Postal Regulatory Commission
Submitted 8/9/2010 2:13:58 PM
Filing ID: 69597
Accepted 8/9/2010

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 June 30, 2010 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. (State or other jurisdiction of incorporation or organization)	41-0760000 (I.R.S. Employer Identification No.)
475 L'Enfant Plaza, S.W. Washington, D.C. (Address of principal executive offices)	20260 (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 August 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
(Unaudited)

(Dollars in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Operating revenue	$ 16,045	$ 16,339	$ 51,097	$ 52,372
Operating expenses				
Compensation and benefits	11,866	12,127	36,879	38,258
Retiree health benefits	1,964	1,863	5,790	5,523
Workers' compensation	1,956	1,086	2,532	1,815
Transportation	1,469	1,378	4,420	4,601
Other	2,255	2,267	6,757	6,839
Total operating expenses	19,510	18,721	56,378	57,036
Loss from operations	**(3,465)**	**(2,382)**	**(5,281)**	**(4,664)**
Interest and investment income	6	6	19	19
Interest expense	(39)	(25)	(117)	(45)
Net loss	**$ (3,498)**	**$ (2,401)**	**$ (5,379)**	**$ (4,690)**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	June 30, 2010 (unaudited)	September 30, 2009
Current Assets		
Cash and cash equivalents	$ 1,014	$ 4,089
Receivables:		
Foreign countries	687	526
U.S. government	127	150
Other	220	177
Receivables before allowances	1,034	853
Less allowances	31	29
Total receivables, net	1,003	824
Supplies, advances and prepayments	113	138
Total Current Assets	**2,130**	**5,051**
Noncurrent Assets		
Property and equipment, at cost:		
Buildings	23,731	23,189
Equipment	20,887	20,970
Land	2,980	2,995
Leasehold improvements	1,006	968
	48,604	48,122
Less allowances for depreciation and amortization	28,004	26,889
	20,600	21,233
Construction in progress	1,234	1,447
Total property and equipment, net	21,834	22,680
Other assets - principally revenue forgone receivable	353	387
Total Noncurrent Assets	**22,187**	**23,067**
Total Assets	**$ 24,317**	**$ 28,118**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	June 30, 2010	September 30, 2009
	(unaudited)	
Current Liabilities		
Compensation and benefits	$ 1,894	$ 2,766
Retiree health benefits	4,125	-
Workers' compensation costs	1,081	1,069
Payables and accrued expenses:		
Trade payables and accrued expenses	996	1,170
Foreign countries	584	470
U.S. government	119	175
Total payables and accrued expenses	1,699	1,815
Deferred revenue - prepaid postage	2,399	2,445
Customer deposit accounts	1,405	1,379
Outstanding postal money orders	646	640
Prepaid box rent and other deferred revenue	459	461
Current portion of debt	2,842	3,675
Total Current Liabilities	**16,550**	**14,250**
Noncurrent Liabilities		
Long-term portion of workers' compensation costs	10,474	9,064
Employees' accumulated leave	2,020	2,096
Deferred appropriation and other revenue	408	457
Long-term portion capital lease obligations	524	544
Deferred gains on sales of property	309	305
Contingent liabilities and other	279	290
Long-term debt	4,500	6,525
Total Noncurrent Liabilities	**18,514**	**19,281**
Total Liabilities	**35,064**	**33,531**
Net Deficiency		
Capital contributions of the U.S. government	3,132	3,087
Deficit since 1971 reorganization	(13,879)	(8,500)
Total Net Deficiency	**(10,747)**	**(5,413)**
Total Liabilities and Net Deficiency	**$ 24,317**	**$ 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
Balance, September 30, 2008	$	3,034	$	(4,706)	$	(1,672)
Additional Capital Contribution		1		-		1
Net Loss - Nine Months Ended June 30, 2009		-		(4,690)		(4,690)
Balance, June 30, 2009	$	3,035	$	(9,396)	$	(6,361)
Balance, September 30, 2009	$	3,087	$	(8,500)	$	(5,413)
Additional Capital Contribution		45		-		45
Net Loss - Nine Months Ended June 30, 2010		-		(5,379)		(5,379)
Balance, June 30, 2010	$	3,132	$	(13,879)	$	(10,747)

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Statements of Cash Flows
(Unaudited)

(Dollars in millions)	Nine Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net loss	$ (5,379)	$ (4,690)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	1,842	1,697
(Gain) loss on disposals of property and equipment and impairments, net	(10)	38
Decrease in appropriations receivable revenue forgone	34	29
Increase in long-term portion workers' compensation liability	1,410	1,667
Decrease in noncurrent employees' accumulated leave	(76)	(57)
(Decrease) increase in noncurrent deferred appropriations and other revenue	(2)	5
Increase (decrease) in other noncurrent liabilities	20	(45)
Changes in current assets and liabilities:		
Receivables, net	(179)	(52)
Supplies, advances and prepayments	25	63
Compensation and benefits	(872)	(1,047)
Retiree health benefits	4,125	4,050
Workers' compensation costs	12	90
Payables and accrued expenses	(152)	1
Customer deposit accounts	26	(105)
Deferred revenue-prepaid postage	(46)	254
Outstanding postal money orders	6	(44)
Prepaid box rent and other deferred revenue	11	(4)
Net cash provided by operating activities	795	1,850
Cash flows from investing activities:		
Purchases of property and equipment	(981)	(1,400)
Proceeds from deferred building sale	9	7
Proceeds from sales of property and equipment	44	7
Net cash used in investing activities	(928)	(1,386)
Cash flows from financing activities:		
Issuance of notes payable	-	4,500
Payments on notes payable	(2,500)	(4,500)
Net change in revolving credit line	(358)	(833)
Payments on capital lease obligations	(37)	(35)
U.S. government appropriations - expensed	(47)	(47)
Net cash used in financing activities	(2,942)	(915)
Net decrease in cash and cash equivalents	(3,075)	(451)
Cash and cash equivalents at beginning of year	4,089	1,432
Cash and cash equivalents at end of period	$ 1,014	$ 981
Supplemental cash flow information:		
Interest paid	$ 118	$ 25

See accompanying notes to the financial statements. (unaudited)

Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

The interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial statements and, accordingly, do not include all the information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with the significant accounting policies and other disclosures in the Annual Report on Form 10-K for the year ended September 30, 2009. As in that Annual Report on Form 10-K, all references to years refer to the fiscal year beginning October 1 and ending September 30, unless otherwise stated. All references to quarters, unless otherwise indicated, refer to quarters within fiscal years 2010 and 2009.

In Quarter III of the current year, the Postal Service increased its estimated liabilities for workers' compensation and prepaid postage. The change in workers' compensation is fully discussed in Note 9, *Workers' Compensation*. The change in the liability for prepaid postage resulted because the Postal Service refined its estimate of the deferred liability for prepaid postage for Forever stamps. Based upon new data obtained, a more accurate estimate of the amount of stamps that will never be used, commonly referred to as the "breakage factor," is possible. The Postal Service has determined that the change in the estimation model is a change in accounting estimate under GAAP. As such, the impact of the change is recorded in Quarter III. As a result of using the new breakage factor and other changes in methodology, the amount of the deferred revenue-prepaid postage liability increased $112 million.

Certain comparative prior year amounts related to fixed assets, leases, payables and accrued expenses, employees' accumulated leave and contingent liabilities and other have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported operating or net losses.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present the financial position of the Postal Service as of June 30, 2010, the results of operations for the three and nine month periods then ended, and the cash flows for the nine months ended June 30, 2010 and 2009. Operating results for the three and nine month periods ended June 30, 2010, are not necessarily indicative of the results that may be expected for 2010. Subsequent events have been evaluated through August 9, 2010, the date the Postal Service filed its Form 10-Q for the quarter ended June 30, 2010, with the Postal Regulatory Commission (PRC).

Note 2 – Liquidity Matters

As reported in the Annual Report on Form 10-K for the year ended September 30, 2009, the Postal Service had net losses of $3,794 million, $2,806 million, and $5,142 million for the three years ended September 30, 2009, 2008 and 2007, respectively. These losses have placed unprecedented demands on operating liquidity. The losses have continued into 2010, as losses of $3,498 million and $5,379 million were incurred for the three and nine months ended June 30, 2010, respectively. The Postal Service also experienced negative cash flow from operations for two of the past three years, with 2009 being the exception. To alleviate pressure on liquidity, in September 2009 Congress enacted legislation (P.L. 111-68) which changed the scheduled $5.4 billion payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) that 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 2009 as well. This legislation did not, however, address future payments into the PSRHBF, including the $5.5 billion payment due in September 2010.

By statute, the Postal Service is limited to an annual net increase in debt of $3 billion, and total outstanding debt of $15 billion. The Postal Service projects that it will exhaust its borrowing capacity in 2011 and will likely experience a cash shortfall if legislation similar to that passed in September 2009 is not passed.

As reported previously, the recent Postal Service losses are primarily attributable to unprecedented declines in mail volumes that began in 2008, the statutory limitations on the Postal Service's ability to reduce costs, and the statutory requirement to prefund retiree health benefits. The declines in mail volumes are primarily a result of the economic recession that began in December 2007 and the long-term trend of hard copy correspondence and transactions migrating to electronic media. This diversion from traditional postal services and migration to electronic media accelerated during the recession and is expected to continue. Additionally, the tightening of credit has negatively affected mail volumes in the financial, housing and small business sectors, all of which are heavy users of mail. Since peaking at 213 billion pieces in 2006, mail volumes dropped 904 million pieces in 2007, 9.5 billion pieces in 2008, and 25.6 billion pieces, to 177.1 billion pieces, in 2009. Total mail volume for the first nine months of 2010 is down an additional 6.6 billion pieces compared to the first nine months of 2009 and is expected to decrease by approximately 7 billion pieces in 2010. Because of declining volumes, revenues in 2010 are also expected to decrease and, even with substantial cost reductions, the Postal Service projects a likely cash shortfall in 2011.

In addition to normal recurring costs, the Postal Service has two substantial cash payments scheduled for September and October 2010: the $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 the Postal Service's annual payment on its workers' compensation liability. Based on the current Postal Service borrowing capacity and projections of cash available from operations, there will likely be sufficient cash available for ongoing operations for the remainder of 2010. However, there is substantial uncertainty as to whether the Postal Service will have sufficient cash available to fund the $5.5 billion PSRHBF payment and the October DOL obligations while maintaining sufficient liquidity to meet its other financial obligations in 2011. The legal and/or regulatory consequences to the Postal Service if the PSRHBF or the workers' compensation payments are not funded are unknown. Even if there is sufficient cash to fund the ongoing operations and PSRHBF payment on September 30, 2010, the Postal Service will exhaust its borrowing capacity in 2011 and likely experience a cash shortfall.

To meet its financial challenges, the Postal Service has substantially reduced work hours. As previously reported, work hours were reduced by 50 million in 2008 and an additional 115 million hours in 2009. Work hours during the first nine months of 2010, were 63 million hours, or 6.6%, less than the comparable period of 2009. The Postal Service currently is projecting work hour reductions of up to 80 million hours in 2010. The ultimate number of work hour savings achieved is dependent on mail volumes. Beyond work hour savings, the Postal Service also continues its efforts to increase revenue, increase operational efficiencies, and has halted new construction of new facilities. Although each of these efforts is expected to positively impact cash flow, they are not, individually or in the aggregate, sufficient to offset a likely cash shortfall in 2011.

The ability to generate sufficient cash flows to meet financial obligations in 2010 and beyond is substantially dependent on the strength of the economic recovery, the rate at which mail continues to migrate to electronic alternatives, and the ability of the Postal Service to execute strategies to increase efficiency, reduce costs and retain and grow revenue. Legislative changes, including restructuring the PSRHBF payment schedule, are also necessary. However, achieving our cost savings will be challenging and no assurance can be given that the Postal Service efforts to secure legislative changes will be successful, or that Congress will enact restructuring legislation in time to impact 2010, or at all. Further, it should be noted that, absent significant changes, the $15 billion debt ceiling is projected to be reached in 2011.

Even with legislative action to address these shorter-term liquidity matters, the Postal Service would still face longer-term financial viability concerns. To begin the process of addressing these issues, in March 2010 the Postal Service issued its action plan for the next decade, *Ensuring a Viable Postal Service for America*. In this plan, the Postal Service estimated that during the next decade, there could be cumulative financial losses of approximately $238 billion, absent significant operational and legislative changes. The Postal Service further estimated that approximately $123 billion of the projected losses could be addressed and resolved by aggressive management actions within the existing regulatory structure, assuming the full cooperation of all Postal Service stakeholders. To address the remaining unsustainably large projected deficit of at least $115 billion, a balanced set of actions has been proposed. These actions will require legislation and cooperation from a range of stakeholders, and include changes in the following areas: retiree health benefits prefunding, including reassessment of CSRS obligation; delivery frequency; modernize access to postal services; workforce flexibility; pricing flexibility; expansion of products and services; and regulatory oversight issues.

As noted above, one of the actions that the Postal Service has proposed to alleviate its longer-term financial challenges is the elimination of Saturday mail delivery to street addresses. The Postal Service filed a request for an advisory opinion with the PRC on March 30, 2010, requesting advice (required by 39 U.S.C., section 3661) as to whether the elimination of Saturday mail delivery to street addresses and other associated changes conform to the requirements of Title 39, United States Code. The PRC is expected to issue its advisory opinion before the end of the calendar year. Congressional action would also be required to reduce the number of legally-required delivery days. On July 29, 2010, the Senate Appropriations Committee and the House Financial Services and General Government Subcommittee approved spending bills that include provisions requiring the U.S. Postal Service to maintain a six-day delivery schedule. No savings would occur in 2010 from the ability to adjust the six-day delivery requirement, even if the request is granted in 2010, as numerous operational, contractual and customer issues would need to be resolved prior to implementation of a new delivery schedule. If our request is granted, it would be 6 to12 months before the impact of the financial benefits would begin to be realized.

In addition, on July 6, 2010, the Postal Service filed a request with the PRC seeking an exigent price increase on certain Mailing Services products as permitted by P.L.109-435. Price increases for Mailing Services products are generally tied to the Consumer Price Index, but the PRC can approve price increases in excess of changes in the index if there are exceptional or extraordinary circumstances and it determines that the request is reasonable, equitable, and necessary. The PRC's decision on the proposal is due on October 4, 2010. If approved, Mailing Services prices will increase an average of approximately 5.6% on January 2, 2011.

A related issue impacting the Postal Service's financial viability is the legally-mandated funding of retirement benefits. On January 20, 2010, the Office of Inspector General issued a report in which it evaluated the current system of funding the Postal Service's Civil Service Retirement System responsibility, concluding that the Postal Service had overfunded its obligation by $75 billion. At the Postal Service's request, the PRC initiated an independent actuarial review of this issue and issued a report on June 30, 2010, in which the independent actuary determined that, although the cost allocation methodology used in 1971 was appropriate at the time, modern actuarial and accounting guidance suggest an alternative allocation methodology would be more fair and equitable. If an updated allocation methodology were employed, the actuary estimates that the Postal Service may have overfunded the CSRS obligation by $50 billion to $55 billion. The Office of Personnel Management (OPM) and the Postal Service are evaluating these studies and are working with Congress on a legislative solution to address the actuarial variances amongst these entities. Legislation which embodies the recommendations of the independent actuary retained by the PRC was approved by the House Subcommittee on Federal Workforce, Postal Service and the District of Columbia on July 21, 2010. The legislation does not, however, address the liquidity problem facing the Postal Service because it does not alter the statutorily mandated $5.5 billion payment to prefund retiree health benefits due on September 30, 2010.

The Postal Service continues to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues it faces and the legislative changes that would help ensure the availability of sufficient liquidity at September 30, 2010, and beyond. There can be no assurance that the requested adjustments to the PSRHBF payment schedule, or any other legislative changes, will be made by September 30, 2010, or at all.

Note 3 – Debt

As of June 30, 2010, debt payable to the Federal Financing Bank (FFB), a government-owned corporation under the general supervision of the Secretary of the Treasury, was $7,342 million compared to $10,200 million at September 30, 2009. Fixed-rate debt can be repaid at any time at a price determined by the Secretary of the Treasury based on rates prevailing in the Treasury Security market at the time of repayment. The Postal Service repaid its four floating rate notes during the first two quarters of 2010. The interest rates on credit line debt are determined by the Treasury each business day.

Debt as of June 30, 2010, and September 30, 2009, all of which is unsecured and not subject to sinking fund requirements, is as follows:

Indebtedness to Federal Financing Bank
(Dollars in millions)

		June 30, 2010		September 30, 2009	
Maturity	Debt Type	Balance	Rate	Balance	Rate
January 31, 2014	Fixed rate-payable at maturity	$ 300	2.035%	$ 300	2.035%
May 2, 2016	Fixed rate-payable at maturity	300	2.844	300	2.844
November 15, 2018	Fixed rate-payable at maturity	500	3.048	500	3.048
February 15, 2019	Fixed rate-payable at maturity	700	3.296	700	3.296
May 15, 2019	Fixed rate-payable at maturity	1,000	3.704	1,000	3.704
May 15, 2019	Fixed rate-payable at maturity	500	3.513	500	3.513
May 17, 2038	Fixed rate-payable at maturity	200	3.770	200	3.770
February 15, 2039	Fixed rate-payable at maturity	1,000	3.790	1,000	3.790
October 15, 2009	Floating rate	-	-	475	0.155
November 15, 2042	Floating rate	-	-	500	0.184
December 15, 2042	Floating rate	-	-	1,025	0.216
June 15, 2043	Floating rate	-	-	500	0.271
[1]	Overnight revolving credit line	285	0.297	-	-
[1]	Short-term revolving credit line	2,557	0.186	3,200	0.145
Total debt		$ 7,342		$ 10,200	
Less: Current portion of debt		2,842		3,675	
Long-term portion of debt		$ 4,500		$ 6,525	

[1] Current credit agreements with FFB expire on May 3, 2011. Prior credit agreements expired April 30, 2010. Interest rate is weighted-average rate on balance.

The Postal Service has two credit facilities with the FFB. One, a short-term credit line, enables the Postal Service to draw up to $3,400 million with two days prior notice. Borrowings under this credit line are typically on an overnight basis but can have a maximum maturity of up to one year. The second credit facility, which allows borrowing on an overnight basis, enables the Postal Service to draw up to $600 million on the same business day that funds are requested. In addition, the Postal Service can use a series of other notes with varying provisions to draw upon with two days prior notice. These credit facilities and note arrangements provide the Postal Service the flexibility to borrow short-term or long-term, using fixed- or floating-rate notes. Fixed-rate notes can be either callable or non-callable.

By statute, the Postal Service is limited to net annual debt increases of $3 billion and total debt outstanding cannot exceed $15 billion. For 2010, it is subject to an absolute debt ceiling of $13.2 billion, a $3 billion increase from the September 30, 2009 debt of $10.2 billion.

Scheduled principal repayments, exclusive of capital leases, subsequent to June 30, 2010, are as follows:

Scheduled Principal Repayments (Dollars in millions)		
2010	$	2,842
2011		-
2012		-
2013		-
2014		300
After 2014		4,200
Total Debt	$	7,342

Note 4 – Property and Equipment

Continuing a program begun in Quarter III of 2009 under the provisions of the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), the Postal Service received from the General Services Administration during the first six months of 2010 approximately 3,100 new fuel-efficient vehicles in exchange for approximately the same number of vehicles then in its fleet. The $45 million excess of the fair value of the vehicles received over the vehicles traded-in was recorded as an additional non-cash capital contribution by the U.S. government. This program ended in Quarter II, 2010. Capital contributions in the first nine months of 2009 were $1 million.

Impairment analyses of property and equipment were performed in each of the first three quarters of 2010 whenever there was an indicator of impairment or a decision was made to dispose of an asset. Based upon these analyses, impairment charges of $7 million and $10 million were recorded in the three and nine months ended June 30, 2010, respectively. There were no material impairment charges recorded in the first nine months of 2009. See Note 10 – *Fair Value Measurements*.

Note 5 – Leases and Other Commitments

COMMITMENTS

Each year, the Postal Service incurs new capital commitments which consist of lease obligations and contracts for the acquisition of equipment, vehicles, and building construction and improvements. At June 30, 2010, commitments for capital items were $1,318 million compared to $1,809 million at September 30, 2009. The table summarizes capital commitments at June 30, 2010:

Capital Commitments (Dollars in millions)		June 30, 2010
Mail Processing Equipment	$	778
Postal Support Equipment		111
Building Improvements		353
Construction and Building Purchase		39
Retail Equipment		32
Vehicles		5
Total Capital Commitments	$	1,318

LEASES

At June 30, 2010, future minimum payments on non-cancelable operating and capital leases were as follows:

Lease Obligations (Dollars in millions)		Operating		Capital
2010	$	207	$	26
2011		774		101
2012		730		103
2013		677		96
2014		615		92
After 2014		4,905		452
Total Lease Obligations	$	7,908	$	870
Less: Interest				294
Total Capital Lease Obligations			$	576
Less: Short-term portion of capital lease obligations				52
Long-term portion of capital lease obligations			$	524

The short-term portion of the capital lease obligation is included in "Trade payables and accrued expenses" on the Balance Sheets.

Rent expense for the three and nine months ended June 30, 2010 and 2009 was as follows:

Rental Expense	Three Months Ended June 30,				Nine Months Ended June 30,			
(Dollars in millions)		2010		2009		2010		2009
Non-cancelable real estate leases including related taxes	$	238	$	251	$	728	$	748
Facilities leased from GSA* subject to 120-day cancellation		11		11		33		32
Equipment and other short-term rentals		77		69		200		206
Total Rental Expense	$	326	$	331	$	961	$	986

*General Services Administration

Note 6 – Contingent Liabilities

Contingent liabilities consist mainly of claims and lawsuits resulting from labor and equal employment opportunity disputes, environmental matters, property damage claims, injuries on postal properties, issues arising from postal contracts, personal claims and traffic accidents. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of potential resolution is estimable, a liability for the loss is recorded. In addition, each quarter any prior claims and litigation are reviewed and, when necessary, the liability balance is adjusted for resolutions or revisions to prior estimates. No individual claim currently assessed as probable of an unfavorable outcome is material to the interim financial statements taken as a whole. The table summarizes contingent liabilities provided for in the interim financial statements.

Accrued Contingent Liabilities (Dollars in millions)		June 30, 2010		September 30, 2009
Labor Cases	$	196	$	174
Equal Employment Opportunity		61		52
Environmental		40		40
Tort		39		35
Total Accrued Contingent Liabilities	$	336	$	301

Based on currently available information, adequate provision has been made for probable losses arising from claims and suits. The current portion of this liability was $100 million at June 30, 2010, and $86 million at September 30, 2009, and is included on the Balance Sheets in "Trade payables and accrued expenses". The long-term portion of this liability at June 30, 2010, was $236 million and $215 million at September 30, 2009. These amounts are accrued in "Contingent liabilities and other" on the Balance Sheets.

There are other claims and lawsuits which are deemed reasonably possible of an unfavorable outcome which range from $1.4 billion to $1.6 billion. No provisions for these are accrued or included in the results of operations for the three and nine months ended June 30, 2010.

Note 7 – Health Benefits Programs

CURRENT EMPLOYEES

Substantially all career employees are covered by the Federal Employees Health Benefits Program (FEHBP). OPM administers the program and allocates the cost of the program to the participating government employers. The Postal Service's portion of the cost is based on the weighted-average premium cost of the various employee coverage choices and the specific coverage choices made by current employees. Employees paid approximately 21% of the premium costs in Quarter III, 2010, compared to 19% in Quarter III, 2009. For the nine months ended June 30, 2010 and 2009, employees paid approximately 20% and 19% of premium costs, respectively. The Postal Service paid the remaining employee health care expense which was $1,284 million and $1,318 million in Quarter III, 2010 and 2009, respectively, and $3,854 million and $3,979 million for the nine months ended June 30, 2010 and 2009, respectively. These expenses are included in "Compensation and benefits" in the Statements of Operations.

RETIREES

Employees who participate in the FEHBP for at least the five years immediately prior to retirement may participate in the plan during retirement. The Postal Service is required by statute to fund the employer's share of health insurance premiums for retired postal employees and their survivors who have met the participation requirements and retired on or after July 1, 1971. Because the Postal Service cannot direct the costs, benefits or funding requirements of this federally-sponsored plan, plan costs are accounted for using multiemployer accounting rules and, accordingly, expense is recorded when payments are due to OPM. Employer premium expense for retiree health benefits for Quarter III, 2010 and 2009 was $589 million and $513 million, respectively. For the nine months ended June 30, 2010 and 2009, employer premium expense for retiree health benefits was $1,665 million and $1,473 million, respectively.

P.L. 109 - 435

In addition to these payments to OPM for the Postal Service share of FEHBP retiree premiums, P.L. 109-435 established the PSRHBF, which requires prefunding of its retiree premiums. The fund will be used, commencing in 2017, to pay the Postal Service share of the health insurance premiums for current and future Postal Service retirees. The schedule of payments into the PSRHBF, which began in 2007, originally required the Postal Service to pay into the fund, on average, $5.6 billion per year for ten years. At June 30, 2010, remaining scheduled payments to the PSRHBF are as follows:

Postal Service 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 Postal Service Retiree Health Benefit Fund Commitment	$ 39,400

P.L. 109-435 specifies PSRHBF funding requirements through 2016. The law also requires that not later than 2017, OPM will perform an actuarial valuation to determine if additional payments into the PSRHBF are required. If additional payments are required, OPM will design an amortization schedule to fully fund the remaining liability, if any, by September 30, 2056.

The timing of and amounts to be funded can be changed, however, with the passage of a new law or amendment of the existing law. With 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 has asked

Congress to restructure the payment schedule for 2010 and future years. There can be no assurance that Congress will restructure any of the scheduled payments.

For the three months ended June 30, 2010 and 2009, P.L. 109-435 expenses were $1,375 million and $1,350 million, respectively. For the nine months ended June 30, 2010 and 2009, P.L. 109-435 expenses were $4,125 million and $4,050 million, respectively.

Note 8 – Retirement Programs

Employees participate in one of three pension programs based upon their starting date of employment with the federal government. Employees contribute to either 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 the 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 benefit of postal retirees. The Postal Service makes employer contributions of 11.2% of base salary for current FERS employees. Retirement expense for Quarter III, 2010, was $1,439 million compared to $1,458 million for the same period last year. Year-to-date retirement expense was $4,353 million in 2010 compared to $4,447 million in the same period of 2009. Retirement expense is recorded in “Compensation and benefits” in the Statements of Operations.

Note 9 – Workers’ Compensation

Postal employees are covered by the Federal Employees’ Compensation Act, administered by the Department of Labor (DOL) Office of Workers’ Compensation Programs (OWCP), which makes all decisions regarding injured workers eligibility for benefits. However, the Postal Service annually reimburses the DOL from postal funds for all workers’ compensation benefits paid to postal employees on its behalf, and, in addition, pays an administrative fee to the DOL.

The workers’ compensation liability at June 30, 2010, represents the present value of the estimated future payments to postal workers, or their qualified survivors, who have been injured through June 30, 2010. The estimated total cost of a claim is based on the date of injury, pattern of historical payments, frequency and severity of the claim-related injury or injuries, and the expected trend in future costs. The payout of this liability will, in some instances, be for the rest of the lives of the claimants.

The Postal Service records a liability for the present value of the estimated future workers’ compensation payments. A payment of $1.1 billion was made to the DOL in Quarter I. The present value of the liability for future workers’ compensation payments was $11,555 million at June 30, 2010, compared to $10,133 million at September 30, 2009. The current portion of this liability was $1,081 million at June 30, 2010, and $1,069 million at September 30, 2009. These amounts are accrued under “Workers’ compensation costs” on the Balance Sheets.

Changes in workers’ compensation liability are primarily the combined result of changes in the discount and inflation rates and to a lesser extent attributable to routine changes in the actuarial estimation, new compensation and medical cases and the development of existing cases. The liability is revalued at each balance sheet date using updated inflation and discount rates.

The liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease our estimate of the liability by approximately $1,035 million. A decrease of 1% would increase our estimate of the liability by approximately $1,296 million. As shown in the discount rate chart that follows, discount rates for compensation claims and medical claims decreased by 1.6 and 1.5 percentage points respectively.

Workers’ compensation expense was $1,956 million in the third quarter of 2010 compared to $1,086 million in the same quarter of 2009, an increase of $870 million, or 80.1%. For the nine months ended June 30, 2010, workers’ compensation expense was $2,532 million, compared to $1,815 million for the same period last year, an increase from 2009 of $717 million, or 39.5%. The components of workers’ compensation expense are as follows:

Workers' Compensation Expense (Dollars in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Costs of new cases and actuarial reestimation of existing cases	$ 300	$ 279	$ 1,070	$ 1,008
Impact of discount & Inflation rate changes	1,656	807	1,462	807
Total Workers' Compensation Expense	$ 1,956	$ 1,086	$ 2,532	$ 1,815

In order to properly measure the liability at fair value in accordance with GAAP, updated inflation and discount rates are used in the determination of the estimated future workers' compensation payments. In the third quarter of 2009, a new policy of updating inflation and discount rates on a quarterly basis was implemented to determine the present value of the workers' compensation liability.

The discount and inflation rates used in estimating the liability in the current quarter, and in the three prior quarters are as follows:

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Compensation Claims Liability:				
Discount Rate	3.5%	5.1%	5.0%	4.9%
Wage inflation	3.0%	2.9%	2.9%	3.2%
Medical Claims Liability:				
Discount Rate	3.0%	4.5%	4.5%	4.4%
Medical Inflation	4.4%	4.4%	4.4%	3.8%

The discount rates for compensation claims and medical claims decreased by 1.6 percentage points and 1.5 percentage points, respectively. The inflation rate for compensation claims liability increased by a 0.1 percentage point. The impact of these rate changes increased the Quarter III, 2010 estimated liability and expense by $1,656 million. Changes in the discount and inflation rates during the first nine months of 2010 resulted in an increase to the estimated liability and expense of $1,462 million. The impact of quarterly changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in the quarter's operating expense.

For the first nine months of 2010, the amount of claim payments disbursed by DOL on our behalf increased $23 million, or 2.9%, from the comparable period of 2009. The increase in payments from the prior year is primarily attributable to increased medical claim payments, which increased $21 million compared to the same period last year. Year-to-date compensation claim payments increased by $2 million compared to 2009.

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 and closed claims in 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.

Note 10 – Fair Value Measurements

The Postal Service assumes that the carrying value of current assets and current liabilities approximates fair values. The Postal Service also has non-current financial instruments, such as the long-term portion of debt (see Note 3-*Debt*) and long-term receivables (see Note 11-*Revenue Forgone*), that must be measured for disclosure purposes on a recurring basis under authoritative accounting literature as promulgated by the Financial Accounting Standards Board. The Postal Service also applies these requirements to various non-recurring measurements of financial and non-financial assets and liabilities, such as the impairment of property and equipment. Measurement of assets and liabilities at fair value is performed using inputs from the following three levels of the fair value hierarchy as defined in the authoritative literature:

- Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities as of the balance sheet 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 inactive markets, observable data, other than quoted market prices, for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived from, or corroborated by, observable market data.
- Level 3 inputs include unobservable data that reflect current assumptions about the judgments and estimates that market participants would use when pricing the asset or liability. These inputs are based on the best information available, including internal data.

Because no active market exists for the debt with the FFB, the fair value of the long-term portion of these notes has been estimated using prices provided by the FFB, a level 3 input.

The fair value of revenue forgone has been estimated using the income method and discount rates on similar assets, such as long-term U.S. Treasury securities that have a similar maturity, a level 2 input.

The carrying values and the fair values of non-current assets and liabilities that qualify as financial instruments in accordance with the accounting literature are in the table below:

Fair Value of Long-Term Financial Assets and Liabilities	June 30, 2010		September 30, 2009	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue Forgone	$ 334	$ 453	$ 360	$ 462
Total Long-Term Financial Assets	334	453	360	462
Long-Term Portion of Debt	4,500	4,636	6,525	6,519
Total Long-Term Financial Liabilities	$ 4,500	$ 4,636	$ 6,525	$ 6,519

The above table is presented for disclosure purposes only. The Postal Service has not recorded a charge or credit to its operations for the differences between carrying and fair values of the above assets and liabilities.

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

Reconciliation of Fair Value of Level 3 Instruments (Dollars in millions)		
Debt		
Balance at September 30, 2009	$	6,519
Repayment of Debt		(2,025)
Unrecognized Loss		142
Balance at June 30, 2010	$	4,636

Non-financial assets, such as property and equipment, are measured at fair value when there is an indicator of impairment or when a decision is made to dispose of an asset, and recorded at fair value only when impairment is recognized. Impairment analyses of property and equipment were performed in each of the first three quarters of 2010 and, based on those analyses, impairment charges of $7 million and $10 million were recorded during the three and nine months ended June 30, 2010, respectively; there were no material impairment charges recorded in the first nine months of 2009. Independent appraisals, adjusted for estimated selling costs, are used to determine the fair value of non-financial assets deemed impaired or being held for sale. Independent third party appraisals are deemed level 2 inputs as defined above. See Note 4 - *Property and Equipment*.

Note 11 – Revenue Forgone

Revenue forgone is a legislative appropriation which reimburses the Postal Service for the cost of statutorily required free and reduced rate mailing services to certain groups. During Quarter III, 2010, we recognized revenue of $22 million, including $6 million of imputed interest income from these appropriations, compared to $23 million, including $6 million of imputed interest, during the same period last year. For the nine months of 2010, we recognized $65 million of such revenue, including $18 million of imputed interest, compared to $68 million of revenue, including $18 million of imputed interest, for the same period in 2009. The related receivable was $408 million at June 30, 2010, and $448 million at September 30, 2009. The current portion of this receivable was $74 million at June 30, 2010, and $88 million at September 30, 2009. These amounts are recorded under “Receivables – U.S. government” on the Balance Sheets.

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

Cautionary Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this report include statements representing expectations about the United States Postal Service business and financial results. These may be affected by risks and uncertainties discussed here and in the Annual Report on Form 10-K for the year ended September 30, 2009, such as, but not limited to, economic conditions, regulatory and legislative changes, changes in actuarial assumptions, and known and anticipated trends believed relevant to future operations. Some of these and other factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated. Operating results for the three and nine month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending September 30, 2010. This report should be read in conjunction with the United States Postal Service Annual Report on Form 10-K for the year ended September 30, 2009. As in that report, 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 ("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" 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, who are appointed by the independent Governors, are also members of the Board of Governors. Under the Postal Reorganization Act, and its successor, the Postal Accountability and Enhancement Act, Public Law 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 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, prices do not unreasonably vary by customer for the levels of service provided.

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 the real estate sector, represents approximately 11% of operating revenue.

We serve individual and commercial customers throughout the nation and 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).

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 generally subject to a price cap which is based on changes in 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".

Postal 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*. Mail is delivered 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 4% of operating revenue.

We operate and manage a very extensive and integrated retail, distribution, transportation and delivery network. Therefore, 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. The APWU and NRLCA labor contracts expire in November 2010, and the NPMHU and NALC contracts expire in November 2011.

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 not subject to regulation by the Securities and Exchange Commission (SEC). However, we are required by 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 at *www.usps.com*.

Additional disclosures about our organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, financial and strategic plans and the Comprehensive Statement on Postal Operations may also be found on the above website. Information on this 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 the Annual Report on Form 10-K for the year ended September 30, 2009.

In Quarter III of the current year, the Postal Service increased its estimated liabilities for workers' compensation and prepaid postage. The change in workers' compensation is fully discussed in Note 9, *Workers' Compensation* as well as the Operating Expenses – Workers' Compensation section below. The change in the liability for prepaid postage resulted because the Postal Service refined its estimate of the deferred liability for prepaid postage for Forever stamps. This update was made necessary because based upon new data obtained, we were able to more accurately predict the amount of stamps that will never be used, commonly referred to as the "breakage factor". The refinement is considered a change in accounting estimate under GAAP. As required by GAAP, the impact of this change and other changes in methodology is recorded in Quarter III, 2010. In the Quarter, we increased the deferred revenue-prepaid postage liability by $112 million. For further information, see Note 1, *Basis of Presentation*, in the Notes to the Financial Statements for the Quarter ended June 30, 2010.

Results of Operations

Net losses were $3,498 million and $2,401 million in Quarter III, 2010 and 2009, respectively. For the nine months ended June 30, 2010, we had a net loss of $5,379 million, compared to a net loss of $4,690 million for the comparable period of 2009.

Key Operating Statistics (Dollars and mail volume per day in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Operating Revenue	$ 16,045	$ 16,339	$ 51,097	$ 52,372
Loss from Operations	$ (3,465)	$ (2,382)	$ (5,281)	$ (4,664)
Net Loss	$ (3,498)	$ (2,401)	$ (5,379)	$ (4,690)
Average Mail Volume per day	531	537	571	599

The loss from operations for the three and nine month periods ended June 30, 2010, includes a non-cash charge due to discount rate changes on the workers' compensation liability of $1,656 million for the three months ended June 30, 2010 and $1,462 million for the nine months ended June 30, 2010. A comparable expense of $807 million was recorded in the three and nine months ended June 30, 2009. Discount rates are updated quarterly, based on prevailing market rates for Treasury securities of varying maturities.

Further, in 2010, we are accruing $1,375 million each quarter or $4,125 million for the nine month period for the legally-mandated $5.5 billion payment to the PSRHBF on September 30, 2010, compared to $1,350 million each quarter and $4,050 million for the nine month period in 2009.

Because these expenses are not subject to management's control, we believe that viewing our operating results without the impact of these charges related to discount rates and the legally-mandated PSRHBF accruals provides a more appropriate representation of our operations. The table below illustrates the loss/income from our ongoing business activities when these charges are not considered, and reconciles this amount to our GAAP loss from operations.

(Dollars in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Loss from Operations	$ (3,465)	$ (2,382)	$ (5,281)	$ (4,664)
Impact of:				
Discount rate changes on Workers' Compensation	1,656	807	1,462	807
PSRHBF Expense	1,375	1,350	4,125	4,050
(Loss) / Income from Operations before impact of discount rate changes on Workers' Compensation expense and PSRHBF expense	$ (434)	$ (225)	$ 306	$ 193

Without the impact of these charges, the Quarter III operating loss would have been $434 million in 2010, compared to an operating loss of $225 million in 2009. For the nine months ended June 30, 2010, we would have had an operating income of $306 million, compared to an operating income of $193 million for the comparable period of 2009, if these charges were not included.

We have experienced negative operating results in fourteen of the last sixteen quarters. Similar to the prior year, we were unable to fully offset the current year's decrease in mail volumes and the related revenues despite making significant cost reductions. As explained more fully in the "Revenue and Volume" section of this report, the recession that began in December 2007, coupled with the continued diversion of mail away from traditional postal services and a migration towards electronic media, have caused a significant decrease in operating revenue in recent years, including the current quarter and the first nine months of 2010. For the three months ended June 30, 2010, operating revenue was $16,045 million, compared to $16,339 million for the same period last year, a decrease of $294 million or 1.8%, in spite of a 3.8% average price increase for Mailing Services in May 2009 and 5.0% and 3.3% average price increases for Shipping Services in January 2009 and 2010, respectively.

For the nine months ended June 30, 2010, operating revenue was $51,097 million, a decrease of $1,275 million, or 2.4%, from operating revenue of $52,372 million in the same period of 2009. All categories of Mailing Services experienced volume declines in the nine month period ended June 30, 2010, compared to the same period last year. However, Shipping Services, which represents approximately 13% of revenues, increased 6.2% on volume increases of 2.6% for the nine months ended June 30, 2010 compared to the same period of 2009.

Quarter III, 2010 operating expenses were $19,510 million compared to $18,721 million in the corresponding quarter of last year, an increase of $789 million, or 4.2%. This increase is attributable mainly to higher workers' compensation expense discussed above, higher retiree health benefits expenses and increased transportation costs. Compensation and benefits expenses decreased by $261 million, or 2.2%, from the comparable quarter of 2009. This decrease was driven by work hour reductions of 15 million hours, or 4.8%, from Quarter III of 2009. Transportation expenses increased by $91 million, or 6.6%, in the quarter ended June 30, 2010 compared to same quarter of 2009, primarily due to higher fuel costs. Without the impact of the workers' compensation discount rate changes and the PSRHBF expenses, operating expenses for the three months ended June 30, 2010 would have been $16,479 million, a decrease of $85 million or 0.5%, from last year's $16,564 million.

For the first nine months of 2010, operating expenses were $56,378 million, a decline of $658 million, or 1.2%, from $57,036 million of operating expenses in the first nine months of 2009. This decrease is attributable mainly to work hour reductions and lower transportation expenses. For the first nine months of 2010, compensation and benefits expenses of $36,879 million were $1,379 million, or 3.6%, less than the first nine months of 2009, primarily attributable to a 63 million, or 6.6%, work hour decrease. Transportation expenses and other expenses decreased by $181 million and $82 million, or 3.9% and 1.2%, respectively, from the nine month period ended June 30, 2009. Without the impact of the workers' compensation discount rate changes and the PSRHBF expenses, operating expenses for the nine months ended June 30, 2010 would have been $50,791 million, a decrease of $1,388 million or 2.7%, from last year's $52,179 million.

Revenue and Volume

Prices for most Mailing Services increased by an average of 3.8% on May 11, 2009, but there were no price increases for any Mailing Services products in 2010. Prices for Shipping Services increased on January 18, 2009, and January 4, 2010, by an average of 5.0% and 3.3%, respectively. While the economic recession may have technically ended, the continuing effects of the economic slowdown continue to adversely affect our results.

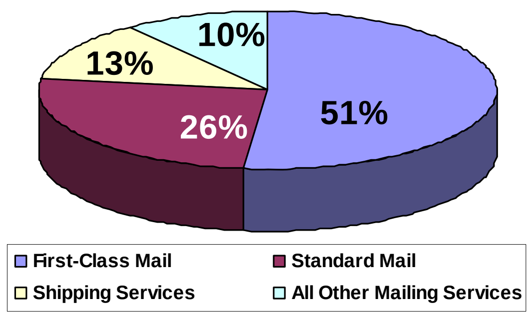
The rate of decline in mail volume has slowed, but we do not anticipate improvements in our most profitable product, First-Class Mail for the foreseeable future. In Quarter III, 2010, total mail volume was 1.7% less than the same period of 2009, with an accompanying revenue decline of 1.8%. For the first nine months of 2010, total mail volume decreased by 4.9% compared to the first nine months of 2009, with an accompanying decline in revenue of 2.4%.

The decline in revenues and volumes for both the quarter and nine months ended June 30, 2010, can largely be attributed to the lingering effects of the recent recession and its impact on the rate at which mail is migrating from traditional postal hard copy services to electronic media. Compared to the equivalent periods of 2009, three of our four major categories of Mailing Services had volume declines in Quarter III. Standard Mail volume, the one exception, was up 4.2% in Quarter III compared to the same quarter of the prior year. However, for the nine months ended June 30, 2010, all four major categories of Mailing Services experienced volume declines.

Revenue (Dollars in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
First-Class Mail	$ 8,252	$ 8,704	$ 26,181	$ 27,381
Standard Mail	4,113	3,940	12,973	13,189
Periodicals	468	495	1,428	1,557
Package Services	341	359	1,144	1,295
Other Mailing Services*	843	926	2,798	2,758
Total Mailing Services	$ 14,017	$ 14,424	$ 44,524	$ 46,180
Total Shipping Services	2,028	1,915	6,573	6,192
Total Operating Revenue	$ 16,045	$ 16,339	$ 51,097	$ 52,372

* Includes Certified Mail, Return Receipts, PO Boxes, Insurance, Other Ancilliary Fees & Non-Mailing Income.

Quarter III, 2010 Mail Revenue



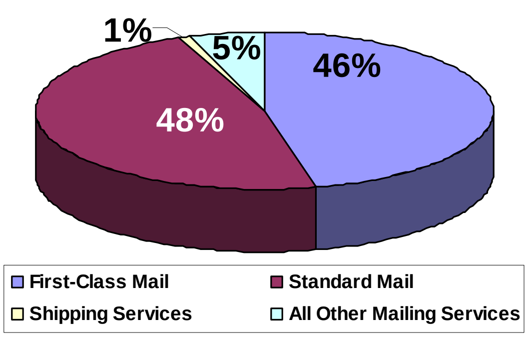
Bill payments continue to move away from paper-based payments by mail toward electronic payments using the internet. Electronic presentment of bills and statements, while currently less advanced than bill payments, is a substantial threat to future mail revenue.

MAILING SERVICES

For the quarter ended June 30, 2010, combined First-Class Mail and Standard Mail, which were 94% of our volume, decreased 567 million pieces, or 1.5%, compared to the same period last year, with an associated drop in revenue of $279 million, or 2.2%. Although the total volume declined in Quarter III, this decline is attributable to First-Class Mail, our most profitable service, which declined 1,361 million pieces, or 6.7%, while Standard Mail volume increased 794 million pieces or 4.2%. However, it should be noted that it takes approximately two pieces of Standard Mail to replace the revenue lost on one piece of First-Class Mail.

First-Class Mail revenue of $8,252 million decreased $452 million, or 5.2%, in Quarter III on a volume decline of 1,361 million pieces, or 6.7%, compared to the same period last year. Single-piece First-Class letter and card revenue

Quarter III, 2010 Mail Volume



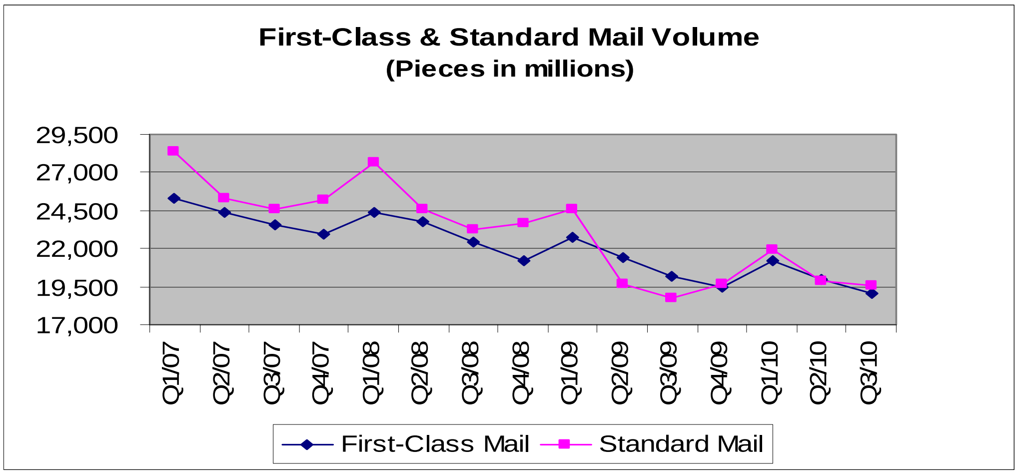
Mail Volume (Pieces in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
First-Class Mail	18,859	20,220	60,076	64,330
Standard Mail	19,556	18,762	61,347	63,124
Periodicals	1,855	1,990	5,590	6,106
Package Services	146	161	496	562
Other Mailing Services*	120	123	366	391
Total Mailing Services	40,536	41,256	127,875	134,513
Total Shipping Services	337	324	1,087	1,059
Total Mail Volume	40,873	41,580	128,962	135,572

*Includes Certified Mail, Return Receipts, Delivery Confirmation, Money Orders & Insurance

declined $195 million, or 6.0%, compared to Quarter III, 2009, on a volume decline of 609 million pieces, or 8.2%. First-Class Mail revenue of $26,181 million for the nine months ended June 30, 2010 declined $1,200 million, or 4.4%, from the comparable period of 2009. First-Class Mail volume decreased 4,254 million pieces, or 6.6%, during the same period. Year-to-date, single-piece First-Class letter and card revenue declined $633 million from the comparable prior year period, or 6.0%, on a volume decline of 9.3%. The recent economic recession appears to have accelerated the migration rate from traditional First-Class Mail services to electronic alternatives. We anticipate that any positive impacts of an economic recovery on single-piece First-Class Mail will be more than offset by the continuing technology-driven decline.

Standard Mail revenue of $4,113 million increased $173 million, or 4.4%, in Quarter III, 2010 compared to the comparable period of 2009, as volume increased 794 million pieces, or 4.2%**.** For the nine month period ended June 30, 2010, Standard Mail revenue of $12,973 million decreased $216 million, or 1.6%, compared to the first nine months of 2009, while volume declined 1,777 million pieces or 2.8%. Despite the volume increase noted in Quarter III, 2010, the year-to-date Standard Mail volumes have been significantly impacted by the decline in advertising spending resulting from the recent recession and remain 3.7 billion pieces below Quarter III, 2008 levels. In addition to the impact of the troubled economy on Standard Mail volumes, advertisers continue to become more sophisticated in the targeting of their mailings, further reducing mail volume. It appears that advertising mail has begun to slightly increase as the economy improves; however increased migration of advertising to the internet or other media will continue to adversely impact volumes for the foreseeable future.

The following depicts First-Class and Standard Mail volume since 2007:



Revenue from Periodicals decreased $27 million, or 5.5%, in the third quarter of 2010 and year-to-date revenue decreased $129 million, or 8.3%, compared to the same period last year. Trends in hard copy reading behavior and shifts of advertising away from print have been depressing this segment for years. For the first nine months of 2010, average per piece weights for Periodicals decreased by 1.3%, reflecting the decline in the number of pages. Volume for Quarter III, 2010 and the first nine months of 2010 decreased 135 million and 516 million pieces, or 6.8% and 8.5%, respectively, compared to the same periods last year.

Package Services revenue decreased $18 million, or 5.0%, in Quarter III compared to 2009, as volume decreased 15 million pieces, or 9.3%. Year-to-date Package Services revenue decreased $151 million, or 11.7%, as volume decreased 66 million pieces, or 11.7%, compared to the same period last year. The increase in Parcel Post rates in May 2009 and shifts to the more economically priced Priority Mail Flat Rate Box in the Shipping Services category adversely impacted Package Services.

SHIPPING SERVICES

Shipping Services revenue of $2,028 million increased $113 million, or 5.9%, in Quarter III compared to the same period of 2009, as volume increased 13 million pieces, or 4.0%. Year-to-date volume increased 28 million pieces, or 2.6%, resulting in revenue of $6,573 million, an increase of $381 million, or 6.2%, compared to the first nine months of 2009. The volume increases in Shipping Services are indicative of the early signs of economic recovery, the impact of our advertising campaigns and competitive marketing of service agreements.

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 Expenses (Dollars in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Compensation	$ 9,059	$ 9,265	$ 28,413	$ 29,559
Retirement	1,439	1,458	4,353	4,447
Health Benefits	1,284	1,318	3,854	3,979
Other	84	86	259	273
Total	$ 11,866	$ 12,127	$ 36,879	$ 38,258

Compensation and benefits expense in Quarter III, 2010 was $11,866 million. This was $261 million, or 2.2%, less than the same period last year. Decreases in compensation and health benefits expenses were the result of fewer employees and reduced work hours. Compensation expense decreased by $206 million, or 2.2%, in Quarter III, 2010 compared to the same period last year. This was primarily due to a 4.8%, or 15 million hour decrease in work hours used. In addition, the Postal Service employees contributed approximately 21% of the cost of health benefit premiums in Quarter III, 2010, compared to 19% in the same period of the prior year, which contributed to the decrease to health benefit expense for the quarter.

For the nine months ended June 30, 2010, compensation and benefits expense decreased by $1,379 million, or 3.6%, compared to the first nine months of 2009. Year-to-date compensation expense through June 30, 2010, decreased by $1,146 million, or 3.9%, from the same period of 2009, primarily as a result of a reduction of 63 million work hours, a 6.6% decrease. Offsetting a portion of the year-to-date 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 in the first quarter of 2010. This is in addition to the $197 million accrued in the fourth quarter of 2009, which was attributable to approximately 13,400 employees electing to retire or resign in fiscal 2009. There was no comparable expense recorded in the first nine months of 2009.

WORK HOURS

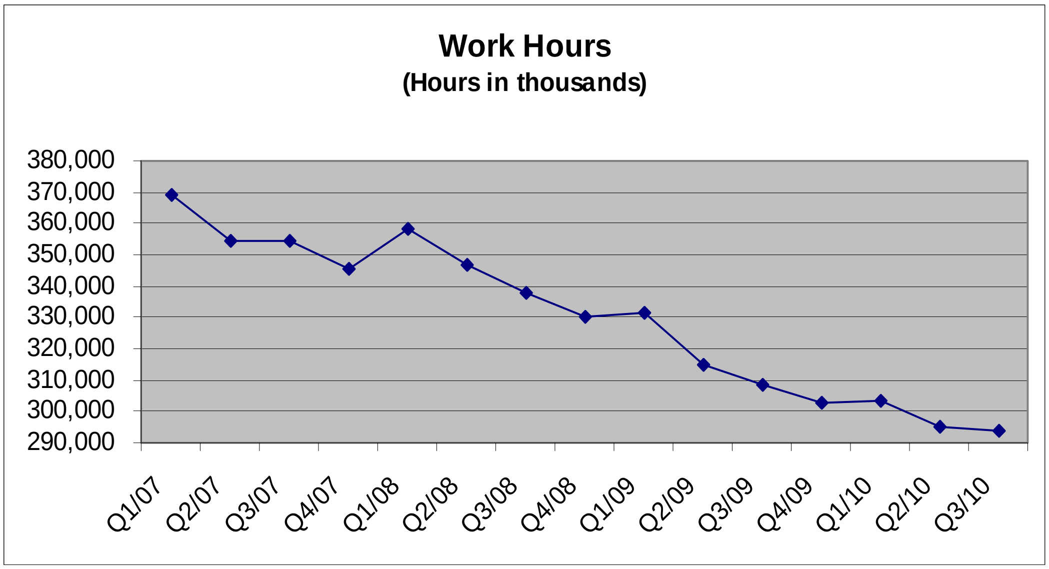
Due to ongoing savings from automation, operational improvements and staff reductions designed to match labor resources to a reduced mail volume workload, work hours in Quarter III, 2010, decreased by 15 million hours, or 4.8%, compared to the same quarter of 2009. Work hours for the first nine months of 2010 were 63 million hours, or 6.6%, less than for the first nine months of 2009.

On a quarterly basis, Mail Processing achieved a reduction of over 5 million hours. Customer Services and City Delivery reduced work hours by approximately 4 million and 3 million hours, respectively. The work hour reduction was achieved even though the number of delivery points increased by approximately 650,000 from June 30, 2009, to June 30, 2010.

Work Hours (Hours in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
City Delivery	101,628	104,584	307,412	320,807
Mail Processing	54,048	59,483	171,230	193,655
Customer Services	39,650	43,638	122,017	136,782
Rural Delivery	44,840	45,183	132,193	136,342
Postmasters	15,175	15,086	44,554	44,806
Other, including Plant, Vehicle Services, Operational Support, and Administration	38,330	40,393	114,583	122,947
Total Work Hours	293,671	308,367	891,989	955,339

On a year-to-date basis, Mail Processing work hours decreased by approximately 22 million work hours, or 11.6%, from the comparable period of 2009. City Delivery and Rural Delivery decreased work hours by approximately 18 million hours, or 3.8%, and Customer Services reduced hours by approximately 15 million, or 10.8%. We currently are projecting a reduction of up to 80 million work hours in 2010, the equivalent of approximately 45,000 full-time equivalent employees, although the ultimate savings in work hours is dependent upon mail volume. For the nine months ended June 30, 2010 and 2009, overtime hours were 6.2% and 5.3% of total work hours, respectively; for the quarter ended June 30, 2010 and 2009, overtime hours were 5.3% and 3.8% of total work hours, respectively.

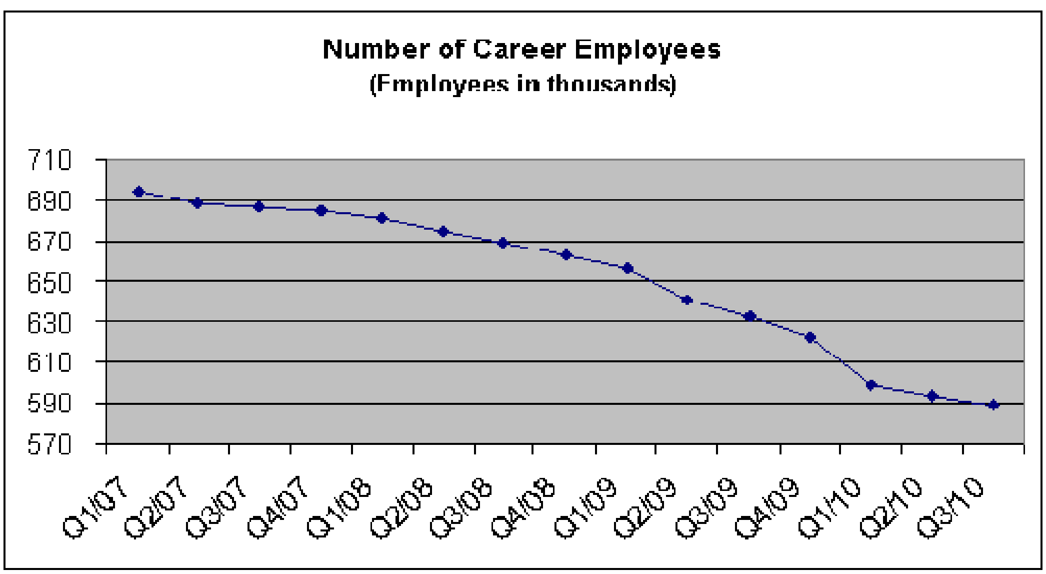
The following illustrates our quarterly work hour usage since 2007:



EMPLOYEE WORKFORCE

The number of career employees at June 30, 2010, was approximately 589,000, a reduction of 5,000 employees during the quarter and 44,000 employees since June 30, 2009. This reduction has been accomplished primarily through attrition and retirement incentives.

The following graph depicts the number of career employees since 2007:



In addition, the Postal Service had approximately 89,000 non-career employees at June 30, 2010, a reduction of 1,000 and 5,000 non-career employees since March 31, 2010, and June 30, 2009, respectively.

RETIREMENT EXPENSE – CURRENT EMPLOYEES

In the third quarter of 2010, retirement expense was $1,439 million compared to $1,458 million for the same period last year, a decrease of $19 million, or 1.3%. For the nine months ended June 30, 2010, retirement expense was $4,353 million compared to $4,447 million for the first nine months of 2009, a decline of $94 million, or 2.1%. The declines were principally due to the reduction in the number of employees.

HEALTH BENEFITS – CURRENT EMPLOYEES

Health benefit expense for current employees in Quarter III decreased $34 million to $1,284 million compared to $1,318 million in Quarter III 2009, a decrease of 2.6%. For the nine months ended June 30, 2010, health benefit expense for current employees was $3,854 million compared to $3,979 million for the first nine months of 2009, a decline of $125 million, or 3.1%. Not included in these totals is the amount which employees paid for health care premiums. In Quarter III, 2010, employees paid approximately 21% of the premium costs, compared to 19% in Quarter III, 2009. For the nine months ended June 30, 2010 and 2009, employees paid approximately 20% and 19% of premium costs, respectively.

Operating Expenses – Retiree Health Benefits

Total retiree health benefits expenses for the third quarter of 2010 and 2009 were $1,964 million and $1,863 million, respectively, a $101 million increase. For the nine months ended June 30, 2010 and 2009, we recorded $5,790 million and $5,523 million of retiree health benefit expenses, respectively, a $267 million increase. The components of these expenses are as follows:

Retiree Health Benefits	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2010	2009	2010	2009
Employer Premium Expense	$ 589	$ 513	$ 1,665	$ 1,473
P.L. 109-435 Scheduled Payment	1,375	1,350	4,125	4,050
Total Retiree Health Benefit Expense	$ 1,964	$ 1,863	$ 5,790	$ 5,523

P.L. 109-435 included a 10 year, $55,800 million payment schedule that requires payment of $5,500 million into the PSRHBF on September 30, 2010. We are expensing the $5,500 million at a rate of $1,375 million per quarter and, accordingly, have recorded $4,125 million of expense for the nine months ended June 30, 2010. In 2009, we expensed the scheduled annual payment of $5,400 million at the rate of $1,350 million per quarter for the first three quarters of the year and in Quarter IV, 2009, adjusted our accrual for retiree health benefits to reflect the enactment of P.L. 111-68, which reduced our required 2009 contribution from $5.4 billion to $1.4 billion. For the first nine months of 2009, we recognized $4,050 million of expense. Although P.L. 109-435 specifies the funding requirements through 2016, the amounts to be funded and the timing of funding can be changed at any time with the enactment of new laws, or amendment of existing laws. In 2010, the Postal Service continues to seek legislative 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 funding of the PSRHBF, the Office of Personnel Management 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. Total employer premium expense increased $76 million, or 14.8%, and $192 million, or 13.0%, for the three and nine month period ending June 30, 2010 as compared to June 30, 2009. The major drivers of current retiree health benefits expense are the number of retirees participating in the health benefits program and the premium costs of the plans they select. As of June 30, 2010, there were approximately 473,000 retired participants, an increase of about 12,000 compared to the same period last year. The increase in the number of participants and an 8.8% increase in the average premium explain the substantial rise in current retiree health benefit expenses.

Operating Expenses – Workers' Compensation

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

The workers' compensation liability at June 30, 2010, represents the present value of the estimated future payments to postal workers, or their qualified survivors, who have been injured through June 30, 2010. The estimated total cost of a claim is based on the date of injury, pattern of historical payments, frequency and severity of the claim-related injury or injuries, and the expected trend in future costs. The payout of this liability will, in some instances, be for the rest of the lives of the claimants.

We record a liability for the present value of the estimated future workers' compensation payments. A payment of $1.1 billion was made to the DOL in Quarter I. The present value of our liability for future workers' compensation payments was $11,555 million at June 30, 2010, compared to $10,133 million at September 30, 2009. The current portion of this liability was $1,081 million at June 30, 2010, and $1,069 million at September 30, 2009. These amounts are accrued under "Workers' compensation costs" on the Balance Sheets.

Changes in workers' compensation liability are primarily the combined result of changes in the discount and inflation rates and to a lesser extent attributable to routine changes in the actuarial estimation, new compensation and medical cases and the development of existing cases. The liability is revalued at each balance sheet date using updated inflation and discount rates.

The liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease our estimate of the liability by approximately $1,035 million. A decrease of 1% would increase our estimate of the liability by approximately $1,296 million. As shown in the discount rate chart that follows, discount rates for compensation claims and medical claims decreased by 1.6 and 1.5 percentage points respectively.

Workers' compensation expense was $1,956 million in the third quarter of 2010 compared to $1,086 million in the same quarter of 2009, an increase of $870 million, or 80.1%. For the nine months ended June 30, 2010, workers' compensation expense was $2,532 million, compared to $1,815 million for the same period last year, an increase of $717 million, or 39.5%. The components of workers' compensation expense are as follows:

Workers' Compensation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2010	2009	2010	2009
Costs of new cases and actuarial reestimation of existing cases	$ 300	$ 279	$ 1,070	$ 1,008
Impact of discount & Inflation rate changes	1,656	807	1,462	807
Total Workers' Compensation Expense	$ 1,956	$ 1,086	$ 2,532	$ 1,815

In order to properly measure our liability at fair value in accordance with GAAP, we review and update inflation and discount rates used in the determination of our estimated future workers' compensation payments. In the third quarter of 2009, we implemented a new policy of updating inflation and discount rates on a quarterly basis to determine the present value of our workers' compensation liability.

The discount and inflation rates used in estimating the liability in the current quarter, and in the three prior quarters are as follows:

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Compensation Claims Liability:				
Discount Rate	3.5%	5.1%	5.0%	4.9%
Wage inflation	3.0%	2.9%	2.9%	3.2%
Medical Claims Liability:				
Discount Rate	3.0%	4.5%	4.5%	4.4%
Medical Inflation	4.4%	4.4%	4.4%	3.8%

The discount rates for compensation claims and medical claims decreased by 1.6 percentage points and 1.5 percentage points, respectively. The inflation rate for compensation claims liability increased by a 0.1 percentage point. The impact of these rate changes increased the Quarter III, 2010 estimated liability and expense by $1,656 million. Changes in the discount and inflation rates during the first nine months of 2010 resulted in an increase to the estimated liability and expense of $1,462 million. The impact of quarterly changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in the quarter's operating expense.

For the first nine months of 2010, the amount of claim payments disbursed by DOL on our behalf increased $23 million, or 2.9%, from the comparable period of 2009. The increase in payments from the prior year is primarily attributable to increased medical claim payments, which increased $21 million compared to the same period last year. Year-to-date compensation claim payments increased by $2 million compared to 2009.

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 and closed claims in 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.

Operating Expenses – Transportation

Transportation expenses are comprised primarily of highway and air transportation costs. Transportation expenses were $1,469 million in Quarter III, 2010, an increase of $91 million, or 6.6%, from the same period last year. For the nine months ended June 30, 2010, transportation expenses were $4,420 million, a decrease of $181 million, or 3.9%, from the first nine months of 2009.

Transportation Expense (Dollars in millions)	Three Months Ended June 30, 2010	2009	Nine Months Ended June 30, 2010	2009
Highway Transportation	$ 793	$ 705	$ 2,417	$ 2,304
Air Transportation	594	594	1,826	2,017
Other Transportation	82	79	177	280
Total Transportation Expense	$ 1,469	$ 1,378	$ 4,420	$ 4,601

Highway transportation expenses were $793 million in the third quarter of 2010, an increase of $88 million, or 12.5%, from the third quarter of 2009. Highway transportation expenses for the first nine months of 2010 were $2,417 million, an increase of $113 million, or 4.9%, compared to the same period last year. The quarterly and year-to-date increases in highway transportation expenses are attributable to increases in the cost of fuel and increases in the contractual miles driven which resulted from the continuing implementation of the Network Distribution Center (NDC) initiative.

Diesel fuel, which makes up approximately 93% of fuel purchased, cost an average of $3.03 per gallon during Quarter III, 2010, compared to $2.34 per gallon during the third quarter of 2009, an increase of 29.5%. For the first nine months of the year, the cost of diesel fuel averaged $2.87 per gallon, compared to $2.48 in 2009, a 15.7% increase. Gasoline prices increased 20.1% compared to the same quarter last year, with the cost of a gallon of gasoline averaging $2.81 during Quarter III, 2010, compared to $2.34 during Quarter III, 2009. The cost of a gallon of gasoline averaged $2.71 during the first nine months of 2010, compared to $2.16 during the first nine months of 2009, a 25.5% increase.

The NDC initiative, which began in the third quarter of 2009, is transforming the existing Bulk Mail Centers into NDCs, and will improve the flow of mail into the network, consolidate package distribution and improve transportation utilization. This transformation process will result in savings in fuel costs as delivery services are switched from the higher cost air transportation to lower cost highway transportation in areas where customer service is not adversely affected. However, during the implementation phase, contractual highway mileage has, as expected, increased. Contractual highway miles increased by 131 million miles, or 2.7%, and 355 million miles, or 2.5%, for the three and nine months ended June 30, 2010, compared to the same periods of 2009. The impact of the increases in contractual mileage was partially offset by decreased rail transportation expense, which is included in "Other Transportation", as well as decreased air transportation costs. Although the rollout of the NDC project is initially increasing contractual highway mileage, we expect that contracted highway mileage will decrease when the implementation is completed.

Total air transportation expenses were $594 million in both the quarters ended June 30, 2010 and 2009. On a year-to-date basis, air transportation expenses of $1,826 million decreased $191 million, or 9.5%, compared to the same period in 2009.

Domestic air transportation expenses of $470 million increased $25 million, or 5.6%, due primarily to increases in fuel costs which were partially offset by lower volumes. On a year-to-date basis, domestic air transportation expenses of $1,489 million decreased $58 million, or 3.7%, due to lower shipping volumes and, as noted above, opportunities created by the NDC implementation to shift from higher cost air transportation to lower cost highway transportation.

For Quarter III, 2010, international air transportation expenses of $124 million decreased $25 million, or 16.8%. The decrease in Quarter III is due to lower volume and a reduction in international air carrier rates due to the deregulation of international air carriers. On a year-to-date basis, international air transportation of $337 million decreased $133 million, or 28.3% from the first nine months of 2009. The year-to-date decreases were due to a combination of a one-time benefit for the recapture of foreign postal payments required under the Universal Postal Union regulations, volume decreases and cost savings derived from new contracts with international air carriers.

Other transportation expenses were $82 million for the quarter ended June 30, 2010, an increase of $3 million, or 3.8%, as compared to $79 million for the same period in 2009. For the nine month period, other transportation expenses of $177 million, decreased $103 million, or 36.8%, from the comparable period of the prior year due to lower settlements for foreign postal transactions for surface transportation as a result of lower international mail volume. Lower rail transportation expense also contributed to this decrease, as we shifted business to other modes of transportation as a part of the NDC project implementation.

Operating Expenses – Other Operating Expenses

Other operating expenses of $2,255 million for Quarter III, 2010 were $12 million less than last year's comparable quarter. For the nine months ended June 30, 2010, other operating expenses of $6,757 million were $82 million, or 1.2%, less than the first nine months of 2009. Supplies and Services, which include advertising costs, decreased by $37 million and $72 million for the three and nine months ended June 30, 2010 from the comparable periods of the prior year, primarily due to stringent controls over discretionary expenses and decreases in professional fees and other miscellaneous services. Advertising expenses, however, increased by $2 million, or 7.5%, and $46 million, or 82.3%, for the three and nine months ended June 30, 2010, respectively, compared to 2009. This was due primarily to increased promotion of our Priority Mail Flat Rate products. Information Technology and Communications decreased $7 million and $37 million for the quarter and nine months ended June 30, 2010, respectively, primarily as a result of decreases in commercial software purchases and a reduction in independent contractor fees.

Other Operating Expenses (Dollars in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Supplies and Services	$ 549	$ 586	$ 1,655	$ 1,727
Depreciation and Amortization	619	562	1,842	1,697
Rent and Utilities	391	433	1,253	1,335
Vehicle Maintenance Service	206	186	614	563
Information Technology and Communications	161	168	449	486
Rural Carrier Equipment Maintenance Allowance	136	124	398	388
Other	193	208	546	643
Total Other Operating Expenses	$ 2,255	$ 2,267	$ 6,757	$ 6,839

Partially offsetting these decreases were $57 million and $145 million increases in Depreciation and amortization for the three and nine months ended June 30, 2010. This is primarily a result of a reassessment of the useful lives of certain properties and the reclassification of certain leases from operating to capital leases. As a result of this reclassification, depreciation has increased and rent expense has decreased, which explains most of the decrease in rent and utilities expense for the three and nine month periods ending June 30, 2010. In addition, Vehicle Maintenance Service expense, which includes fuel costs, increased by $20 million, or 10.8%, and $51 million, or 9.1%, for the three and nine month periods ended June 30, 2010, compared to the same periods of 2009 as a result of rising fuel costs.

Cash Flows and Liquidity

Cash Flow Activity

Net cash provided by operating activities in the nine month period ended June 30, 2010, was $795 million, or $1,055 million lower than the net cash generated from operations in the comparable nine month period of 2009. The primary driver of this decrease was a change in the timing of the annual workers' compensation payment to DOL. In 2010, we began making the annual reimbursement to the DOL on the statutorily-required deadline of October 15, rather than on September 15, the date on which we had made such payments in previous years. This had the effect of shifting approximately $1.1 billion of cash outflow from 2009 into 2010.

Net cash used in investing activities decreased by $458 million for the nine months ended June 30, 2010, compared to the same period last year, due principally to a $419 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 $2,027 million for the nine months ended June 30, 2010, from the comparable period of 2009. In 2010, no new notes payable were issued while $2,500 million were repaid. In 2009, the net change in notes payable was zero. The amount of repayments under our two credit facilities decreased by $475 million in the nine months ended June 30, 2010 as compared to the nine months ended June 30, 2009.

At June 30, 2010, cash and cash equivalents were $1,014 million, a $3,075 million decrease from September 30, 2009, and a $33 million increase from June 30, 2009.

The following table illustrates the scheduled cash flow obligations in the current and future years:

Contractual Obligations	Payments Due by Year				
(Dollars in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt (1)	$ 7,342	$ 2,842	$ -	$ 300	$ 4,200
Interest on debt (1)	2,334	152	306	303	1,573
PSHRBF	39,400	5,500	11,100	11,300	11,500
Capital lease obligations	870	52	202	185	431
Operating leases	7,908	400	1,480	2,349	3,679
Capital commitment (2)	1,318	336	751	165	66
Purchase obligations (2)	4,698	1,460	2,822	416	-
Workers' compensation (3)	16,506	1,081	3,204	2,260	9,961
Employees' leave	2,326	270	376	231	1,449
	$ 82,702	$ 12,093	$ 20,241	$ 17,509	$ 32,859

(1) For overnight and short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.

(2) Legally binding obligations to purchase goods or services. Capital commitments pertain to purchases of equipment, building improvements and vehicles. Purchase obligations generally pertain to items that are expensed when received or amortized over a short period of time. Capital commitments and purchase obligations are not reflected on the Balance Sheet.

(3) Assuming no new cases in future years. This amount represents the undiscounted expected workers' compensation payments.The discounted amount of $11,555 million is reflected in our Balance Sheet at June 30, 2010.

Liquidity

As reported in the Annual Report on Form 10-K for the year ended September 30, 2009, the Postal Service had net losses of $3,794 million, $2,806 million, and $5,142 million for the three years ended September 30, 2009, 2008 and 2007, respectively. These losses have placed unprecedented demands on operating liquidity. The losses have continued into 2010, as losses of $3,498 million and $5,379 million were incurred for the three and nine months ended June 30, 2010, respectively. The Postal Service also experienced negative cash flow from operations for two of the past three years, with 2009 being the exception. To alleviate pressure on liquidity, in September 2009 Congress enacted legislation (P.L. 111-68) which restructured the required $5.4 billion payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) that 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 2009 as well. This legislation did not, however, address future payments into the PSRHBF, including the $5.5 billion payment due in September 2010.

By statute, the Postal Service is limited to an annual net increase in debt of $3 billion, and a total outstanding debt of $15 billion. The Postal Service projects that it will exhaust its borrowing capacity in 2011 and will likely experience a cash shortfall if legislation similar to that passed in September 2009 is not passed.

The recent losses are primarily attributable to unprecedented declines in mail volumes that began in 2008, the statutory limitations on the Postal Service's ability to reduce costs, and the statutory requirement to pre-fund retiree health benefits. The declines in mail volumes are primarily a result of the recent widespread economic recession and the long-term trend of hard copy correspondence and transactions migrating to electronic media, and to the tightening of credit in the financial, housing and small business sectors. This trend accelerated during the recession and is expected to continue. Since peaking at 213 billion pieces in 2006, mail volumes dropped 0.9 billion pieces in 2007, 9.5 billion pieces in 2008, and 25.6 billion pieces, to 177.1 billion pieces, in 2009. Mailing Services volume for the first nine months of 2010 is down an additional 6.6 billion pieces compared to the first nine months of 2009 and is expected to decrease by approximately 7 billion pieces in 2010. It is possible that volumes and related revenues could decrease in Quarter IV at rates that differ significantly from these projections. Because of declining volumes, revenues in 2010 are also expected to decrease and, even with substantial cost reductions, the Postal Service projects a likely cash shortfall in 2011.

In addition to normal recurring costs, the Postal Service has two substantial cash payments scheduled for September and October 2010: the $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 the Postal Service's annual payment on its workers' compensation liability. Based on the current Postal Service borrowing capacity and projections of cash available from operations, there will likely be sufficient cash available for ongoing operations for the remainder of 2010. However, it is unlikely the Postal Service will have sufficient cash available to fund the $5.5 billion PSRHBF payment and the October DOL obligations while maintaining sufficient liquidity to meet its financial obligations in 2011. The legal and/or regulatory consequences to the Postal Service if the PSRHBF or the workers' compensation payments are not funded are unknown. Even if there is sufficient cash to fund ongoing operations and the PSRHBF payment on September 30, 2010, the Postal Service will exhaust its borrowing capacity in 2011 and likely experience a cash shortfall.

ACTIONS TAKEN

To meet this financial challenge, we are continuing efforts to increase efficiency, reduce costs, and generate new revenue.

In 2010, liquidity management actions include work hour reduction estimated to total approximately 80 million hours, although the ultimate number of work hour savings is somewhat dependent upon mail volumes. We will continue maximizing operational efficiencies, continue revenue generation efforts, and have halted new construction of new facilities. We are on track to achieve approximately $3 billion in total cost reductions in 2010 and for the nine months ended June 30, 2010, we have used 63 million fewer work hours than the same period last year. In 2009, we achieved $6.1 billion of cost reductions, mostly from a reduction of 115 million work hours.

PROJECTED CASH SHORTFALL – SHORT AND LONG-TERM

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 indication that economic conditions will improve substantially during the last quarter of 2010 or that mail volumes will return to previous levels once the economy does improve. We have taken these actions with the goal of maximizing liquidity in spite of declining revenues while not adversely impacting customer service. Although each of the actions discussed above is expected to positively impact cash flow, they may not, either individually or in the aggregate, be sufficient to offset a likely cash shortfall in 2011 and beyond.

Even with legislative action to address these shorter-term liquidity matters, we still face longer-term financial viability concerns. To begin the process of addressing these issues, in March 2010, we issued our action plan for the next decade, *Ensuring a Viable Postal Service for America*. In this plan, we estimate that during the next decade, there could be cumulative financial losses of approximately $238 billion, absent significant operational and legislative changes. *Ensuring a Viable Postal Service for America* and related documents can be found online at *www.usps.com/strategicplanning/futurepostalservice.htm.*

We estimate that approximately $123 billion of the projected losses could be addressed and resolved by aggressive management actions and within the existing regulatory structure, assuming full cooperation from all Postal Service stakeholders. To address the remaining unsustainably large projected deficit of at least $115 billion, a balanced set of actions has been proposed. These actions will require legislation and cooperation from a range of stakeholders, and include changes in the following areas: retiree health benefits prefunding; delivery frequency; access to postal services; workforce flexibility; product and pricing flexibility; expansion of products and services; and regulatory oversight issues.

As noted above, one of the actions that we have proposed to alleviate our longer-term financial challenges is the elimination of Saturday mail delivery to street addresses. We filed a request for an advisory opinion with the PRC (required by 39 U.S.C., section 3661) on March 30, 2010, requesting a determination as to whether the elimination of Saturday mail delivery to street addresses and other associated changes conform to the requirements of Title 39, United States Code. The PRC is expected to issue its advisory opinion before the end of the calendar year. Congressional action would be required to reduce the number of legally-required delivery days. On July 29, 2010 the

Senate Appropriations Committee and the House Financial Services and General Government Subcommittee approved spending bills that include provisions requiring the U.S. Postal Service to maintain a six-day delivery schedule. No savings will occur in 2010 from the ability to adjust the current delivery requirement, even if granted in 2010, as numerous operational, contractual and customer issues would need to be resolved prior to implementation of a new delivery schedule. If our request is granted, it would be 6 to12 months before the impact of the financial benefits would begin to be realized.

In April 2010, the GAO issued its report *U.S. Postal Service- Strategies and Options to Facilitate Progress toward Financial Viability* which urges quick action by Congress and the Postal Service to (1) reach agreement as to the actions necessary to achieve financial viability, (2) provide financial relief by revising our retiree health funding schedule and (3) require that any binding arbitration resulting from collective bargaining take our financial condition into account. The GAO recommends that we pursue the following three strategies: reduce compensation and benefits costs; reduce other operations and network costs and improve efficiency; and generate additional revenues through product and pricing flexibility. In addition, the report also recommends that Congress could set up a mechanism, such as one similar to the military Base Realignment and Closure (BRAC) Commission, where independent experts could recommend a package of actions with time frames. Although we agree with almost all the recommendations, we do have concern with the creation of a new commission. If the Congress chooses to implement legislation to set up a BRAC-like commission to address post office closings, the United States Postal Service will work with the Congress to develop a set of criteria and timetable that addresses the issues in an efficient and timely manner.

On July 6, 2010, the Postal Service filed a request with the PRC seeking an exigent price increase on certain Mailing Service products as permitted by P.L. 109-435. Price increases for Mailing Services products are generally tied to the Consumer Price Index, but the PRC can approve price increases in excess of changes in the index if there are exceptional or extraordinary circumstances and it determines that the request is reasonable, equitable, and necessary. The PRC's decision on the proposal is due on October 4, 2010. If approved, Mailing Service prices will increase an average of approximately 5.6% on January 2, 2011.

A related issue impacting our financial viability is the legally-mandated funding of retirement benefits. On January 20, 2010, the Office of Inspector General issued a report in which it evaluated the current system of funding the Postal Service's Civil Service Retirement System responsibility, concluding that we have overfunded our obligation by $75 billion. At our request, the PRC also initiated an independent actuarial review of this issue and issued a report on June 30, 2010, in which the independent actuary determined that, although the cost allocation methodology used in 1971 was appropriate at the time, modern actuarial and accounting guidance suggest an alternative allocation methodology would be more fair and equitable. If an updated allocation methodology were employed, the actuary estimates that the Postal Service may have overfunded its CSRS obligation by $50 billion to $55 billion. OPM and the Postal Service are evaluating these studies and are working with Congress on a legislative solution that may address the actuarial variances amongst these entities.

Legislation which embodies the recommendations of the independent actuary retained by the PRC was approved by the House Subcommittee on Federal Workforce, Postal Service and the District of Columbia on July 21, 2010. The legislation Directs OPM to determine, within six months of the enactment of the legislation, the amount of Postal surplus or supplemental liability as of the end of the most recent fiscal year, using the methodology in the PRC study and, if there is a surplus, transfer the amount of the surplus to the PSRHBF. The legislation does not address the near-term liquidity shortfall facing the Postal Service because it does not alter the statutorily mandated $5.5 billion payment to prefund retiree health benefits due on September 30, 2010, or any other required future payment to the PSRHBF.

We continue to inform the Administration, Congress, the PRC and other stakeholders of the immediate and longer-term financial issues we face and legislative changes that would help ensure the availability of sufficient liquidity at September 30, 2010 and beyond. However, there can be no assurance that adjustments to the PSRHBF payment schedule, or any other legislative changes, will be made by September 30, 2010, or at all.

Outlook

The economic slowdown associated with the recent recession appears to be ending, with uneven signs of economic recovery. Year-over-year GDP growth stabilized in the second and third quarters after a first quarter surge of 5.6% growth. Real GDP growth was 3.8% in Quarter III, with a projection for growth in the 2%-3% range over the next several quarters. By historical standards, this represents a weak recovery from a widespread recession. The precursors to the recent recession, housing price deflation and oil price increases, appear to have eased. However, the recovery in real estate values, a major component of many Americans' net worth, is expected to be very gradual, and will be measured not in months, but in years.

The economy is not expected to maintain its early-recovery growth pace as that growth rate was largely inventory-driven. Unemployment remains high but is declining. Private sector employment growth, though weak, in conjunction with an increase in hours worked, is moving personal incomes higher. However, the consumer spending that has led previous economic recoveries is constrained by high debt burdens, recession-depleted wealth, and tight credit.

Overall, the economic recovery is mixed. Higher employment rates will be required for a housing market recovery. Business equipment and software spending has rebounded with a 19% increase in Quarter I, an 11.4% increase in Quarter II and a 19.5% increase in Quarter III. The outlook for business construction remains poor and the Euro zone economic difficulties will likely weaken the demand for exports.

Revenue Outlook

Revenue continues to present significant forecasting challenges due to the tenuous nature of the economic recovery thus far and the continued migration of mail to electronic alternatives. Operating revenue for the first nine months of the year decreased by $1,275 million, or 2.4%, as compared to the first nine months of 2009. Our revenues, however, appear to have begun to stabilize in the third quarter and we do not anticipate a further decline in our revenue position compared to 2009 during the remainder of the year.

As previously noted, on July 6, 2010, we filed a request with the PRC seeking an exigent price increase on our Mailing Services products. If granted, the price increase would average approximately 5.6% and would become effective on January 2, 2011. Once implemented, the increase, if approved as filed, is anticipated to generate approximately $3.0 billion of revenue per year even when the adverse impact on mail volumes is factored in. Because the increase would not take effect until Quarter II in 2011, if approved as filed, it would be expected to generate approximately $2.3 billion in revenues in the next fiscal year. This increase would not, by itself, be sufficient to offset the liquidity shortfall we are facing in 2011.

Expense Outlook

During Quarter III, we continued our efforts to mitigate the significant decline in mail volume and the resultant decline in revenue through cost reductions. Savings initiatives have been implemented across the entire organization, including all operations, administrative and non-personnel expenses. We are projecting a reduction of up to 80 million work hours and approximately $3 billion in savings based upon a volume of approximately 169-170 billion pieces. In the first nine months of 2010, we used 63 million, or 6.6%, fewer work hours than the same period last year. Total expenses, including interest expenses, for the nine months ended June 30, 2010 were $56,495 million, or 1.0% less than the same period in 2009. The voluntary departure of approximately 20,800 employees who accepted early retirement/termination incentives and left the organization during the first quarter of 2010 continues to contribute to our reduction in work hours.

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. Additional city delivery savings will be generated in 2010 from the adjustment process occurring this year.

Beginning in 2011, the Postal Service will be required to increase the employer's share of retirement contributions for employees under the FERS program by 0.5% from 11.2% to 11.7%. This will add approximately $130 million to our 2011 compensation and benefit expenses. In addition, we will be negotiating new contracts with the APWU and the NRLCA which expire in November 2010. The financial impact of the new labor contracts cannot be determined at this time.

Fair Value Measurements

Certain fair value disclosures for the quarter and nine months ended June 30, 2010, are included in our financial statements as required by authoritative accounting literature. We did not recognize gains as a result of valuation measurements during the three and nine months ended June 30, 2010. All losses required to be recognized have been incorporated into our financial statements as of June 30, 2010, and for the three and nine months then ended. See Note 10, *Fair Value Measurements,* in the Notes to the Financial Statements.

Legislation

The Prevent All Cigarettes Trafficking (PACT) Act, P.L.111-154, was enacted on March 31, 2010. The Act provides that cigarettes and smokeless tobacco are nonmailable matter after June 29, 2010. Beginning on June 29, 2010, the U.S. Postal Service cannot accept or transmit any package that it knows, or has reasonable cause to believe, contains nonmailable smokeless tobacco or cigarettes. Cigarettes and smokeless tobacco shipments are banned from the mail if they do not qualify for one of several narrow exceptions. In most cases, cigarettes and smokeless tobacco can no longer be shipped by mail in furtherance of a sales transaction. A final rule to implement these changes was published in the *Federal Register* on May 27, 2010 and took effect on June 29, 2010. A federal lawsuit in western New York enjoined implementation of the PACT Act on a temporary basis with respect to a small number of trade association members that send tobacco products by mail in sales transactions; however, the Postal Service continues to enforce the Act against all other mailers. It is estimated that the impact of this law will decrease annual revenue by $35 million to $40 million.

H.R. 5746, *United States Postal Service's CSRS Obligation Modification Act of 2010*, was approved by the House Subcommittee on Federal force, Postal Service and the District of Columbia on July 21, 2010. The measure changes the methodology for calculating the amount of any postal surplus or supplemental liability under the Civil Service Retirement System (CSRS). H.R. 5746 embodies the recommendations of the independent actuarial report commissioned by the PRC concerning the division of the CSRS liability between the former Post Office Department and the U.S. Postal Service. If H.R. 5746 is enacted, OPM would be required to use the new methodology to determine the amount of surplus or supplemental liability as of the close of the most recent fiscal year ending prior to enactment and, if there is a surplus, transfer the amount of the surplus to the PSRHBF. H.R. 5746 does not address the immediate liquidity shortfall facing the Postal Service because it does not alter the statutorily mandated $5.5 billion payment to prefund retiree health benefits due on September 30, 2010, or any other required future payment to the PSRHBF.

Appropriation Bills - On July 29, 2010, the Senate Appropriations Committee and the House Financial Services and General Government Subcommittee approved spending bills that would require the Postal Service to continue to provide mail delivery six days a week.

The FY11 appropriations bills, which include the Postal Service, contain the standard language requiring the Postal Service to deliver mail six days a week, as it has since 1983. The Postal Service anticipated that the delivery language in the appropriations bills would not be removed at this point in the legislative process because the Postal Regulatory Commission is scheduled to issue its advisory opinion regarding a change in the delivery schedule this fall.

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. Our interest risk consists primarily of the impact on discount rates used to value the Workers' Compensation liability at each measurement date.

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 June 30, 2010. 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 June 30, 2010.

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

Except for the additional risk factor disclosed in our Form 10-Q for the quarter ended March 31, 2010, 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 – (Removed and Reserved)

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: August 9, 2010

/s/ Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President
Date: August 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: August 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: August 9, 2010

/s/ Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President

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 June 30, 2010, (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: August 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 June 30, 2010 (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: August 9, 2010

/s/ Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President