

H. GLEN WALKER  
CHIEF FINANCIAL OFFICER  
EXECUTIVE VICE PRESIDENT



February 22, 2007

Alliance of Nonprofit Mailers  
1211 Connecticut Avenue, NW, Suite 610  
Washington, DC 20036-2705

To our friends at the Alliance:

Your special report on February 15 regarding the Postal Service press release on our first quarter financial results was certainly cleverly written and the many home spun idioms sprinkled throughout the article were entertaining. But the suggestion that our release was "singing the blues" is simply not borne out by the facts.

Here are the facts:

- Due to the changes required by the new Postal Law, the Postal Service reported a \$2.7 billion first quarter loss and projects a net loss of \$5.2 billion for fiscal year (FY) 2007.
- Under the new law, the \$3 billion in cash that the Postal Service set aside in a federally mandated escrow account in FY2006 was designated to fund retiree health benefits. Generally Accepted Accounting Principles (GAAP) dictated that this be reported as an expense as soon as the disposition of the funds was determined. This occurred in the first quarter. The escrow had not been previously expensed under GAAP.
- Our cash position will also be effected by the requirements of the new law. The law requires a \$5.4 billion payment into the newly created Postal Service Retiree Health Benefits Fund, but it also eliminates the need in FY2007 for a \$3.3 billion escrow requirement and also \$1.5 billion in the employer's share of CSRS contributions. The net effect of these changes to our FY2007 cash position is an additional cash outflow of approximately \$600 million.

These are not "dancing numbers" manufactured for some nefarious purpose, as you allege, but are economic reality. Their financial statement presentation is dictated by GAAP and this was a financial statement, not a rate case filing.

Your report also takes us to task for our previous treatment of our health benefit obligation. We disagree with your assertion. Our accounting treatment was dictated by the provisions of the previous law and is now dictated by the provisions of the current law. Our annual financial statements are audited by an independent CPA firm, and they reported that our financial statements present fairly the financial position of the Postal Service.

Boring as it may be, we have to deal with reality. We owe it to our stakeholders to fairly present the financial position of the Postal Service, and we will continue to do so. If you would find it helpful, we would be pleased to meet with you when the second quarter report is issued so there will be no future misunderstandings.

Sincerely,

A handwritten signature in cursive script that reads "H. Glen Walker".

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