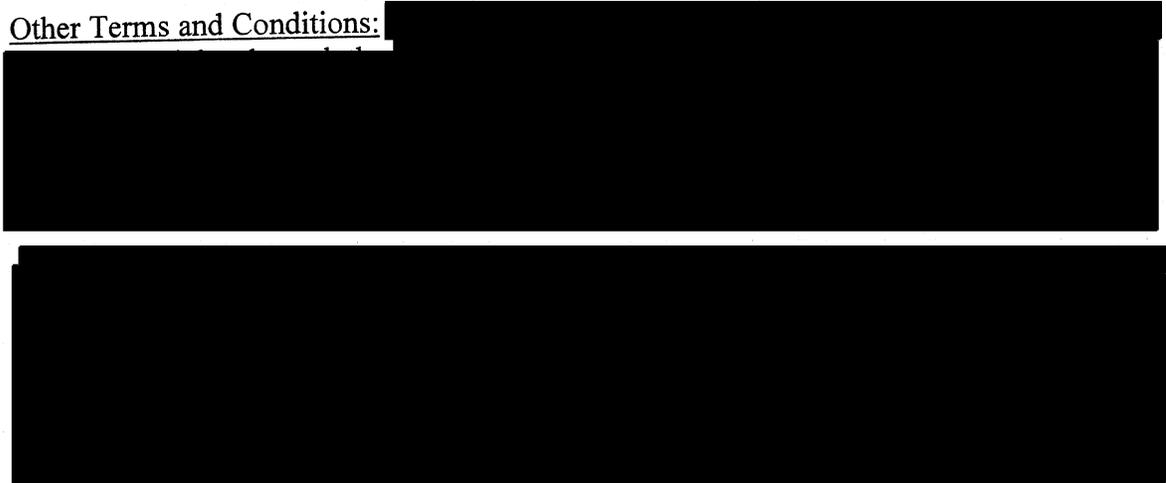
20. Licensee Federal Tax Identification Number:

LePage's Products, Inc. 82-0556068

LePage's 2000, Inc, 38-2802450

As new subsidiaries of Licensee are created, Parties will amend this Agreement to reflect any changes and additions.

21. Other Terms and Conditions:



IN WITNESS WHEREOF, duly authorized representatives of USPS and Licensee have executed this Agreement, including the terms and conditions set forth in the attached Exhibits A, B, C, D and E.

**UNITED STATES POSTAL SERVICE**

By: [Signature]  
Name: AGREY JAFFAR  
Title: VP P&C  
Date: JAN 14 '05

**LEPAGE'S 2000, INC.**

By: [Signature]  
Name: J. Chandaria  
Title: E. V. President  
Date: 1/15/05

**LEPAGE'S PRODUCTS, INC.**

By: [Signature]  
Name: CHRISTOPHER S. CHANDRAN  
Title: PRESIDENT  
Date: 1/15/05

## EXHIBIT A

### LICENSED PROPERTIES

Licensed Properties shall mean the following United States Postal Service trademarks, service marks, trade dress and/or copyrights:

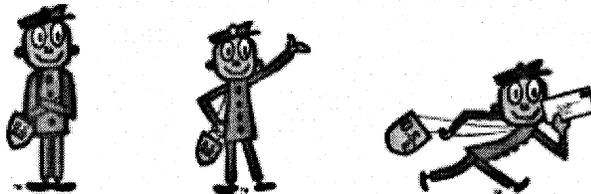
USPS

USPS Corporate Signature



Wholly Owned Stamp Images, subject to USPS approval

Mr. ZIP



THE SHIPPING STANDARD

The Shipping Standard™



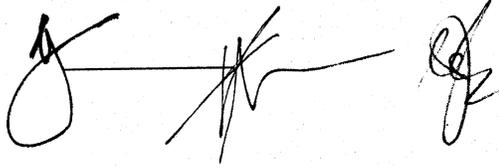
Wholly Owned Stamp images shall not include any Semi-Postal or Social Awareness stamps. Semi-postal stamps are created through congressional legislation and are valid for postage at the one ounce First Class letter rate in effect at the time of purchase, with the difference between the sales price and postage value consisting of a tax-deductible contribution. The designation of a stamp as Social Awareness shall be at the sole discretion of the USPS. Use of Semi-Postal and/or Social Awareness stamps by Licensee shall require a written modification to this Agreement, signed by an authorized representative of the USPS, which such modification may be granted at the sole discretion of the USPS,

Each use of a Licensed Property shall be accompanied by the appropriate®,™ or © designation as directed. Each Licensed Article shall bear the following notice: "Trademarks and copyrights used herein, or hereon, are properties of the United States Postal Service and are used under license to LePage's All rights reserved." Licensee shall display the marks listed above only according to the specifications provided by USPS,

Reproductions of stamps that are between 75% - 150% of the original stamp size must include a cancellation as part of the design.

Licensee acknowledges and agrees that the USPS may, In its sole discretion and without notice to Licensee, restrict the usage of wholly and jointly owned images in its sole discretion,

Concurrence (Initial)

Three handwritten initials or signatures are written in black ink. The first is a stylized 'A' with a loop. The second is a more complex, scribbled signature. The third is a stylized 'J' or 'K' with a loop.

## EXHIBIT B

### STANDARD TERMS AND CONDITIONS

These Standard Terms and Conditions shall be deemed fully incorporated in the License Agreement made effective as of January 14, 2005, by and between LePage's Products, Inc. and the United States Postal Service ("License Agreement") to which this Exhibit B Is attached, and these Standard Terms and Conditions and the License Agreement shall hereinafter collectively be referred to as the Agreement. All terms used in these Standard Terms and Conditions shall, unless expressly provided to the contrary herein, have the same respective meanings as set forth in the License Agreement, Unless expressly provided to the contrary herein, to the extent that any provision of these Standard Terms and Conditions conflicts with any provision of the License Agreement, the License Agreement shall control.

1. Definitions: For purposes of this Agreement (including the "License Agreement"), the following terms shall have the following specified meaning:

(a) "Close-Out" means the sale of merchandise at a very low price in order to reduce inventory in a short time, which shall be permitted during the Sell-Off period under the terms and conditions specified herein, or at any other time which the Licensee determines to be consistent with prevailing market strategies, and /or the highest traditions of industry standards, The Licensee shall notify the Licensor in the form of an addendum to the quarterly report with respect to the business rationale for any Close-Out.

(b) "Collateral Materials" means packaging, cartons and containers, packing and wrapping material, tags and labels.

(c) "Net Sales" means



(d) "Jointly-Owned Stamp Designs" means those United States postage stamp designs featuring trademarks, copyrights, or rights of publicity that are jointly owned or controlled by USPS and a Joint-Owner(s).

(e) "Joint-Owner(s)" means an entity, other than USPS or Licensee, recognized by USPS as owning rights in a stamp design.

(f) "Licensed Articles" means the items specified in Section 2 of the License Agreement. In the event of any question regarding the definition of merchandise which Licensee

may wish to produce as Licensed Articles, the final decision shall remain with Licensor in its sole discretion.

(g) "Premium" means any article used for the purpose of increasing the sale of, promoting, or publicizing any other product or service, including but not limited to incentives for consumers, sales forces, members of the trade, or fund-raising.

(h) "Promotional Materials" means all advertising and sales materials, including but not limited to sales sheets, brochures, direct mail, and catalog layouts.

(i) "Sell-Off Period" means the one hundred eighty (180) day period commencing after the termination of the Agreement, during which Licensee may dispose of excess inventories of Licensed Articles. Licensee may present special circumstances for USPS approval, under which more time is required for disposal of inventory, which such approval may not be unreasonably withheld.

(j) "Trade and Consumer Advertising" means the portion of direct costs incurred by Licensee in connection with newspaper, magazine and other print advertising; direct mail advertising; radio and television advertising; internet advertising; and promotional materials, displays and other point-of-sale materials displaying the Property, buying of shelf space, any retail rebates and incentives, any direct costs associated with promotions and events, any strategic competitor inventory buy-backs or any Close-Out of inventory, and this sum will not exceed [REDACTED] of the total sales in any given year.

(k) "USPS Retail Channels" means any retail channel that is owned by the USPS and operated by USPS personnel, including but not limited to: USPS on-line store, USPS lobbies and outlets, the OLRP Program, and USPS events sales made by USPS personnel.

(l) All references to dollar amounts in the Agreement are to be read that such amounts are to be United States Dollars (USD).

## 2. **Grant of License:**

(a) **Grant:** Subject to the limitations set forth herein, USPS hereby grants to Licensee a non-transferable, non-exclusive license to design, manufacture, have manufactured, sell, distribute, and advertise Licensed Articles bearing the Licensed Properties in the Licensed Territory or Territories.

### (b) Limitations on Grant:

(i) Licensee shall not have the right to grant sublicenses of any or all of its rights under this Agreement unless it first obtains USPS' prior written consent to each sublicense.

(ii) No license is granted hereunder for the use of the Licensed Properties for any purpose other than on or in connection with the Licensed Articles.

(iii) Licensee may use the USPS corporate signature identified in Licensed Properties only in connection with the sale of Licensed Articles and only for the purpose of indicating that the use of the Licensed Properties is authorized by USPS.

(iv) Pursuant to section 5(b) of the License Agreement, nothing in this Agreement shall be construed to prevent USPS from using or licensing others to use the Licensed Properties for any purpose except those Exclusive Licensed Articles, rights of refusal; and all other rights referred to in the License Agreement, and Exhibits, attachments, and addendums thereto.

(v) Licensee shall not sell or distribute the Licensed Articles outside the Licensed Territory or knowingly sell the Licensed Articles to persons who intend or are likely to resell them outside the Licensed Territory.

(vi) No license is granted for use of the Licensed Properties in connection with or on premium sales, close-outs, door-to-door, give-aways, souvenirs, fund raisers, television sales (excluding home shopping television networks), infomercials, contest products, combination sales, computer and/or any other electronic publishing and/or delivery systems (excluding Internet sales authorized herein) or any similar methods of merchandising.

(vii) Licensee acknowledges that, from time to time and without Licensee's approval, USPS may modify certain elements of the Licensed Properties, add new Licensed Properties, or discontinue the use of certain Licensed Properties. Accordingly, USPS does not represent or warrant that the Licensed Properties or any of its elements will be maintained or used in any particular fashion, In the event that USPS makes modifications to the Licensed Properties, this Agreement will be subject to any such modifications effective upon written notification from the USPS; however, Licensee shall be allowed a reasonable sell-off period for any existing inventory of Licensed Articles bearing discontinued or modified Licensed Properties.

(viii) Licensee acknowledges and agrees that it is solely responsible for arranging the sale of the Licensed Articles and that nothing in this Agreement shall be construed as requiring the USPS to purchase, or otherwise facilitate the sale of, Licensed Articles, or to provide Licensee with access to USPS employees, USPS internal communication systems or USPS retail distribution channels.

(ix) USPS reserves all rights not expressly granted herein.

(c) Licensee's Obligations:

(i) Licensee agrees to use its best efforts to sell, distribute and supply the Licensed Articles within the Licensed Territory, Licensee must begin the bona fide manufacture, distribution, and sale of the Licensed Articles on a Licensed Territory-wide basis. Failure by the Licensee to timely engage in full and regular distribution and active marketing of the Licensed Articles is considered a material breach of this Agreement. If Licensed Articles are out of distribution in any country of the Licensed Territory for [REDACTED] USPS must notify the Licensee and give [REDACTED] to rectify the situation. Failure to rectify the

situation within the proscribed time period will result in USPS having the option to terminate the Agreement with respect to those specific Licensed Articles and specific country or countries of the Licensed Territories and any and all rights in and to those Licensed Articles in those countries within the Licensed Territory revert immediately to USPS. If any rights with respect to some, but not all specific Licensed Articles or countries within the Licensed Territory shall revert to USPS pursuant to this paragraph, all of the remaining terms and conditions of this Agreement shall remain In full force and effect, including, but not limited to, payment of specified Royalty Payments and Guaranteed Minimum Royalty.

(ii) Licensee further undertakes to make and maintain adequate and reasonable arrangements for the broadest distribution of Licensed Articles through the Channels of Distribution specified in the License Agreement. Licensee agrees to maintain adequate inventories of the Licensed Articles as an essential part of its distribution program. All Close-Outs shall be sold only through retail outlets and traditional and accepted dealers in such merchandise and upon such terms and conditions as Licensee, in its sole discretion, acting in a manner which is consistent with the highest traditions of industry standards, determines appropriate, and shall not be sold to any person or entity which Licensee knows, or has reason to know, will export such Close-Outs from the Licensed Territory. Licensee undertakes to use its best efforts to design, manufacture, promote and sell the Licensed Articles displaying or embodying the Licensed Properties in all of the potential markets in the Licensed Territory and to fill orders promptly. Licensee will diligently and continuously manufacture, distribute, promote and sell the Licensed Articles during the Term of this Agreement and Licensee will procure and maintain adequate facilities and trained, competent personnel sufficient to accomplish the foregoing. In the event Licensee has any Licensed Articles manufactured for it by another supplier, Licensee assumes full responsibility and liability under this Agreement for such supplier's actions or omissions to the same extent as though committed or omitted by Licensee.

3. **Term:** This Agreement shall be for the period set forth in the License Agreement, unless sooner terminated in accordance with the terms and conditions set forth herein.

4. **Payment:**

(a) **Royalties for Sales Prior to Effective Date:** The estimated royalty payment which would have been due for net sales occurring prior to the effective date of this Agreement is [REDACTED] This amount will be adjusted upon audited statements. [REDACTED]

[REDACTED] This amount shall be used as the parties mutually agree as a cooperative advertising and marketing allowance, or for other purposes including development and improvement of the relationship between the parties.

[REDACTED]

(b) **Royalty Rate:** Licensee agrees that it will pay USPS a non-refundable royalty equal to the percentage set forth in the License Agreement on Licensee's Net Sales of Licensed

Articles made during the Term of this Agreement, any extensions or renewals, and any Sell-off Period ("Royalty Payments").

(c) Guaranteed Minimum Royalty: Licensee agrees to pay USPS the Guaranteed Minimum Royalty set forth in the License Agreement, according to the payment schedule set forth therein. The Guaranteed Minimum Royalty is an advance against and is deducted from the Royalty Payments due during the Initial Term. No portion of the Guaranteed Minimum Royalty is refundable under any circumstance. If this Agreement is terminated as a result of a material breach of the Agreement by Licensee, the greater of all Guaranteed Minimum Royalties and/or earned Royalty Payments due for the remainder of the Initial Term of the Agreement or any agreed-upon Renewal Period thereof shall immediately become due and payable.

(d) Statements and Payments: Within thirty (30) days following the end of each quarter, Licensee shall submit a full, accurate, and detailed statement in the format outlined in Exhibit C, signed by an authorized officer of Licensee, and certified as accurate which shall include all information necessary for USPS to determine the proper payment to be received for that contract period. In addition, Licensee shall provide a letter from its CFO at the end of each year certifying the accuracy of the previous four-quarter financial reports. Such statement shall also include all information relating to Trade and Consumer Advertising expenditures.

Payments to USPS shall be due and payable thirty (30) days following the end of each contractual quarter, Payments shall be made payable, to the U.S. Postal Service Licensing Program at the address for Royalty Payments in the License Agreement, with a copy to the USPS representative at the address for Monthly Sales Reports in the License Agreement. Payments may be made by check or electronic funds transfer. Licensee shall be charged interest at the rate of [REDACTED] or the maximum rate permitted by law, whichever is lower, on each unpaid amount from the first day payment becomes due through the date of payment, Should Licensee wish to make a claim for the return of any royalty payments, including but not limited to claims for refund of payments for returns of Licensed Articles in subsequent reporting periods, such claim must be made within sixty (60) calendar days after the date Licensee first becomes aware of the problem. Licensee shall not make, and USPS shall not be liable for or obligated to pay, any claims for refunds of royalty payments If such claims are made more than sixty (60) days after the date that the Licensee first becomes aware of said problem. For payments made by check, the date of payment shall be the date of postmark of the envelope containing the check. For payments by electronic funds transfer, the date of payment shall be the date payment is received into the account of the USPS. Licensee shall furnish such statements to USPS whether or not any Licensed Articles were sold during the Period.

Licensee shall also provide sales information on a monthly basis in a format mutually agreed upon by both parties.

5. Approvals and Quality Control: USPS shall control the nature and quality of all products or services offered for sale under this Agreement, the appearance and use of the Licensed Properties, and the appearance and use of all advertising and promotion for the Licensed Articles and/or the Licensed Properties.

(a) USPS Approval of Licensed Articles: Licensee must obtain USPS written approval of the styles, designs, packaging, contents, workmanship, and quality of all Licensed Articles and associate materials prior to the distribution or sale thereof. USPS maintains the rights to take all actions that it deems necessary to ensure that Licensed Articles manufactured or sold hereunder are consistent with the high quality and reputation of the Licensed Properties.

(b) License Compliance with Applicable Law: Licensee warrants that all Licensed Articles shall be manufactured, sold, labeled, packaged, distributed, and advertised in accordance with all applicable laws and regulations. Licensee further warrants that the Licensed Articles and all promotional, advertising, and packaging material shall meet the quality and standard requirements set forth in Exhibit D. Approval of a particular product pursuant to this License shall not be deemed a waiver of any of the quality and standard requirements set forth in Exhibit D. Licensee shall not offer for sale, advertise, promote, distribute, or use for any purpose any Licensed Articles or packaging that are damaged, defective, seconds, or that otherwise fail to meet the specifications or quality requirements listed in Exhibit D or deviate in type or quality from the products which have been approved in writing by USPS.

(c) Delivery and Approval of Samples:

(i) Licensee shall, before selling or distributing any Licensed Articles, furnish, to USPS free of cost, for written approval, one each of concept art, final art, mock-ups, and prototypes of the Licensed Articles, and all designs which Licensee intends to use in connection with the Licensed Properties, to be followed by four (4) production samples of each Licensed Article, together with its Collateral Materials, and any additional samples as may be reasonably required. Licensee shall also submit all Promotional Materials for prior written approval by USPS. The Licensed Articles, Collateral Materials, and Promotional Materials shall be of a standard of quality, appearance, and style approved in writing by USPS prior to any advertising, sales, distribution or use of same taking place,

(ii) Relating to any item submitted for approval, the USPS shall use its best efforts to approve or disapprove such submission within ten (10) business days after receipt; provided, however, that the USPS shall have no obligation hereunder to review or approve Licensed Articles bearing Jointly Owned stamp designs until such time as Licensee has complied with the requirements set forth in Exhibit A. USPS may extend the approval period an additional five (5) business days by giving written notice to Licensee.

All approvals shall be solely at the USPS' discretion.

Product Review packages/samples shall be sent to:

USPS Licensing Program  
Attn: Product Review  
PO Box 23786

(iii) At the direction of the USPS, Licensee shall submit samples of the Licensed Articles to an independent laboratory or other test facility jointly selected and approved by USPS and the Licensee. All costs associated with such inspection, testing and analysis shall be borne by Licensee and the results of such Inspection, testing and analysis shall be submitted to USPS. Upon reasonable request by USPS, such testing shall be conducted throughout the Term and any renewal of this Agreement.

(iv) After samples of the Licensed Articles, Collateral Materials, and Promotional Materials have been approved pursuant to this paragraph, Licensee shall not depart therefrom without written consent by USPS, In the event there is a departure from the approved samples, USPS shall have the right in the reasonable exercise of its sole discretion to withdraw its approval of such Licensed Articles, Collateral Materials or Promotional Materials, or to terminate this Agreement unless Licensee cures such breach within thirty (30) calendar days of written notice of same.

(v) For the purpose of quality control and review, upon request by USPS, Licensee shall, at its own expense, provide a reasonable number of samples of Licensed Articles to USPS at the beginning of each Contract Period or at any other time during the Term and renewal. Each Licensed Article shall be shipped in its usual container with all packaging, tags, instructional, promotional, or other materials that usually accompany the product.

(d) Use of Property: Other than its own name and logo, Licensee shall not use any other trademark or design in combination with any Licensed Property on any Licensed Article without USPS' prior written approval. Licensee shall cause to appear on all Licensed Articles produced hereunder, and on their tags, packaging, and the like, such legends, markings, disclaimers, and trademark and copyright notices as USPS may specify. Whenever Licensee reproduces the stamp designs set forth in Exhibit A, it must reproduce them in their entirety on the Licensed Articles and Licensee shall make no alterations, additions, subtractions, or modifications to such stamp designs without USPS' prior written approval. If any such alterations, additions, subtractions, or modifications result in the creation of a new or derivative work within the meaning of the copyright laws, Licensee hereby assigns to USPS any and all rights to such works, including but not limited to any and all copyrights.

(e) Product Recall: Licensee shall bear any and all costs related to any product recall of Licensed Articles, whether voluntary or required by a government agency or the USPS. The USPS only shall have the right to declare a product recall if it reasonably determines (in its sole discretion) that it is necessary for reasons of public health, safety, welfare, or by operation of law or statute. In the event of a recall, Licensee will consult with USPS, and get the prior express written approval of the USPS, regarding all aspects of handling such recall. Licensee agrees that adequate identification stamping will be placed on finished Licensed Articles to best facilitate any product recall that may be declared hereunder.

(f) Consumer Inquiries: Licensee shall, at its sole cost, establish and maintain procedures satisfactory to USPS for the handling of all consumer inquiries, complaints, product warranty issues, guarantee/satisfaction issues, and response and compliance requirements

relating to any of the Licensed Articles ("Consumer Inquiries"). USPS may forward to Licensee for handling any and all Consumer Inquiries that it receives. Licensee shall submit to USPS a quarterly report of all Consumer Inquiries and the manner in which they were handled.

(g) **Trade and Consumer Advertising:** During the first Contract Year, Licensee will spend for trade and consumer advertising for the Articles bearing the Property the amount stated in Section 11 of the Agreement. In each of the following Contract Years, Licensee will spend for trade and consumer advertising a sum calculated at the rate specified in Section 11. Along with Licensee's annual Royalty and Sales reporting requirements, Licensee will furnish Licensor with a statement of all moneys spent by it for such advertising during the preceding Contract Period with such other proof of the advertising expenditures as Licensor may reasonably request from time to time. All advertising shall be based on guidelines provided by the USPS. Any special promotions not covered by the guidelines will require USPS approval. USPS will review final artwork and make best efforts to respond within 10 business days, unless the USPS extends the approval period through written notice for an additional 10 business days. [REDACTED]

6. **Confidentiality:** Any information or documents received or learned by Licensee in any form related to any postal programs or initiatives not publicly available, including, but not limited to, the USPS stamp program or future stamp images, shall constitute Confidential Information. Licensee is strictly prohibited from disclosing any Confidential Information. Failure to adhere to this requirement is a material breach of contract and shall be cause for immediate termination of this Agreement.

7. **Records:** Licensee agrees to keep accurate books of account and records covering all transactions relating to this Agreement. USPS and its duly authorized representatives shall have the right at all reasonable business hours to examine such books and records in Licensee's possession or under its control with respect to the subject matter and terms of this Agreement, and shall have free and full access thereto for such purposes and for the purpose of making copies thereof. All such books and records shall be kept available for [REDACTED] after the termination of this Agreement. In order to facilitate inspection of its books and records with respect to amounts due, Licensee will designate a symbol or number that will be used exclusively in connection with Licensed Articles and with no other articles which Licensee may manufacture, sell or distribute. In the event USPS discovers a discrepancy in favor of USPS of [REDACTED] on any Royalty Statement certified by an authorized officer of Licensee, Licensee shall pay all reasonable costs and expenses related to such inspection, including attorneys' fees if applicable.

8. **Intellectual Property Rights:**

(a) Licensee recognizes the great value of the goodwill associated with the Licensed Properties and acknowledges that all rights therein and goodwill attached thereto belong exclusively to USPS, and that all use of the Licensed Properties will inure to the benefit of USPS. USPS will solely own all inventions, writings, ideas, discoveries, formulas, processes, computer programs, techniques, know-how, data, improvements and other proprietary information (whether or not patentable) that USPS (whether alone or jointly with others) made,

conceived, developed, reduced to practice, purchased, leased, licensed or produced prior to this Agreement, or that USPS makes, conceives, develops, reduces to practice, or produces as a part of or in connection with this Agreement ("Inventions). All Inventions that are not the subject of patents or applications will be considered Confidential Information of USPS. Nothing in this Agreement shall be construed to transfer any right, title or interest in USPS' designs, Inventions, copyrights, trade secrets, trade names or other intellectual property.

(b) Licensee will solely own all inventions, writings, ideas, discoveries, formulas, processes, computer programs, techniques, know-how, data, improvements and other proprietary Information (whether or not patentable) that Licensee (whether alone or jointly with others, apart from the USPS) made, conceived, developed, reduced to practice, purchased, leased, licensed or produced as a prior to this Agreement or that Licensee makes, conceives, develops, reduces to practice, or produces that are not part of or in connection with this Agreement ("Licensee Inventions"). All Licensee Inventions that are not the subject of patents or applications will be considered Confidential Information of Licensee. Nothing in this Agreement shall be construed to transfer any right, title or interest in Licensee's designs, inventions, copyrights, trade secrets, trade names or other intellectual property.

(c) USPS may seek, in its own name and at its own expense, appropriate trademark and/or copyright protection for the Licensed Properties. USPS shall retain all right, title, and interests in the Licensed Properties and all inventions, writings, ideas, discoveries, formulas, processes, computer programs, techniques, know-how, data, improvements and other proprietary information that USPS owned or claimed prior to the date of this Agreement, and Licensee shall retain all right, title, and interests in technologies and brands that it owned prior to the commencement of this Agreement and any new patents technologies or trade marks.

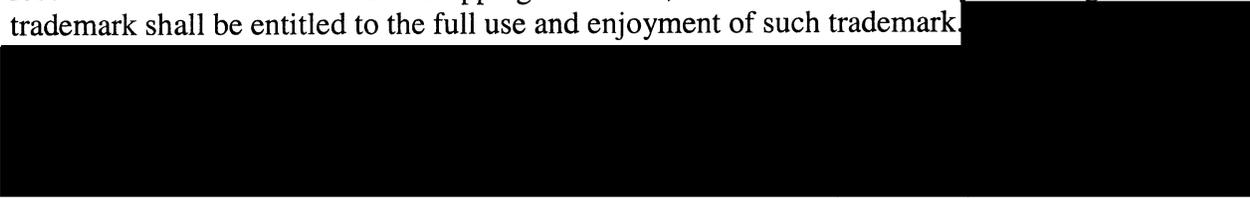
(d) To the extent that USPS and Licensee develop new trademarks and/or copyrights related to the Licensed Articles for which appropriate trademark and/or copyright protection is sought, USPS will apply for such protection at its sole expense. Licensee will cooperate with USPS in obtaining the appropriate protection. As necessary to obtain the appropriate protection, Licensee shall make any assignments to USPS and take any actions necessary to transfer ownership of such protected property to USPS.

(e) Upon obtaining any such intellectual property protection, as discussed in the previous subparagraph, USPS shall grant an exclusive, royalty-free license to Licensee for the use of such protected Intellectual property on or in connection with the Licensed Articles for the term of this Agreement, including any renewals and extensions.

(f) Upon termination of this Agreement, for any basis set forth in Section 9 hereof, neither party shall use the intellectual property discussed in subparagraph (d) and (e) of this Section 8, absent any mutually agreed upon written agreement outlining the parameters for such use.

(g) Licensee agrees to withdraw its trademark application for "The Shipping Standard." USPS will trademark "The Shipping Standard" and grant an exclusive, no-fee license to Licensee to use such trademark on Licensed Articles. USPS shall reimburse Licensee for all reasonable costs associated with Licensee's application for such trademark. Upon termination of

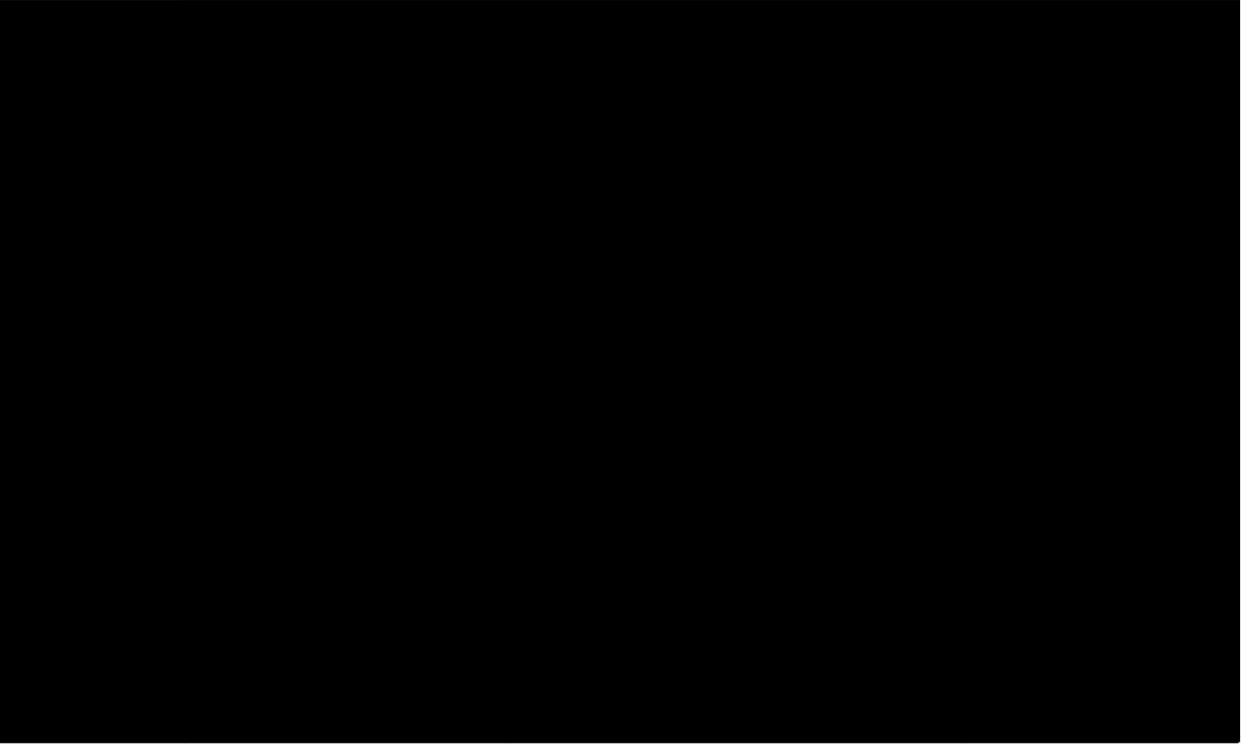
this Agreement pursuant to Section 9 herein, neither Party shall use the trademark "The Shipping Standard" unless and until, upon expiration of such trademark, either Party reapplies for and receives the trademark for "The Shipping Standard"; in which case the Party receiving such trademark shall be entitled to the full use and enjoyment of such trademark.

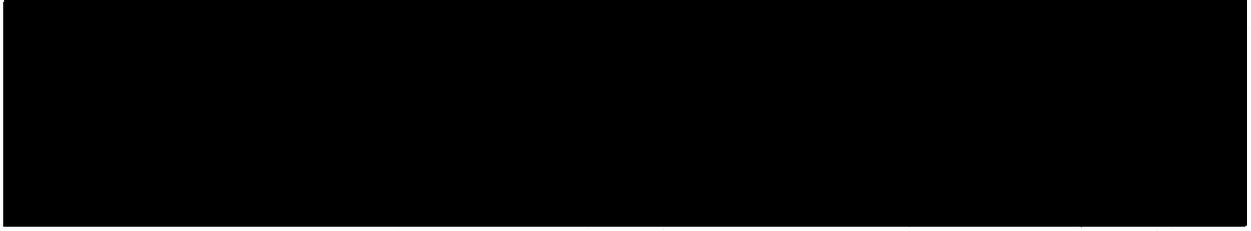


(h) Licensee agrees that, during the term of this Agreement and thereafter, Licensee will not contest, harm, misuse, or bring into disrepute any of USPS' rights in and to the Licensed Properties, or contest the validity of this Agreement. Licensee acknowledges and agrees that USPS would not have an adequate remedy at law and would be irreparably harmed in the event Licensee were to misuse, harm, or bring into disrepute any of the Licensed Properties or if Licensee were to breach any term of this Agreement concerning the proper use of the Licensed Properties. Accordingly, it is agreed that, in the event of a breach or threatened breach of this paragraph or any term or condition of this Agreement concerning the proper use of the Licensed Properties, USPS, in addition to any other remedies at law or in equity, shall be entitled to equitable relief, including but not limited to immediate injunctive relief without the requirement of posting a bond or other security and without resorting to Arbitration herein.

9. **Termination:**

(a) Without prejudice to any other rights, and in addition to any termination rights provided elsewhere in this Agreement, USPS shall have the right to terminate this Agreement upon written notice to Licensee at any time if:





(b) Termination of this Agreement under the provisions of this paragraph shall be without prejudice to any rights that USPS may otherwise have against Licensee. Upon the termination of this Agreement, notwithstanding anything to the contrary herein, all royalties on sales theretofore made, and any balances owed on Guaranteed Minimum Royalties, shall become immediately due and payable. Notwithstanding any termination or expiration of this Agreement, USPS shall have and hereby reserves all rights and remedies which it has or which are granted to it by operation of law, to enjoin the unlawful or unauthorized use of the Licensed Properties.

(c) Upon termination of this Agreement for any reason, each Party shall remain liable only for those obligations that accrued prior to the date of such termination. Neither Party shall be bound by any obligations the other Party may undertake pursuant to any other agreement with any third-party.

10. **Disposal of Stock/Sell-Off Period:**

(a) After expiration or termination of this Agreement, Licensee shall have no further right to manufacture, advertise, distribute, sell, or otherwise deal in any Licensed Articles except as hereinafter provided.

(b) It is specifically understood that Licensee shall not sell or dispose of any such Licensed Articles in job lots at reduced prices, other than is customary in the ordinary course of business.

(c) After expiration or termination of this Agreement, the parties shall follow the procedures set forth below:

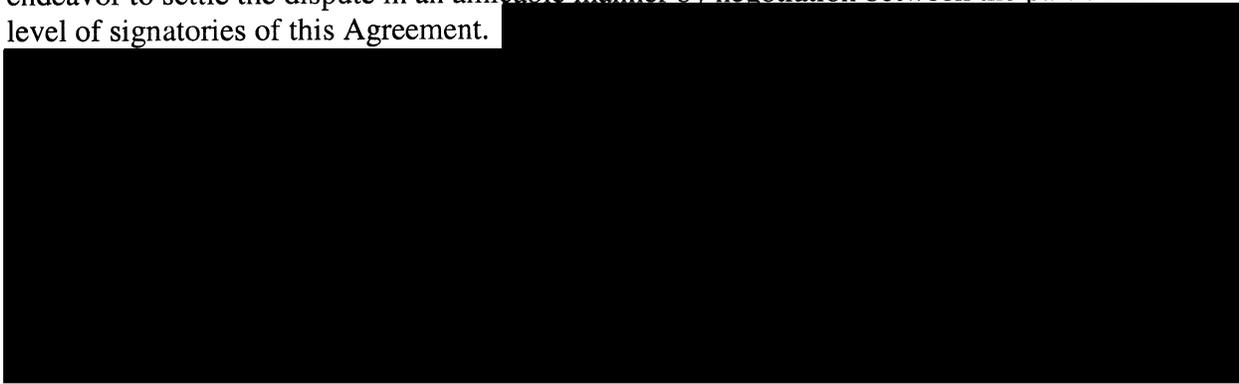
(i) Licensee shall prepare a complete, written inventory list and submit same to USPS within ten (10) days of the expiration or termination of this Agreement. Such list must include orders on hand, work in process, and finished Licensed Articles.



Notwithstanding the foregoing, Licensee shall have no right to dispose of Licensed Articles if this Agreement is terminated under Paragraph 9 herein.

(d) Except as specifically provided in this Agreement, on the expiration or termination of this Agreement, all of the rights of Licensee under this Agreement shall terminate herewith and shall revert immediately to USPS. All royalties on sales made shall become immediately due and payable, and Licensee shall discontinue all use of the Licensed Properties and shall promptly transfer to USPS, free of charge, all registrations, filings and rights with regard to the Licensed Property which Licensee may have possessed at any time. The underlying rights, including but not limited to any and all trademarks and copyrights to all artwork, photographs, drawings, illustrations, forms, patterns and similar items developed by Licensee in the manufacture, sale or distribution of Licensed Articles, are the property of USPS.

11. **Dispute Resolution:** If a dispute arises out of or relates to this Agreement, or the breach thereof, and if the dispute cannot be settled through direct discussions, the parties agree first to endeavor to settle the dispute in an amicable manner by negotiation between the parties at the level of signatories of this Agreement.



12. **Consent To Jurisdiction:** With respect to any suit, action or other proceeding relating to the Agreement that has not been resolved by negotiation or mediation (collectively "Proceedings"), the parties each irrevocably submit to the exclusive personal jurisdiction of the United States District Court for the District of Columbia. With respect to any Proceeding filed in said court, the parties expressly waive any objection to the laying of venue in such court, any claim that such court is an inconvenient forum and any claim that such court does not have personal jurisdiction over such party.

13. **Choice of Law:** This Agreement shall be governed by and construed in accordance with principles of federal common law, or if there is found to be no such common law, then the law of the State of New York. Further, the parties each agree and acknowledge that the provisions of the USPS Purchasing Manual shall not apply to this Agreement, and the parties waive any and all express and implied remedies, recourse or administrative procedures provided or created thereby.

14. **Indemnification:**

Indemnification of USPS:

Excluding claims for infringement based upon use of those Licensed Properties that are wholly-owned by the USPS, Licensee agrees to defend (with counsel reasonably acceptable to USPS), indemnify and hold USPS and its agents, representatives and assignees harmless against any and all claims, demands, causes of action, liability, loss, damage, judgments or expense (including reasonable attorneys' fees and court costs) arising out of Licensee's design, manufacture, distribution, shipment, labeling, sale, advertisement, or promotion of the Licensed Articles or the labeling, packaging, advertising or promotional materials for the Licensed Articles. USPS shall have the right to defend any such claim or suit through counsel of its own choice.

(a) Indemnification of Licensee:

(b) Licensee indemnifies the Postal Service, its employees, and its agents against liability, including costs and fees, for patent infringement (or unauthorized use) arising from the manufacture, use, or delivery of supplies or the performance of service, by or for the Postal Service, if the supplies or service (with or without relatively minor modifications) have been or are being offered for sale or use in the commercial marketplace by Licensee.

(c) The Postal Service must promptly notify Licensee of any claim or suit subject to the indemnity of paragraph (a) above alleging patent infringement or unauthorized use of a patent.

(d) To the extent allowed by law, Licensee may participate in the defense of any suit to which this clause applies,

(e) This indemnification does not apply to infringement or unauthorized use claims that are unreasonably settled without Licensee's consent before litigation.

(f) This clause must be included in all subcontracts under this agreement, at any tier,

15. **Insurance:** In accordance with Section 16 of the Agreement, Licensee shall, throughout the term of this Agreement, including renewals and extensions thereof, and for a period of [REDACTED] thereafter, obtain and maintain at its own cost and expense a third-party liability insurance policy with a recognized insurance carrier acceptable to USPS, naming USPS as "Additional Named Insured" or the like, including a waiver of subrogation in favor of USPS. The amount of coverage shall be in accordance with the amount set forth in the Agreement. This insurance shall provide for at least thirty (30) days prior written notice to USPS and Licensee of the cancellation or any material change or modification in the terms and conditions of the policy. Licensee shall, within thirty (30) days of execution of this Agreement and at all times thereafter, furnish to USPS a certificate demonstrating current maintenance of the insurance described above. Upon USPS' request, Licensee shall also furnish USPS with certified copies of said insurance policies. Licensee shall not distribute or sell the Licensed Articles prior to receipt by USPS of such evidence of insurance.

16. **Renewal:** Provided that Licensee is not then in breach, this Agreement may be renewed in accordance with the renewal terms set forth in the License Agreement. Provided that the

License Agreement allows for renewal, Licensee must notify the USPS in writing of its intention to exercise this option [REDACTED] prior to the expiration of the then current Term of the Agreement. Failure to exercise this option within the time specified herein shall not result in immediate non-renewal and Licensee will be given opportunity to cure this deficiency. Any renewal pursuant to this paragraph is subject to this Agreement not having been terminated in accordance with the provisions hereof.

17. **Notices:** All notices and statements to be given and all payments to be made hereunder, shall be given or made at the respective addresses of the parties as set forth in the License Agreement unless notification of a change of address is given in writing, Any notice shall be sent by registered or certified mail, and shall be deemed to have been given at the time it is mailed. A notice sent by the USPS representative shall have the same force and effect as a notice from the USPS.

18. **Joint Ventures:** Nothing herein contained shall be construed to place the parties in the relationship of partners, joint venturers or agents, and Licensee shall have no power to obligate or bind USPS in any manner whatsoever. Licensee warrants that no person or selling agency has been employed or retained to solicit or secure this Agreement upon an agreement or understanding for a commission, percentage, brokerage or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by Licensee for the purpose of securing business. For breach or violation of this warranty, USPS shall have the right to terminate this Agreement without liability or in its discretion, to recover the full amount of such commission, percentage, brokerage or contingent fee. No member of, or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Agreement or to any benefit that may arise therefrom; this prohibition shall not be construed to extend to this Agreement if made with a corporation for its general benefit.

19. **Enforcement of Licensed Properties:**

(a) Licensee agrees to cooperate with and assist USPS in protecting and enforcing USPS' rights to the Licensed Properties. Licensee shall promptly inform USPS of any infringement or other violations of the Licensed Properties that come to its attention. After consultations with the Licensee and an initial Cease and Desist notification being sent to the violator, USPS shall then have the sole right at its own expense to determine whether or not any further action shall be taken on account of any such infringement or violations. USPS shall receive all amounts awarded as damages, profits, and settlement proceeds or otherwise in connection with such claims or suits.

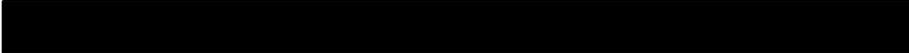
(b) Licensee agrees not to contest or otherwise challenge or attack USPS' rights in the Licensed Properties or the validity of the license granted herein during the term of this Agreement or thereafter. Licensee further agrees not to do anything, either by act of omission or commission, which might impair, jeopardize, violate or infringe the Licensed Properties, or to misuse or bring into dispute the Licensed Properties.

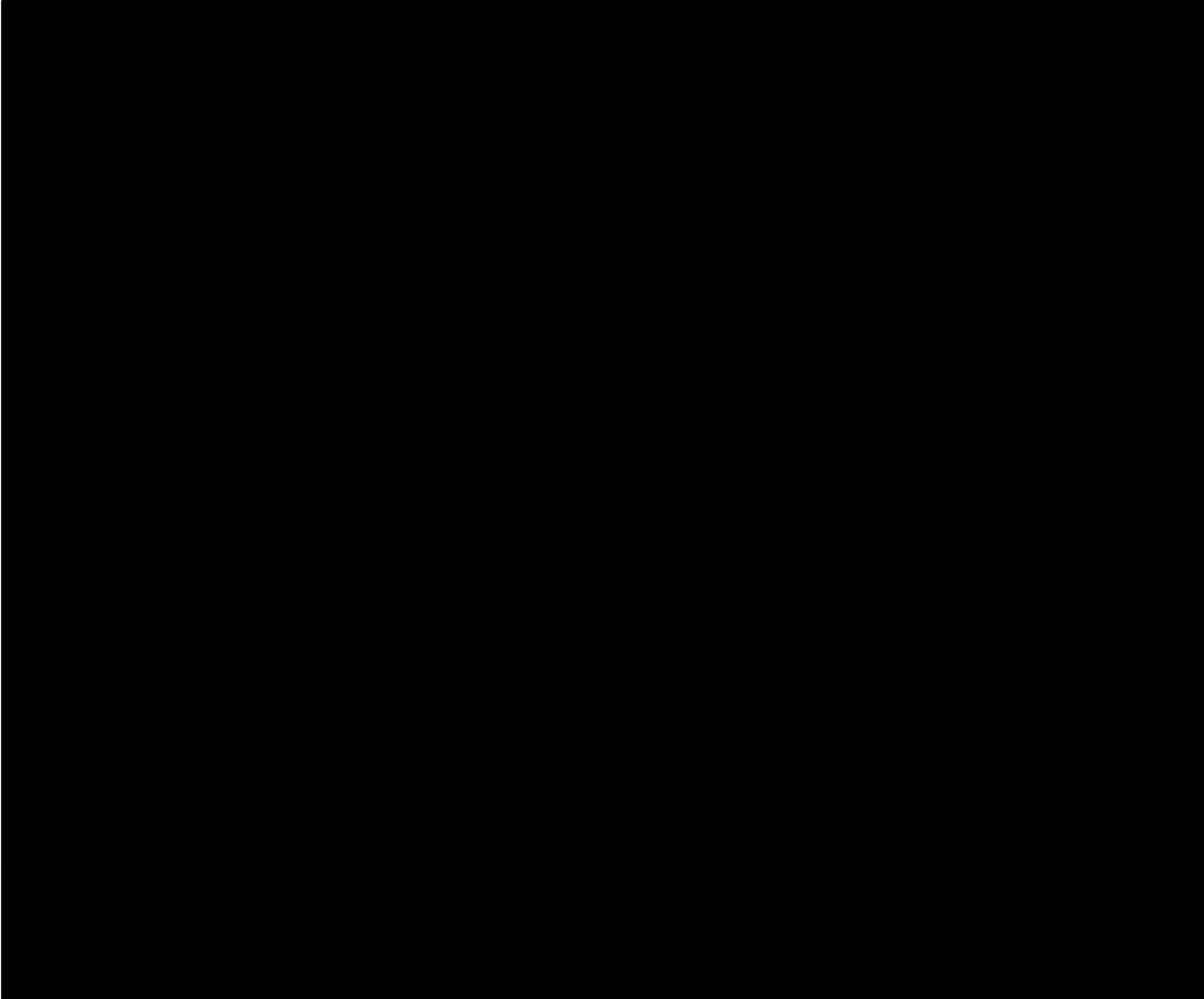
(c) Licensee shall not use any of the Licensed Properties as part of its company name, corporate name, trade name or domain name, and shall not attempt to register any of the Licensed Properties or confusingly similar marks or substantially similar designs in the Licensed

Territory or elsewhere during the term of this Agreement or thereafter, or aid or abet anyone else in doing so.

(d) The administrative and judicial defense of the Licensed Properties in the Licensed Territory shall be undertaken solely by USPS. Licensee agrees to furnish USPS or its designated legal representative with all proof and commercial, technical or other information or assistance required and which Licensee is able to furnish as well as such other assistance as USPS or its lawyers may reasonably require for this purpose. Licensee shall, if requested by USPS, join USPS in the aforementioned administrative and judicial defense of the Licensed Properties, the cost of which shall be borne exclusively by USPS.

(e) Licensee agrees to cooperate with USPS in any effort that USPS may deem advisable to record Licensee as a registered user or the like. Upon expiration or termination of this Agreement for any reason, Licensee shall similarly cooperate with USPS in destroying any such records that may exist. All expenses associated with such recording and destruction of records shall be borne by USPS.

20. **No Assignment:** 



21. **Force Majeure:** It is understood and agreed that in the event that an act of the government, or war conditions, or fire, flood or labor trouble in the factory of Licensee or in the factory of those manufacturing Licensed Articles, prevents the performance by Licensee of the provisions of this Agreement, then such nonperformance by Licensee shall not be considered as grounds for breach of this Agreement and such nonperformance shall be excused while the conditions herein prevail and for two (2) months thereafter. In the event USPS is required by any other branch, agency or independent establishment of the United States Government or a court of competent jurisdiction to terminate or cease performance of its obligations under this License Agreement, USPS may provide notice of termination, which notice shall be effective immediately (or at such other time as specified therein by USPS), USPS shall not be responsible to the Licensee for reimbursement of any costs or damage incurred as a result of such termination. In the event either Party is enjoined from proceeding with this License Agreement by government action or a court of competent jurisdiction, such Party may give notice of termination, which notice shall be effective immediately or at such other time as specified by such injunction. Neither Party shall be responsible to the other Party for reimbursement of any costs or damage incurred as a result of such termination.

22. **Compliance with Privacy Act:** To the extent applicable, Licensee agrees that it will comply with the Privacy Act of 1974, 5 U.S.C. § 552(a) and any and all Postal Service rules and regulations issued thereunder in the performance of its responsibilities under this License Agreement.

23. **Miscellaneous:** This Agreement constitutes the entire Agreement and understanding between the parties hereto and terminates and supersedes any prior Agreement or understanding relating to the subject matter hereof between USPS and Licensee. USPS and Licensee are not relying upon any statements, warranties, or representations except those contained in this Agreement. The paragraph and other headings contained herein are for reference purposes only and will not affect the meaning of interpretation of this Agreement. None of the provisions of this Agreement can be waived or modified except in writing signed by both parties, and there are no representations, promises, agreements, warranties, covenants or undertakings other than those contained herein.

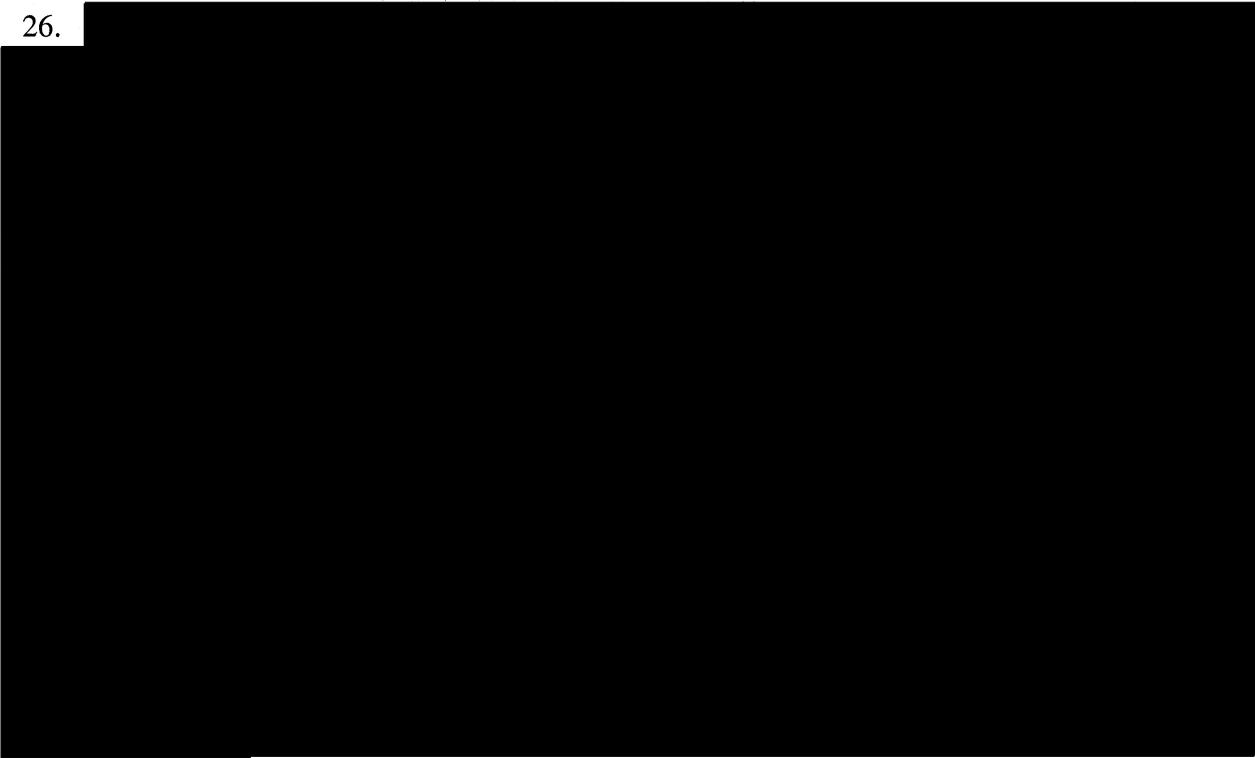
24. **No Reliance on Other Representations:** The parties have not relied on any representations, promises, warranties, statements, or undertakings by the other party, its counsel or its representatives other than those contained in this Agreement.

25. **Warranties:**

(a) **Licensee's Warranty:** Licensee warrants and represents that it is authorized to enter into this Agreement and that there is no existing agreement with any third party that prevents it or restrains its ability to comply with its obligations under this Agreement. Licensee further warrants and represents that it owns or has acquired all rights, title and interest to any design that it claims can be used on any Licensed Articles; that it has acquired any necessary authorization, license, or permission from any third party(ies) to manufacture, promote, market, distribute, and/or sell Licensed Articles. Licensee shall not disclaim any warranty whether contained herein or arising by operation of law, and any attempted disclaimer shall be deemed null and void.

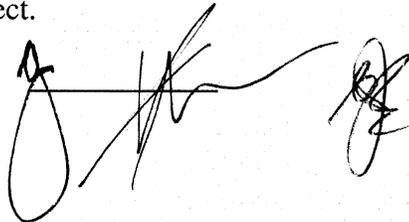
(b) USPS Warranty: USPS represents and warrants to Licensee that the USPS has the full right, power, and authority to enter into this Agreement, to perform as required under this Agreement, and to grant the rights granted under this Agreement.

26.



27. Severability: If any term, provision, covenant or condition of this Agreement, or the application thereof to any person, place or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable or void, the remainder of this Agreement and such term, provision, covenant or condition as applied to other persons, places and circumstances shall remain in full force and effect.

Concurrence (Initial)





**SALES & ROYALTY PRODUCT CATEGORY & CHANNEL REPORT EXAMPLE**

To: USPS Licensing Program  
 P.O. Box 7247  
 7087  
 Philadelphia, PA 19170-7087

Finance Number: 10-6001

Account Number: 7247-7087

Month/Year: Month: October Year: 2003

Item No. SKU	Product Description	Channel	Unit		Units Sold	Total		Royalty	
			Price			Unit Sales	Rate	Royalties	
00000001	Monroe Stamp Frame	Wal-Mart	\$10		1000	\$10,000	10%	\$1,000	
00000002	Lincoln Stamp Frame	Target	\$15		1000	\$15,000	10%	\$1,500	
00000003	Washington Stamp Frame	Rite-Aid	\$10		2000	\$20,000	10%	\$2,000	
00000001	Monroe Stamp Frame	Wal-Mart	\$10		-100	-\$1,000	10%	-\$100	
<b>Totals:</b>						\$44,000		\$4,400	

  
 Charge-Back:  
 Return of damaged

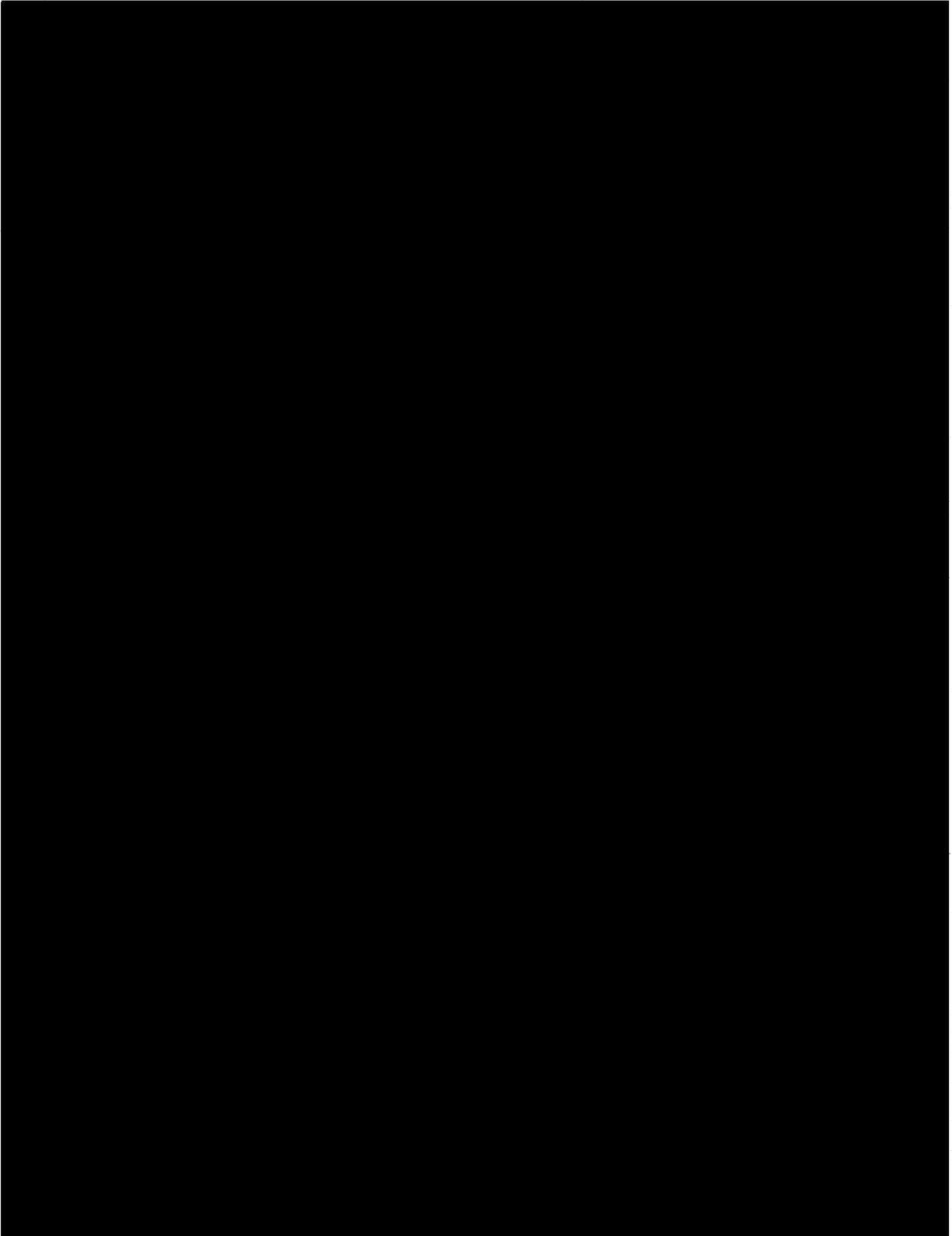
USD\$

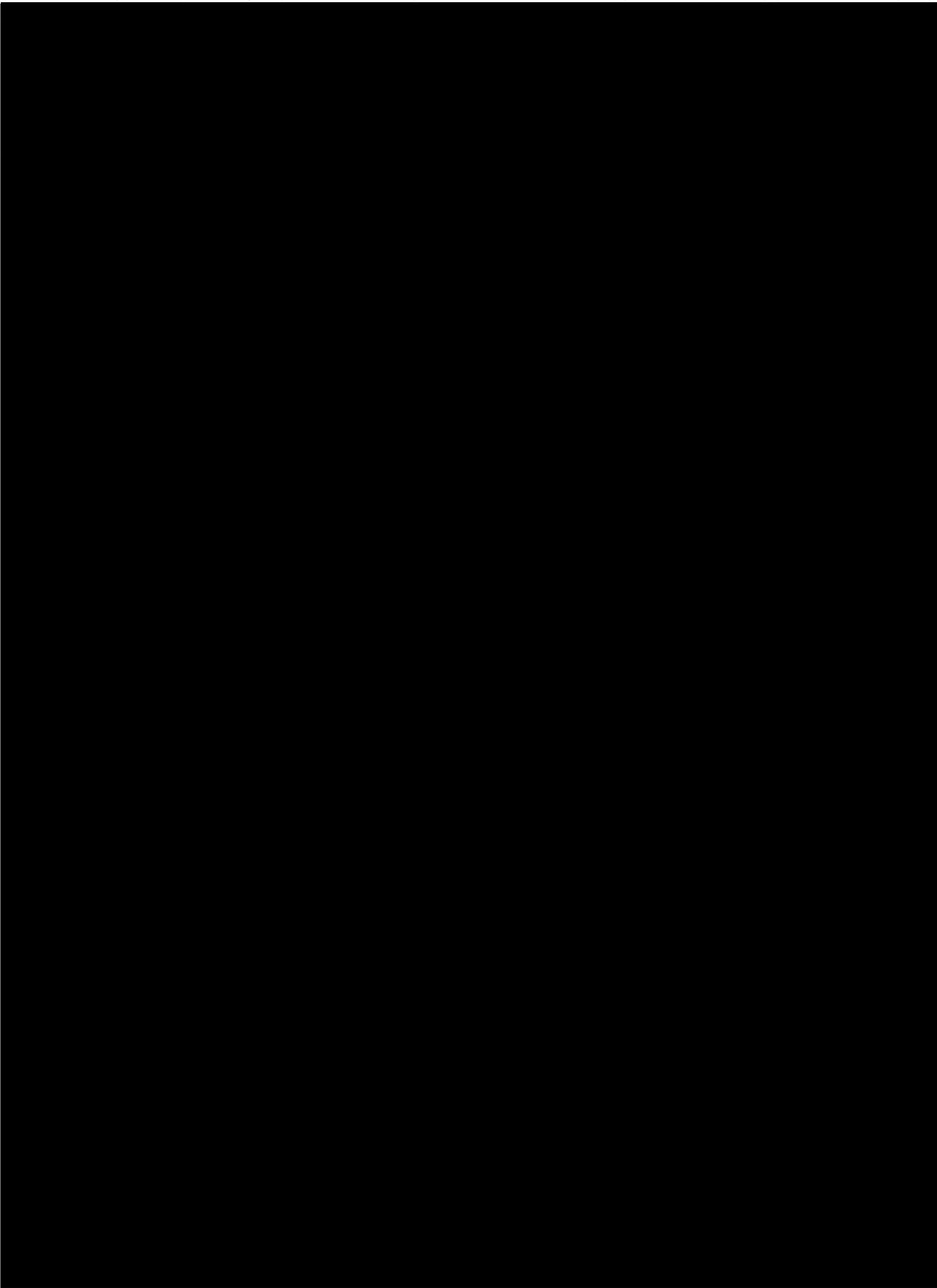
## **EXHIBIT D**

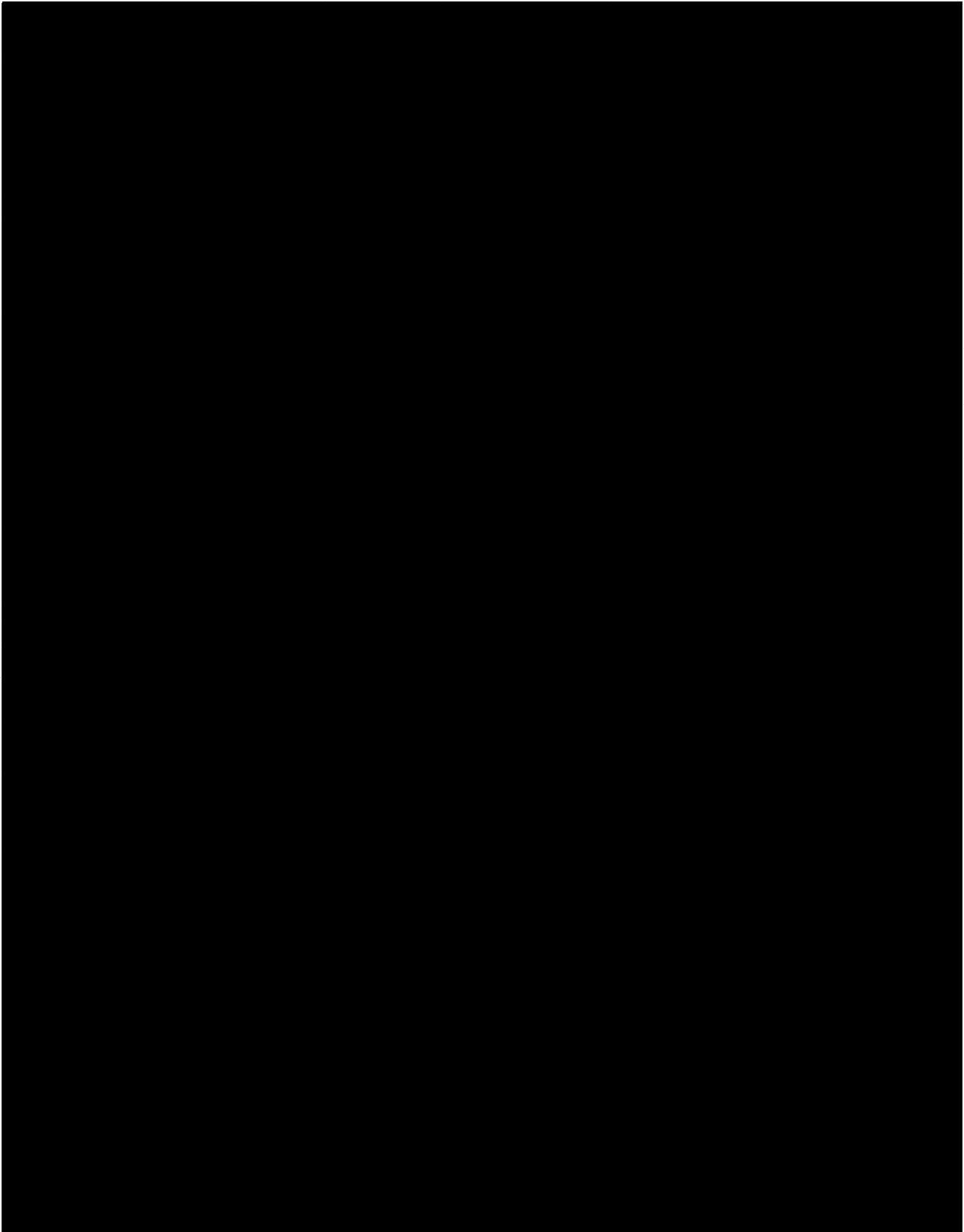
### **QUALITY STANDARDS**

1. The Licensed Articles are to be manufactured by Licensee or its subcontractors pursuant to this Agreement and sold by Licensee or its distributor in strict compliance with all applicable state and federal laws and regulations, Licensee may be required to show evidence of certification.
2. The Licensed Articles shall be of high quality in design, material and workmanship and suitable for the purpose intended.
3. The Licensed Articles must be of such style and appearance as to have a positive impact on the USPS, Words, shapes, or devices that are obscene-Or scandalous are unacceptable,
4. When affixed to Licensed Articles, the Licensed Properties shall be clear and legible without bleeding of line or color.
5. Products made of metal, wood, wood products, glass or plastic shall resist breakage or shattering when dropped on a wooden surface from a distance of one yard and shall resist bending when used by a child of 12 years of age.
6. No injurious, deleterious or toxic substances will be used in or on the Licensed Articles.
7. The Licensed Articles will not cause harm when used as instructed and with ordinary care for their intended purpose.

**EXHIBIT E**







UNITED STATES POSTAL SERVICE

LEPAGE'S 2000, INC.

[Signature]  
Signature

[Signature]  
Signature

ALBERT J. JARPER  
Name

Dhiren Chandaria  
Name

V.P. PA&C  
Title

Executive Vice President  
Title

JAN 14 '05  
Date

1/12/05  
Date

ED663612059US

DETROIT.1437024.1

# ATTACHMENT C

# Transformation Plan

April 2002

## Message from the Chairman of the Board, Robert F. Rider, and Postmaster General & CEO, John E. Potter.

The Postal Service is delivering on its commitment to the Senate and the House of Representatives to develop a comprehensive Transformation Plan. The Congress's recognition of and concern for the seriousness of the situation facing the Postal Service has been most encouraging to the Governors and postal management.

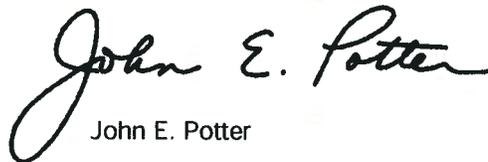
Successful transformation will require strong and committed leadership from the Governors, the Postmaster General and all postal employees. Working together with our many stakeholders, including the executive and legislative branches, we will forge a new and modern business model for an institution that has served this country and evolved with changing times since 1789. We recognize our responsibility to take definitive action and to offer the citizens of America a clear and compelling view of current and planned actions, and our vision of where we are headed. At the same time we want and encourage all our stakeholders to remain actively engaged in discussions about postal issues and the Postal Service's future. To that end, we call your attention not only to the Executive Summary, but to all the supporting materials, especially the appendices. These sections provide the detailed information that will enable further dialogue and understanding.

This *Transformation Plan* is about enabling the Postal Service to successfully carry out its long-standing mission of providing affordable universal service. It is about maintaining a fundamental principle and vision that delivery of mail is an important and vital government service, regardless of where one lives or what one's station in life might be. Equal access and opportunity to communicate through the mail to meet personal and commercial needs supports a basic American value of equality.

We commit to leading this transformation of the Postal Service to ensure the continuation of affordable universal service and to prepare the organization for the challenges of change in a dynamic marketplace.



Robert F. Rider



John E. Potter

## **United States Postal Service Board of Governors**

Robert F. Rider, Chairman

S. David Fineman, Vice Chairman

Ernesta Ballard

LeGree S. Daniels

Einar V. Dyhrkopp

Alan C. Kessler

Ned R. McWherter

John F. Walsh

John E. Potter, Postmaster General and Chief Executive Officer

John M. Nolan, Deputy Postmaster General

## **United States Postal Service Executive Committee**

John E. Potter, Postmaster General and Chief Executive Officer

John M. Nolan, Deputy Postmaster General

Anita J. Bizzotto, Chief Marketing Officer and Senior Vice President

Patrick R. Donahoe, Chief Operating Officer and Executive Vice President

Mary Anne Gibbons, Vice President, General Counsel

Suzanne Medvidovich, Senior Vice President, Human Resources

Richard J. Strasser, Jr., Chief Financial Officer and Executive Vice President

Deborah K. Willhite, Senior Vice President, Government Relations and Public Policy

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## Executive Summary

### I. Introduction

We live in challenging times. Long-term technological and commercial trends, often termed the Second Industrial Revolution, are fundamentally reshaping national and international services for collection, transport, and delivery of all types of postal products. These trends will compel a fundamental transformation in our national approach toward the Postal Service as an institution and the delivery services sector as a whole.

At stake is the future of what has been, since this nation's founding, the right of every American to send and receive mail. The Postal Service exists as a governmental entity whose mission is universal service to all. That mission is a direct reflection of the values on which this country was founded, and it is those values of equality of opportunity that drive Postal Service management today just as they drove the managers of the Post Office Department.

In this *Transformation Plan*, the Postal Service respectfully submits to Congress and to the American people our views on the steps that must be taken now and the long-term options that appear feasible. With the valuable assistance of our stakeholders,<sup>1</sup> we have prepared this report as a decisive response to the challenges posed, a response that postal leadership embraces and commits to execute fully and effectively.

Today, a commercially and financially viable Postal Service remains vital to the American economy. The Postal Service delivers more than 200 billion pieces of mail each year (over 40 percent of the world's mail). It collects nearly \$66 billion in revenue annually and is the eleventh largest enterprise in the nation based on revenue. The Postal Service anchors a \$900 billion domestic mailing industry that employs roughly one in fifteen American workers. The Postal Service employs nearly 770,000 career employees, which makes it the second largest civilian employer in the nation. More than seven million Americans visit post offices each day. Additionally, more than 1.7 million new delivery points are added to the postal network each year.

The future role of the Postal Service, however, is uncertain. For any organization to remain viable and flourish, it must change. As technology, commerce, and society evolve, so too must government and corporate business models. This is no less true for the U.S. Postal Service than for any other enterprise.

The Postal Reorganization Act of 1970 (PRA) succeeded. It created an independent governmental entity well designed to deliver postal services in a more businesslike manner. The Act created a structure that enabled the Postal Service to function effectively over the last 30 years. With effectiveness came dramatic growth for the mailing industry, which contributed to economic growth and increased satisfaction for postal customers.

*"The Postal Service has been a reliable, trusted provider of communications for more than two centuries. It is a basic and fundamental service provided to the people of America by their government. It helps keep Americans in touch, and it is the hub of a \$900 billion mailing industry. We are working to keep this critical national asset strong and vibrant, today and far into the future."*

—Joint statement by the  
Postmaster General and the  
Chairman, Board of Governors

<sup>1</sup> This plan incorporates the comprehensive feedback received on the *Outline for Discussion: Concepts for Postal Transformation*, September 30, 2001.

The institutional model adopted in 1970 was not, however, designed to cope with the fundamental changes that are today reshaping the delivery services marketplace. These trends include the following:

**Changing customer needs.** With access to more information and more options than ever before, customers have a broad range of choices for delivery of messages, money, and merchandise—our three businesses. A single, basic, universal service, the premise of the PRA, is no longer sufficient to meet increasingly varied customer requirements.

**Eroding mail volumes.** Electronic alternatives to mail, particularly electronic bill presentment and payment, pose a definite and substantial risk to First-Class Mail® service within the next five to ten years.

**Rising costs.** Despite major gains in efficiency and productivity through automation of letter mail, the costs of maintaining an ever-expanding postal network are rising faster than revenue, especially costs outside the direct control of the Postal Service, such as retirement and health benefit liabilities.

**Fixed costs.** Universal service requires a significant infrastructure to deliver postal services.<sup>2</sup> Almost one-half of current postal costs are spent on these resources and that level does not increase or decrease when volume changes or when productivity increases. This creates a challenge for cost containment.

**Merging of public and private operators into global networks.** Former national foreign postal services, some privatized, have entered the U.S. domestic market; giant private firms that now dominate global parcel and express markets are entering an increasing portion of the postal value chain.

**Increasing security concerns.** Rising security concerns will require expensive and sophisticated countermeasures.

Consideration of these trends leaves no doubt that the time has come to address fundamental long-term questions. We at the Postal Service do not presume to have all of the answers. We do, however, in this report, offer our approach to transforming the Postal Service into an enterprise suited to the 21st century.

In the near term, we have concluded that substantial improvements in the efficiency of the Postal Service can be accomplished without major revisions to current law, provided our customers, our employees, and policymakers fully recognize and embrace the fundamental long-term transformation we are beginning. In this report, we describe our specific plans and seek support from Congress where incremental statutory changes are needed.

In the long term, we believe that fundamental restructuring of the legislative and regulatory framework for postal services is required. The public debate about postal modernization led by Congress over the last five years has illuminated important issues, many of which raise implications that stretch beyond legislative remedies presently contemplated. We need to address these larger issues and reach a national decision on the future of the Postal Service.

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<sup>2</sup> Examples include more than 38 thousand post offices, stations, and branches, 240 thousand delivery routes to service over 137 million delivery addresses, 215 thousand vehicles, and significant annuitant retirement costs.

Over the next two to three years, it is vital that significant progress be made toward defining the long-term structure and role of the Postal Service. In support of that process, this report outlines three alternative models for the future role of the Postal Service. These range from a Government Agency, offering subsidized residual services not provided by the private sector, to a Privatized Corporation, a competitive company owned by private citizens. From among the conceptual models identified, we offer our own preliminary conclusion that a middle ground is the most appropriate: a Commercial Government Enterprise, owned by the government but structured and operated in a much more businesslike manner, with attributes appropriate to the unique role this institution plays in the nation.

In developing this report, we gratefully acknowledge the assistance of the full range of stakeholders in the postal industry. At the outset, therefore, we would like to articulate a firm commitment to all of these stakeholders, and especially to our customers. During this crucial transformation period, in order to maintain our financial viability and fulfill our universal service mission, we commit that we will:

- Foster growth by increasing the value of postal products and services to our customers;
- Improve operational efficiency; and,
- Enhance the performance-based culture.

This report describes how we will honor these commitments while remaining faithful to the vision that has inspired the post office for more than two centuries: that the Postal Service should bind the nation together by providing all Americans with vital communication and delivery service.

## **II. Meeting the Challenge**

In order to address the challenges we face today and to prepare for transformation, we must push business effectiveness and operational efficiency to the limits permitted by current postal laws. With the support of customers, employees, and policymakers, there is much we can do, and are doing now. Building upon current efforts, we will implement the following specific strategies to support our commitments:

### **Growth through Added Value to Customers**

Flexibility and growth will be essential for the Postal Service to transform successfully. To fulfill its universal service mission, the Postal Service must offer affordable products and services that serve the entire spectrum of its customer base, from large corporations to individual consumers. The Postal Service must also find ways to use existing resources to generate new revenues to offset anticipated losses from electronic diversion. Our products and services must also be flexible enough to adapt to 21st century technological advances.

With these requirements in mind, we will implement a number of specific growth strategies to increase value to our customers. We will:

- Work with the Postal Rate Commission (PRC) to create more streamlined processes for introducing targeted pricing initiatives, such as negotiated service agreements, and more regular and predictable price changes, such as phased rates.
- Expand access to postal services by doing business when and where our customers prefer.
- Move simple transactions to less expensive channels, improving customer service and increasing retail contribution.
- Develop "intelligent mail" products that not only track and trace from origin to delivery but also integrate information throughout the entire cycle of multiple business transactions.
- Work with customers to make sure databases are updated frequently and accurately, and explore the use of publicly available databases to improve the overall accuracy of address information.
- Make it easier to use postal services by aligning mail preparation and prices to customer needs and capabilities.
- Explore more innovative payment options for our customers through third party credit.
- Enhance revenue opportunities by leveraging existing assets and infrastructure, including postal-owned vehicles and facilities.
- Work with all package mailers to create a package offering that is simple, easy-to-access, information-rich, and takes advantage of our vast retail and delivery presence.
- Work with customers to add features that enhance the value of traditional products.
- Continue to seek opportunities to leverage our brand and assets to create new products and services with minimal investment.
- Strive to protect postal employees and customers from exposure to biohazardous material and to safeguard the mail system from future attacks.

### **Operational Efficiency**

Cost containment is the most important customer-focused strategy, especially for large business mailers who rely most heavily on the postal infrastructure. In any network business, however, it is difficult to control costs when volume declines while the network itself continues to grow. This is the challenge faced by the Postal Service: increasing costs may have to be spread across a declining volume base.

In this difficult environment, we will achieve cost savings by implementing a number of specific measures designed to improve operational efficiency over the next five years. We will:

- Reduce operating cost by automating the flat mailstream and mail forwarding operations.
- Continue improving annual productivity through techniques such as benchmarking, standardization of best practices, and complement planning and scheduling.

- Explore new workshare and mail preparation opportunities to eliminate handlings in the presort-to-delivery supply chain.
- Experiment with new methods of reducing the time letter carriers spend in the office, for example, sorting flats into delivery sequence.
- Reduce transportation costs and improve transportation management by implementing network planning, routing, and tracking programs.
- Redesign the postal logistics network so that the number and location of processing centers, processing strategies for mail, and transportation modes and routes are optimized to meet customer service requirements at minimal total system costs.
- Revise purchasing regulations to allow for acquisition of goods and services in a manner similar to that followed by businesses.
- Explore alternative purchasing strategies for automation equipment and information technology to include leases and fees for services contracts.
- Optimize the retail network by lifting the self-imposed moratorium on post office closures and working with the PRC to significantly streamline the process for closing post offices.
- Pursue regulatory and legislative reform to provide the Postal Service the latitude to adjust service levels and delivery frequency to standards commensurate with the affordable universal service obligation.

### **Performance-Based Culture**

Breakthrough productivity initiatives will be achievable only if we are able to make significant progress in our third commitment: enhancing our performance-based culture. For this, we must maintain an effective, diverse, and motivated workforce whose members know what is expected of them and who are recognized for individual and team accomplishments. The challenge to assure continuity of leadership has never been more important than it is today. Approximately 55 percent of Postal Service officers and senior executives and 36 percent of managers will become eligible to retire over the next five years. To address these challenges, we will:

- Enhance retention and recruitment strategies. Flexible and responsive retention tools and recruiting practices are necessary to address the attrition challenge.
- Strengthen succession planning to identify, to develop, and to select current and future leaders.
- Maximize the potential of available training and development programs in order to have a pool of potential successors at all levels of the organization.
- Change the culture of the Postal Service by improving our management of employee performance with data. This will be achieved by better defining expectations and measuring performance against those expectations. Accountability will be enhanced through greater use of performance-based pay to recognize individual and team efforts.
- Build a highly effective and motivated workforce by reinforcing management responsibility for a safe, secure, satisfying, and diverse workplace.

- Continue working with the labor unions to improve relationships, to reduce grievance costs, and to jointly examine modifications to the impasse resolution process we are recommending to Congress. The spirit of cooperation that resulted from the anthrax crisis set a solid foundation for future relationships.
- Optimize the ability to reposition the workforce by implementing data-driven assessment tools that will assist in determining skill needs and availability by location.
- Move repetitive transactional work to a shared services environment and explore outsourcing to reduce costs and increase efficiency.
- Improve the collective bargaining interest arbitration process to include a period of mediation. This would enhance the opportunity for the parties to reach mutual agreement on contractual issues.
- Reduce workers' compensation costs by implementing programs and developing employment opportunities for injured workers within and outside the Postal Service and by working with the Department of Labor on new initiatives and regulatory changes.

### Enabling Functions

Enabling functions support attainment of the commitments described above. Focused financial management will enable the Postal Service to reduce outstanding debt, using it in the future for capital improvements where the value added by the investment exceeds the cost of debt. Enhanced financial management will also increase reporting transparency. Adopting business-driven purchasing and materials management procedures will enhance supply chain management. Applying information technology with universal connectivity will enable us to enhance security, add valuable product features, and manage operations in real-time. A continuing commitment to mail security will deny use of the mail to criminals while protecting the public and the Postal Service against external attacks and workplace disruptions.

### Regulatory and Legislative Reform

Successful transformation of the Postal Service also depends in part on adoption of moderate regulatory and legislative reforms. These reforms will allow us to test new opportunities, to prepare for long-term structural transformation, and to prove our ability to deliver mail in a less constricted environment. Only in this manner will stakeholders have an opportunity to evaluate the extent to which such reforms add value. We will therefore seek expeditious implementation of the following regulatory, legislative and administrative changes:

**Prices and Financing.** Within the framework of the current rate-making process, the Postal Service will request several reforms to respond to customer pricing needs and restore postal finances to a more sound footing. We will seek approval for negotiated service agreements and other targeted pricing initiatives, reforms in procedures for introducing experimental mail classifications, phased rates, and inclusion of costs in the revenue requirement to finance the expansion of the delivery network on a current basis. The Postal Service believes that some of these reforms can be implemented administratively with the assistance of the PRC. In the event that efforts to achieve

these changes identify hurdles that cannot be cleared within the scope of our existing statute, we will ask Congress to enact legislation to remove those hurdles.

**Facilities.** The Postal Service will lift the self-imposed moratorium on post office closings and consolidations. The ultimate goal is to better serve our customers. A combination of rural delivery and alternative retail strategies may provide the most convenient access for the customer. To optimize facility networks, the Postal Service will also seek relief from legislative restrictions on post office closings and consolidations. Currently applicable administrative procedures should be streamlined or repealed, and appropriations riders referring to post office closings and 1983 service levels should be discontinued.

**Flexible, Business-Driven Purchasing Procedures.** Consistent with the way businesses purchase goods and services, the Postal Service will revise its purchasing regulations to the extent allowed by present law.

**Labor and Employment Reforms.** The Postal Service will seek more effective mediation procedures, including appointment of a neutral mediator by the Secretary of Labor, to help resolve bargaining impasses. In addition, repeal of the statutory salary cap is needed.

### Our Commitment

In total, these near-term, customer-focused, operational, and performance-based strategies will generate \$5 billion in savings and cost avoidance through 2006, of which \$1 billion will be in post office operations. These savings will enable us to achieve some debt repayment and to hold rates steady from mid-2002 until calendar year 2004. If a rate increase is needed at that time, a moderate, negotiated increase will be pursued.

## III. Preparing for the Future

The ultimate goal of Postal Service transformation should be to promote an efficient, reliable, and innovative delivery services sector that meets the diverse economic and social needs of the nation and all its citizens. It is becoming increasingly clear that the current structure of the Postal Service may soon be unable to support the achievement of that goal. Therefore, it is imperative to explore alternative business models to determine how best to structure the organization for future success.

### Alternative Models

Fundamental structural transformation of an institution as large as the Postal Service will take many years to implement completely. Peering a decade or more into the future, therefore, this *Transformation Plan* reviews the full range of roles the Postal Service might be called upon to assume. While there are a number of potential paradigms for addressing the nation's postal policy objectives, this *Plan* describes three conceptual alternatives to the current model. Each would require structural legislative reform. The three alternatives are:

- **Government Agency.** An entity focused on providing essential services not adequately provided in the market and supported by government subsidies.

- **Privatized Corporation.** A business entity with private shareholders.
- **Commercial Government Enterprise.** A government-owned enterprise that would operate more commercially in the market to provide postal and related services.

In the Government Agency model, the nation would abandon the businesslike experiment begun by the PRA and retreat to a more standard government model. The Postal Service would concentrate more on its role in providing essential universal services and less on markets where customer requirements can be met by the private sector. The Postal Service might offer a stripped-down menu of products and services, eliminating a number of services currently offered and adjusting the workforce to the modified offerings and attendant lost volume. Significant declines in mail volume, especially First-Class Mail, would likely accelerate this process, shifting the center of gravity of the Postal Service toward delivery and retail services. It appears certain that, as before the PRA, the Government Agency created by this approach would be unable to fund public services entirely through postal revenues. The government would need to directly underwrite this shortfall. Over time, as revenues lag while the network continues to grow, the subsidy burden on the taxpayer could be expected to intensify under this model, a trend which would increase the pressure on traditional levels of service and access.

The second model, Privatized Corporation, would represent a complete conversion of the Postal Service into a privately-owned company dedicated to maximizing shareholder value. Postal Service managers would be subject to the supervision of a Board of Directors representing private shareholders with their own money at stake. There would be no expectation that the government would protect shareholders from commercial failure. Employees would no longer be under any form of civil service, and private sector labor and employment laws would apply. To address universal service coverage by the delivery sector as a whole, new regulatory safeguards may be needed. Other postal providers might be allowed to compete for delivery of universal services under contract with the government.

The third option, commercialization, carries the businesslike transition initiated by the PRA to the next level, but stops short of private ownership. Under this model the Postal Service would be a Commercial Government Enterprise wholly owned by the federal government. Postal Service managers would operate under more businesslike conditions. The Postal Service would offer both traditional and nontraditional products and implement market-based pricing, discounts and incentives, and business-based financing. The universal service obligation might be met under contract between the government and the Postal Service. A new labor model would be probable.

## Recommendations

The near-term regulatory and legislative reforms described earlier will help to stabilize the postal system's financial base until more permanent legislative solutions are developed.

Long-term solutions have been the subject of ongoing debate and continuing disagreement within the postal community. The ultimate decision regarding the appropriate legislative framework is not the Postal Service's to make. Our experience

with the current system, however, leads us to certain conclusions about the changes that seem necessary. Therefore, we have included in this plan recommendations for transformational reform, recognizing that these matters will need to be debated further and resolved within the public policy arena.

In our view, of the three alternative models identified, the Commercial Government Enterprise is the option that will best allow integration of the postal system into the modern economy while preserving the ability of the Postal Service to fulfill its mission of universal service. While a conceptual model leaves many important details to be filled in, it appears that in principle, reorganization of the Postal Service as a Commercial Government Enterprise should permit major improvements in operational efficiency. Greater efficiency, in turn, should enable a financially viable Postal Service to maintain necessary universal services without direct government subsidies.

Transformation of the Postal Service into a Commercial Government Enterprise will likely require an extraordinary level of commitment from postal stakeholders. In the current political environment, postal reform legislation has faltered due in large part to an absence of consensus among affected parties. Basic economics will inexorably introduce tradeoffs between financial self-sufficiency and affordability, on the one hand, and the costs of underwriting an ever-expanding universal service network and other governmental obligations, on the other hand. We believe that a modern, self-sufficient postal system can be structured to continue providing universal service for all, at affordable prices. To do so, however, requires new flexibility to adjust networks and services to modern conditions and to minimize entrenched governmental rules and expectations that carry with them costs and inefficiencies. If the postal community is not able to achieve this break with the past, then it appears to us that the remaining options will be still more unpalatable to most stakeholders. We have not found much support for a Privatized Corporation that would reduce universal service, or a Government Agency that would require renewed federal subsidies. More likely, a continued stalemate would force the Postal Service to operate under its present, increasingly outmoded business model until enough customers abandon the system to make financial failure unavoidable.

A commercialized structure has been favored by liberalized national posts, either as a final operating model or as a transition to a fully privatized entity. Foreign policymakers have also generally concluded that restructuring the post office as a government-owned, commercial enterprise offers the best chance of achieving national policy goals in increasingly competitive markets.

The following are some of the changes that would be necessary to achieve a workable Commercial Government Enterprise:

**Net Income and Retained Earnings.** Production of net income and accumulated retained earnings are necessary to finance the expanding delivery network, decrease outstanding debt, and fund investments in technology.

**Markets.** The Postal Service should be free to make use of its assets and explore service offerings in related markets in order to help fund continuing universal service responsibilities.

**Purchasing.** Under a more effective, modern business model, legislative restrictions on the way the Postal Service acquires goods and services, including transportation, should be removed so that it can operate in a more businesslike manner.

**Regulation.** The Postal Service should have broad flexibility to set prices within overall parameters managed by the PRC and the Board of Governors, so that it could offer more moderate and predictable rate changes and so that users of monopoly services are not overcharged. Review of pricing and classification should be conducted through a complaint process. Outside the scope of the monopoly, pricing should be regulated under the antitrust and fair competition laws applicable to other businesses.

The Postal Service's universal service mission should continue, with the goal of preserving access to mail services for Americans nationwide on an economically sound basis. The standard for the number of delivery days and service levels should be flexible to accommodate changing conditions. The Postal Service should be able to make changes, subject to review for compliance, with broad criteria under a complaint system.

**Labor and Employment.** In order to increase the accountability of the organization with respect to overall performance, the Postal Service should negotiate with its employees' bargaining representatives about all employee benefits, along with wages and other working conditions. In labor impasses, the parties should be encouraged to resolve their differences themselves, through a compulsory mediation process similar to essential-service bargaining under the Railway Labor Act, which assures consideration of the public interest.

Consistent with other organizations in the mailing community, the Postal Service should follow private sector employment laws including those governing workers' compensation, equal employment opportunity, and alternatives to traditional employee dispute resolution processes. The Postal Service and its employees should not have costly, multiple avenues for complaints about workplace disputes.

## IV. Conclusion

By any reasonable measure, transformation of the Post Office Department by the Postal Reorganization Act into a more businesslike Postal Service has been a success. After three decades of progress, however, pressing issues have been uncovered by a changing economy. The organization's structure and business focus are not aligned with the challenges of today's commercial environment. The Postal Service does not have the flexibility essential for successful management of a modern business. Postal laws create a tension between a public policy mission and structure and the businesslike necessity to deliver what customers want and will pay for in the marketplace. Until transformation is accomplished, the ability of the Postal Service to finance a continually growing universal service obligation without a government subsidy will be in serious doubt.

Today, all stakeholders face the need to reexamine the mission and structure of the nation's Postal Service. Alternative organizational models described in our plan represent possible future pathways for reform. No model comes with an assurance of success, and none accomplishes all possible goals. Each model offers benefits and

risks. The postal community spans a wide range of interests, with a diversity of perspectives on these issues. Resolution of differences has already proven difficult, but a consensus for change is necessary to equip the national postal system to perform its mission for the country in the decades ahead.

After careful consideration and consultation with stakeholders, the Postal Service believes that transformation requires action both in the near term and in the longer term. Both courses must be pursued concurrently. Near-term strategies include those steps we are taking now to improve value to our customers, enhance operational efficiency, and foster a more performance-driven culture. These strategies require only modest legislative and regulatory changes. Legislative reform for the longer term is needed to define a legal framework for the postal system over the next 30 years that remains consistent with the shared vision of the United States as a place where all citizens, in every part of the country, can participate equally and easily in the life of the nation.

### **Leadership Commitment**

Successful transformation will require strong and committed leadership. Working together, the leadership of the Postal Service will forge a fundamentally new business model for the institution grounded in a business culture of performance and accountability. We recognize our responsibility to take definitive action and to offer our stakeholders a clear and compelling view of what we are doing and where we are going. We accept and welcome the role of Congress, our customers, our labor and management associations, and other stakeholders in this endeavor.

## Section 1 — The Need for Transformation

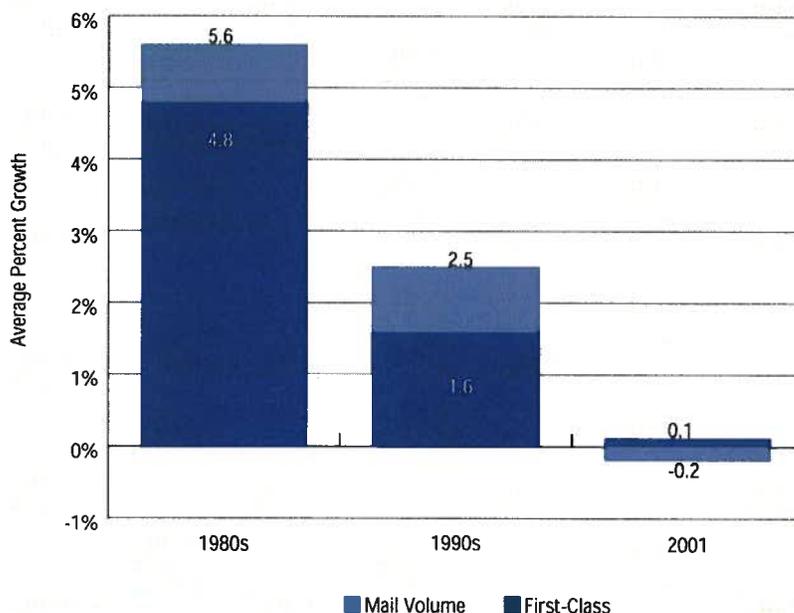
When Congress enacted the Postal Reorganization Act (PRA) of 1970<sup>1</sup> and established the Postal Service as an independent, self-supporting federal entity, the legislation rectified a service crisis marked by inconsistent delivery and widespread public dissatisfaction. The new Postal Service was to meet its responsibilities in a businesslike fashion by ensuring that revenues from the sale of products and services were sufficient to cover all operating costs.

For three decades, the Postal Service has served the nation well. It has maintained universal service, improved service quality, and held postage rate increases to levels commensurate with inflation. Nonetheless, because of sweeping changes in technology and business practices, the institution is facing a vastly different commercial environment than it did in 1970. As a result of these macroeconomic changes, the rate of growth in mail volumes has been declining since 1997. In 2001, the total volume of mail decreased slightly, following a general downturn in the economy. Facing both weaknesses in the economy and terrorist attacks, in the first half of fiscal year 2002 the Postal Service saw its largest mail volume decline since the Great Depression.

*If I've learned nothing else as Postmaster General, I have become convinced that we cannot allow the Postal Service to drift toward the crises of the 1960s that ultimately compelled postal reform in 1971. We have to make some very fundamental, critical changes. We have to come to grips with the reality that the legislation that created the Postal Service more than 30 years ago now puts us out of step with our customers, our competitors, and the marketplace. You and I both know, today we are unable to respond effectively in the highly competitive marketplace of the 21st century.*

—Postmaster General John E. Potter, address to National League of Postmasters, February 25, 2002

### VOLUME GROWTH BY DECADE



Source: Postal Service Internal Records

<sup>1</sup> Postal Reorganization Act, Title 39, U.S. Code, Sec. 101 (a).

In April 2001, the General Accounting Office (GAO) placed the Postal Service's transformation efforts and its long term outlook on its "high risk" list to focus attention on challenges facing the organization. Subsequently, in June, Congress asked the Postmaster General to prepare a plan that would address the structural reform of the organization. On September 30, 2001, the Postal Service published the *Outline for Discussion: Concepts for Postal Transformation*, which established the framework for a comprehensive discussion among Postal Service stakeholders.<sup>2</sup> The process of input, analysis, and discussion that followed resulted in this *Transformation Plan*. The transformation planning effort has been led by the Postal Service's Board of Governors, the Postmaster General, and Executive Committee and conducted by a cross-functional postal management team.

This *Plan* is presented in four chapters:

- **The Need for Transformation.** Presents the case for change.
- **Meeting the Challenge.** Identifies actions the Postal Service is taking now and the moderate regulatory and legislative changes needed to enable those actions.
- **Preparing for the Future.** Discusses potential future business models, the Postal Service's recommendation, and the statutory changes required.
- **Conclusion.**

This chapter describes the challenges the Postal Service faces and the perspectives of postal stakeholders on transformation issues.

## 1.1 Reasons for Transformation

In 2001, the Postal Service delivered 207 billion pieces of letter mail, periodicals, advertising mail, and packages to approximately 138 million addresses six days a week. This volume represents over 40 percent of the world's mail. In one week, the Postal Service delivers the same volume that United Parcel Service (UPS) delivers in a year; and in two days, the Postal Service delivers the same volume that FedEx delivers in a year.<sup>3</sup>

Measured by revenue, the Postal Service is the 11th largest domestic enterprise and the 33rd largest worldwide.<sup>4</sup> It receives virtually no taxpayer dollars, charges among the world's lowest prices for letter mail,<sup>5</sup> and anchors a \$900 billion domestic mailing industry.<sup>6</sup> With nearly 770,000 career employees, the Postal Service is the second largest civilian employer in America after Wal-Mart.<sup>7</sup> When combined with private sector employees in the mailing industry, 1 in 15 American workers makes a living from a postal-related job. These employees and private businesses in turn contribute to the American economy. In 2001, the Postal Service's payroll, excluding benefits, totaled

<sup>2</sup> See Appendix B, Executive Summary of *Outline for Discussion*, for more information. To read the full report, go to [www.usps.com/strategicdirection](http://www.usps.com/strategicdirection).

<sup>3</sup> To see the *U.S. Postal Service 2001 Annual Report*, go to [www.usps.com/history/anrpt01/](http://www.usps.com/history/anrpt01/).

<sup>4</sup> See Tables 1 and 2 in Appendix A, *Charts, Graphs, and Tables*, for more information.

<sup>5</sup> See Chart 1 in Appendix A, *Charts, Graphs, and Tables*, for more information.

<sup>6</sup> The growth of the U.S. mailing industry resulted in large part from the flexibility gained by the Postal Service under the Postal Reorganization Act of 1970 and is one of the major success stories of that legislation. Further information on the composition, scope, and concerns of the mailing industry can be found in Appendix C, *Overview of the Mailing Industry*.

<sup>7</sup> See Table 3 in Appendix A, *Charts, Graphs, and Tables*, for more information.

\$38 billion. In that year, the Postal Service spent \$17.8 billion on supplies and services, nearly \$1 billion in rent, and \$64 million in taxes on leased facilities. Clearly, the postal industry is vital to America's citizens and its commerce. Given the breadth and scope of this industry and the significant role it continues to play in the economy, why should the Postal Service change?

As the GAO has indicated, financial losses in the last three years and volume losses in the last 18 months raise questions about the viability of the current business model. The Postal Service believes there are two cogent and fundamental reasons for revising the legal framework of the organization. First, three decades of experience with the Postal Reorganization Act of 1970 indicate that the charter of the Postal Service should be modified to serve the ongoing needs of the nation more efficiently and effectively. While the basic charter of the Postal Service has remained static since its inception in 1970, the mailing industry and private sector delivery companies have evolved to meet the changing needs of the marketplace. Indeed, innovation and competition were not primary concerns of the 1970 Act. The Act was designed to allow the Postal Service to do what it did in 1970 in a more businesslike manner. By definition and structure, a government entity has goals and mandates that the private sector does not have, and these inhibit the flexibility needed for direct competition. In the far different and more competitive environment of 2002, a revision of the Postal Service's 1970 charter is overdue.

The second, and ultimately more important, reason for transformation is that the future will not be like the past. In a number of possible future scenarios, the Postal Service may soon find itself increasingly ill-equipped to serve the postal needs of the nation. While the precise shape of the future cannot be known, an inventory of global economic changes impacting the Postal Service is sobering: a potentially sharp decline in mail volume, a major increase in costs due to security and other factors, and consolidation of operators and markets into global delivery services. If these developments persist—and governments of many industrialized countries that have studied these issues say they will—future postal success will require a more flexible institution with the organizational adaptability and managerial tools of commercial businesses. While such flexibility may possibly prove unnecessary (the future may resemble the present), it will be impossible to transform an organization the size of the Postal Service once the future has arrived.

From these twin perspectives, the major drivers of transformation are summarized below.

### **Potential Declines in First-Class Mail® Volume**

As indicated above, the rate of growth of total mail has been declining since 1997, turning slightly negative in 2001. Single-piece, First-Class Mail volumes have declined for four straight years, with a 2.7 percent decrease in 2001. This mail category includes bill payments, which are especially vulnerable to diversion. Postal Service models indicate that electronic diversion is the largest contributing factor driving the decline in First-Class Mail, single-piece letters.<sup>8</sup>

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<sup>8</sup> See Docket No. R2001-1, USPS-T-7, Testimony of George Tolley, page 37, [www.prc.gov](http://www.prc.gov).

**IMPLICATIONS ON COST COVERAGE**

A decline of \$1 Billion in Single-Piece First-Class Mail (FCM) results in a lost contribution of \$432 Million.

	Volume (Thousands)	% Change
FCM Single Piece	(2,403,846)	(4.6%)
Offsetting Increases*		
Standard Mail	7,078,689	7.9%
or Priority Mail	313,353	25.6%
or Express Mail	49,609	69.9%
or Parcel Post	1,509,790	465.7%

\* Making up the lost contribution would require an increase in the amounts noted above.

Source: Postal Service Internal Records, FY 2000 Cost and Revenue Analysis.

*The electronic "diversion" of mail volumes, particularly of First-Class Mail, directly impacts the Postal Service. While conventional wisdom places the Postal Service directly at risk from this "new economy," the actual impact on mail remains unknown. Appendix E, Electronic Diversion of Mail Volumes, provides an economic review of the diversion issue.*

Mail volumes were down significantly following the terrorist and anthrax attacks in the fall of 2001. While that volume decline cannot be attributed to electronic diversion, only time will tell whether the loss is temporary, or whether the events of last September and October have accelerated the rate of adoption of alternatives to the mail. Overall, it is dangerous, in the words of a large postal stakeholder group, to assume that mail volume will continue to rebound with the economy.<sup>9</sup> Given the growing volatility of mail volume, there is an urgent need to build flexibility into the postal model.

The Postal Service's financial condition is particularly sensitive to the volume of First-Class Mail. First-Class Mail comprises 48 percent of total mail volume and 69 percent of total contribution.<sup>10</sup> In other words, First-Class Mail covers more than two-thirds of institutional costs, that is, costs such as those related to the network of post offices and delivery points. A substantial reduction in First-Class Mail volume would mean that the contribution this class makes to institutional costs would have to be made up by decreases in operating costs, increases in other class volumes, increases in rates, and/or a change in the universal service obligation. Offsetting losses from the crucial First-Class Mail contribution to overhead with increased contribution from other postal products and services is unlikely.

**Increasing Cost Burdens**

Despite significant gains in efficiency and productivity through automation, Postal Service costs are rising faster than revenues.

Most postal employees are covered by collective bargaining and are paid an average wage/benefit premium in excess of comparable private sector wages and benefits. The vast majority of current postal labor requirements are inextricably tied to infrastructure issues, such as the postal retail network and the rising number of delivery points. Significant reductions in labor costs cannot be achieved without addressing these issues.

In 2001, compensation and benefits accounted for 76 percent of total Postal Service expenses. These costs increased 3.7 percent over the previous year. Postal Service employees are covered under the federal Civil Service Retirement System (CSRS), the

<sup>9</sup> See Charts 2A and 2B in Appendix A, *Charts, Graphs and Tables*, for more information.

<sup>10</sup> See Chart 3 in Appendix A, *Charts, Graphs and Tables*, for more information.

Dual System, or the Federal Employees Retirement System (FERS). Coverage is based upon the starting date of employment with the Postal Service. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Postal Service retirement and health benefit costs will continue to escalate over the next 10 or more years due to the overlap in funding requirements under the retirement systems that cover current employees and postal annuitants.<sup>11</sup> Annual operating expenses for retirement costs, including annuitant health benefits, are anticipated to grow from \$9.7 billion in 2001 to \$15.8 billion in 2011. Further, increases in the number of Postal Service retirees, the growth in annuitants' health benefits, and cost-of-living adjustment costs will continue to escalate. Finally, not until all employees fall under FERS retirement will these costs stabilize.

Another area of significant cost is the current employee dispute resolution process. The Postal Service currently has overlapping and duplicative processes for employees to file complaints concerning workplace disputes. This generates excessive administrative expense associated with managing these processes.

### Significant Fixed Costs

The "everywhere, every day" universal service obligation requires a significant infrastructure investment. Almost one-half of total postal costs are spent on fixed costs. The "everywhere" responsibility requires the provision of service to the ever-increasing number of delivery points. The Postal Service adds 1,700,000 new addresses annually and there is a significant cost of providing this additional service. These new delivery addresses necessitate the addition of 4,800 new carriers to make delivery to over 513,000,000 new delivery stops each year. Additional fixed costs, such as those associated with vehicles and facilities, are incurred to support this growth. In the past, the annual growth in mail volume has served to offset the cost of providing new service, but that is no longer the case.

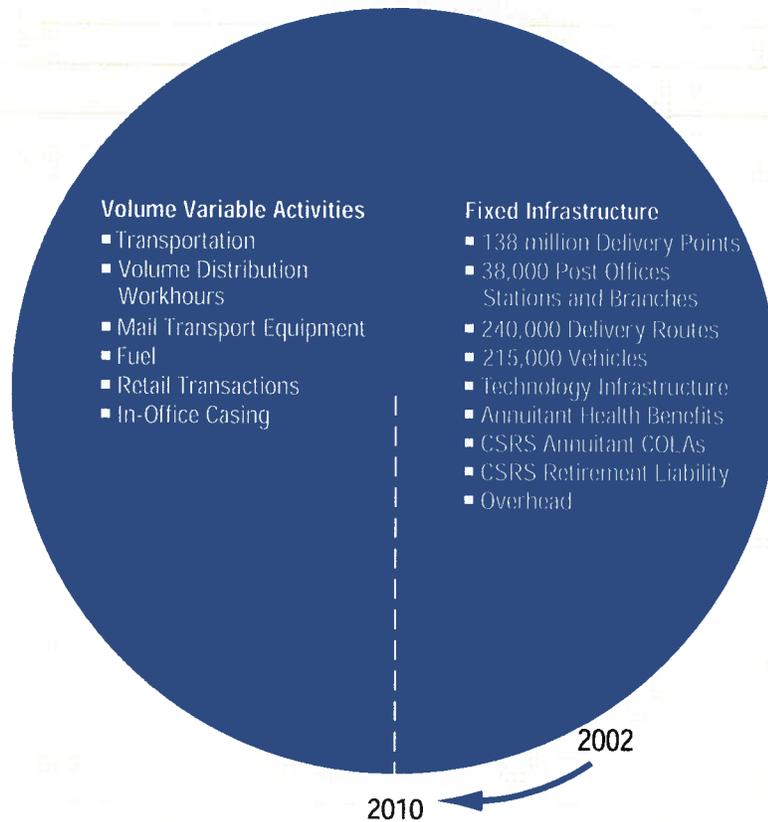
The "every day" portion of the universal service obligation also contributes significantly to the level of fixed costs. An enormous infrastructure is necessary to support postal operations. A significant portion of postal costs is spent on fixed resources and does not increase or decrease when volume changes.<sup>12</sup> Letter carriers travel their complete routes, trucks transport mail between facilities each day to meet service commitments, and retail facilities are open each business day no matter what level of activity occurs. As the Cost Trends chart illustrates, nearly one-half of all postal costs are fixed, and their proportion of total cost will continue to increase. This includes more than 38,000 post offices, stations, and branches, 240,000 delivery routes to service over 138,000,000 delivery addresses, 215,000 vehicles, and significant annuitant retirement costs.

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<sup>11</sup> See Appendix D, *Escalating Retirement Costs*, for more information.

<sup>12</sup> See Appendix F, *Fixed Versus Variable Costs*, for more information.

## COST TRENDS — FIXED VERSUS VOLUME VARIABLE COSTS



FY 2001 Total Expense \$67.5 Billion

Source: Postal Service Internal Records

### Expanding Communications Alternatives

The Internet and the World Wide Web, not even invented in 1970, have dramatically changed the communications market.<sup>13</sup> Within the next decade further innovations such as mobile commerce, broadband, interactive TV, data mining software, and new printing technologies will change the way businesses and consumers interact. While hard copy mail retains tremendous effectiveness, there is little doubt that its share of the overall communications market will shrink.

Of greatest impact on the Postal Service are electronic alternatives to business correspondence and transactions, particularly for First-Class Mail items such as bills, statements, and payments.<sup>14</sup> First-Class Mail volumes have already been affected by the telephone, fax machine, Internet, and other electronic communications, including online bill presentment and payment, bill payments by telephone, electronic filing of tax returns, direct deposit of tax refunds, Social Security payments, and other government transactions.

<sup>13</sup> See Chart 4 in Appendix A, *Charts, Graphs, and Tables*, for more information.

<sup>14</sup> See Chart 5 in Appendix A, *Charts, Graphs, and Tables*, and Appendix E, *Electronic Diversion of Mail Volumes*, for more information.

The Internet is also forcing the Postal Service into greater competition with the private sector by changing the mix of mail. The Internet and electronic commerce are stimulating growth for other postal products, such as package delivery and targeted ad mail. These products are subject to competition from traditional sources (e.g., newspaper and TV ads and other package delivery firms).

### Aggressive Competition in Postal Markets

The Postal Service is losing share in the overall delivery services market.<sup>15</sup> Giant corporations now dominate parcel and express markets. Other companies, such as consolidators and presort bureaus, have invested significantly in the upstream worksharing portions of postal processing and could develop into major competitors in the future.

Competitors such as UPS and FedEx are expanding into other businesses, including an increasing portion of the postal value chain. For example, UPS has entered the “hybrid” mail market, where messages are generated electronically and printed close to the final destination. UPS also recently entered the presort business. Under the current regulatory structure, competitors have far more flexibility to respond to changes in market conditions and to target specific customers than does the Postal Service. Should the Postal Service continue to lose ground in competitive markets, the loss of valuable revenue will jeopardize its ability to fund universal service.

### Increasing Competition from Global Delivery Service Providers

The global competitive landscape for posts is changing irreversibly.<sup>16</sup> With the rise of multinationals, deregulation, and free trade agreements, international posts have followed the airline, telecommunications, public utilities, trucking, bus, rail, and steel industries to less regulated, more competitive markets. The liberalization of the European Union (EU) provides economies of scale for former national postal services to emerge as global enterprises offering a wide variety of services. Liberalization of posts in Canada, Asia, and Latin America expands the competition.

Foreign postal operators such as Deutsche Post World Net (DPWN) and TNT Post Group (TPG) are moving well beyond traditional postal services, offering logistics, financial services, and electronic services. Four foreign posts—DPWN, TPG, Consignia (United Kingdom), and La Poste (France)—have limited operations in 18 major metropolitan centers nationwide, including New York, Boston, Washington, DC, Houston, Salt Lake City, Los Angeles, San Francisco, and Seattle. These operations feature some sales offices and offer mail, parcel, logistic, and financial services to the American market.<sup>17</sup> DPWN recently acquired a controlling interest in DHL, the leading global express company, originally a U.S. firm. DPWN owns one of the largest global freight forwarders, also based in the United States. In addition,

*Additional information on global competitors of the Postal Service, including financial information, presence in the United States, and scope of global operations can be found in Appendix G, Global Postal Competitors in the United States.*

<sup>15</sup> See Chart 6 in Appendix A, *Charts, Graphs, and Tables*, for more information.

<sup>16</sup> See Appendix H, *Postal Transformation: The International Experience*, for more information.

<sup>17</sup> See Chart 7 in Appendix A, *Charts, Graphs, and Tables*, for more information.

DPWN has created its own Philadelphia-based top management training school, Deutsche Post World Net University, in partnership with the University of Pennsylvania's Wharton School.<sup>18</sup>

Outside the United States, the delivery services sector is likely to be characterized by continuing regulatory reforms, cross-border acquisitions and alliances, and new product development. Playing an important role in this process is the Universal Postal Union (UPU), an intergovernmental organization consisting of 189 countries. Until 1998 the Postal Service had the lead responsibility for representing U.S. interests at the UPU. That role has been transferred to the State Department. Changes in the structure and direction of the UPU will impact the Postal Service both at home and abroad.<sup>19</sup> A strong partnership with and representation by the State Department will continue to be important for Postal Service success in this area.

As foreign posts enter more and more of the U.S. postal value chain, the loss of revenue experienced by the Postal Service could potentially put the provision of universal service in deeper peril.

## 1.2 Perspectives on Transformation

Stakeholders in the United States Postal Service offered comments on postal transformation through an outreach program that included discussion proposals, Web-based and traditional mail channels, focus groups and public surveys, stakeholder group meetings, Board of Governors-directed panel discussions, and employee surveys. To ensure that stakeholders had ease of access and a context for commentary, the Postal Service published two *Federal Register* notices and a report titled *Outline for Discussion: Concepts for Postal Transformation*. Analysis of the commentary and input received suggests broad stakeholder agreement on the following themes:

- Postal Service transformation is necessary and desirable.
- Transformation should get underway as soon as possible.
- The Postal Service should take a leadership role, rather than wait for others to solve its problems.
- Universal service must be maintained, although not necessarily in its current form.
- The Postal Service should continue to emphasize secure, accessible and affordable delivery.
- There is no clear mandate for full privatization of the Postal Service.

Within the distinct segments of the stakeholder community, other areas of agreement could be noted. The following is a brief summary of those perspectives.<sup>20</sup>

<sup>18</sup> International Post Corporation, Market Flash, Issue 224, February 2002.

<sup>19</sup> See Appendix I, *Overview of the Universal Postal Union*, for more information.

<sup>20</sup> See Appendix J, *Stakeholder Outreach: Process and Results*, for more information.

## Consumers

By and large, consumers expressed a high degree of overall satisfaction with the Postal Service. While it could be marginally more efficient, overall they stated that they like the service they receive. However, when told that greater financial pressures would be confronting the Postal Service, they expressed a willingness to entertain such initiatives as changes to the laws that govern the Postal Service, modifications to the universal service mandate, and modifications to service levels.

## Postal Employees

A number of individual employees, as well as organizations representing employees, chose to comment on the *Outline for Discussion*. A survey of Postal Service executives was conducted on the topic of the strategic transformation of the Postal Service, and efforts were made to solicit the views of mid-level managers and Advanced Leadership Program enrollees and graduates. Additionally, the Postal Service Board of Governors facilitated a panel session with the presidents of unions and management associations to collect first-hand input from these stakeholder groups.

Employees generally agreed that universal service must be preserved; that transformational changes should be made quickly; that strategic initiatives should be introduced to promote growth; and that flexibility should be created to allow the organization to become more competitive.

## Mailers and the Mailing Industry

Mailers have been engaged in an ongoing discussion with the Postal Service regarding transformation. Additionally, many mailers provided written comments to the *Outline for Discussion*. Small business customers were also included in focus groups and surveys. The Postal Service Board of Governors facilitated a panel session with six mailers to discuss transformation. The findings of the Mailing Industry Task Force, presented at the October 2001 National Postal Forum, were also reviewed as part of the input assessment process.

As a whole, the mailing community acknowledged the need for transformation and felt that the Postal Service should: 1) not underestimate the seriousness of the problem, 2) be bold and explicit in its recommendations, 3) move quickly to implement proposed initiatives which would not require legislative action, 4) hold the line on large and frequent rate increases 5) pursue cost-cutting measures, and 6) strive to increase productivity. Several said that the universal service mandate should be reviewed and modified. Others said the *Outline for Discussion* failed to convey a sense of urgency. Many of the mailers recommended that a presidential commission be established to respond to the long-term problems of the Postal Service. Others urged that the Postal Service work to raise its debt ceiling and to address the issue of its unfunded liabilities.

## Suppliers

While some suppliers commented on the *Outline for Discussion*, the main outlet for supplier feedback has been meetings with suppliers and the Supplier Quality Council. The purpose of the Supplier Quality Council is to provide a forum for suppliers to dialogue with the Postal Service to enhance performance and operations.

A unanimous opinion voiced by suppliers was for the Postal Service to recognize the need for transformation and for it to act quickly. Suppliers also were concerned about the reductions in capital spending on supply chain improvements. The main topic of discussion at these meetings was the strategic direction of the Postal Service. Specifically, suppliers were concerned about buyer/supplier alignment and making it easier for the Postal Service to do business with its suppliers.

### **Public Policy Community**

The public policy community, which includes independent policy institutes and other independent observers, has addressed the subject of transformation in papers, articles, testimony, books and other discussion documents issued since the Postal Service was called upon last spring to develop a transformation plan. In Appendix J, *Stakeholder Outreach: Process and Results*, an annotated bibliography includes some of the publications that were considered in the planning process. There were no overarching trends in the comments the policy community offered other than that the Postal Service is facing major challenges and must make substantial changes to respond.

### **An Ongoing Process**

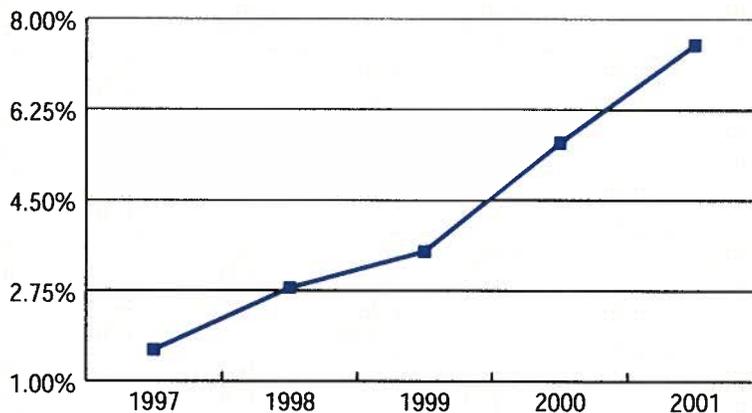
The process of collecting stakeholder input on postal transformation and, with this publication, the *Transformation Plan*, will continue. The objectives and strategies described in the *Plan* will be integrated into the annual strategic planning process, and refined through additional analysis and review. As part of that process, stakeholder input will be solicited, assessed and incorporated. A variety of channels and approaches will be used to ensure ease of access for any interested stakeholder.

## Section 2 — Meeting the Challenge

An internal transformation of the United States Postal Service has already begun.

In the summer of 2001, Postal Service leadership was reorganized and an executive committee was created to develop and to implement policy approved by the Board of Governors. At the time, the Postal Service was achieving record levels of delivery performance and customer satisfaction. During the previous 24 months, total factor productivity improvements had saved the Postal Service \$2.5 billion in expected costs. In addition, as the Output per Workhour graph below indicates, cumulative labor productivity increased 7.5 percent since 1996, with larger gains in 2000 and 2001. This was largely driven by the intense focus on improving productivity that resulted in a reduction of 21 thousand career employees. The organization recorded nine consecutive quarters of increased productivity, while adding almost 4 million new addresses over the same period.

### CUMULATIVE CHANGE IN OUTPUT PER WORKHOUR



Yet that performance record, the Postal Service concluded, was insufficient to keep up with rapid and significant changes in its business environment. To succeed in 2002 and beyond, the organization would need to go much further. An additional 26 million workhours—the equivalent of 13,000 jobs—would be cut. Administration of the Postal Service would be streamlined—"the most sweeping organizational changes in ten years," the Postmaster General would state—with new emphasis on the traditional mail delivery business. There would be 20 percent fewer officers, 800 fewer employees assigned to postal headquarters, and 2,000 fewer administrative workers systemwide. Selected mail processing operations and facilities would be consolidated.

The national tragedy of September 11, 2001, and October's bioterrorism raised unexpected obstacles to transformation, but at the National Postal Forum held in Denver in the fall of 2001, Postmaster General Potter asserted that the broad change initiative would continue. "Our operationally-driven culture has to find new ways, under our existing regulatory structure, to add value to our existing products," Potter stated. "It also means that this same operationally-driven culture must take on new ways of

encouraging revenue growth.... To develop the types of breakthrough performance I am convinced we can achieve, we are going to have to continue the businesslike methods of the last ten years.... We're going to have to take on internal and external issues where we previously said, 'Oh, we can't do that.'"

Today, the Postal Service has initiated a series of transformational strategies across all its functional areas. The program of strategies and initiatives outlined in this section of the *Plan* flow from three overarching imperatives that were identified by the Postal Service during the process of transformation planning:

- Foster growth by increasing the value of products and services;
- Improve operational efficiency; and
- Enhance the performance-based culture.

To achieve these imperatives, basic support functions are also undergoing transformation. Taking fundamentally new approaches in its enabling functions, the Postal Service will enhance financial management; adopt flexible, business-driven purchasing procedures; strategically apply technology; and ensure the safety, security, and privacy of the mail.

## TRANSFORMATION IMPERATIVES



### **Foster Growth Through Customer Value:**

The Postal Service will improve the quality, affordability and convenience of its products and services.

### **Improve Operational Efficiency:**

The Postal Service will utilize cost management, new technology, and workforce planning to improve operational efficiency.

### **Enhance Performance-Based Culture:**

The Postal Service will manage its human capital to create a performance-based corporate culture.

The principles of management that flow from these transformational imperatives support numerous improvement strategies that can be implemented with only modest changes to existing regulations and laws. To foster growth by increasing the value of products and services, the Postal Service must both reshape the channels through which customers access products and services and improve the reliability, effectiveness, and convenience of the products and services themselves. To improve operational efficiency, the Postal Service must rethink all aspects of its logistics systems, including mail processing, material handling, purchasing, and managing transportation services. To enhance a performance-based culture, the Postal Service must redesign the incentives and workplace environments for its human capital, both managers and employees. For the Postal Service to be successful in the near term, enabling strategies and moderate legislation must be implemented. Each of these strategies is discussed on the following page.

## 2.1 Foster Growth through Customer Value<sup>21</sup>

In today's economy, creating customer value means both improving quality and affordability of products and services and providing the ability to access and use these products and services at times and places that are most convenient to the customer. For major mailers, the Postal Service will increase the range of customizable products that respond to the specific needs of these businesses. For small businesses and consumers, the Postal Service will improve the simplicity and accessibility of its products and services. Retail and products and services are the main areas of growth in the Postal Service.

### 2.1.1 Retail: Expand Access to Postal Services

Most Americans purchase postal products and services at retail outlets. Post offices provide local access to more than seven million Americans daily, be it to mail a bill payment, send a package overseas, pick up a certified letter, or buy a money order. Post offices also serve as delivery locations where 18 million customers receive their mail at post office boxes. The postal retail network is vast and includes more than 38,000 post offices, stations, and branches staffed by Postal Service employees. Limited counter services are also offered at more than 4,400 privately operated contract retail units. Finally, customers can also purchase postage stamps through the mail, from more than 32,000 vending machines, online at [www.usps.com](http://www.usps.com), and at 40,000 commercial retail outlets and ATMs.

The Postal Service's major retail challenge is to meet its customers' ever-increasing needs for access while reducing infrastructure and operating costs. The enormous scale of the retail infrastructure and the status of post offices as community centers in many areas have traditionally limited options for responding to population growth and changes in market demand. As customer expectations change and demand shifts geographically, the retail infrastructure has not kept pace, particularly in high-growth, metropolitan communities.

About 31 percent of all customers visit post offices for stamps only in spite of several underutilized alternative channels. Customers could bypass a post office trip by buying stamps at vending machines, supermarkets, ATMs, online, and by mail. Many of these options are available 24 hours a day, seven days a week. These alternatives are also less expensive for the Postal Service than selling stamps at a post office. However, a large percentage of customers are unaware of these services, and for anything more complex than buying First-Class Mail® stamps, many customers believe they must go to a post office. This is an inconvenience to consumers and an unnecessary cost to all postal ratepayers.

During the next five years, the Postal Service will provide customers with easier and more convenient retail access. Postal services will be available where customers need them—at home, at work, where they shop, or at the post office. The Postal Service will promote the convenience of existing, underutilized alternatives and develop new low-cost solutions using technology, partnerships, and product simplification.

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<sup>21</sup> See Appendix K, *Growth- and Value-Based Strategies*, for more information.

The local post office will remain the core of the retail network, increasingly integrated into a flexible set of customer contact options, including the Internet, letter carriers, call centers, and partnerships with commercial retailers. Redirecting simple transactions away from expensive counter operations will produce cost savings and two important customer benefits. First, customers will have more choices. The Postal Service will serve them where they live and work. Second, customers who have more complex needs and require service at a post office will find shorter lines and more efficient operations. New services will be introduced that meet the needs of these customers and produce new revenue.

Improving customer service, increasing customer choice, and reducing retail costs will only be possible if the Postal Service eliminates, aggressively, redundancy in its physical network. A retail optimization process will be used to achieve a stable and efficient network capable of providing tailored services to the market. While this effort will initially focus on contract postal units, the current moratorium on post office closings will also be lifted so that a comprehensive approach can be applied across the entire retail network.

The following four strategies will transform retail operations:

- Move simple transactions out of post offices;
- Create new, low-cost retail alternatives;
- Optimize the retail network; and
- Develop new retail services that increase customer value and postal revenue.

### **Retail Strategy 1: Move Simple Transactions Out of Post Offices**

Approximately 450 million stamps-only transactions take place in post offices each year. Given the number of low-cost alternatives already in place, these transactions present an immediate opportunity for productivity gains. However, shifting simple transactions to less expensive operations will require the Postal Service to change customer behavior—particularly the mindset that all stamp purchases and mailing transactions must take place at the post office.

Although the Postal Service markets a straightforward product line, many customers are unfamiliar with some of the basic services and how best to use them. Addressing this need for product information is central to the retail component of the *Transformation Plan*. Improvement will be accomplished through communicating aggressively and continuously with customers, highlighting the ease and convenience of buying stamps and completing simple mailings without having to visit a post office.

**COMPARISON OF ACCESS OPTIONS**

<b>Stamps Sold At</b>	<b>Share of Sales</b>	<b>Cost to Postal Service per Dollar</b>	<b>Customers Aware of Service</b>
Post Office Counters	80%	\$0.240	100%
Supermarkets Drug Stores, and Other Large Retailers	7%	\$0.016	70%
USPS Vending Equipment	6%	\$0.140	64%
Contract Postal Units	5%	\$0.100	n/a
Through ATMs	1%	\$0.016	18%
Stamps by Mail, Stamps Online, and all Other Means	1%	n/a	n/a

**Retail Strategy 2: Create New, Low-Cost Retail Alternatives**

Although opportunity exists to make better use of existing low-cost retail alternatives, entirely new solutions are needed to extend the times and places service is available without the addition of new post offices. This objective will be accomplished by making self-service easier and a trip to the post office unnecessary.

Major competitors offer a range of convenient options for customers to handle most aspects of shipping without visiting a service center. Unlike the Postal Service, these competitors do not enjoy an expansive retail network. Thus, out of necessity, these companies offer billing and credit accounts; pursue retail partnerships and aggressive self-service and drop box deployment; offer reliable, affordable pickup service; and lead many industries in the adoption of new technologies, notably call centers and the Internet. These services are an important cost and competitive advantage and are valued highly by customers.

**Expand Self-Service**

Vending equipment has long been an important component of postal retail service, but performs a relatively narrow function—selling stamps for cash. Three-quarters of the Postal Service's vending equipment is located in post offices, offering customers an alternative to counter service. The Postal Service is testing new self-service equipment that provides more services than just selling stamps. The Automated Postal Center, for example, is a secure kiosk that accepts credit and debit cards and provides customers with access to 80 percent of the services they currently receive at the counter. This equipment enables customers to weigh a package, determine the most appropriate mailing solution, print required forms, print the postage, and mail the package. Of course, customers will also be able to buy stamps. Expanded self-service capabilities will allow the Postal Service to serve its customers where they work, shop, and live.

### **New Functionality for www.usps.com**

The Postal Service's Web site, [www.usps.com](http://www.usps.com), is a vital tool for providing low-cost retail access. The site has the potential to handle most of the transactions that commonly take place in post offices, especially when combined with carrier pickup directly from the home or office. Customers can now use [www.usps.com](http://www.usps.com) to file address changes. Soon they will be able to weigh packages, pay for postage, and print postage indicia from their personal computers. If promoted aggressively to retail customers, these services and others that follow will increase the quality and decrease the cost of access to postal services.

### **Retail Partnerships**

The Postal Service is pursuing a number of partnerships with commercial retailers. These partnerships will range from supermarkets selling postage stamps to business service retailers offering a full range of postal products and services. A particularly promising solution is now being tested with a national retail chain. The stores offer only those services most commonly requested by nonbusiness customers, for example, First-Class Mail, light weight domestic Priority Mail, and selected special services such as delivery confirmation. The limited product line minimizes training, equipment, and cost. This service extends the Postal Service brand, improves access for infrequent shippers, and enables post offices to concentrate on high-value business customers.

### **Product Simplification**

While the complexity of the rate and classification schedule is appropriate for large shippers, it does not necessarily serve retail customers. A number of opportunities exist to simplify service for retail customers such as, prepaid mailers, and billing by mail for post office box holders. Billers, catalogers, online shippers, and other business-to-consumer mailers will be encouraged to expand the use of courtesy reply and prepaid returns. This approach will not only help speed the payment or merchandise return; it will also save the customer a trip to the post office.

### **Leverage Commercially-Developed Innovations**

The Postal Service will continue to support and leverage commercial innovation in the postal industry. An excellent example is PC Postage™, which allows customers to pay for and print secured postage using a personal computer. Products such as this have the potential to increase dramatically the number of customers that have access to the convenience of metered postage, while adding simplicity and reducing costs.

Another opportunity currently under discussion is the installation of commercial ATMs in post office lobbies. This proposal would give customers the ability to conduct their banking business as they would at any other ATM, and also provide self-service for stamp purchases.

### **Retail Strategy 3: Optimize the Retail Network**

As simple transactions are redirected to lower cost alternatives, post offices will scale down staffing and concentrate resources on more complex, higher-margin business. Offices will handle these transactions more efficiently by improving staff scheduling, converting to a more flexible workforce, collecting and using better data on customer traffic and transactions mix, and setting and meeting post office-level productivity targets. A rigorous network optimization process will be used to ensure that the Postal Service provides the right level of retail access at the least possible cost. Redundant retail operations will be consolidated, starting with poor-performing contract postal units.

*See Appendix N, Procedures for Closing Postal Facilities, for more information concerning Congressional oversight of Postal facilities.*

The objective of the Retail Network Optimization program is to tailor retail services to the individual needs of communities. This program will implement a Retail Network Plan that expands services in markets where the Postal Service is underrepresented and reduces the physical infrastructure in markets where the organization is overrepresented. The result will be a balanced network that meets customer needs through a variety of alternatives. The program will include a baseline review of the existing retail network to identify redundancy and service gaps; to document costs associated with support; and to develop service standards based on community type, travel time, distance, and hours of operation.

A national database of the approximately 38,000 post offices, stations, and branches that comprise the retail network is being created. The database will contain all operating costs, revenue, productivity, market penetration, customer valuation, logistics, demographics, and technology connectivity. The baseline review will be the foundation for decision-support modeling of network optimization and restructuring scenarios.

The Postal Service will employ a criteria-based methodology using this database to accommodate growth and eliminate redundancies. Threshold values including proximity to other postal facilities, retail productivity indicators, number of households, deliveries, walk-in revenue, small business accounts, and other criteria will determine the appropriate channel to be used to serve customers. Redundant, low-value access points will be replaced with alternative access methods.

### **Retail Strategy 4: Develop New Retail Services That Increase Customer Value and Postal Revenue**

Shifting simple transactions away from counters provides an opportunity to concentrate on the needs of many retail customers, especially businesses. Select offices with high concentrations of business customers will be converted to business service centers. New services built around the Postal Service's core mission and unique capabilities will be provided to add value to customer visits and revenue to the Postal Service.

### **Government and Other Services**

Post offices also provide a number of services for government organizations. In the

near term, the Postal Service will expand and enhance existing nonpostal services such as passport applications and international electronic funds transfers. Concurrently, several new services are also being explored, including identity verification, retail bill payment, and a variety of services related to package mailing and returns.

### **Leverage Retail Assets**

Beyond its vast retail infrastructure, the Postal Service possesses a number of valuable assets, including its long-established and trusted brand, ubiquitous customer contact, and extensive retail capabilities. These assets are attractive to many potential partners and are one reason that FedEx decided to place its drop boxes at thousands of post office locations, an arrangement that has benefited both organizations. The Postal Service will explore additional opportunities to partner with other organizations.

### **Complementary Retail Products**

In past years, the Postal Service experimented with the sale of a variety of merchandise in post offices. These offerings provided invaluable insight into product procurement, distribution, inventory control, and pricing strategies. As a direct result, the Postal Service has been able to successfully launch the ReadyPost® line of packaging supplies, a \$60 million business.

In the near term, the Postal Service will prioritize merchandise sold at post offices to products that directly complement traditional businesses. Further, the Postal Service will manage and market its products more aggressively, more intelligently, and with greater attention to bottom-line returns. Most post offices will sell merchandise in three main categories: packaging supplies, stationery, and stamp-related products. All categories will be managed against tight cost and revenue thresholds, with products and in-store merchandising support provided by dedicated national vendors (e.g., Hallmark produces the ReadyPost products).

Rationalization of the retail network is an essential step to ensure increased value for Postal customers. The following section addresses strategies to improve and grow Postal Service products and services to further enhance that value.

## **2.1.2 Products and Services: Improve Value and Growth**

To increase the use of traditional products the Postal Service will leverage technology and will develop new features and services to make the mail channel more competitive. Using product design and pricing strategies, the Postal Service will tier its customers and develop customized and innovative services for large mailers, and simpler, more convenient services for smaller mailers. To this end, the Postal Service will engage in effective channel management approaches to analyze how its customers differ in terms of contribution, growth potential, and needs—and then align its resources according to these differences to optimize the demand chain.

In particular, the Postal Service will:

- Use technology to enhance the value of mail;
- Design rates and mail preparation to match customer capabilities and needs;
- Position mail as a key communications medium and as a customer relationship management tool;
- Enhance package services;
- Map channel strategies around customer needs, contribution, and growth potential;
- Develop new products and services; and
- Leverage existing assets.

Each of these strategies is discussed below.

### **Products and Services Strategy 1: Use Technology to Enhance Value**

The capture of real-time information has revolutionized postal products and services. In the global delivery market "track and trace" services are becoming the norm rather than the exception. In coming years customers large and small will expect immediate feedback regarding the status of their letters and packages. This was a key message in *Seizing Opportunity: The Report of the 2001 Mailing Industry Task Force*.<sup>22</sup> Meeting this expectation will require a complex union of postal services and digital technology. In addition, business customers will need other forms of "intelligent mail" that not only feature the ability to track and trace from origin to delivery, but also allow integration of postal information into the entire cycle of multiple business transactions.

*Technology integration into the mail system via intelligent mail could greatly expand the mailing industry's business.*

—Mailing Industry Task Force Report

The Postal Service stands on the threshold of this delivery service enhancement. The organization currently offers delivery confirmation services for packages and "accountable items," such as certified mail and return receipt service. Large business mailers can now track their mailings in near real-time with Confirm™, a new service that uses PLANET CODE™ technology to store information about the mailer's identity and the mail piece itself in a unique barcode.

To retain existing customers and attract new ones, the Postal Service must expand application of this technology and implement new services that increase the "intelligence" of the mail. In the near term, Confirm and PLANET CODE will provide customers with transit and delivery information for virtually every piece of mail. Emerging Postal Service technologies, such as image lift, two-dimensional barcodes, and print-to-Web applications, will build on this concept and provide seamless service between Postal Service operations and the customer.

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<sup>22</sup> The Mailing Industry Task Force, a group composed of chief executives of 11 industry-leading companies and the Deputy Postmaster General, was convened to assess the current state of mail as a communications channel and to determine how mail could be enhanced to ensure its viability in the future.

Delivery information is only as good as the quality of the address data. The Postal Service aims to help customers deliver to the correct address each and every time. To meet this objective, the Postal Service will work with customers to make sure databases are updated frequently and accurately. The Postal Service will also explore the use of publicly available databases to improve the overall accuracy of address information.

These efforts will make mail more measurable, providing clear signals to operations managers where bottlenecks are slowing delivery. This, in turn, will lead to service improvements, making mail more predictable and reliable. By knowing when a mail piece will be delivered, businesses can create marketing and advertising events based on day-certain communications and can plan their remittance and other inbound operations around a more predictable mailstream.

### **Products and Services Strategy 2: Design Rates and Mail Preparation to Match Customer Capabilities and Needs**

To generate new revenue growth in the future, the Postal Service must offer products and services that can accommodate customers of varying sizes and mailing capabilities. Postal Service rates, preparation requirements, and payment options must be flexible enough to attract small, medium, and large businesses and consumers. Communications efforts must be targeted to reach segments of the market that have been reluctant to use postal services. Rate rationalization, innovative preparation requirements, and targeted communications are key strategies for growing revenue in the future. The current joint mailer/Postal Service Product Redesign initiative will be the primary vehicle to accomplish these strategies.

Postal Service customers need simple solutions for their mailing needs. Ease of use will be an essential ingredient for increasing the customer base in the future. As part of the *Transformation Plan*, the Postal Service is looking at developing pricing strategies for packages which emphasize size rather than content. The Postal Service will continue to promote the deposit of mail closer to the point of delivery, producing the least combined-cost mailing solution. For businesses that mail in bulk, but only in moderate amounts relative to their overall operations, the Postal Service will offer the option of simpler requirements and preparation rules. As a result, these mailers will be able to avoid most of the complex requirements they are now compelled to master.

At the other end of the spectrum, the capabilities of "mail-intensive" customers (businesses for which mail is a core part of their operations) have developed to the point that they should be recognized with additional cost savings. The Postal Service will offer these sophisticated mailers a rate and preparation structure that rewards additional types of cost reduction while providing flexibility for mailers to select the preparation activities they wish to perform to obtain discounts.

Pricing of products is a key transformation area.<sup>23</sup> In order for customers to evaluate internal investment decisions, they need advance knowledge about rate changes. Therefore, the Postal Service will propose a system of phased rates so customers can anticipate postage costs and plan appropriately.

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<sup>23</sup> See Appendix L, *Transforming Pricing in the U.S. Postal Service*, for more information.