Postal Regulatory Commission
Submitted 2/9/2010 1:29:47 PM
Filing ID: 66713
Accepted 2/9/2010

UNITED STATES
POSTAL REGULATORY COMMISSION
Washington, D.C. 20268-0001

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2009 OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO**

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

Washington, D.C.	41-0760000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

475 L'Enfant Plaza, S.W. Washington, D.C.	20260
(Address of principal executive offices)	(ZIP Code)

(202) 268-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Not Applicable ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares as of February 9, 2010
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

Part I

Item 1 – Financial Statements

United States Postal Service
Statements of Operations

(Dollars in millions)	Three Months Ended December 31, 2009 (unaudited)	Three Months Ended December 31, 2008 (unaudited)
Operating revenue	$ 18,355	$ 19,095
Operating expenses:		
Compensation and benefits	12,978	13,657
Retiree health benefits	1,897	1,814
Transportation	1,513	1,750
Other	2,230	2,254
Total operating expenses	18,618	19,475
Loss from operations	**(263)**	**(380)**
Interest and investment income	6	6
Interest expense	(40)	(10)
Net Loss	**$ (297)**	**$ (384)**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	December 31, 2009 (unaudited)	September 30, 2009
Assets		
Current Assets		
Cash and cash equivalents	$ 758	$ 4,089
Receivables:		
Foreign countries	528	526
U.S. government	170	150
Other	236	177
Receivables before allowances	934	853
Less allowances	33	29
Total receivables, net	901	824
Supplies, advances and prepayments	153	138
Total Current Assets	**1,812**	**5,051**
Noncurrent Assets		
Property and Equipment, at Cost:		
Buildings	23,401	23,189
Equipment	20,969	20,970
Land	2,986	2,995
Leasehold improvements	930	968
	48,286	48,122
Less allowances for depreciation and amortization	27,208	26,889
	21,078	21,233
Construction in progress	1,409	1,447
Total property and equipment, net	22,487	22,680
Other assets - principally revenue forgone receivable	358	387
Total Noncurrent Assets	**22,845**	**23,067**
Total Assets	**$ 24,657**	**$ 28,118**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net (Deficiency) Capital

(Dollars in millions)	December 31, 2009 (unaudited)	September 30, 2009
Liabilities and Net Deficiency		
Current Liabilities		
Compensation and benefits	$ 2,741	$ 3,673
Retiree health benefits	1,375	-
Payables and accrued expenses:		
Trade payables and accrued expenses	1,028	1,203
Foreign countries	473	470
U.S. government	198	207
Total payables and accrued expenses	1,699	1,880
Customer deposit accounts	1,395	1,347
Deferred revenue - prepaid postage	2,230	2,445
Outstanding postal money orders	671	640
Prepaid box rent and other deferred revenue	448	461
Short-term portion of debt	1,517	3,675
Total Current Liabilities	**12,076**	**14,121**
Noncurrent Liabilities		
Workers' compensation costs	8,171	9,064
Employees' accumulated leave	2,513	2,225
Deferred appropriation and other revenue	441	457
Long-term portion capital lease obligations	548	544
Deferred gains on sales of property	304	305
Contingent liabilities and other	250	290
Long-term portion of debt	6,025	6,525
Total Noncurrent Liabilities	**18,252**	**19,410**
Total Liabilities	**30,328**	**33,531**
Net (Deficiency) Capital		
Capital contributions of the U.S. government	3,126	3,087
Deficit since 1971 reorganization	(8,797)	(8,500)
Total Net (Deficiency) Capital	**(5,671)**	**(5,413)**
Total Liabilities and Net (Deficiency) Capital	**$ 24,657**	**$ 28,118**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Changes in Net Deficiency
(unaudited)

(Dollars in millions)	Capital Contributions of U.S. Government		Deficit Since Reorganization		Total Net (Deficiency) Capital	
Balance, September 30, 2009	$	3,087	$	(8,500)	$	(5,413)
Additional Capital Contribution		39		-		39
Net Loss		-		(297)		(297)
Balance, December 31, 2009	**$**	**3,126**	**$**	**(8,797)**	**$**	**(5,671)**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Statements of Cash Flows

(Dollars in millions)	Three Months Ended December 31, 2009 (unaudited)	Three Months Ended December 31, 2008 (unaudited)
Cash flows from operating activities:		
Net loss	$ (297)	$ (384)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	627	570
Gain on disposals of property and equipment, net	(22)	(2)
Decrease in appropriations receivable revenue forgone	29	20
(Decrease) increase in workers' compensation liability	(893)	240
Increase in employees accumulated leave	288	250
(Decrease) increase in other noncurrent liabilities	(10)	6
Changes in current assets and liabilities:		
Receivables, net	(77)	(74)
Supplies, advances and prepayments	(15)	12
Compensation and benefits	(932)	(923)
Retiree health benefits	1,375	1,350
Payables and accrued expenses	(215)	(81)
Customer deposit accounts	48	9
Deferred revenue-prepaid postage	(215)	(38)
Outstanding postal money orders	31	(28)
Prepaid box rent and other deferred revenue	4	(12)
Net cash (used in) provided by operating activities	(274)	915
Cash flows from investing activities:		
Purchases of property and equipment	(396)	(630)
Proceeds from deferred building sale	-	3
Proceeds from sales of property and equipment	27	1
Net cash used in investing activities	(369)	(626)
Cash flows from financing activities:		
Payments on notes payable	(975)	-
Net change in revolving credit line	(1,683)	(735)
Payments on capital lease obligations	(14)	(11)
U.S. government appropriations - expensed	(16)	(16)
Net cash used in financing activities	(2,688)	(762)
Net decrease in cash and cash equivalents	(3,331)	(473)
Cash and cash equivalents at beginning of year	4,089	1,432
Cash and cash equivalents at end of period	$ 758	$ 959
Cash flows from financing activities:		
Interest paid	$ 39	$ 9

See accompanying notes to the financial statements. (unaudited)

Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

These interim financial statements reflect the unaudited results of operations of the United States Postal Service (USPS, Postal Service, or we) for the three months ended December 31, 2009 and 2008, and financial position as of December 31, 2009 (unaudited) and September 30, 2009. The interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim financial information and should be read in conjunction with the significant accounting policies and other disclosures in our 2009 Annual Report on Form 10-K. As in the Annual Report on Form 10-K, all references to years refer to our fiscal year beginning October 1 and ending September 30, unless otherwise stated. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2010 and 2009.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present our financial position as of December 31, 2009, the results of operations, and cash flows for the three months then ended. Operating results for the interim period ended December 31, 2009, are not necessarily indicative of the results that may be expected for 2010. We have evaluated all subsequent events through February 9, 2010, the date the financial statements were issued.

Certain comparative prior year amounts related to fixed assets have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported operating or net loss.

Note 2 – Liquidity Matters

As reported in our Annual Report on Form 10-K for the year ended September 30, 2009, the Postal Service reported net losses of $3,794 million, $2,806 million, and $5,142 million for the years ended September 30, 2009, 2008, and 2007, respectively. These losses have placed unprecedented demands on our operating liquidity. The negative trend continued in the first quarter, which is traditionally our most profitable, and we incurred a loss of $297 million. We also experienced negative cash flow from operations for two of the past three years, as well as the first quarter of 2010. Our annual net increase in debt is limited by statute to $3.0 billion and our total outstanding debt is limited to $15.0 billion. We currently project net debt outstanding at September 30, 2010 to increase by $3.0 billion over the balance outstanding at September 30, 2009 to $13.2 billion.

To alleviate pressure on our liquidity, Congress enacted legislation (P.L.111-68) to restructure the required $5.4 billion payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) which was due on September 30, 2009, reducing it to $1.4 billion. Had this legislation not been enacted, cash flow from operations would have been negative for the year ended September 30, 2009 as well. This legislation did not, however, address future payments into the PSRHBF, including the $5.5 billion payment due in September 2010.

A significant portion of the recent losses are attributable to unprecedented declines in mail volume that began in 2008. The recent declines in mail volume are primarily a result of the recent widespread economic recession, although the long-term trend of hard copy correspondence and transactions migrating to electronic media has somewhat accelerated during the recession. This trend is expected to continue. Since peaking at 213 billion pieces in 2006, mail volume dropped 904 million pieces in 2007, 9.5 billion pieces in 2008, and an additional 25.6 billion pieces, to 177 billion pieces, in 2009. Volume is expected to further decrease by approximately 10 billion pieces in 2010. It is possible that volumes and related revenues could decrease at rates greater than these projections. Revenue is expected to continue to decrease in 2010 and, even with substantial cost reductions, our 2010 net loss is projected to be over $7 billion.

We have substantial scheduled cash payments in September and October 2010, including $5.5 billion due to the PSRHBF on September 30, 2010 and approximately $1.1 billion due in October 2010 to the Department of Labor (DOL) for our workers' compensation liability. Based on our borrowing capacity and current projections of cash available from operations, we may be unable to fund our September and October payment obligations and meet our short-term operating cash flow cash needs.

We currently project that while there is sufficient available cash for ongoing operations in 2010, there is uncertainty as to whether we will have sufficient cash on September 30, 2010 to fund our required $5.5 billion PSRHBF payment and our October obligations. There is uncertainty as to what the legal and/or regulatory consequences would be to the Postal Service if we do not fund this PSRHBF payment. If we have sufficient cash and use it to fund the PRSHBF payment on September 30, 2010, we will likely experience a cash shortfall in October 2010 when the $1.1 billion workers' compensation payment is due.

To meet this financial challenge, the Postal Service has, as previously reported, reduced work hours by 115 million in 2009 and by 28 million in the first quarter of 2010, and is continuing efforts to increase efficiency, reduce costs and generate new revenue. These actions include a plan to reduce work hours by approximately 90 million in 2010, maximizing operational efficiencies, renegotiating contracts with major suppliers, halting construction of new facilities and continuing revenue generation efforts. Although each of these efforts is expected to positively impact cash flow in 2010, they may not, individually or in the aggregate, be sufficient to offset a possible cash shortfall in September or October 2010, or beyond.

Our ability to generate sufficient cash flows to meet obligations is substantially dependent on the strength and speed of the economic recovery, the diversion rate of mail to electronic means, and our ability to execute the strategies to increase efficiency, reduce costs and retain and grow revenue outlined above. In addition, restructuring the PSRHBF payment schedule is necessary. However, no assurance can be given that our efforts will be successful, or that Congress will enact legislation in time to impact 2010, or at all. Further, it should be noted that the $15.0 billion debt ceiling will become insufficient in 2011 absent legislative action.

In addition to requesting a restructuring of our payments into the PSRHBF, in 2009 we also requested that Congress remove the annual appropriation bill rider, first added in 1983, that effectively requires the Postal Service to deliver mail six days each week. We are continuing our discussions with Congress on these matters. No significant savings are anticipated for 2010 from the proposed ability to adjust the six day delivery requirement, even if granted sometime during 2010, as multiple operational, contractual, and customer issues will need to be resolved before actual implementation of a five day per week delivery schedule. However, such important new flexibility could provide direct cost savings beginning in 2011.

We continue to inform the Administration and Congress of our financial outlook and legislative changes that would help insure the availability of cash at year-end and beyond. However, there can be no assurance that adjustments to the PSRHBF payment schedule or any other legislative changes will be granted by September 30, 2010, or at all.

Note 3 – Debt and Related Interest

As of December 31, 2009, debt payable to the Federal Financing Bank (FFB) consisted of $7,542 million outstanding compared to $10,200 million at September 30, 2009.

Debt Consists of the Following: (Dollars in millions)			December 31, 2009	September 30, 2009
NOTES PAYABLE TO THE FEDERAL FINANCING BANK (FFB) [1]:				
December 31, 2009 Interest Rate	Debt Type	Maturity Date		
2.035%	Fixed rate note-payable at maturity	January 31, 2014	$ 300	$ 300
2.844%	Fixed rate note-payable at maturity	May 2, 2016	300	300
3.048%	Fixed rate note-payable at maturity	November 15, 2018	500	500
3.296%	Fixed rate note-payable at maturity	February 15, 2019	700	700
3.704%	Fixed rate note-payable at maturity	May 15, 2019	1,000	1,000
3.513%	Fixed rate note-payable at maturity	May 15, 2019	500	500
3.770%	Fixed rate note-payable at maturity	May 17, 2038	200	200
3.790%	Fixed rate note-payable at maturity	February 15, 2039	1,000	1,000
-	Floating rate note[2]	November 15, 2042	-	500
0.160%	Floating rate note[3]	June 15, 2043	500	500
0.160%	Floating rate note[4]	December 15, 2042	1,025	1,025
-	Floating rate note[5]	October 15, 2009	-	475
0.166%	Overnight revolving line of credit	[7]	317	-
0.145%	Short-term revolving credit line [6]	[7]	1,200	3,200
Total debt			$ 7,542	$ 10,200
Less:Short-term portion of debt			1,517	3,675
			$ 6,025	$ 6,525

[1] All debt is repurchasable at any time at a price determined by the Secretary of the Treasury, based on rates prevailing in the Treasury Security at the time of repricing.

[2] Floating Rate Note-Payable November 15, 2042; repurchased at par on November 16, 2009. Rate at September 30, 2009 was 0.184%.

[3] Floating Rate Note-Payable June 15, 2043; repurchasable at par and interest rate reset every March 15, June 15, September 15 and December 15.Rate at September 30, 2009 was 0.271%.

[4] Floating Rate Note-Payable December 15, 2042; repurchasable at par and interest rate reset every March 15, June 15, September 15 and December 15. Rate at September 30, 2009 was 0.216%.

[5] Floating Rate Note-Payable October 15, 2009. Rate at September 30, 2009 was 0.155%.

[6] Average rate at September 30, 2009 was 0.145%

[7] Credit lines extend through April 30, 2010.

We continue to maintain two credit lines with the FFB. One, a short-term credit line, enables us to draw up to $3,400 million with two days notice. Borrowings against this credit line carry a maximum maturity of one year. The second, an overnight credit line, enables us to draw up to $600 million on the same business day that funds are requested. In addition, we can also use a series of other notes with varying provisions to draw upon with two days notice. This arrangement provides us the flexibility to borrow short-term or long-term, using fixed- or floating-rate notes. Fixed-rate notes can be either callable or noncallable.

We are statutorily limited to net annual increases of $3.0 billion in our debt, and our total debt cannot exceed $15.0 billion. For 2010, we are subject to an absolute debt ceiling of $13.2 billion, a $3.0 billion increase from the September 30, 2009 debt of $10.2 billion.

Scheduled annual principal maturities of debt, exclusive of capital leases, subsequent to December 31, 2009, are as follows:

Debt Maturity (Dollars in millions)		December 31, 2009
2010	$	1,517
2011		-
2012		-
2013		-
2014		300
After 2014		5,725
Total Debt	$	7,542

Note 4 – Property and Equipment

We record property and equipment at cost, including, in accordance with Accounting Standard Codification (ASC) 835 (formerly Financial Accounting Standard (FAS) 34, *Capitalization of Interest Cost)*, the interest on borrowings used to pay for the construction of major capital additions. Interest capitalized during Quarter I, 2010, was not material; no interest was capitalized during Quarter I, 2009.

We record impairment charges in accordance with ASC 360 (formerly FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). Impairments in Quarter I, 2010 were not material; no impairment charges were recorded in Quarter I, 2009.

We account for asset retirement obligations in accordance with ASC 410 (formerly Financial Accounting Standards Board Interpretation 47, *Accounting for Conditional Asset Retirement Obligations*). We accrue a liability for the estimated costs of a future legal obligation to perform a retirement activity on a certain population of our existing assets. Accruals for asset retirement obligations are recorded in “Contingent liabilities and other” on our Balance Sheets.

Continuing a program begun in 2009 under the provisions of the American Reinvestment and Recovery Act of 2009 (P.L. 111-5), during Quarter I, 2010, we received from the General Services Administration, approximately 2,700 new fuel-efficient vehicles in exchange for the same number of vehicles then in our fleet. The excess of the fair value of the vehicles received over the vehicles traded-in of $39 million was recorded as an additional non-cash capital contribution by the U.S. government.

Note 5 – Leases and Other Commitments

LEASES

At December 31, 2009, future minimum payments on non-cancelable operating and capital leases were as follows:

Lease Obligations (Dollars in millions)	Operating December 31, 2009	Capital December 31, 2009
2010	$ 603	$ 77
2011	758	101
2012	709	102
2013	650	96
2014	588	90
After 2014	4,790	451
Total Lease Obligations	$ 8,098	$ 917
Less: Interest		318
Total Capital Lease Obligations		$ 599
Less: Short-term portion of capital lease obligations		51
Long-term portion of capital lease obligations		$ 548

Our rent expense for the quarter ended December 31 was as follows:

Rent Expense (Dollars in millions)	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008
Non-cancelable real estate leases including related taxes	$ 240	$ 247
Facilities leased from GSA subject to 120-day notice of cancelation	10	10
Equipment and other short-term rentals	55	69
Total	$ 305	$ 326

CAPITAL AND EXPENSE RESOURCES ON ORDER

Each year we incur new capital and expense commitments. Capital commitments consist of capital lease obligations for buildings and contracts for capital items such as equipment, building construction and improvements and vehicles. Expense commitments consist of operating leases for buildings, contracts for normal operational expense items, inventory and research and development contracts. Since prior year capital and expense commitments are not normally fully funded within one year, we track total resources on order for capital and expense commitments.

At December 31, 2009, the balance of resources on order for capital items was $1,506 million, compared to $1,809 million at September 30, 2009. At December 31, 2009, expense resources on order were $5,343 million, compared to $5,044 million as of September 30, 2009. The tables summarize capital and expense resources on order at December 31, 2009:

Capital Resources on Order (Dollars in millions)	December 31, 2009
Mail Processing Equipment	$ 940
Postal Support Equipment	156
Building Improvements	315
Construction and Building Purchase	57
Retail Equipment	33
Vehicles	5
Total Capital Resources on Order	$ 1,506

Expense Resources on Order (Dollars in millions)	December 31, 2009
Operational Contracts	$ 5,174
Inventory Contracts	126
Research and Development Contracts	43
Total Expense Resources on Order	$ 5,343

Note 6 – Contingent Liabilities

Contingent Liabilities (Dollars in millions)		December 31, 2009		September 30, 2009
		(unaudited)		
Labor Cases	$	180	$	174
Equal Employment Opportunity Cases		55		52
Environmental Cases		40		40
Tort Cases		33		35
Total Contingent Liabilities	$	308	$	301

Contingent liabilities consist mainly of claims and lawsuits resulting from labor, equal employment opportunity and environmental issues, property damage claims, injuries on postal properties, issues arising from postal contracts, personal claims and traffic accidents. Each quarter we review significant new claims and litigation and evaluate the probability of an adverse outcome. If the claim is deemed probable for an unfavorable outcome and the amount of potential resolution is estimable, we record a liability. Each quarter we also review and adjust any prior claims and litigation for resolutions, or revisions to prior estimates. No individual claim currently assessed as probable of an unfavorable outcome is material to our interim financial statements taken as a whole. The table summarizes our contingent liabilities provided for in the interim financial statements.

We believe that adequate provision has been made for probable liabilities from claims and suits. The current portion of this liability of $102 million at December 31, 2009 and $86 million at September 30, 2009 is included on the Balance Sheets under the heading “Trade payables and accrued expenses”. The long-term portion of this liability at December 31, 2009, was $206 million and $215 million at September 30, 2009. These amounts are accrued under the heading “Contingent liabilities and other” on our Balance Sheets.

We also have other claims and lawsuits which we deem reasonably possible of an unfavorable outcome. The total estimated potential losses from these claims ranges from $1.2 billion to $1.4 billion. No provision for these potential losses is recorded in our interim financial statements

Note 7 – Health Benefits Programs

CURRENT EMPLOYEES

Substantially all career employees of the Postal Service are covered by the Federal Employees Health Benefits Program (FEHBP). The Office of Personnel Management (OPM) administers the program and allocates the cost of the program to the various participating government agency employers. Our portion of the cost is based upon the weighted-average premium cost of the various employee coverage choices and the specific coverage choices made by current employees. Employees paid approximately 19% of the premium costs in Quarter I, 2010, and 18% in Quarter I, 2009. We paid the remaining employee health care expense which was $1,285 million in Quarter I, 2010, compared to $1,330 million in Quarter I, 2009.

RETIREES

Employees who participate in the FEHBP for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. We are required to pay the employer’s share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retired on or after July 1, 1971. Since we cannot direct the costs, benefits or funding requirements for the federally-sponsored plan, we account for these retiree costs using multiemployer plan accounting rules and, accordingly, record expenses when payments are due.

With passage of P.L. 109-435, we continue to make monthly payments to OPM for our share of FEHBP premiums for retirees. P.L. 109-435 also established the PSRHBF, which is held by the U.S. Treasury and controlled by OPM. The fund will be used, commencing in 2017, to pay our share of the health insurance premiums for current and future Postal Service retirees. The payment schedule, which began in 2007, originally required us to pay, on average, $5.6 billion per year into the fund over ten years. At December 31, 2009, our scheduled payments to the PSRHBF are as follows:

Retiree Health Benefit Fund Commitment (Dollars in millions)	P.L. 109-435 Requirement
2010	$ 5,500
2011	5,500
2012	5,600
2013	5,600
2014	5,700
After 2014	11,500
Total Retiree Health Benefit Fund Commitment	$ 39,400

Although P.L. 109-435 dictates the funding requirements through 2016, the amounts to be funded and the timing of funding can be changed at any time with the passage of a new law, or amendment of an existing law, as passed by Congress and signed into law by the President. Due to the enactment of P.L. 111-68, the 2009 payment was decreased from $5.4 billion to $1.4 billion. On September 30, 2010, a $5.5 billion payment is due to the PSRHBF. However, the Postal Service plans to ask Congress to restructure the payment schedule for both 2010 and future years. There can be no assurance that Congress will restructure the payments.

The scheduled annual payments to the PSRHBF are in addition to our regularly allocated cost of premiums for current retirees, which will continue to be payable through 2016. After the scheduled payments into the PSRHBF are completed in 2016, OPM will perform an actuarial valuation and determine whether any further payments into the PSRHBF are required. If further payments are required, OPM will design an amortization schedule to fully fund our remaining liability, if any, by September 30, 2056.

During Quarter I, we expensed $1,897 million for retiree health benefits; $522 million was for retiree health benefit invoices from OPM for current retirees and $1,375 million for the PSRHBF. For the same period last year, we expensed $1,814 million for retiree health benefits; $464 million was for retiree benefits invoices and $1,350 million for the PSRHBF.

Note 8 – Retirement Programs

Employees participate in one of three pension programs based upon the starting date of their employment with the federal government. Employee contributions are made to the Civil Service Retirement System (CSRS), the Dual CSRS/Social Security (Dual/CSRS) or the Federal Employees Retirement System (FERS), all of which are administered by OPM. Employees may also participate in the Thrift Savings Plan (TSP), which is a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board.

P.L. 109-435 suspends until 2017 our employer contribution to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code. At that time OPM will determine whether additional funding is required for the benefits of postal retirees. We continue to make employer contributions of 11.2% of base salary for current FERS employees. Retirement expense for Quarter I, 2010 was $1,469 million compared to $1,512 million for the same period last year and is recorded in “Compensation and benefits” in the Statements of Operations.

Note 9 – Workers’ Compensation

We pay for workers’ compensation costs under a program administered by DOL. These costs, recorded as an operating expense, include employees’ medical expenses, compensation for wage losses and DOL administrative fees. The program also provides for payment of benefits to dependents of employees who die from work-related injuries or diseases.

Our liability at December 31, 2009 represents the estimated present value of the amount we expect to pay in the future for postal workers who have been injured or who have died because of work-related injuries or diseases through Quarter I, 2010. The estimated total cost of a claim is based on the date of injury, pattern of historical payments, frequency and severity of the injury or injuries related to the claim, and the expected trend in future costs.

We estimated our total liability for future workers' compensation payments to be $9,236 million at December 31, 2009, compared to $10,133 million at September 30, 2009. The payout of this liability will, in some instances, be for the rest of the lives of the claimants.

We review inflation and discount rates used to determine the present value of estimated future workers' compensation payments on a quarterly basis. Separate analyses of the inflation rates for the medical and compensation portions of the liability are performed utilizing forecasts of medical inflation and inflation in the general economy. The assumptions used to calculate the workers' compensation liability are as follows for the periods indicated:

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended December 31, 2009	September 30, 2009
Compensation Claims Liability:		
Discount Rate	5.0%	4.9%
Wage inflation	2.9%	3.2%
Medical Claims Liability:		
Discount Rate	4.5%	4.4%
Medical Inflation	4.4%	3.8%

The impact of changes in the discount and inflation rates decreased our Quarter I, 2010 estimated liability and expense by $193 million. The effects of these changes are accounted for as changes in accounting estimate in the period of the related change.

In Quarter I, 2010 we recorded $186 million in workers' compensation expense, compared to $353 million in Quarter I, 2009.

Note 10 – Fair Value Measurements

ASC 820 (formerly FAS 157, *Fair Value Measurements*) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. ASC 820 details the disclosures that are required for items measured at fair value.

We have financial instruments such as the long-term portion of debt (see Note 3-Debt and Related Interest) and long-term receivables (see Note 11-Revenue Forgone) that we must measure for disclosure purposes on a recurring basis under ASC 820. We also apply the provisions of ASC 820 to various non-recurring measurements of our financial and non-financial assets and liabilities, such as the impairment of fixed assets. We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market corroborated inputs).
- Level 3 includes unobservable inputs that reflect our assumptions about the judgments and estimates that market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

We believe that the fair values of our current assets and current liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial assets and liabilities that qualify as financial instruments are shown in the following table.

We estimate the fair value of revenue forgone using the income method and discount rates used for similar assets such as long-term treasuries, a level 2 input.

No active market exists for FFB notes. Therefore, we estimate the fair value of the long-term portion of debt, using prices provided by the FFB, a level 3 input.

Fair Value of Long-Term Financial Assets and Liabilities (Dollars in millions)	December 31, 2009		September 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue Forgone	$ 334	$ 415	$ 344	$ 462
Total Long-Term Financial Assets	$ 334	$ 415	$ 344	$ 462
Long-Term Portion of Debt	$ 6,025	$ 5,787	$ 6,525	$ 6,519
Total Long-Term Financial Liabilities	$ 6,025	$ 5,787	$ 6,525	$ 6,519

The reconciliation of the fair value of the long-term portion of debt calculated using level 3 inputs is shown below:

Reconciliation of Fair Value of Level 3 Instruments (Dollars in millions)	December 31 2009
Debt	
Balance at September 30, 2009	$ 6,519
Repurchase of Debt	(500)
Unrecognized Gain	(232)
Balance at December 31, 2009	$ 5,787

Non-financial Items Measured at Fair Value on a Nonrecurring Basis — Non-financial assets such as property and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. We performed impairment analysis of property and equipment in Quarter I, 2010 and, based on that analysis, recorded an immaterial charge in the quarter; we did not record an impairment charge in the comparable quarter of 2009.

Note 11 – Revenue Forgone

Revenue forgone is an appropriation which reimburses USPS for the cost of statutorily required free and reduced rate mailing service to groups designated by Congress. During Quarter I, 2010, we recognized in revenue $22 million, including $6 million of imputed interest income from these appropriations, compared to $22 million, including $6 million of imputed interest, during the same period last year.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statements

The *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report include statements representing our expectations about our business and financial results. These may be affected by risks and uncertainties we discuss here and in our 2009 Annual Report on Form 10-K, such as economic conditions, regulatory and legislative changes, changes in actuarial assumptions, trends we know about, trends we anticipate and trends we believe are relevant to future operations. Some of these factors may cause our actual results to differ materially from those contemplated. Operating results for the three-month period ended December 31, 2009, are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. This report should be read in conjunction with our 2009 Annual Report on Form 10-K. As in the Annual Report on Form 10-K, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal years 2010 and 2009.

Introduction

The United States Postal Service (USPS, Postal Service, or we) commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States" and is governed by an eleven-member Board of Governors. Nine independent Governors are appointed by the President of the United States with the advice and consent of the Senate. The Postmaster General and the Deputy Postmaster General are also members of the Board. Under the Postal Reorganization Act, and its successor, the Postal Accountability and Enhancement Act, Public Law 109-435 (P.L. 109-435), we have a legal mandate to offer a "fundamental service" to the American people "at fair and reasonable rates." We fulfill this legal mandate to provide universal service at a fair price by offering a variety of classes of mail services without undue discrimination among our many customers. This means that within each class of mail service our price does not unreasonably vary by customer for the levels of service we provide. However, P.L. 109-425 does provide us flexibility in the pricing of our shipping services.

We have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 3% of operating revenue. The financial services sector, which includes real estate, represents approximately 10% of operating revenue.

P.L. 109-435 divides postal services into two broad categories: market-dominant and competitive. Market-dominant services include, but are not limited to, First-Class Mail, Standard Mail, Periodicals and certain Package Services. Price increases for these services are subject to a price cap based on the Consumer Price Index–All Urban Consumers (CPI-U). Competitive services, such as Priority Mail, Express Mail, Bulk Parcel Post and Bulk International Mail have greater pricing flexibility. Throughout this document and in the day-to-day operation of the organization, we refer to market-dominant services as "Mailing Services" and competitive services as "Shipping Services".

We serve individual and commercial customers throughout the nation. Our services compete for business in the communications, distribution and delivery, advertising and retail markets. The prices and fees for our services are subject to a regulatory review process by the independent Postal Regulatory Commission (PRC).

Our mailing and shipping services are sold and processed through over 36,000 Post Offices, stations, branches, contract postal units, a large network of consignees and on-line at *www.usps.com*. We deliver mail to over 150 million city, rural, Post Office box, and highway contract delivery points. We conduct operations primarily in the domestic market, with international mail representing approximately 3% of operating revenue.

We operate and manage a very extensive and integrated retail, distribution, transportation and delivery network. As such, our physical infrastructure and labor force are not, with limited exceptions, dedicated to individual business lines. Expenses are incurred and managed by functional groupings that align with the integrated network structure. Reporting of expenses on a functional basis in this report comports with the management and structure of expense incurrence within the organization.

The labor force is primarily represented by the American Postal Workers Union (APWU), National Association of Letter Carriers (NALC), National Postal Mail Handlers Union (NPMHU), and National Rural Letter Carriers Association (NRLCA). More than 85% of career employees are covered by collective bargaining agreements.

By law, we consult with management organizations representing most of the employees not covered by collective bargaining agreements. We participate in federal employee benefit programs for retirement, health and workers' compensation benefits.

We are not a reporting company under the Securities Exchange Act of 1934, as amended, and we are not subject to regulation by the Securities and Exchange Commission (SEC). However, effective for reporting periods ending after September 30, 2007, we are required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under section 13 of the Securities Exchange Act of 1934. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, which are available on our website at *www.usps.com*.

Additional disclosures on our organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, our financial and strategic plans and the Comprehensive Statement on Postal Operations may also be found on our website. Information on our website is not incorporated by reference in this document.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large organization. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The three critical accounting policies that we believe are either the most judgmental or involve the selection or application of alternative accounting policies, and are material to our interim financial statements, are those relating to workers' compensation costs, deferred revenue for prepaid postage, and contingent liabilities. Management discusses the development and selection of these accounting policies and estimates with the Audit and Finance Committee of the Board of Governors.

For additional information, see *Critical Accounting Policies* in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 3, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements contained in our Annual Report on Form 10-K for the year ended September 30, 2009.

Results of Operations

Key Operating Statistics	Three Months Ended December 31,			
(Dollars in millions)		2009		2008
Operating Revenue	$	18,355	$	19,095
Operating Loss	$	(263)	$	(380)
Net Loss	$	(297)	$	(384)
Operating Margin		-1.4%		-2.0%
Average Volume per Delivery Day (pieces in millions)		610		670

In Quarter I, 2010, we had an operating loss of $263 million compared to an operating loss of $380 million for Quarter I of last year. Similar to 2009, we were unable to fully offset the drop in mail volume and related revenue despite significant cost reductions. The resulting net loss and net use of cash in Quarter I, 2010 highlights our potential inability to meet our $5.5 billion obligation to the Postal Service Retiree Health Benefits Fund (PSRHBF) at September 30, 2010. As explained more fully later in the "Revenue and Volume" section of this report, the recession that began in December 2007, coupled with continued electronic diversion of mail caused a significant decrease in operating revenue over the past two years. This continued into the first quarter of 2010. For the three months ended December 31, 2009, operating revenue was $18,355 million, compared to $19,095 million for the same period last year, a decrease of $740 million or 3.9%, in spite of a 3.8% average price increase for Mailing Services in May 2009. All categories of Mailing Services experienced volume declines in Quarter I, 2010, compared to the same period last year, and Shipping Services experienced a modest increase of 2.5%.

Quarter I, 2010 operating expenses were $18,618 million compared to $19,475 million in the corresponding quarter of last year, a decrease of $857 million or 4.4%. Compensation and benefits expenses decreased by $679 million or 5.0%. Work hour decreases of 28 million hours, or 8.5%, from the comparable quarter of the prior year resulted in significant savings. Transportation expenses decreased by $237 million or 13.5% in Quarter I compared to Quarter I, 2009, as the price for diesel fuel, which represents approximately 93% of all fuel purchased for highway contracts, declined. Other expenses decreased by $24 million or 1.1% as the Postal Service continued to limit spending for discretionary items. In Quarter I, 2010, retiree health benefits expense increased from $1,814 million in Quarter I, 2009 to $1,897 million, an increase of $83 million or 4.6%, reflecting a larger number of retirees, higher premiums and a larger scheduled PSRHBF payment.

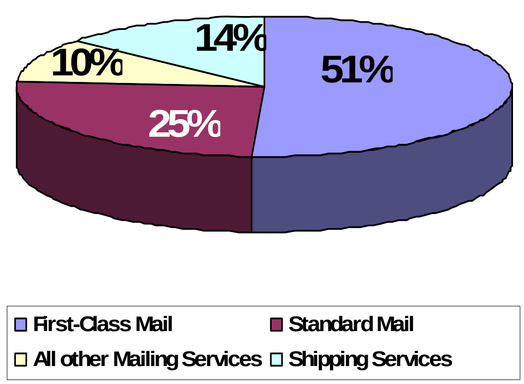
Revenue and Volume

Prices for most Mailing Services increased by an average of 3.8% on May 11, 2009. Shipping Services prices increased on January 18, 2009, by an average of 5.0%. Rates for our shipping services increased an average of 3.3% January 4, 2010; this increase, however, had no impact on Quarter I, 2010 results.

Revenue (Dollars in millions)		Three Months Ended December 31, 2009		2008
First-Class Mail	$	9,315	$	9,654
Standard Mail		4,663		5,127
Periodicals		492		565
Package Services		409		500
Other Mailing Services*		978		909
Total Mailing Services		15,857		16,755
Total Shipping Services		2,498		2,340
Total Operating Revenue	$	18,355	$	19,095

*Includes Certified Mail, Return Receipts, PO Boxes, Money orders, Passport fees & Appropriations.

Quarter I 2010 Mail Revenue

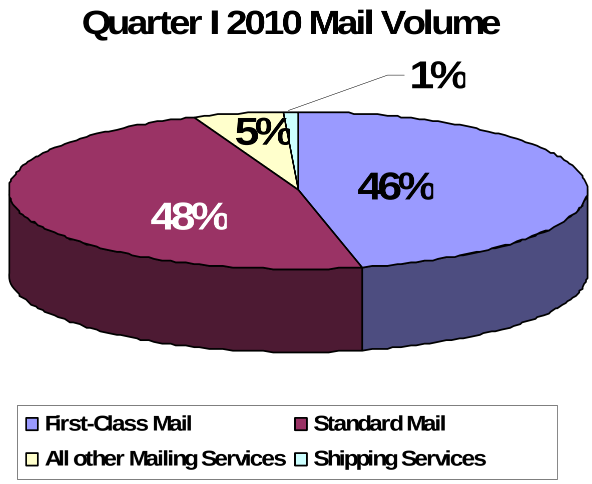


As a technical matter, the economic recession may have ended but the adverse effects on Postal Service financial results continue. The rate of decline in total mail volume has slowed, but we do not anticipate improvements for several more quarters. Quarter I total mail volume was 8.9% less than Quarter I, 2009 with an accompanying revenue decline of 3.9%. The Postal Service experienced record volume declines in 2009. The volume declines for each quarter of the prior year were the largest quarterly declines in total mail volume since 1971 – substantially larger than any other period.

The decline of both revenue and volume for the current quarter can largely be attributed to the recent recession, its impact on electronic diversion rates and continuing electronic diversion. Competition, electronic diversion and other external factors continue to negatively impact revenue and volume performance, but in the short term those factors have become secondary to the overall performance of the economy. All categories of Mailing Services had volume declines which ranged from 6.6% to 17.2%.

While the depressed economy is the primary reason for the current revenue and volume contraction, electronic diversion continues to depress mail volumes. Bill payments continue to move away from paper-based payments by mail toward electronic payments using the internet. Diversion of bills and statements, while currently less advanced than bill payments, is a substantial threat to future mail revenues.

Mail Volume (Pieces in millions)	Three Months Ended December 31, 2009	2008
First-Class Mail	21,219	22,709
Standard Mail	21,916	24,608
Periodicals	1,889	2,125
Package Services	178	215
Other Mailing Services	135	146
Total Mailing Services	45,337	49,803
Total Shipping Services	411	401
Total Mail Volume	45,748	50,204



MAILING SERVICES

For the quarter ended December 31, 2009, First-Class Mail and Standard Mail, which combined make up 94% of our volume, decreased almost 4.2 billion pieces or 8.8% compared to the same period last year, with an associated drop in revenue of $803 million or 5.4%.

First-Class Mail revenue of $9,315 million decreased $339 million or 3.5% in Quarter I, on a volume decline of 1.5 billion pieces or 6.6%, compared to the same period last year. Single-piece First-Class letter revenue declined $126 million or 3.3% for the quarter compared to Quarter I, 2009. Volume on First-Class Mail, our highest margin product, which includes bills, bill payments, statements, confirmations, orders and rebates, has been in decline for nearly a decade. While price has some effect on First-Class Mail volume, in this environment the economy is the primary driver behind the volume decline, closely followed by electronic diversion. We anticipate any positive impacts of an economic recovery on single-piece First-Class Mail may be largely offset by the continuing technology-driven decline in single-piece First-Class Mail.

Standard Mail revenue of $4,663 million decreased $464 million or 9.1% in Quarter I as volume decreased 2.7 billion pieces or 10.9% compared to the same period last year**.** Standard Mail volume has been significantly impacted by the decline in advertising spending resulting from the recent recession. All major subgroups of Standard Mail lost both revenue and volume compared to the first quarter of last year. In addition to the impact of the troubled economy on Standard Mail revenues, advertisers continue to become more sophisticated in the targeting of their mailings, further reducing mail volume. We expect advertising mail to stabilize and slightly increase as the economy improves.

Revenue from Periodicals decreased $73 million or 12.9% in Quarter I compared to the same period last year. Trends in hard copy reading behavior have been depressing this segment for years. Changing reading behavior in conjunction with the recession has pushed revenue and volume declines into double digits. The average weight per piece for Periodicals decreased by 7.1%, reflecting the decline in the number of advertising pages. Volume decreased 236 million pieces, or 11.1%, in the quarter compared to the same period last year.

Package Services revenue decreased $91 million or 18.2% in Quarter I compared to the first quarter of 2009, while volume decreased 37 million pieces or 17.2% in the same period. The reduction in volume in the package industry reflects the overall state of the economy. As was true in the fourth quarter of 2009, all the major package service providers continued to be adversely affected by the economy during the first quarter of 2010. Additionally, the increase in Parcel Post rates in May 2009, and the Priority Mail Flat Box advertising campaign designed to boost revenue in that more profitable product, has led to decline in Parcel Post volumes.

SHIPPING SERVICES

Shipping Services revenue increased $158 million or 6.8% in Quarter I compared to the same period last year as volume increased 10 million pieces or 2.5%. The small volume increases in Shipping Services are indicative of the early signs of economic recovery and the impact of advertisings campaigns. The subgroups within Shipping Services showed mixed results as some increased and others experienced decreases. Overall, the weak revenue performance continues to reflect the aftermath of the severe economic recession in the U.S. economy.

Additional discussion on volume and revenue projections can be found in the Outlook section of this report. Detailed data on Mailing Services product volume and revenue may be found in the Quarterly Revenue, Pieces and Weight reports on www.usps.com/financials/rpw.

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

Compensation and benefits expense for Quarter I was $12,978 million, $679 million, or 5.0%, less than the same period last year. Compensation expense decreased by $408 million, or 3.9%, in Quarter I compared to the same period last year. This was primarily due to an 8.5% or 28 million hour decrease in work hours used. In addition, the Postal Service contributed approximately 1% less per employee for health benefit premiums compared to the prior year. Offsetting a portion of the savings generated by the decrease in work hours and lower health benefits contributions was $112 million of incentive accruals for approximately 7,400 APWU and NPMHU employees who elected in fiscal year 2010 to retire or resign from the Postal Service. This is in addition to the $197 million accrued in 2009, which was attributable to approximately 13,400 employees who elected to retire or resign in fiscal 2009. These incentives have or will be paid in two installments – the first in Quarter I, 2010, and the second in Quarter I, 2011. There was no comparable expense recorded in the first quarter of 2009. The Quarter I decrease in compensation and benefits expense also reflects a $167 million decrease in the workers' compensation expense due primarily to a change in discount and inflation rates.

Compensation and Benefits Expense (Dollars in millions)	Three Months Ended December 31, 2009	2008
Compensation	$ 9,951	$ 10,359
Retirement	1,469	1,512
Health Benefits	1,285	1,330
Workers' Compensation	186	353
Other	87	103
Total	$ 12,978	$ 13,657

WORK HOURS

With continued mail volume declines in Quarter I and ongoing efficiency improvements, we reduced work hours by over 28 million hours, or 8.5%, compared to the same period last year, which represents a reduction of approximately 15,800 full time equivalent employees. Included in this reduction is a one million hour reduction, or 6.0%, in overtime hours compared to Quarter I of last year. The work hour and overtime reductions were achieved even though the number of delivery points increased by approximately one million from the same period last year. Work hours declined from last year's levels due to initiatives designed to match work hours to the substantially reduced mail volume. This was especially pronounced in the mail processing function which had a drop of over 10 million work hours, or 14.2%. City and rural delivery and customer service and retail functions, which are less volume variable, reduced work hours by almost 15 million hours or 7.1%. We have targeted the elimination of approximately 90 million work hours this year, or approximately 50,000 full time equivalent employees, and are on target to achieve this objective.

Work Hours (Hours in thousands)	Three Months Ended December 31, 2009	2008
City Delivery	104,344	110,810
Mail Processing	60,841	70,902
Customer Services & Retail	42,058	48,056
Rural Delivery	43,535	45,634
Other, including Plant, Vehicle Services, Operational Support, Postmasters, and Administration	52,744	56,363
Total Work Hours	303,522	331,765

EMPLOYEE WORKFORCE

The number of career employees at December 31, 2009 was approximately 599,000, a reduction of 24,000 employees during Quarter I, 2010. Since December 31, 2008, the number of career employees has been reduced by approximately 58,000. This reduction has been accomplished primarily through attrition and retirement incentives.

RETIREMENT EXPENSE – CURRENT EMPLOYEES

During Quarter I, retirement expense was $1,469 million compared to $1,512 million for the same period last year, a decline of $43 million, or 2.8%. The decline is due principally to the reduction in the number of employees.

WORKERS' COMPENSATION

Postal employees are covered by the Federal Employees' Compensation Act, administered by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. However, we reimburse the DOL for all workers' compensation benefits paid to employees, and pay an administrative fee from postal funds.

We record as a liability the present value of all future payments we expect to make for those employees receiving workers' compensation. At the end of Quarter I, 2010, we estimate that our total liability for future workers' compensation costs is $9,236 million compared to $10,133 million at September 30, 2009, a decrease of $897 million or 8.9%. This decrease was due to a change in the timing of the annual workers compensation payment to DOL. In Quarter I, we began making our annual payment to the DOL for our workers' compensation liability on the statutorily required deadline of October 15, instead of September 15 as we had done in previous years.

Our Quarter I workers' compensation expense was $186 million in 2010 and $353 million in Quarter I, 2009. The decrease was driven by a change in the discount and inflation rate assumptions used to calculate the workers' compensation liability. The rates for the periods indicated are shown in the table on this page.

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended December 31, 2009	Quarter Ended September 30, 2009
Compensation Claims Liability:		
Discount Rate	5.0%	4.9%
Wage inflation	2.9%	3.2%
Medical Claims Liability:		
Discount Rate	4.5%	4.4%
Medical Inflation	4.4%	3.8%

The impact of the changes in the discount and inflation rates in Quarter I, 2010, decreased our Quarter I, 2010 estimated liability and expense by $193 million. The change in the discount and inflation rates is accounted for as a change in accounting estimate and included in compensation and benefits expense in Quarter I, 2010. The remaining change in the liability resulted from other routine changes in the actuarial estimation, and from new compensation and medical cases and the development of existing cases.

In Quarter I, 2010, we experienced a 0.5% decrease in the number of medical claims receiving payments and a 5.6% increase in the number of compensation claims receiving payments from the comparable quarter of the prior year. The dollar amount of claim payments increased $6 million, or 2.2%, over Quarter I, 2009. Medical claims payments Quarter I, 2010 grew by 7.9% from the comparable quarter of the prior year.

On a quarterly basis, changes in the number of claims and amounts paid are highly volatile and depend on a number of factors including, but not limited to: the number, timing and severity of injuries; the number of new claims and closed claims within the period; and the amount and timing of payments made by the OWCP on our behalf. Medical and compensation claims payments fluctuate significantly from quarter to quarter, so the change in the number of paid medical and compensation claims for any quarter compared to the same period last year may not necessarily be representative of the results to be expected for the full year.

RETIREE HEALTH BENEFITS

P.L. 109-435 included a 10 year, $55,800 million payment schedule that requires payment of $5,500 million into the PSRHBF in 2010. We are expensing the $5,500 million in equal amounts throughout the year, at a rate of $1,375 million per quarter. In 2009, we expensed $5,400 million at the rate of $1,350 million per quarter for the first three quarters of the year. In Quarter IV, 2009, we adjusted our accrual for retiree health benefits to reflect the passage of P.L. 111-68, which reduced our required contribution to the PSRHBF for 2009 from $5.4 billion to $1.4 billion. Although P.L. 109-435 dictates the funding requirements through 2016, the amounts to be funded and the timing of funding can be changed at any time with the passage of a new law, or amendment of an existing law, as passed by

Congress and signed into law by the President. In 2010, the Postal Service is continuing its efforts to seek restructuring of both the 2010 and future years' payments due to the PSRHBF. There can be no assurance that the restructuring of any of these payments will occur.

In addition to our funding of the PSRHBF, OPM charges us for the cost of our retirees currently participating in the Federal Employee Health Benefits Program (FEHBP). See Note 7, *Health Benefits Programs,* and Note 8, *Retirement Programs* in the Notes to the Financial Statements.

During Quarter I, 2010, we expensed $1,897 million for retiree health benefits; $522 million was for retiree health benefit invoices from OPM for current retirees and $1,375 million for the PSRHBF. For the same period last year, we expensed $1,814 million for retiree health benefits; $464 million for retiree benefits invoices and $1,350 million for the PSRHBF. Expenses for current retirees increased $58 million, or 12.5%, from the same period last year. The major drivers of retiree health benefits expense are the number of current participants on the rolls and premium costs of the plans they select. As of December 31, 2009, there were approximately 464,400 participants, an increase of about 12,000 compared to the same period last year. The large increase in the number of participants explains the substantial increase in current retiree health benefit expense.

In January 2010, the U.S. Postal Service Office of Inspector General released its report *The Postal Service's Share of CSRS Pension Responsibility.* According to this report, the Postal Service has, over many years, overfunded its pension fund by $75 billion. It further states that this amount could be transferred to fully meet all the Postal Service's accrued health care liability and eliminate the need for future payments to the PSRHBF which, in accordance with P.L.109-435, are required through 2016. Management is currently analyzing this report and considering future options. There is no assurance that any actions regarding our pension funding obligation will be taken based on this report or otherwise.

Operating Expenses – Transportation

Transportation Expense	Three Months Ended December 31,			
(Dollars in millions)		2009		2008
Highway Transportation	$	821	$	867
Air Transportation		635		777
Other Transportation		57		106
Total Transportation Expense	$	1,513	$	1,750

Transportation costs are largely made up of highway and air transportation. Transportation expenses were $1,513 million, a decrease of $237 million, or 13.5%, for Quarter I, 2010, compared to $1,750 million in the same period last year.

Highway transportation expenses were $821 million in Quarter I, 2010, a reduction of $46 million, or 5.3%, compared to the same quarter last year. The decrease in highway transportation expenses is primarily attributable to a decrease in the cost of diesel fuel. Diesel fuel, which makes up approximately 93% of fuel purchased for highway contracts, cost an average of $2.74 per gallon during Quarter I, 2010 compared to $2.93 per gallon during Quarter I, 2009, a decrease of 6.5%. Gasoline prices increased 16.0% compared to the same quarter last year, with the cost of a gallon of gasoline averaging $2.61 during Quarter I, 2010 compared to $2.25 during Quarter I, 2009.

Partially offsetting the decline in diesel fuel costs was a 37.5 million mile, or 2.3%, increase in contracted mileage during Quarter I, 2010. The mileage increase was attributed primarily to the operation of the Network Distribution Center (NDC) project. The project has transformed existing Bulk Mail Centers into NDCs. This has improved the flow of mail into the network, consolidated package distribution and improved transportation utilization. The impact of the increase in contracted mileage was partially offset by decreased rail transportation expense, which is included in "Other Transportation", as a result of the NDC project. Although initiation of NDCs is initially increasing miles driven, we expect that contracted mileage will decrease once the NDCs are fully implemented.

Air transportation expenses of $635 million in Quarter I, 2010 decreased by $142 million, or 18.3%, from the same quarter last year. Domestic air transportation expense decreased $95 million, or 15.3%, and international air transportation expenses decreased by $47 million, or 30.1%, compared to the same quarter last year. The decrease was due largely to lower volumes and lower fuel costs.

The decrease in other transportation expenses of $49 million, or 46.2%, from the comparable quarter of the prior year is due primarily to decreased international expenses, primarily attributable to lower settlements for foreign postal transactions. Lower rail transportation expenses also contributed to the decrease, as we shifted business to other modes of transport.

Operating Expenses – Other Operating Expense

Other operating expenses of $2,230 million for Quarter I, 2010 were $24 million, or 1.1% less than last year's comparable quarter. The other category decreased by $54 million, or 22.9%, due primarily to a $27 million decrease in the provision for contingencies and a $13 million reduction in travel expenses compared to the same period in 2009. Depreciation and amortization expenses increased by $57 million, or 10.0%, while rent and utilities decreased $26 million or 5.9%. The increase in depreciation and amortization is due principally to a $30 million adjustment of useful lives of buildings and a $16 million reclassification of operating leases to capital leases. The latter reclassification also explains most of the decrease in rent expense.

Other Operating Expenses	Three Months Ended December 31,	
(Dollars in millions)	2009	2008
Supplies and Services	$ 549	$ 545
Depreciation and Amortization	627	570
Rent and Utilities	414	440
Vehicle Maintenance Service	199	196
Information Technology and Communications	127	137
Rural Carrier Equipment Maintenance Allowance	132	130
Other	182	236
Total Other Operating Expenses	$ 2,230	$ 2,254

Cash Flows and Liquidity

Cash Flow Activity

Net cash flow used in operating activities in Quarter I was $274 million, or $1,189 million lower than the net cash generated from operations in Quarter I last year. This decrease was due to a change in the timing of the annual workers compensation payment to DOL. In Quarter I, we began making our annual payment to the DOL for our workers' compensation liability on the statutorily required deadline of October 15, instead of September 15 as we had done in previous years. This had the effect of shifting a $1,093 million cash outflow from Quarter IV, 2009 to Quarter I, 2010. We also had a $177 million decrease as compared to prior year in deferred revenue-prepaid postage, indicating that we provided service in Quarter I for postage sold in prior quarters. Partially offsetting these items were an $87 million decrease in our net loss and a $57 million increase in depreciation and amortization expense compared to the comparable quarter of the prior year.

Net cash used in investing activities decreased by $257 million for the three months ended December 31, 2009, compared to the same period last year, due principally to a $234 million decrease in property and equipment purchases. The reduction in purchases reflects our on-going efforts to conserve cash.

Net cash used in financing activities increased $1.9 billion from the quarter ended December 31, 2008, to the comparable quarter of 2009 due to repayments on our debt.

At December 31, 2009, cash and cash equivalents were $758 million, a $3,331 million decrease from September 30, 2009, and a $201 million decrease from December 31, 2008.

Liquidity

As reported in our Annual Report on Form 10-K for the year ended September 30, 2009, the Postal Service reported net losses of $3,794 million, $2,806 million, and $5,142 million for the years ended September 30, 2009, 2008, and 2007, respectively. These losses have placed unprecedented demands on our operating liquidity. The negative trend continued in the first quarter, a quarter which is traditionally our most profitable, as the Postal Service incurred a loss of $297 million. We also experienced negative cash flow from operations for two of the past three years as well as the first quarter of 2010. Our annual net increase in debt is limited by statute to $3.0 billion, and our total outstanding debt is limited to $15.0 billion. We currently project net debt outstanding at September 30, 2010 to increase by $3.0 billion over the balance outstanding at September 30, 2009 to $13.2 billion.

To alleviate pressure on our liquidity, in September 2009 Congress enacted legislation (P.L.111-68) to restructure the required $5.4 billion payment to the PSRHBF which was due on September 30, 2009, reducing it to $1.4 billion. Had this legislation not been enacted, cash flow from operations would have been negative for the year ended September 30 2009 as well. This legislation did not, however, address future payments, including the $5.5 billion payment due to the PSRHBF in September 2010.

A significant portion of the recent losses are attributable to unprecedented declines in mail volume that began in 2008. The recent declines in mail volume are primarily a result of the widespread economic recession, although the long-term trend of hard copy correspondence and transactions being diverted to electronic media has somewhat accelerated during the recession. This trend is expected to continue. Since peaking at 213 billion pieces in 2006, mail volume dropped by 9.5 billion pieces in 2008, and an additional 25.6 billion pieces, to 177 billion pieces in 2009. Volume is expected to further decrease by approximately 10 billion pieces in 2010. It is possible that volumes and related revenues could decrease at rates greater than these projections. Revenue is expected to continue to decrease in 2010 and, even with substantial cost reductions, our 2010 net loss is projected to be over $7 billion.

We have substantial scheduled cash payments in September and October 2010, including $5.5 billion funding of the PSRHBF due on September 30, 2010 and approximately $1.1 billion due in October 2010 to DOL for our workers' compensation liability. Based on our borrowing capacity and current projections of cash available from operations, we may be unable to fund our September and October payment obligations and meet our short-term operating cash flow needs.

We currently project that while there is sufficient available cash for ongoing operations in 2010, there is considerable uncertainty as to whether we will have sufficient cash on September 30, 2010 to fund our required $5.5 billion PSRHBF payment and our October obligations. There is uncertainty as to what the legal and/or regulatory consequences would be to the Postal Service if we do not fund this PSRHBF payment. If we have sufficient cash and use it to fund the PSRHBF payment on September 30, 2010, we would likely experience a cash shortfall in October 2010 when the $1.1 billion workers' compensation payment is due.

The following table illustrates our scheduled cash flow obligations in 2010 and future years:

	Payments Due by Fiscal Year				
(Dollars in millions)	Total	2010	2011 - 2012	2013 - 2014	After 2014
Debt	$ 7,542	$ 1,517	$ 0	$ 300	$ 5,725
Interest on debt	2,304	113	306	303	1,582
PSHRBF	39,400	5,500	11,100	11,300	11,500
Capital lease obligations	917	77	203	186	451
Operating leases	8,098	603	1,467	1,238	4,790
	$ 58,261	$ 7,810	$ 13,076	$ 13,327	$ 24,048

ACTIONS TAKEN

To meet this financial challenge, the Postal Service is continuing efforts to increase efficiency, reduce costs, and generate new revenue.

As reported in our Annual Report on Form 10-K for the year ended September 30, 2009, the Postal Service achieved $6.1 billion in annual cost reductions in 2009. These cost reductions included:

- Reduced our national headquarters authorized complement by 15%, closed six district offices and reduced our authorized staffing complement at area offices by 19%;
- Eliminated 115 million work hours in 2009 after eliminating 50 million work hours in 2008;
- Renegotiated and reduced contract costs by $475 million;
- Realigned our product management organization and implemented mailing incentive programs; and
- Consolidated mail processing facilities and transportation assets

In 2010, liquidity management actions include reducing projected work hours by approximately 90 million, maximizing operational efficiencies, renegotiating contracts with major suppliers, halting construction of new facilities and continuing revenue generation efforts. We have targeted $3.8 billion in additional total cost reductions in 2010 and for the three months ended December 31, 2009, we have already used 28 million fewer work hours than the same period last year. We are on target to achieve our 2010 cost-cutting objectives.

PROJECTED CASH SHORTFALL

The actions discussed above are intended to conserve cash and generate revenue. However, the full effect of these actions may not be realized until 2011 and beyond. We are committed to exploring all of the initiatives discussed above because there is no assurance that economic conditions will improve substantially during 2010 or that mail volumes will return to previous levels once the economy does improve. We have taken these actions with the goal of limiting a potential cash shortfall while not adversely impacting customer service. Although each of the actions discussed above is expected to positively impact cash flow in 2010, they may not, either individually or in the aggregate, be sufficient to offset a potential cash shortfall at September 30, 2010 and beyond.

In addition to requesting a restructuring of our payments into the PSRHBF, we also requested that Congress remove the annual appropriation bill rider, first added in 1983, that effectively requires the Postal Service to deliver mail six days each week. No significant savings are anticipated for 2010 from the proposed ability to adjust the six day delivery requirement, even if granted sometime during 2010. Multiple operational, contractual and customer issues will need to be resolved before actual implementation of a five day per week delivery schedule. However, such important new flexibility could provide direct cost savings beginning in 2011.

We continue to inform the Administration and Congress of our financial outlook and legislative changes that would help insure the availability of cash at year-end and beyond. However, there can be no assurance that adjustments to the PSRHBF payment schedule or other legislative changes will be granted by September 30, 2010, or at all.

As noted in our Annual Report on Form 10-K for the year ended September 30, 2009, in July 2009 the Government Accountability Office (GAO) listed the Postal Service as one of its “high risk” government agencies. In its report, *Restructuring the U.S. Postal Service to Achieve Financial Viability*, GAO cited our mounting losses, increasing debt levels and inability to cut costs fast enough to offset the accelerated decline in mail volume and revenue. To achieve financial viability, GAO suggested that the Postal Service develop and implement a broad restructuring plan. Congressional support for these actions will be crucial.

Outlook

Many economists believe the recession has ended and a slow recovery has begun. Year-over-year preliminary GDP growth was virtually unchanged, increasing 0.1% in Quarter I after four consecutive quarterly declines. On a sequential basis, real GDP growth was 5.7%, but 3.5 percentage points of this largely was the result of a favorable change the rate of inventory depletion. Real GDP growth is expected to moderate considerably from Quarter I. For the fiscal year we expect GDP growth around 2.0-2.5%. By historical standards this is a weak recovery from a recession. The precursors to the recession, housing price deflation and oil price shocks, appear to have eased. However the recovery in real estate values, a major component of many Americans’ net worth, is expected to be extended and gradual.

Unfortunately, two important economic factors that drive mail volume growth – employment and investment – both appear to be lagging GDP growth by several quarters. According to the Bureau of Labor Statistics (BLS), the unemployment rate reached 10.0% in Quarter I. According to economic consulting firm Global Insight, year-over-year growth in employment levels is not expected until Quarter IV. Year-over-year gross private domestic investment declined at double digit rates for the past five quarters through December 31, 2009, but investment did surge on a sequential basis in Quarter I, 2010, growing 39.3% over Quarter IV, 2009. This surge is largely a result of a large reduction the rate of inventory depletion which is not expected to continue at the same rate. Another driver of mail volume, retail sales, is growing coincidently with GDP. Retail sales grew 0.2% in Quarter I. Global Insight expects growth in retail sales will increase gradually for the rest of the fiscal year reaching 3.3% in Quarter IV. Of course, even when the economy does rebound, the Postal Service will still face electronic diversion of First-Class Mail.

Revenue Outlook

The Postal Service finds itself operating in one of the most difficult economic environments in decades. The recession began in December 2007 and deepened in 2009. Mail volume reflected this, shedding a total of 4.5 billion pieces in Quarter I, 2010, compared to Quarter I, 2009. The effects of the recession on mail volumes are expected to continue through the remainder of the year. Volume for 2010 is projected to decline approximately 10 billion pieces from the 2009 level of 177 billion pieces. The volume decline and the shift in the mail mix translate into a projected revenue decline of over $2.2 billion for 2010 from 2009. It is possible that volume and revenues could decrease at rates greater than these projections.

Expense Outlook

The Postal Service is continuing its cost reduction plans to mitigate the effects of the significant revenue shortfall from continuing declining mail volumes. Savings initiatives have been implemented across the entire organization, including all operations, administrative and non-personnel expenses. We are projecting approximately $3.8 billion in cost savings, including over 90 million in work hour reductions across the organization in 2010. In Quarter I, 2010 we used 28 million, or 8.5%, fewer work hours as compared to the same period last year. Total expenses, including interest expense, were $827 million, or 4.2%, less than the same period last year. Our continued savings will be helped by the departure of approximately 20,800 employees who accepted retirement/termination incentives and left the organization in October and November of 2009.

Bulk Mail Centers are being transformed into Network Distribution Centers (NDC). The core principal of the NDC concept is to fill containers and trucks as early in the network as possible and dispatch them as deep into the network as possible. It is anticipated that the majority of the expected savings from this initiative will be realized beginning in the latter part of 2010.

Plant staffing optimization will continue to contribute to operational savings in 2010 by aligning the plant workforce to meet changing workload levels. Route adjustments performed last year resulted in a reduction of 11,500 routes in 2009. The savings from these reductions, along the continued adjustment process this year, will generate city delivery savings in 2010.

Fair Value Measurements

As required by ASC 820 (formerly FAS 157, *Fair Value Measurements)*, we made certain fair value disclosures for the quarter ended December 31, 2009. We did not recognize gains as a result of valuation measurements during Quarter I, 2010. All recognized losses have been incorporated into our financial statements as of December 31, 2009, and for the three months then ended. See Note 10, *Fair Value Measurements,* in the Notes to the Financial Statements.

Legislation

Appropriations

On December 16, 2009, the President signed the Consolidated Appropriations Act 2010, which became Public Law 111-118. The law provides the Postal Service with $118 million for free and reduced rate mail for the blind and overseas voters, along with the annual $29 million payment pursuant to the Revenue Forgone Reform Act of 1993. The annual rider mandating six-day delivery is continued in the law. Also included is report language dealing with stations and branch closures; a request for an updated GAO study on Postal Service operations; and requests for the Postal Service to develop a legislative proposal in coordination with OPM and OMB on the prefunding of retiree health benefits.

Benefit Legislation

The House Oversight and Government Reform Committee passed an amended version of H.R. 2157, the Domestic Partnership Benefits and Obligations Act of 2009. The measure now is awaiting possible action before the full House. The bill would extend benefits to domestic partners of gay and lesbian federal employees, including Postal Service employees, by providing health care, vision and dental coverage, disability, family medical and emergency leave, long-term care insurance, and compensation for work injuries. Domestic partners could also receive benefits from participation in the Thrift Savings Plan and the Federal Employees' Retirement System. The bill could cost the Postal Service $265 million over the next ten years. The Senate Homeland and Government Oversight Committee approved a similar version of the Domestic Partnership bill, S. 1102, on December 16, 2009. The Committee also adopted an amendment that require the Government Accountability Office to study what effect the addition of benefits has on the federal government’s recruitment and retention efforts.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business we are exposed to market risks from changes in commodity prices, certain foreign currency exchange rate fluctuations and interest rates. Our commodity price risk consists primarily of exposure to changes in prices for diesel fuel, unleaded gasoline and aircraft fuel for transportation of the mail, and fuel for heating facilities. We have foreign currency risk related to the settlement of terminal dues and transit fees with foreign postal administrations for international mail.

We have not used derivative commodity or financial instruments, such as hedging, to manage market risk related to commodities, foreign currency exchange or interest rate fluctuations for debt instruments. Additionally, we do not purchase or hold derivative financial instruments for speculative purposes.

See our 2009 10-K, Financial Section Part II, Item 7A-*Quantitative and Qualitative Disclosures about Market Risk*.

Item 4 – Controls and Procedures

Management is responsible for the preparation, integrity and fair presentation of the financial statements of the Postal Service.

Disclosure Controls

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports presented in accordance with the Securities Exchange Act is recorded, processed, summarized and reported within the time frames specified by P.L. 109-435 and that this information is accumulated and communicated to our management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we were required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of December 31, 2009. Based on the foregoing, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2009.

Internal Controls

There have been no changes during the period covered by this report in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Part II

Item 1 – Legal Proceedings

None.

Item 1A – Risk Factors

There were no changes in risk factors from those disclosed in our Annual Report on Form 10-K for the year ended September 30, 2009.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable to the United States Postal Service. As an "independent establishment of the executive branch of the United States government" we do not issue stock or other securities.

Item 3 – Defaults Upon Senior Securities

Not applicable to the United States Postal Service. As an "independent establishment of the executive branch of the United States government" we do not issue stock or other securities.

Item 4 – Submission of Matters to a Vote of Security Holders

Not applicable to the United States Postal Service. As an "independent establishment of the executive branch of the United States government" we do not issue stock or other securities.

Item 5 – Other Information

None.

Item 6 – Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

/s/ John E. Potter

John E. Potter
Postmaster General and Chief Executive Officer
Date: February 9, 2010

/s/ Joseph Corbett

Joseph Corbett
Chief Financial Officer
Date: February 9, 2010

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, John E. Potter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (“Postal Service”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;

4. The Postal Service’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the Postal Service and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the Postal Service’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the Postal Service’s internal control over financial reporting that occurred during the Postal Service’s most recent fiscal quarter (the Postal Service’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service’s internal control over financial reporting; and

5. The Postal Service’s other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service’s auditors and the audit committee of the Postal Service’s Board of Governors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Postal Service’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service’s internal control over financial reporting.

Date: February 9, 2010

/s/ John E. Potter
John E. Potter
Postmaster General and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, Joseph Corbett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service ("Postal Service");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;

4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the Postal Service and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and

5. The Postal Service's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service's auditors and the audit committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service's internal control over financial reporting.

Date: February 9, 2010

/s/ Joseph Corbett
Joseph Corbett
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended December 31, 2009, (the “Report”), I, John E. Potter, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: February 9, 2010

/s/ John E. Potter
John E. Potter
Postmaster General and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended December 31, 2009 (the “Report”),I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: February 9, 2010

/s/ Joseph Corbett
Joseph Corbett
Chief Financial Officer