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

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended SEPTEMBER 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.	**41-0760000**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

475 L'Enfant Plaza, S.W.
Washington, DC 20260
(202) 268-2000
(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☑ No ☐

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ 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 the definitions of "large accelerated filer", "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ 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 ☑

The aggregate market value of shares of common stock held by non-affiliates at September 30, 2010, was N/A
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at November 15, 2010
No Common Stock	N/A

DOCUMENTS INCORPORATED BY REFERENCE None

United States Postal Service

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Part I

ITEM 1 — BUSINESS

OVERVIEW

The United States Postal Service (we) commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States" with the mandate to offer a "fundamental service" to the American people, "at fair and reasonable rates." We fulfill this legal mandate to provide universal service at a fair price by offering a variety of postal services without undue discrimination among our many customers. This means, that within each class of Mailing Services, prices do not unreasonably vary by customer for the service provided. Established as the successor to the Post Office Department by the *Postal Reorganization Act*, the Postal Service is governed by an eleven-member Board of Governors (the Board), of which nine members are independent Governors appointed by the President of the United States with the advice and consent of the Senate, plus the Postmaster General, who is appointed by the independent Board members, and the Deputy Postmaster General, who is appointed by the independent Board members and the Postmaster General.

The *Postal Accountability and Enhancement Act, Public Law 109-435* (P.L. 109-435), made further revisions to the *Postal Reorganization Act*. The Postal Service's governing statute is codified in Title 39 of the United States Code. P.L.109-435 also created the Postal Regulatory Commission (PRC), which superseded the Postal Rate Commission, endowing the PRC with regulatory and oversight obligations.

We serve individual and commercial customers throughout the nation, competing for business in the communications, distribution, delivery, advertising and retail markets.

The law divides our services into two broad categories: market-dominant and competitive. Throughout this document and in the day-to-day operation of the organization, market-dominant services are referred to as "Mailing Services" and competitive services as "Shipping Services". Mailing Services include First-Class Mail, Standard Mail, Periodicals, and Package Services. Price increases for these services are generally subject to a price cap based on the Consumer Price Index — All Urban Consumers (CPI-U).

Shipping Services include, but are not limited to, Priority Mail, Express Mail, Bulk Parcel Post, and Bulk International Mail. The regulations for Shipping Services place no upper limit on price changes but do set a price floor.

Mailing and Shipping Services are sold through a network consisting of over 32,000 Post Offices, stations, branches, plus thousands of contract postal units and community post offices, a network of retail establishments that sells postage stamps as a convenience to their customers, and our website, *www.usps.com*. Mail is delivered to more than 150 million city, rural, Post Office box and highway delivery points.

One of the principal requirements introduced by P.L.109-435 is the requirement that, over time, our obligations for the established health and retirement benefits of current and future postal retirees be fully funded. To accomplish this, the law established a Postal Service Retiree Health Benefits Fund (PSRHBF) and requires that we make annual future pre-funding payments of between $5.5 billion and $5.8 billion into the PSRHBF between 2011 and 2016. These amounts are in addition to the $38 billion contributed from 2007 through 2010.

All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters.

Additional disclosures on the organization and its finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, financial and strategic plans and the Comprehensive Statement on Postal Operations may be found at *www.usps.com*. Information on this website is not incorporated by reference into this document.

STRATEGY

The Postal Service has maintained three strategic goals for many years – *improve service, improve financial performance, and improve employee engagement.*

Each year the Postal Service publishes an annual performance plan, containing a limited number of priority objectives to advance its long-term strategic goals. Challenging annual objectives help focus the organization on near-term priorities, including the rapidly changing market, financial conditions and Government and contractual mandates that have weakened our financial condition and made recovery difficult. The Postal Service monitors performance against its objectives throughout the year, and adjusts strategies and resources continuously to help maximize success. It publishes its results in an annual performance report after the close of each fiscal year. The annual performance plan and annual performance report are included within the *Comprehensive Statement of Postal Operations,* which is available at *www.usps.com*.

In addition to the annual performance plan discussed above, the Postal Service published a plan entitled *Ensuring a Viable Postal Service for America* in March 2010. This plan is intended to focus attention on longer-term viability issues facing the Postal Service. It suggests structural changes in the following areas: retiree health benefits pre-funding; delivery frequency; modernized access to postal services; workforce flexibility; pricing flexibility; expansion of products and services; and oversight.

- Reduction of retiree health benefits pre-funding: The current pre-funding requirement has a significant impact on Postal Service losses and liquidity position. We seek to restructure to a "pay-as-you-go" system, comparable to what is used by other federal agencies and the private sector. In addition, the Postal Service believes that the historical funding formula for CSRS has resulted, over many years, in the Postal Service overfunding its CSRS obligation. This overfunding should also be addressed.

- Delivery frequency: To adapt to changing mail volumes and customer needs, the Postal Service seeks legislation granting it the authority to reassess and adjust the frequency of delivery.

- Modernized access to postal services: As consumer behaviors and needs change, the Postal Service must have the flexibility to increase and enhance access to postal services by investing in new options that improve service while lowering costs.

- Workforce flexibility: The Postal Service must increase workforce flexibility in order to adapt to changing demand patterns.

- Pricing Flexibility: The Postal Service needs the authority to adjust its pricing to better reflect market dynamics and offset future volume and revenue declines. Therefore, we will seek modifications to the laws related to pricing.

- Expansion of Products: As technology and customer needs change, so will the definition of mail. The Postal Service seeks additional flexibility to innovate and introduce new products to better meet changing customer demands.

- Oversight: The Postal Service is subject to oversight by multiple bodies. This limits the flexibility and speed required to adapt and respond to the rapidly changing environment. It is crucial to clarify oversight roles and responsibilities and to streamline processes.

SEGMENTS

Although the law divides our services into market-dominant and competitive categories, and revenue is monitored by category and class, we operate one fully-integrated network, which is one segment throughout the United States, its possessions and territories. Revenue from international operations represents less than 4% of total revenue.

SERVICES

The Postal Service is the centerpiece of the U.S. mailing industry, providing a wide variety of services to meet almost any mailing need. Services include Mailing Services and Shipping Services as described in more detail below.

MAILING SERVICES

First-Class Mail — Offered for postcards, letters, or any advertisement or merchandise up to 13 ounces destined for either domestic or international delivery. Personal correspondence, handwritten or typewritten letters, bills or statements of account, and payments must be mailed via First-Class Mail, Express Mail, or Priority Mail.

Standard Mail — Offered for any item, including advertisements and merchandise weighing less than 16 ounces, that is not required to be sent using First-Class Mail. Standard Mail is typically used for direct advertising to multiple delivery addresses. Content restrictions apply for authorized nonprofit mailers.

Periodicals — Offered for newspaper, magazine and newsletter distribution. This service requires prior authorization by the Postal Service.

Package Services — Offered for any merchandise or printed matter weighing up to 70 pounds. These services include single-piece Parcel Post, Bound Printed Matter, Library Mail, and Media Mail.

Special Services — Offered for a variety of enhancements that add value to mail services. Many provide added security, proof of delivery, or loss recovery. Examples of these services include: Certified Mail, Registered Mail, Delivery Confirmation, Signature Confirmation, and insurance up to $5,000.

Post Offices Boxes — Provide customers an additional method for mail delivery that is private and convenient.

Money Orders — A special service offering a safe, convenient, and economical alternative to sending cash through the mail. They can be purchased at any Post Office or from any rural route carrier and can be sent within the U.S. and to some foreign countries. Postal money orders are available for any amount up to $1,000. Money orders can be cashed at any Post Office or can be deposited or negotiated at financial institutions. The Postal Service will replace Money Orders that have been damaged, lost, or stolen.

SHIPPING SERVICES

Express Mail — Includes domestic and international offerings. This overnight, money-back guaranteed service includes tracking, proof of delivery, and basic insurance up to $100. Delivery is offered to most domestic U.S. destinations and is available 365 days a year. A surcharge is added for Sunday and holiday delivery. Express Mail Flat Rate envelopes are available for shipments to any location in the United States. Commercial Base and Commercial Plus pricing is available for customers meeting certain volume thresholds. Express Mail International offers fast delivery service to over 190 countries with guaranteed service to select destinations using Global Express Guaranteed.

Priority Mail — Offered as a service both within the U. S. and to numerous destinations abroad. The domestic offering is a 1–3 day nonguaranteed delivery service that is typically used to send documents, gifts, and merchandise. Priority Mail Flat Rate boxes and envelopes are available for shipments at fixed prices. Commercial Base and Commercial Plus pricing is available for customers meeting certain volume thresholds. Priority Mail International provides customers with a reliable and economical means of sending items weighing up to 70 pounds to over 190 countries and territories worldwide.

Parcels — Parcel Select and Parcel Return Services provide commercial customers with an economical means of shipping packages. By taking advantage of the "first mile and last mile" strengths of the Postal Service, Parcel Select saves customers money by entering packages into the postal network closer to their ultimate destination. Parcel Return Service provides a service to commercial customers allowing them to easily and economically retrieve packages returned by their customers. Parcel Select and Parcel Return Services allow us to partner with privately-owned delivery services to serve our respective customers' needs.

Details on Mailing and Shipping Services revenue are found in the Operating Statistics table immediately following the Notes to the Financial Statements.

PRICING AND CLASSIFICATION ACTIVITY

Postal Service prices are set by the Board and reviewed by the PRC for legal compliance. We have provided, and anticipate providing, at least 90 days notice of any new prices for Mailing Services. There were no price increases for Mailing Service products in 2010. The price of a First-Class Mail stamp is currently $0.44.

Prices for Shipping Services must by law cover costs attributable to each product, as well as an appropriate share of the institutional costs of the Postal Service. The institutional cost allocation, determined by the PRC, is 5.5% of total institutional costs in addition to 100% of attributable costs. By law, changes in Shipping Services prices must be announced at least 30 days prior to the implementation date.

Prices for Shipping Services products – including Express Mail, Global Express Guaranteed, Express Mail International, Priority Mail, Priority Mail International, Parcel Select, and Parcel Return Service – increased an average of 3.3% on January 4, 2010. On November 2, 2010, we announced that prices for Shipping Services products will increase an average of 3.6% effective January 2, 2011.

We offer contract prices, rebates, online price reductions, and other incentives to encourage growth.

INTELLECTUAL PROPERTY

We own intellectual property that includes trademarks, service marks, patents, copyrights, trade secrets, and other proprietary information, and routinely generate intellectual property in the course of developing and improving systems, services, and operations. However, legal protection for intellectual property and proprietary information is less significant to our success than the knowledge, ability, and experience of employees and the timeliness and quality of service provided.

SEASONAL OPERATIONS

Mail volume and revenue are historically greatest in the first quarter, which includes the fall holiday mailing season, and lowest during the summer, or fourth quarter, of the fiscal year.

CUSTOMERS

We have a very diverse customer base and are not dependent on a single customer or small group of customers. No single customer represents more than 3% of operating revenue, while advertising mail in general accounts for more than half of our volume.

GOVERNMENT CONTRACTS

No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

COMPETITION

Shipping Services competes on the basis of the breadth of our service network, convenience, reliability, and economy of the service provided. The package and express delivery businesses are intensely competitive and are likely to remain so. The primary competitors of Shipping Services are FedEx Corporation and United Parcel Service.

RESEARCH AND DEVELOPMENT

We operate a research and development facility in Virginia for design, development, and testing of postal equipment and operating systems, and also contract with independent suppliers to conduct research activities. While research and development activities are important to the business, these expenditures are not material.

ENVIRONMENTAL MATTERS

We are not aware of any federal, state, or local environmental laws or regulations that would materially affect our financial results or competitive position, or result in material capital expenditures. However, the effect of possible future environmental legislation or regulations on operations cannot be predicted.

EMPLOYEES

At September 30, 2010, we had 583,908 career employees and 87,779 non-career employees, substantially all of whom reside in the U.S.

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). The APWU and the NRLCA contracts expire on November 20, 2010, and the NPMHU and NALC contracts expire in November 2011. If an agreement is not reached during negotiations, a federal mediator is appointed. Impasses in collective bargaining negotiations may ultimately be resolved through arbitration.

More than 85% of career employees are covered by collective bargaining agreements. By law, the Postal Service must consult with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide non-bargaining unit employees in the field an opportunity to participate directly in the planning, development, and implementation of programs and policies that affect them. Management organizations include the National Association of Postal Supervisors (NAPS), the National League of Postmasters and the National Association of Postmasters of the United States (NAPUS). The Postal Service participates in federal employee benefit programs as required by statute, for retirement, health, and workers' compensation benefits.

AVAILABLE INFORMATION

Financial and other information about the Postal Service is available on *www.usps.com*: click on *About USPS and News*. Information on the website is not incorporated by reference in this report.

We make available on our website, free of charge, copies of our recent annual reports, quarterly reports, and current reports as soon as reasonably practicable after they are filed with or provided to the PRC. Requests for copies may also be sent to the following address:

Corporate Communications
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260-3100

Part I

Item 1A — Risk Factors

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows. Here, we provide a broad overview of the chief external factors that influence, and in some cases govern, operations and financial results, briefly discussing their specific impacts in 2010 as well as their anticipated near-term effects. The remainder of this report, notably the sections entitled "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," provides a further understanding of the risks and uncertainties we confront.

Adverse changes in the economy directly impact our business, negatively affecting results of operations.

The demand for postal services is heavily influenced by the economy. We are now more than a year into an economic recovery that most economists believe will be slow and prolonged. Though the U.S. national unemployment rate has improved modestly since the beginning of 2010, it remained high at 9.6% in September 2010. The lingering effects of turmoil in the financial markets continue to impact consumer confidence, raising economic risk significantly. Uncertain market conditions caused by the recent recession are expected to have a continuing adverse impact on retail sales, investment, consumer spending, consumer confidence and ultimately use of the mail. Negative trends in these areas are likely to depress the demand for postal services.

Our ability to generate sufficient cash flows is substantially dependent on our ability to increase efficiency, reduce costs, and generate revenue, as well as on legislative change.

The Postal Service incurred a net loss of $8,505 million for the year ended September 30, 2010. This followed net losses of $3,794 million in 2009 and $2,806 million in 2008. A significant portion of these losses are attributed to the unprecedented declines in mail volume in 2008, 2009, and 2010, combined with the cost of pre-funding retiree health benefits as mandated by P.L. 109-435.

Mail volume fell by 6.2 billion pieces in 2010, resulting in a $1,038 million, or 1.5%, decrease in revenue compared to 2009. In 2009, mail volume decreased 26.0 billion pieces, resulting in a $6,842 million, or 9.1%, decrease in revenue compared to 2008. The declines in mail volume that began in 2008 are primarily the result of the economic recession that began in December 2007, combined with the long-term trend of hard copy correspondence and transactions migrating to electronic media. This migration to electronic media accelerated during the recession and is expected to continue. The trend is especially concerning because First-Class Mail, our most profitable service, is expected to continue to decline in 2011 and for the foreseeable future. It is possible that mail volume, and therefore revenue, could decrease at a rate greater than currently projected.

We are mandated by P.L. 109-435 to pre-fund retiree health benefits for a period of 10 years (2006-2016), including a payment of $5.5 billion in 2011. This is a requirement not faced by other public or private entities. We cannot change the benefit formula or the payment schedule without legislation. In 2010 despite our request for Congress to change the payment schedule for this long-term obligation, no modifications were made.

Due largely to the decline in mail volume and the retiree health benefit pre-funding requirement, we experienced negative cash flow from operations in two of the past three years. During the three years ended September 30, 2010, we were able to fund obligations through increased debt and, in 2009, a $4 billion reduction to the scheduled PSRHBF payment that was due on September 30, 2009. Debt at September 30, 2010, was $12 billion. We forecast debt outstanding at the end of 2011 to increase by $3 billion to $15 billion, the maximum allowable by law. Our forecasts indicate that cash generated in 2011 from operating activities, plus the September 30, 2010 cash of $1,161 million and borrowings of an additional $3.0 billion will be insufficient to allow the Postal Service to meet all of its financial obligations in 2011.

We project that, while there will be sufficient cash flows for routine, ongoing operations, we will have insufficient cash on hand and borrowing capacity at September 30, 2011, to fully fund the scheduled $5.5 billion PSRHBF payment, or other obligations due on the date. The legal and/or regulatory consequences to the Postal Service if it cannot fund the PSRHBF payment or other financial obligations are unknown.

In light of these liquidity issues, in July 2009, the Government Accountability Office (GAO) listed the Postal Service as one of its "high risk" government agencies, citing mounting losses, increasing debt levels, and an inability to cut costs fast enough to offset volume and revenue declines. To achieve financial viability, GAO suggested that the Postal Service develop and implement a broad restructuring plan. *Ensuring a Viable Postal Service for America*, our action plan for the next decade which was issued in March 2010, provides a fundamental framework to address financial viability issues for the longer-term.

Early in 2009, seeking to avert a potential cash shortfall, we requested that Congress restructure the pre-funding payments for retiree health benefits mandated by P.L. 109-435 and suspend the requirement for six-day per week mail delivery. Public Law 111-68, *Making appropriations for the Legislative Branch for the fiscal year-ending September 30, 2010, and for other purposes*, addressed the September 30, 2009 payment to the

PSRHBF, reducing it from the scheduled $5.4 billion to $1.4 billion. P.L. 111-68 did not, however, restructure future PSRHBF payments, nor did it alter Congress' requirement that we adhere to a six-day delivery schedule. Congress did not pass similar legislation in 2010, and the Postal Service therefore paid the $5.5 billion mandated retiree health benefits pre-funding payment at September 30, 2010.

Allowing the Postal Service to adjust delivery days to match mail volume would provide critical cost savings. Significant cost savings from changing the delivery schedule would not be realized until 6-12 months after approval of the change. This provides time for customer notifications and changes to internal systems and operations that would be required in order to achieve the expected cost savings. Thus, due to legal and practical constraints, it is unlikely that full savings from altering the delivery schedule could be achieved before 2012, at the earliest.

In July 2010, the Postal Service filed a request with the PRC seeking an exigent price increase as allowed by P.L. 109-435. This request for a price increase for Mailing Services that exceeded the increases tied to the Consumer Price Index was denied by the PRC. On October 22, 2010 the Postal Service filed a petition in the U.S. Court of Appeals for the District of Columbia Circuit seeking a review of the PRC's interpretation of the law that governs how prices can be set under extraordinary and exceptional circumstances. The Postal Service believes that the PRC misread the statute and applied an incorrect standard in evaluating the request for an exigent price increase. No decision is likely to occur in time to impact 2011.

The ability to generate sufficient cash flows to meet obligations is also substantially dependent on the continuance, strength, and speed of the economic recovery and the execution of operational strategies available under current law to increase efficiency and generate incremental revenue. We will continue to inform Congress and other stakeholders of our financial condition and outlook and pursue legislative changes, cost reductions, and additional ways to generate revenues that would help ensure the availability of adequate cash at the end of 2011. Although the Postal Service's cost reduction and revenue generation initiatives are expected to positively impact cash flow, we project that they will not, in the aggregate, be sufficient to offset the expected September 30, 2011 cash shortfall. Many of the structural reforms needed to ensure long-term viability, such as adjustments to the PSRHBF payment schedule, can only be achieved with legislative change. There can be no assurance that Congress will enact additional legislation that impacts 2011 or future years.

Our business and results of operations are adversely affected by electronic diversion. If we do not compete effectively with electronic communications services, or grow marketing mail, package services, or revenue from other sources, this adverse impact will become more substantial over time.

Customer usage of postal services continues to shift away from transactions, correspondence, and Periodicals Mail toward advertising and Shipping Services. Advertising and Shipping Services are highly correlated with economic activity. Over the past 15 years, transactional mail, such as bill payments, has been eroded by competition from electronic media, primarily the internet. It is expected that, over time, bills and statements will increasingly follow payments to online services, and we believe that the recent recession has accelerated that movement. Factors underlying this trend include growing internet access in homes, increased availability of broadband service, falling personal computer prices, expansion of mobile internet access, increasing familiarity and comfort with the internet, and the growing trend by businesses to incent or require their customers to use alternatives to mail for payments and statement receipt.

Correspondence mail has long been a declining part of mail volume. With the availability of inexpensive telephone service, e-mail, and other internet-based forms of communication such as e-cards and social networking, there is little chance that the decline in correspondence mail will be reversed.

Periodicals in the mail continue to decline as people increasingly use electronic media for news and information. The impact of the recession and electronic competition has amplified the steep decline in periodicals advertising.

The recession of 2007–2009 negatively impacted the advertising industry, especially in 2009. Even internet advertising was adversely affected. Direct mail advertising fared better than some media — national television, newspapers, magazines, and print advertising in particular. Trends in advertising appear to be favoring media that can be measured and targeted, two traits that have long favored direct mail. In the future, it is expected that media sharing these characteristics will continue to be an important medium. It is possible that as internet usage grows, it will gain market share on advertising by mail. While Standard Mail did rebound modestly in the second half of 2010, it is too early in the economic cycle to determine whether a resurgent trend has been established in this mail category.

While the Postal Act of 2006 (P.L. 109-435) limited price increases on our Mailing Services to the rate of inflation, our costs are not similarly limited. Accordingly, we may not be able to increase prices sufficiently to offset increased costs. This would adversely affect our results of operations.

Postal costs are heavily concentrated in wages, employee and retiree benefits, and transportation. These costs are significantly impacted by wage inflation, health benefit premium increases, retirement and workers' compensation programs, cost of living allowances (COLAs), fuel prices, and the continuous expansion of our delivery network. We believe that growth in volume and associated revenue, along with continuing productivity improvements, will not be sufficient to address the challenge presented by our current financial situation and the regulatory price cap.

The contracts with the four largest unions representing the majority of our employees currently include provisions granting COLAs, which are linked to the Consumer Price Index — Urban Wage Earners and Clerical Workers (CPI-W). The most recent COLA, effective in September 2008, conferred an annual pay increase of nearly $1,500 on each career employee covered by collective bargaining agreements. The combined impact of that COLA and the carry-over from the March 2008 COLA represented an additional $1.1 billion in expenses for the Postal Service in 2009. There were no COLA payments in 2010.

Although the CPI-W has thus far stayed below its July 2008 high point, a resurgence of consumer inflation could have a significant adverse impact on our labor costs. We estimate that each 1% increase in the CPI-W results in more than $200 million increase in annual expenses. The determination of the workers' compensation liability is also highly influenced by the CPI-W, and medical inflation, and interest rates. Changes in CPI and medical inflation increase the liability while interest rates have an inverse relationship. An increase of 1% in the interest rate would decrease our estimate of the liability by approximately $1.0 billion. A decrease of 1% in the interest rate would increase our estimate of the liability by approximately $1.3 billion. While these interest rate assumptions do not affect our annual cash payment, the CPI-W and medical cost increases do affect the payments made to claimants.

Our current labor agreements expire in November 2010 and November 2011.The ability to negotiate fair contracts that reflect the state of the economy and current and future mail revenue is essential to maintaining financial stability. Failure to do so, or an adverse decision by an arbitrator should we be unable to agree to terms with the unions, could have significant adverse consequences on our ability to meet financial obligations.

Adverse events may call into question our reputation for quality and reliability, which could diminish the value of the Postal Service brand and potentially adversely affect business and results of operations.

We serve almost every American household and business six days a week. For the sixth year in a row, the Ponemon Institute named the Postal Service the most trusted government agency and sixth most trusted of all organizations. The Postal Service brand represents quality and reliable service and therefore is a valuable asset. We use our brand extensively in sales and marketing initiatives and take care to defend and protect it. Any event that calls into question this quality and reliability could diminish the value of our brand and potentially adversely affect our business and reputation.

Fuel expenses are a material part of operating costs. A significant increase in fuel prices could adversely affect costs and results of operations.

We are exposed to changes in commodity prices primarily for diesel fuel, unleaded gasoline and aircraft fuel for transportation of the mail, and natural gas and heating oil for facilities. A 1% increase in fuel costs would result in a $23 million increase in expense. We do not use derivative commodity instruments to mitigate the financial risk of changes in energy prices during the periods covered by this report.

We are subject to Congressional oversight and regulation by the Postal Regulatory Commission and other government agencies. We have a wide variety of stakeholders whose interests and needs are sometimes in conflict. If we cannot successfully address the various, and sometimes conflicting, concerns of our stakeholders, we may be subject to greater legislation and regulation, which could increase costs or otherwise place additional burdens on operations.

This is an outgrowth of our unique status as a provider of a fundamental service to the American people. We attempt to balance the interests of all parties. Efforts to be responsive to various stakeholders sometimes adversely impact the speed with which we are able to respond to changes in mail volume or other operational needs. Any limitations on our ability to take management action could adversely affect operating and financial results.

We rely extensively on technology. A significant failure in a material system could impair our reputation for reliable service and adversely affect results of operations.

We rely extensively on technology to manage and operate systems for payment, processing, and delivery of mail. Our operational and administrative information systems are among the largest and most complex systems maintained by any organization in the world. We have a number of systems that are nearing the end of their useful lives. Replacing these systems will require substantial investments. Any significant systems failure could cause delays in the processing and delivering of mail or result in the inability to process operational and financial data. This could damage our reputation, result in loss of business, and increase costs.

A failure to protect the privacy of information we obtain from customers could damage our reputation and result in a loss of business.

We receive a variety of private information from customers, such as address change data. We have implemented a number of safeguards intended to protect the confidentiality of data that we obtain. Should these safeguards be breached, however, our reputation could be damaged with a resultant loss of business.

We are subject to the risk of biohazards and other threats placed in the mail.

Two Postal employees died from exposure to anthrax in 2001. Although we have implemented extensive emergency preparedness measures to keep the mail, employees and customers safe from harm due to biohazards or other threats that could be introduced into the mail, this risk cannot be completely mitigated. If new threats were to arise and measures were not sufficient to contain or mitigate the threat, services could be disrupted. This could adversely affect mail volumes, revenue, require substantial expenditures to address the new threat, and adversely affect our operations and financial condition.

We may be adversely impacted by the legal or regulatory responses to actual or perceived global climate change.

Concerns about climate change, particularly global warming, have resulted in significant discussions in the scientific community, domestic and international governments, and environmental organizations about the effects of greenhouse gases on the environment. These discussions may result in new laws or regulations that regulate greenhouse gas emissions into the environment and, as a result, our operating costs may increase. The costs that we believe are likely to increase as a result of any new environmental laws or regulations could include: diesel fuel, unleaded gasoline, the cost of retrofitting existing vehicles, and other petroleum-related products, such as tires. In addition, the utility costs associated with the operation of facilities may increase as a result of new environmental laws and regulations. Finally, since we also use contracted carriers to transport the mail, we anticipate that increased operating costs for these independent carriers, including increased costs resulting from new laws or regulations, may ultimately be passed through to the Postal Service.

We are also subject to risks and uncertainties that affect many other businesses, including:

- Market acceptance of new product and service initiatives;
- Adverse weather conditions or natural disasters, such as hurricanes, which can damage property and disrupt operations;
- International conflicts or terrorist activities and the effects these events may have on business or results of operations; and
- Changes in interest rates and foreign currency exchange rates.

ITEM 1B – UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 — PROPERTIES

REAL ESTATE

Facilities range in size from 60 square feet to 32 acres under one roof and support retail, delivery, mail processing, maintenance, administrative, and support activities.

Real Estate Inventory

(Actual numbers)	2010	2009
Leased Facilities	24,671	24,516
Owned Facilities	8,621	8,419
GSA / Other Government Facilities	328	329
Total Real Estate Inventory	33,620	33,264
Annual Rent Paid to Landlords (Dollars in millions)	$ 1,008	$ 1,035

Beginning in 2010, the number of facilities reflects updated classifications in the building records. Certain sites with multiple buildings on them were recorded as one in previous years. In 2010, these sites were reclassified to specifically identify each facility on them. For example, a site that includes a processing facility, a vehicle maintenance facility, and a storage facility was counted as one facility in previous years, but is classified as three facilities in 2010.

USAGE OF FACILITIES

Facilities that support postal retail and delivery operations are located in virtually every community throughout the country. In addition to the 32,528 retail and delivery facilities that we manage and operate, postal retail services are available in thousands of commercial locations owned and operated by private businesses. These include more than 3,000 Contract Postal Units and Community Post Offices and over 63,000 supermarkets, pharmacies, and other stores that sell postage stamps as a convenience to their customers.

Postal-Managed Retail and Delivery Facilities

(Actual numbers)	2010	2009
Post Offices	27,077	27,161
Classified Branches	1,481	1,484
Classified Stations	3,313	3,344
Carrier Annexes	657	673
Total Postal-Managed Retail and Delivery Facilities	32,528	32,662

Processing Facilities

(Actual numbers)	2010	2009
Processing and Distribution Centers	260	268
Customer Service Facilities	164	195
Network Distribution Centers	21	21
Logistics and Distribution Centers	13	14
Annexes	51	61
Surface Transfer Centers	11	20
Airmail Processing Centers	1	12
Remote Encoding Centers	2	3
International Service Centers	5	5
Total Processing Facilities	528	599

Our larger facilities primarily support mail processing operations. They process millions of pieces of mail on a daily basis and prepare it for dispatch and transportation. They may also house some of the retail and delivery operations identified under Retail and Delivery Functions.

As part of the ongoing efforts to improve efficiency, adjust the network to lower volumes of mail, and reduce excess capacity, consolidation of operations has led to a reduction in the number of facilities that support mail processing. This allows for reductions in headcounts and transportation costs due to efficiencies of scale in mail processing and transportation but does not always result in a reduction in real estate, as many facilities serve multiple functions and only certain functions lend themselves to consolidating.

VEHICLES

The Postal Service operates one of the largest vehicle fleets in the United States, including an extensive fleet of alternative fuel vehicles. As part of the American Recovery and Reinvestment Act of 2009 (ARRA), we received approximately 6,500 new fuel efficient vehicles between June 2009 and March 2010 from the General Services Administration in a one-for-one exchange for older postal vehicles.

Vehicle Inventory

(Actual numbers)	2010	2009
Delivery and Collection (1/2 - 2 1/2 ton)	193,394	196,445
Mail Transport (Tractors & Trailers)	6,268	6,380
Administrative	6,502	5,867
Service (Maintenance)	4,702	4,959
Inspection and Law Enforcement	2,581	2,843
Mail Transport (3 - 9 ton)	2,178	2,190
Total Vehicles	215,625	218,684

ITEM 3 — LEGAL PROCEEDINGS

We are subject to various claims and liabilities that arise in the normal course of operations. These claims generally relate to labor, tort, and contract disputes and are regularly reviewed by management, and, where significant, by the Audit and Finance Committee of the Board of Governors and/or the full Board of Governors. In our evaluation, no single claim is material to our financial statements taken as a whole.

ITEM 4 — (REMOVED AND RESERVED)

Part II

ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

ITEM 6 — SELECTED FINANCIAL DATA

See the Financial History Summary and Selected Quarterly Financial Data following.

ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," or other similar terminology. These statements reflect current expectations regarding future events and operating performance as of the date of this report. These forward-looking statements involve a number of risks and uncertainties.

The following are some of the factors that could cause actual results to differ materially from those expressed in, or underlying, forward-looking statements: effectiveness of operating initiatives; success in advertising and promotional efforts; changes in national and local business and economic conditions, including their impact on consumer and business confidence; fluctuations in currency exchange and interest rates; labor and other operating costs; oil, fuel, and other transportation costs; the effects of war and terrorist activities; competition, including pricing and marketing initiatives and new service offerings by our competitors; consumer preferences or perceptions concerning our service offerings; spending patterns and demographic trends; availability of qualified personnel; severe weather conditions; labor relations; effects of legal claims; cost and deployment of capital; changes in laws and regulations; costs and delays associated with new regulations imposed by the PRC or other regulatory bodies; and changes in applicable accounting policies and practices. The foregoing list of important factors is not all-inclusive. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP) 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 accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large organization. Management discusses the development and selection of these accounting policies and estimates with the Audit and Finance Committee of the Board. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The critical accounting policies that are considered either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to financial statements, are those relating to workers' compensation costs, deferred revenue for prepaid postage, and contingent liabilities.

Workers' compensation costs are highly sensitive to discount and inflation rates and the length of time recipients stay on the compensation rolls. However, the total annual cash payment for claims is relatively stable and predictable. The workers' compensation costs reflected on our Statement of Operations are subject to actuarial estimates of future pay-outs, based upon prior claims data. Changes in the actuarial estimates and estimates of discount and inflation rates can significantly impact reported results from period to period. In the third quarter of 2009, we instituted a policy of updating inflation and discount rates on a quarterly basis.

The discount rate reflects the current rate at which the workers' compensation liabilities could be effectively settled at the measurement date (e.g., the end of the accounting period). In setting the discount rates, we use the current yield, as of the measurement date, on a basket of Treasury securities that is matched to the expected duration of both the medical and compensation claims.

For changes due to inflation in compensation claim obligations, we use the CPI-U as forecasted by IHS Global Insight in their quarterly report. For medical claims, we use the average rate of medical cost increases experienced by our workers' compensation claimants over the past five years as an estimate for future medical inflation. This was a change beginning in 2010. Previously, we had used forecasted medical inflation rates published by an independent source. During 2010, we determined that our own history served as a better indicator of future costs and revised the estimation accordingly.

Deferred revenue - prepaid postage is an estimate of postage that has been sold but has not yet been used by customers. Revenue is recognized only when services are rendered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected in the Balance Sheets as "Deferred revenue–prepaid postage". Two categories of postage sales account for the bulk of deferred revenue – prepaid postage: stamp sales and postage meters. Stamp sales in 2010 totaled $8.8 billion. Deferred revenue on stamp sales is estimated using statistical samples of stamped mail exiting our system across the country. The estimated stamp usage is subtracted from stamp sales, with the difference representing our obligation to perform future services. We also include a provision for stamps sold that may never be used, either through loss, damage, or collecting activity. Changes in consumer stamp usage patterns can significantly impact the estimated liability related to stamp sales.

In contrast to postage paid for by purchasing stamps, metered postage is primarily used by businesses. Accordingly, the deferral amount is much smaller as a percentage of annual sales than for stamps, because business customers generally manage their cash flow much more closely and purchase postage as needed. Metered postage receipts in 2010 totaled $16.3 billion. Deferred revenue related to meters is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings allows us to derive a deferral percentage, which is applied to all postage meters.

We also include in our estimate of deferred revenue – prepaid postage, an estimate for mail that is in-transit within the postal system. We do this because the earnings process is not considered complete until mail is delivered to the customer.

In 2009, we refined our estimation methodology for deferred revenue on stamp sales to reflect changes in customer usage patterns of both Forever and denominated stamps demonstrated during 2009. In Quarter III, 2010, the estimation methodology was further refined to reflect new information concerning the amount of purchased Forever stamps that will never be used. The changes in 2009 and 2010 to the estimation model are considered changes in accounting estimates under GAAP and, accordingly, the impact of the change is reflected in the quarter that the change in estimate is made.

Contingent liabilities require significant judgment in estimating potential losses for legal and other claims. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. In addition, each quarter any prior claims and litigation are reviewed and, when necessary, the liability balance adjusted for resolutions or revisions to prior estimates. Estimates of loss can therefore change as individual claims develop and additional information becomes available.

Retirement and health benefit costs for employees and retirees represent a significant portion of expenses. Any change in laws or regulations affecting the amounts, timing, or administration of these benefits could have a material effect on our financial position and results of operations. We participate in the federal government pension and retiree health benefits programs, and accordingly account for these using multi-employer plans accounting rules. As such the expense is the amount we are required to fund.

In addition, the depreciation and amortization of capital assets over their estimated useful lives, and the determination of salvage value, requires us to make judgments about future events. Because capital assets are utilized over relatively long periods of time, we make periodic evaluations as to whether the estimated service lives or salvage values remain appropriate. Changes to estimated lives and residual values may affect the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on disposal of the asset.

For further information, see Note 3, *Summary of Significant Accounting Policies,* Note 6, *Contingencies,* and Note 9, *Workers' Compensation,* in the Notes to the Financial Statements*.*

RESULTS OF OPERATIONS

Despite increases in 2010 productivity and $11 billion in cost savings over the past three years, we have been unable to fully offset the financial impact of a continuing decline in mail volume and related revenue. Added to the declining revenue, expenses related to PSRHBF and workers' compensation continue to hinder our ability to become profitable.

Net losses were $8,505 million, $3,794 million, and $2,806 million for the years ended 2010, 2009, and 2008, respectively.

Operating Statistics (Dollars & pieces in millions)	2010	2009	2008
Operating Revenue	$ 67,052	$ 68,090	$ 74,932
Loss from Operations	$ (8,374)	$ (3,740)	$ (2,806)
Net Loss	$ (8,505)	$ (3,794)	$ (2,806)
Average Daily Volume	563	584	667

The losses for the years ended September 30, 2010, 2009, and 2008 include expenses due to discount rate changes and actuarial estimations that increased the workers' compensation expense by $2,500 million, $1,343 million, and $417 million for each of the respective years. Discount rates are updated quarterly, based on prevailing market rates for a basket of Treasury securities with maturities corresponding to the expected duration of the future cash payments. Over the course of the last three years, yields on Treasury securities have generally trended downward, corresponding with the weakness in the economy. As a result, the present value of our workers' compensation liability has increased substantially, although actual cash outflows have not been impacted. These increases in the present value of the workers' compensation liability are recorded as operating expenses.

Further, we have incurred expenses for retiree health benefits of $5.5 billion, $1.4 billion, and $5.6 billion in 2010, 2009, and 2008, respectively, for the legally-mandated pre-funding payments to the PSRHBF at each year-end.

Because expenses related to discount rate changes, actuarial valuation of workers' compensation cases and legislative mandates are not subject to management's control, we believe that analyzing operating results without the impact of these charges provides a more meaningful insight into operations. The table below illustrates the loss or income from ongoing business activities when these charges are not considered, and reconciles this amount to our GAAP net loss.

(Dollars in millions)	2010	2009	2008
Net Loss	$ (8,505)	$ (3,794)	$ (2,806)
Impact of:			
Discount rate changes and acturial revaluation of Workers' Compensation	2,500	1,343	417
PSRHBF Expense	5,500	1,400	5,600
(Loss) / Income before impact of discount rate changes, actuarial revaluations, and PSRHBF expense	$ (505)	$ (1,051)	$ 3,211

Without the impact of these charges, the net loss would have been $505 million in 2010 and $1,051 million in 2009. In 2008 the net income would have been $3,211 million.

Due to the combined effect of decreasing revenue and legislatively-mandated costs, we have suffered losses in every quarter since Quarter I, 2008, except Quarter IV, 2009. Quarter IV, 2009 would have also been a loss if P.L. 111-68, had not reduced that year's retiree health benefits pre-funding contribution from $5.4 billion to $1.4 billion. No similar legislation was enacted in 2010.

Despite these financial challenges, in 2010 we were able to significantly increase operating efficiency. Operating efficiency, as measured by Total Factor Productivity (TFP), increased 2.2% in 2010 as compared to 2009. This marks the ninth year of positive TFP growth since 2000 and a cumulative growth of 20.3% since 1972. Productivity gains are a result of effective workforce management, efficient use of material (supplies and services including transportation), and maximizing the return-on-capital investments (mainly automation).

Work hours in 2010 were reduced by 75 million, or 6.0% despite an increase of approximately 740,000 delivery points. Non-personnel expenses were reduced by 1.2%, while mail volume declined 3.5%.

As explained more fully in the "Revenue and Volume" discussion below, the recent recession and the continuing migration of mail to electronic media have had a significant adverse impact on our operating revenue. While an economic recovery from the recession has begun, the pace of the recovery is expected to be gradual and will not be sufficient to make up for the substantial losses we suffered as a result of the recession.

For the year ended September 30, 2010, operating revenue was $67,052 million, compared to $68,090 million in 2009, a decrease of $1,038 million, or 1.5%, despite an average Mailing Services price increase of 3.8% in May 2009 and Shipping Services price increases of 5.0% and 3.3% in January 2009 and 2010, respectively. There were no price increases for Mailing Services products during 2010. Volume of all major categories of Mailing Services declined in 2010 compared to 2009 while Shipping Services volume remained relatively flat.

In 2010, operating expenses were $75,426 million, compared to $71,830 million in 2009, an increase of $3,596 million, or 5.0%. Within that increase, two items had significant increases. Total workers' compensation expenses rose by $1,343 million, of which $1,157 million is due to changes in the discount rate and actuarial revaluation used to estimate the cost of future payments. Retiree health benefits pre-funding increased by $4,100 million, as discussed in the next paragraph. Without the changes in discount rates and actuarial revaluation and changes in the pre-funding, total operating expenses would have decreased by $1,661 million.

In total, retiree health benefits expenses increased by $4,357 million, or 128.5%, primarily due to the $4.1 billion increase in the annual pre-funding payment to the PSRHBF. In contrast to 2009 when the passage of P.L. 111-68 changed the scheduled payment to the PSRHBF due on September 30, 2009, to $1.4 billion, $5.5 billion was paid in 2010 as no similar legislation was enacted. Workers' compensation expenses increased $1,343 million in 2010, primarily due to the previously mentioned discount rate decrease. The discount rate change is further discussed in Note 9*, Workers' Compensation*, in the Notes to the Financial Statements and in the "Workers' Compensation" section.

Increases in workers' compensation and retiree health benefits expenses more than offset the $1,896 million, or 3.7%, reduction in compensation and benefit expense in 2010. Work hours decreased by 75 million, resulting in significant savings. Transportation expenses decreased $148 million, or 2.5%, as mail volume declined and utilization decreased. The expense reductions were accomplished without affecting service to our customers and despite the large percentage of costs dedicated to serving the still-growing delivery network.

The operating loss for 2009 was $3,740 million, compared to a $2,806 million operating loss in 2008. Operating revenue of $68,090 million in 2009 was 9.1%, or $6,842 million, less than operating revenue of $74,932 million in 2008. Despite a May 2009 price increase for Mailing Services products which averaged 3.8%, and Shipping Services price increases averaging 5.0% in January 2009, revenue was negatively impacted by a decline in volume of 26.0 billion pieces.

Operating expenses were $71,830 million in 2009 compared to $77,738 million in 2008, a $5,908 million, or 7.6% reduction. The reduction in operating expenses was driven by a $4,017 million reduction in retiree health benefits expense, which was wholly attributable to the passage of P.L. 111-68. The law amended P.L. 109-435, changing the scheduled payment to the PSRHBF due on September 30, 2009, from $5.4 billion to $1.4 billion. Excluding the $4.0 billion reduction in retiree health benefits pre-funding expenses, operating expenses were reduced $1,908 million in 2009, a 2.5% reduction.

In addition to the $4.0 billion decrease attributable to P.L. 111-68, compensation and benefit expenses decreased $1,427 million or 2.7% in 2009 compared to 2008, mainly due to an unprecedented reduction of 115 million work hours. Transportation expenses decreased by $935 million, or 13.4%, as fuel prices and mail volume declined from 2008, utilization decreased, and certain contracts were renegotiated. Other expenses decreased $525 million, or 5.4%, as stringent limits were implemented on discretionary expenditures. These expense reductions were somewhat offset by a $926 million increase in workers' compensation expenses attributable to discount rate changes and actuarial revaluation of the liability.

REVENUE AND VOLUME

There were no price increases for Mailing Services products in 2010. Price increases for Mailing Services averaged 2.9% in May 2008 and 3.8% in May 2009. Shipping Services prices increased by an average of 5.0% and 3.3% in January 2009 and 2010, respectively.

While the economic recession may have technically ended in June 2009, the continuing effects of the economic slowdown and the rate at which mail is migrating from traditional postal hard copy services to electronic media continue to negatively impact mail volume and the related revenue. Although the rate of decline eased in 2010, volume continued its downward trend, with a decrease of 6.2 billion pieces or 3.5% in 2010 as compared to 2009.

Signs of economic recovery can be seen and the volume in some classes of mail has grown in the last six months of 2010. For example, Standard Mail reversed its decline in 2010, growing 4.6% in Quarter III and 8.9% in Quarter IV 2010 over the same quarters of 2009. As a result, Standard Mail volume remained essentially flat in 2010, with a yearly increase of just 0.1%. Standard Mail volume of 82,525 million pieces in 2010 represented only 79.7% of its 2007 peak of 103,516 million pieces, a decrease of almost 21 billion pieces.

The decline in First-Class Mail volume continues, with year-over-year declines of 6.6% in 2010, 8.6% in 2009 and 4.8% in 2008. This trend is especially disturbing as First-Class Mail remains our most profitable product. To compensate for financial loss of the contribution of one piece of First-Class Mail, Standard Mail must increase by three pieces.

The following table indicates mail volume by category:

Mail Volume by Type of Service

(pieces in millions)	2010	2009	2008
First-Class Mail	78,203	83,766	91,697
Standard Mail	82,525	82,448	99,084
Periodicals	7,269	7,901	8,605
Package Services	658	731	846
Other Mailing Services*	499	517	896
Total Mailing Services	169,154	175,363	201,128
Total Shipping Services	1,420	1,381	1,575
Total Mail Volume by Type	170,574	176,744	202,703

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

Note: The totals for certain mail categories have been reclassified for 2009 to better reflect classifications used in the current year. These reclassifications did not impact total mail revenue for 2009, and it also did not change previously reported data for 2008.

Mail volume of 170.6 billion pieces declined by 6.2 billion pieces, or 3.5%, from 2009 volume of 176.7 billion pieces, itself a decline of 26.0 billion pieces from the 2008 volume of 202.7 billion pieces.

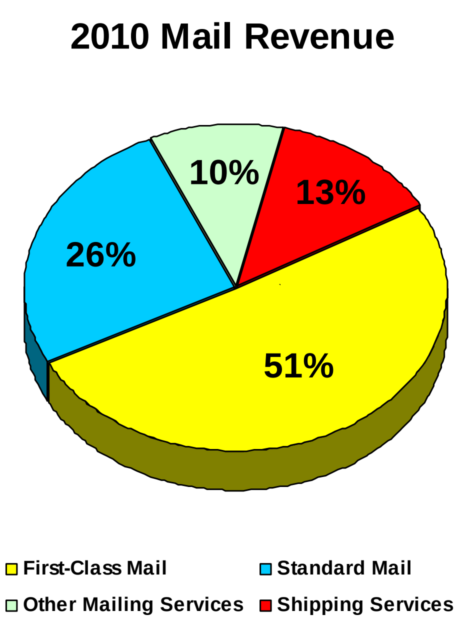
Total operating revenue in 2010 was $67,052 million, a decrease of $1,038 million, or 1.5%, compared to 2009 operating revenue of $68,090 million.

The volume decline of 26.0 billion pieces in 2009 from the 2008 volume of 202.7 billion pieces resulted in a decrease in operating revenue of $6,842 million, or 9.1%, from 2008 operating revenue of $74,932 million.

Operating Revenue (Dollars in millions)	2010	2009	2008
First-Class Mail	$ 34,026	$ 35,883	$ 38,179
Standard Mail	17,331	17,345	20,586
Periodicals	1,879	2,038	2,295
Package Services	1,516	1,684	1,845
Other Mailing Services*	3,619	2,886	3,645
Total Mailing Services	58,371	59,836	66,550
Total Shipping Services	8,681	8,254	8,382
Total Operating Revenue	$ 67,052	$ 68,090	$ 74,932

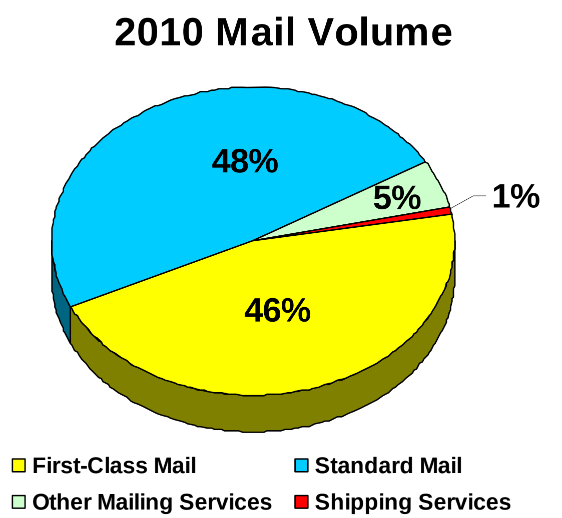
*Includes Certified Mail, Return Receipts, PO Boxes, Insurance, and Other Ancillary Fees

The continuing decline of both revenue and volume for most classes of mail in 2010 and 2009 is primarily attributable to the lackluster and uncertain economic environment. Competition, diversion of the mail from traditional postal services to electronic media (primarily impacting First-Class Mail) and other external factors continue to negatively impact revenue and volume. The rate of decline in mail volume slowed in 2010 compared to 2009. We anticipate stabilizing mail volume in the next few years, with declines in First-Class Mail being mostly offset by increases in Standard Mail. As noted previously though, the expected continued decline of First-Class Mail, our most profitable product, will pose a significant challenge and will make it difficult to recover the substantial revenue lost during the recent recession. Other Mailing Service or Shipping Services will have to grow significantly to replace the revenue and profit margin associated with the decline of First-Class Mail. Furthermore, significant uncertainties remain concerning the timing, strength and breadth of the economic recovery and the impact of the recovery on mail volume and its related revenue.



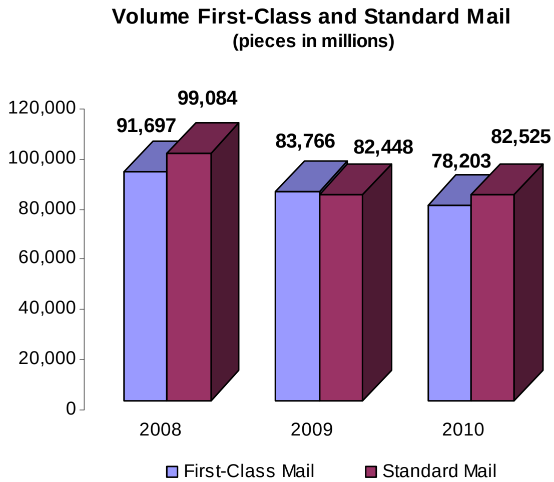
MAILING SERVICES

In 2010, First-Class Mail and Standard Mail, which make up approximately 94% of volume and 77% of revenue, decreased approximately 5.5 billion pieces or 3.3% compared to last year, with an associated drop in revenue of $1,871 million, or 3.5%. Total Mailing Services revenue decreased $1,465 million, or 2.4%, with a corresponding volume decrease of 6.2 billion pieces, or 3.5%, compared to last year. Much of this decrease can be attributed to the continuing sluggish economy and the lingering effects of the recent recession. Beginning in Quarter II 2010, however, there was an increase in credit card direct mail solicitations, a hopeful sign that the economy is improving.



In 2010, revenue from First-Class Mail was $34,026 million, or 5.2% less than 2009, as volume decreased 5.6 billion pieces, or 6.6%, compared to last year. Single-piece First-Class letter and card revenue declined $1,022 million, or 7.4%, on a decrease of 3,098 million pieces, or 9.8%, compared to 2009. Revenue from presorted First-Class Mail, which consists largely of bills and statements, decreased by $304 million, or 1.9%, on a volume decrease of 1,662 million pieces, or 3.5%. Single-piece First-Class Mail volume, including correspondence, bills, remittances, confirmations, orders, and rebates, continues to decrease and has been in decline for over a decade. While price has some effect on First-Class Mail volume, we believe the sluggish economy and the continued migration of hard-copy mail from traditional postal services to soft-copy electronic media are the primary drivers behind the recent volume decline. The 2010 decreases in First-Class revenue were partially offset by $210 million earned for Census mailings, an event that occurs once a decade.

In 2009, First-Class Mail revenue decreased $2,296 million, or 6.0%, from 2008 revenue of $38,179 million. Volume decreased by 7.9 billion pieces, or 8.6%, in 2009. The 2009 revenue decrease occurred in spite of a 2009 price increase and the residual effect of the 2008 price increase. Single-piece First-Class letters and cards decreased by 3.7 billion pieces, or 10.4%, and presorted First-Class Mail decreased by 4.0 billion pieces, or 7.8%.



Standard Mail revenue decreased $14 million, or 0.1%, in 2010 compared to 2009, to $17,331 million, on a volume increase of 77 million pieces, or 0.1%. Standard Mail volume was significantly impacted by the decline in advertising spending as a result of the recent recession. Standard Mail letter volume increased 3.2%, or 1.5 billion pieces, while revenue increased $390 million, or 4.4%, in 2010 compared to 2009. The volume for Standard Mail flats fell 10.1%, or 788 million pieces, while revenue dropped $289 million, or 10.1%, in 2010 compared to last year. Standard Mail volume did begin to recover in the second half of 2010, increasing 7.0% as compared to the same six month period in 2009. The sustainability of this encouraging trend is somewhat dependent on continuation of the economic recovery.

In addition to the impact of the economy on Standard Mail revenue, advertisers continue to become more sophisticated in the targeting of their mailings, further reducing mail volume. However, we expect that advertising mail volume will increase as the economy strengthens, although the recovery is not expected to be rapid or robust nor will it return to previous levels.

In 2009, Standard Mail revenue decreased $3,241 million, or 15.7%, compared with 2008, on a volume decline of 16.6 billion pieces, or 16.8%, due to the severe effects of the recession in advertising. Standard Mail letter volume fell 10.3 billion pieces, or 18.0% as revenue declined $1,741 million, or 16.5%. The volume for Standard Mail flats fell 21.7%, or 2,174 million pieces, and the related revenue dropped $795 million, or 21.7%.

Periodicals revenue decreased $159 million, or 7.8%, from $2,038 million in 2009 to $1,879 million in 2010. Trends in reading behavior have depressed this segment for years. Periodicals volume decreased 632 million pieces, or 8.0%, from 7,901 million pieces in 2009 to 7,269 million pieces in 2010. The number of advertising pages seems to have steadied after years of decline, as the rate of decline from the prior year in the average weight per piece of Periodicals mailing was relatively flat in 2010, compared to a decline of 10.6% and 3.5% in 2009 and 2008, respectively.

Periodicals revenue and volume decreased by $257 million and 704 million pieces, or 11.2% and 8.2%, respectively, in 2009 from 2008.

Package Services revenue of $1,516 million in 2010 decreased $168 million, or 10.0%, compared to 2009. Volume decreased 73 million pieces, or 10.0%, in the same period. In 2009, Package Services revenue of $1,684 million in 2009 decreased $161 million, or 8.7%, compared to 2008 on volume declines of 115 million pieces, or 13.6%. Volume fell throughout the package industry, reflecting the overall condition of the economy.

Shipping Services

Shipping Services, which includes premium products such as Priority Mail and Express Mail, represents less than 1% of volume but approximately 13% of revenue. Shipping Services revenue increased $427 million, or 5.2%, in 2010 to $8,681 million on a volume increase of 39 million, or 2.8%. The increase in revenue was driven by improvements in the economy, the highly successful Priority Mail advertising campaign, and the price increases implemented in January 2009 and 2010.

In 2009, Shipping Services revenue of $8,254 million decreased $128 million, or 1.5%, compared with 2008 revenue of $8,382 million, on a volume decline of 194 million pieces, or 12.3%. Price increases in May 2008 partially offset the lower volume. Overall, the poor 2009 revenue performance reflected the severe effect of the economic recession.

Additional discussion on volume and revenue projections can be found in the “Outlook” discussion below. 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

In 2010, total operating expenses increased by $3,596 million, or 5.0% to $75,426 million. Excluding the impacts of the increase in the PSRHBF pre-funding expense and the impact of the discount rate and actuarial estimation change on the workers’ compensation liability, operating expenses would have decreased by $1,661 million. Employee-related expenses including compensation and benefits, workers’ compensation, and retiree health benefits represented 80%, 79% and 78% of total operating expenses for 2010, 2009, and 2008 respectively.

In 2010, compensation and benefits costs of $49,035 million decreased $1,896 million or 3.7% driven by the reduction of 75 million work hours. However, these reductions did not offset the increases of $4,357 million, or 128.5%, in retiree health benefits expense and $1,343 million or 60.4% in workers' compensation expense. As discussed below, the large increase in retiree health benefits was primarily due to an increase in the PSRHBF contribution, to $5.5 billion, up from $1.4 billion in 2009. Significant changes in interest and inflation rates during 2010 caused the majority of the workers' compensation increase. The impact of these changes is further explained in the retiree health benefits and workers' compensation sections below. Slightly offsetting these expense increases were decreases in transportation expenses of $148 million, or 2.5% and other operating expenses of $60 million or 0.6%.

Operating Expenses (Dollars in millions)	2010	2009	2008
Compensation and Benefits	$ 49,035	$ 50,931	$ 52,358
Retiree Health Benefits	7,747	3,390	7,407
Workers' Compensation	3,566	2,223	1,227
Transportation	5,878	6,026	6,961
Other Expenses	9,200	9,260	9,785
Total Operating Expenses	$ 75,426	$ 71,830	$ 77,738

In 2009, total operating expenses of $71,830 million were $5,908 million, or 7.6%, less than 2008 operating expenses of $77,738 million. Retiree health benefits decreased by $4,017 million in 2009 compared to 2008, primarily due to the passage of P.L. 111-68, which reduced the contribution to the PSRHBF from $5.6 billion in 2008 to $1.4 billion in 2009. Despite a 6.2% increase in the average hourly compensation rate from 2008, attributable primarily to the carry-over effect of COLA increases granted in 2008, and a $197 million incentive accrual for employees who elected by September 30, 2009, to retire or resign from the Postal Service, compensation and benefits expense decreased in 2009 by $1,427 million, or 2.7%, from $52,358 million in 2008 to $50,931 million in 2009. The decrease was primarily due to a 115 million hour reduction in work hours. Transportation expenses decreased by $935 million, or 13.4%, and other expenses decreased $525 million, or 5.4%, in 2009 compared to 2008.

COMPENSATION AND BENEFITS

The contracts with the four largest labor unions representing our employees include COLA-based compensation adjustment provisions. There were no COLA increases in 2010 or 2009, but there was a large COLA in 2008, which contributed to a significant increase in the 2009 compensation of bargaining employees.

Non-bargaining employees receive pay increases through a pay-for-performance program that makes meaningful distinctions in performance. These employees do not receive automatic salary increases, nor do they receive COLAs or locality pay.

Compensation and Benefits Expenses (Dollars in millions)	2010	2009	2008
Compensation	$ 37,671	$ 39,208	$ 40,633
Retirement	5,809	5,917	5,899
Health Benefits	5,141	5,294	5,376
Other	414	512	450
Total Compensation and Benefits Expenses	$ 49,035	$ 50,931	$ 52,358

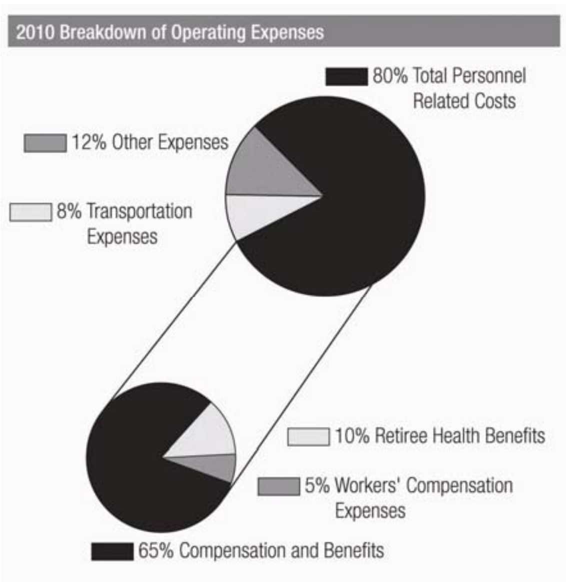
Compensation and benefits of $49,035 million declined $1,896 million, or 3.7%, in 2010, primarily due to a reduction of 75 million work hours. This achievement is discussed in further detail in the "Work Hours" discussion below. Offsetting a portion of the impact of work hour savings was $112 million accrued in Quarter I for incentives being paid to approximately 7,400 APWU and NPMHU employees who elected in Quarter I to retire or resign from the Postal Service.

Compensation costs in 2010 decreased by $1,537 million, or 3.9%, from $39,208 million in 2009 to $37,671 million, due to the above-mentioned decline of 75 million work hours. Partially offsetting the savings generated by the decrease in work hours was a slight increase in the average hourly cost of 2.1% plus the previously mentioned retirement/resignation incentive. The first incentive installment was paid in Quarter I, 2010 and the final installment will be paid in Quarter I, 2011.

Retirement expenses for current employees, which consist primarily of employer contributions to the Federal Employees Retirement System (FERS) and Social Security, decreased by $108 million, or 1.8% and current employees' health benefits expense decreased $153 million, or 2.9%, from the prior year. These decreases were due primarily to the reduction of approximately 39,000 career employees. Other compensation and benefit expenses decreased $98 million, or 19.1%, primarily as the result of lower unemployment costs.

In 2009, total compensation and benefits costs declined $1,427 million, or 2.7%, from 2008's compensation and benefit costs of $52,358 million. The 2009 decrease was primarily due to a 115 million hour reduction in work hours.

In 2009, compensation expense was $39,208 million compared to $40,633 million in 2008, a $1,425 million, or a 3.5% decrease. The 2009 decrease in compensation expense was driven by the 115 million work hour reduction. These savings were offset by the carryover impact of 2008 COLA increases which added approximately $1.1 billion to 2009 expense and the accrual of $197 million for 13,400 employees who voluntarily elected in 2009 to retire or resign from the Postal Service.



WORK HOURS
Total work hours in 2010 of 1,183 million hours decreased by 75 million, or 6.0%, from 1,258 million work hours in 2009. Work hours in 2009 decreased an unprecedented 115 million hours from the 2008 total of 1,373 million hours, which was 50 million hours less than the 2007 total of 1,423 million hours. Contributing to these reductions were the previously noted incentives paid to 20,800 employees who elected to retire or resign during Quarter IV, 2009 and Quarter I, 2010. Another management initiative which contributed to the reduction was the adjustment of delivery routes that was initiated in response to the decline in mail volume.

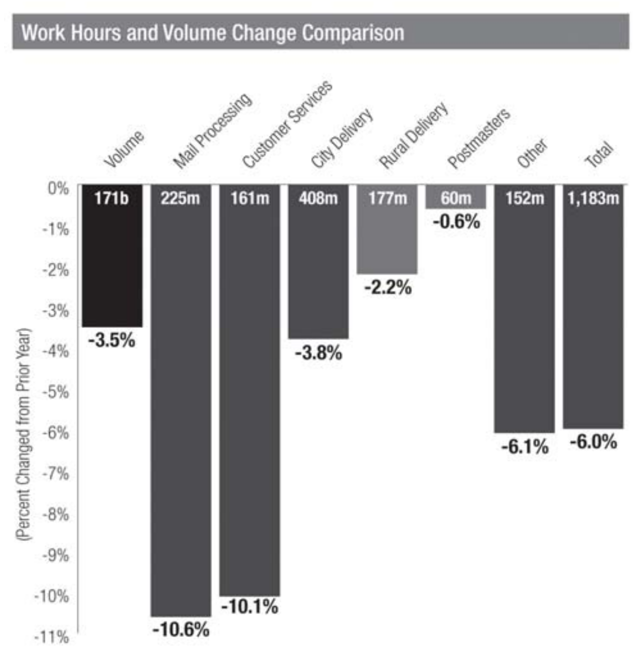
Work hours decreased in all major functions in 2010 compared to 2009: city delivery declined by 16 million hours; rural delivery declined by 4 million hours; customer service declined by 18 million hours; and mail processing declined by 27 million hours.

Workhours by Function

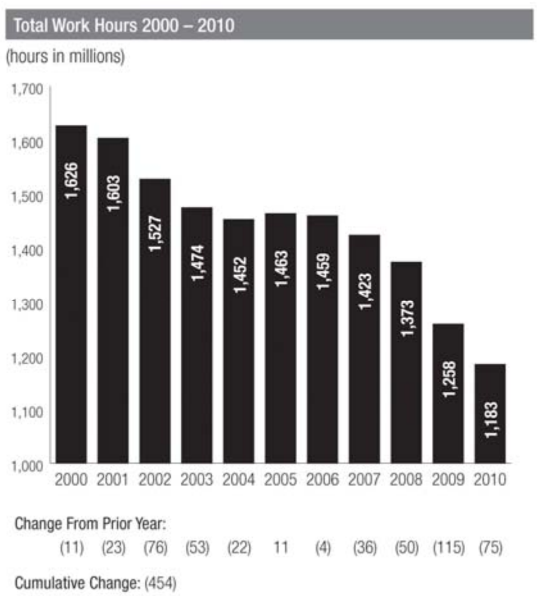
(Workhours in thousands)	2010	2009	2008
City Delivery	408,488	424,683	452,288
Mail Processing	224,645	251,200	293,108
Rural Delivery	177,152	181,090	189,950
Customer Service	160,621	178,715	203,952
Postmasters	59,609	59,995	60,621
Other, including Plant, Operational Support, Retail, and Administrative	152,432	162,342	173,435
Total Workhours	1,182,947	1,258,025	1,373,354

Total work hours decreased in 2010 despite the addition of approximately 740,000 delivery points. Rural delivery hours decreased in 2010 despite the addition of over 387,000 new rural delivery points. The decreases reflect delivery optimization initiatives and the reduction in mail volume from the previous year. Although the total number of new delivery points increased in 2010, the growth rate was significantly lower in 2010 as compared to 2009. This is a direct reflection of the weak economy, with lower housing starts and sales.

As shown in the following chart and consistent with last year, in 2010 the rate of reduction in work hours has exceeded the rate of decline in mail volume in every category except rural delivery and postmasters. Rural delivery is where most of the delivery point growth is while postmasters represent mostly fixed costs. We continually strive to optimize the use of personnel and minimize variable costs. The challenge that remains is to reduce the fixed costs. This will include structural changes, many of which require legislative or regulatory approval.



Our 2009 work hours decreased by 115 million hours, partially offsetting higher labor rates. The unprecedented 115 million, or 8.4%, decrease in work hours resulted in large part from lower mail volume. Management initiatives and delivery route adjustments, initiated in response to the decline in workload, contributed to these reductions. Work hours decreased in all major functions.



Work hours have been reduced in ten of the last eleven years, with only 2005 showing a slight increase. Since 2002, work hour reductions have been the single biggest contributor to the ongoing achievement of savings targets.

RETIREMENT EXPENSE

Postal Service employees participate in one of three retirement programs of the U.S. government, based on the starting date of employment with the federal government. These programs are the Civil Service Retirement System (CSRS), Dual CSRS/Social Security System (Dual CSRS), and the Federal Employees Retirement System (FERS). These programs are administered by the Office of Personnel Management (OPM). The funding requirements and timing of employer and employee contributions to the programs can be altered at any time with the passage of a new law or an amendment of existing law. See Note 8, *Retirement Programs*, in the Notes to the Financial Statements for additional information.

All expenses of the retirement programs, except for retiree health benefits, are included in compensation and benefits expense. Retirement expense of $5,809 million for current employees in 2010 was $108 million, or 1.8%, less than the 2009 expense of $5,917 million and is primarily a result of the decreasing size of the work force. The decrease in the number of career employees resulted in a savings of $382 million. This savings was partially offset by an increase in the average retirement cost per employee of 4.6%. This is the result of a greater percentage of employees being in the more expensive FERS plan, compared to the CSRS plan. In 2010, the percentage of employees in the FERS plan increased to 83.6% from 81.4% in 2009 due to the declining number of employees in CSRS.

Retirement expense for current employees increased $18 million in 2009, or 0.3%, from 2008 expense of $5,899 million. Retirement expense was 7.7%, 8.2%, and 7.6% of total operating expenses in 2010, 2009 and 2008, respectively.

As described in Note 3, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements, we account for participation in the retirement programs of the U.S. government under multi-employer plan accounting rules. Although the Civil Service Retirement and Disability Fund (CSRDF) is a single fund and does not maintain separate accounts for individual agencies, P.L. 109-435 requires certain disclosures regarding obligations and changes in net assets as if the funds were separate. The following information is provided by OPM and represents the most recent actual data available, which is as of September 30, 2009, with projections to September 30, 2010.

FUNDING STATUS

As required by P.L.109-435, the Postal Service discloses OPM-provided information regarding the costs and changes in obligations related to the FERS and CSRS retirement programs. Prior to this year, we have reported this information based on OPM-provided actuarial valuations; the same valuations that are used to establish the normal cost and funding requirements for these retirement programs. The OPM actuarial valuations utilize the long-term economic assumptions established by the Civil Service Retirement System Board of Actuaries. This information provides valuable insight concerning our current funding status and the outstanding obligations of the CSRS and FERS programs.

In 2010, the OPM adopted Statement of Federal Financial Accounting Standards 33; *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* (SFFAS 33). SFFAS 33 only applies to federal entities that report liabilities and expenses for federal employee pensions, retiree health benefits, and other postemployment benefits on their financial statements. Although SFFAS 33 does not apply to the Postal Service's financial reporting, OPM changed to using the SFFAS 33 approach to report Postal Service CSRS and FERS obligations.

SFFAS 33 provides guidance for selecting historical average interest rates, salary growth rates, inflation rates, and COLA assumptions used to calculate and report CSRS and FERS valuations on federal financial statements. The assumptions used for SFFAS 33 reporting are different from those used by OPM to determine the funding requirements and actuarial valuation of CSRS and FERS. These differences were significant. For the CSRS program, the differing assumptions resulted in a $12.3 billion difference in the September 30, 2009 unfunded liability. For FERS, the difference was a $4.0 billion reduction in the September 30, 2009 surplus.

The table below illustrates the differences in the funding levels of the Postal Service's portion of the two programs as of September 30, 2009 (the latest date available) calculated using SFFAS 33 assumptions and the assumptions used for the actuarial valuations:

Funding Assumptions as Calculated by OPM (9/30/09 latest actual data available)

(Dollars in billions)	CSRS		FERS	
	Board of Actuaries	SFFAS 33	Board of Actuaries	SFFAS 33
Acturial Accrued Liability at September 30, 2009	$ 202.6	$ 214.9	$ 68.3	$ 72.3
Postal Fund Balance	195.3	195.3	75.2	75.2
(Unfunded) / Surplus at September 30, 2009	$ (7.3)	$ (19.6)	$ 6.9	$ 2.9

The Postal Service believes that the most appropriate basis for evaluating the funded status of its obligation to CSRS and FERS is to use the actuarial valuations based on the assumptions established by the Civil Service Retirement System Board of Actuaries, since these provide the legally-mandated basis for determining the appropriate funding of both programs.

The following table provides OPM's estimate of the funding status under SFFAS 33 of the CSRS and FERS programs for Postal Service participants as of September 30, 2009 and 2008, and the projected Postal Service obligation as of September 30, 2010.

Present Value Analysis of Retirement Programs
as calculated by OPM (9/30/09 latest actual data available)

(Dollars in billions)

CSRS	Projected 2010	2009	2008
Actuarial Accrued Liability 9/30	$ 214.7	$ 214.9	$ 204.1
Current Fund Balance	194.2	195.3	195.1
(Unfunded)	$ (20.5)	$ (19.6)	$ (9.0)
FERS	**Projected 2010**	**2009**	**2008**
Actuarial Accrued Liability 9/30	$ 78.4	$ 72.3	$ 62.8
Current Fund Balance	81.0	75.2	69.3
Surplus	$ 2.6	$ 2.9	$ 6.5
TOTAL CSRS and FERS	**Projected 2010**	**2009**	**2008**
Actuarial Accrued Liability 9/30	$ 293.1	$ 287.2	$ 266.9
Current Fund Balance	275.2	270.5	264.4
(Unfunded) / Surplus	$ (17.9)	$ (16.7)	$ (2.5)

NET PERIODIC COSTS

Information about the net periodic costs for the CSRS and FERS pension plans, which is prepared by OPM under SFFAS 33, is as follows:

Components of Net Periodic Costs as calculated by OPM
(9/30/09 latest actual data available)

(Dollars in billions)

CSRS	Projected 2010	Actual 2009
Actuarial Liability as of October 1	$ 214.9	$ 204.1
+ Expected Contributions*	0.4	0.5
- Expected Benefit Disbursements	(10.7)	(10.0)
+ Interest Expense	10.1	12.5
+ Total Actuarial Loss during FY	0.0	7.8
Actuarial Liability as of September 30	$ 214.7	$ 214.9
FERS	**Projected 2010**	**Actual 2009**
Actuarial Liability as of October 1	$ 72.3	$ 62.8
+ Normal Cost	3.5	3.2
- Expected Benefit Disbursements	(1.1)	(1.0)
+ Interest Expense	3.7	4.0
+ Total Actuarial Loss during FY	0.0	3.3
Actuarial Liability as of September 30	$ 78.4	$ 72.3
Total Actuarial Liability as of September 30	$ 293.1	$ 287.2

* Expected contributions for CSRS consists of employee contributions only.

COST METHODS AND ASSUMPTIONS

OPM used the following assumptions:

- The actuarial cost method is Aggregate Entry Age Normal.
- Long-term economic assumptions are as follows:
  - Rate of inflation — 2.5%
  - COLA — 2.5% for CSRS. 2.0% for FERS.
  - Annual general salary increases — 3.5%
  - Interest rate — 4.8% for CSRS. 5.1% for FERS.

COMPONENTS OF NET CHANGE IN PLAN ASSETS

The following table prepared by OPM shows the components of the net change in plan assets for the CSRS and FERS programs.

Analysis of Change in Pension Net Assets as calculated by OPM
(9/30/09 latest actual data available)

(Dollars in billions)

CSRS Actual	2009	2008
Net Assets as of October 1*	$ 195.0	$ 193.6
+Contributions	0.5	0.5
-Benefit Disbursements	(10.1)	(9.3)
+Investment Income	9.9	10.3
Net Assets as of September 30	$ 195.3	$ 195.1
FERS Actual	**2009**	**2008**
Net Assets as of October 1	$ 69.3	$ 63.5
+Contributions	3.2	3.1
-Benefit Disbursements	(1.0)	(0.8)
+Investment Income	3.7	3.5
Net Assets as of September 30	$ 75.2	$ 69.3
CSRS and FERS Net Assets at September 30	$ 270.5	$ 264.4

* OPM restated September 30, 2008 balances from $195.1 billion to $195.0 billion.

As noted previously, CSRDF is a single fund and does not maintain separate accounts for individual employer agencies. The actual securities of the CSRDF are not allocated separately to CSRS or FERS, or to Postal and non-Postal beneficiaries. The assets of the CSRDF are composed entirely of special issue Treasury securities with maturities of up to 15 years. The long-term securities bear interest rates ranging from 2.875% to 6.875%, while the short-term securities bear interest rates of 2.125%.

The assumed rates of return on the CSRS fund balance for 2009 and 2008 was 6.25%, and the actual rates of return were 5.23% and 5.45%, respectively. For the FERS fund, the assumed rate of return for 2009 and 2008 was 6.25%, while the actual rates of return were 5.18% for 2009 and 5.42% for 2008. The projected rates of return on the CSRS and FERS fund balance for 2010 is 4.8% and 5.1%, respectively.

OPM estimates the contributions and benefit payments for the next five years as follows:

Projection of CSRS and FERS Contributions and Benefit Payments*
as calculated by OPM

(Dollars in billions)

	CSRS		FERS	
	Contributions	Total Benefit Payments	Contributions	Total Benefit Payments
2010	$ 0.4	$ 10.7	$ 3.1	$ 1.1
2011	0.4	11.2	3.2	1.3
2012	0.3	11.7	3.2	1.5
2013	0.3	12.2	3.2	1.7
2014	0.2	12.6	3.2	2.0

** Assumes total employee population remains constant.*

HEALTH BENEFITS

Postal employees and retirees may participate in the Federal Employees' Health Benefit Program (FEHBP), which is administered by OPM. The Postal Service accounts for current employee and retiree health benefit costs as an expense in the period the contribution is due. For retiree health benefits, multiemployer plan accounting rules are used.

The drivers of active employee health care expense are the number of employees electing coverage and the premium costs of the selected plans. On average, employees paid for 20% of the premium cost in 2010 and the Postal Service paid the remainder. The average employee contribution was 19% in 2009 and 18% in 2008. The total premium cost for each plan is determined annually by OPM. In October 2010, OPM announced average premium increases of 7.2% for calendar year 2011. Previous increases were 8.8% in January 2010, 7% in 2009, and 2% in 2008.

Despite an average increase of 8.8% in premium costs for 2010, employee migration to lower cost plans and a decline in the number of employees combined to lower total employee health benefit costs. In 2010, health benefit expenses were $5,141 million, a decrease of $153 million, or 2.9%, from 2009. The 2009 expense of $5,294 million was a decrease of $82 million, or 1.5%, from 2008 health benefits expense of $5,376 million. Employee health benefits expense was 6.8%, 7.4%, and 6.9% of total operating expenses in 2010, 2009, and 2008, respectively.

RETIREE HEALTH BENEFITS

Eligible employees, those with at least five consecutive years participation in the FEHBP immediately preceding retirement, are entitled to continue to participate in these programs after retirement. The amount due the PSRHBF for prefunding in any given year, plus our portion of the current premium expense, is recognized as an expense when due.

P.L. 109-435 made several changes to the way we fund and report the obligation for post-retirement health benefits. The law established the PSRHBF, and directed that we make annual prefunding payments of between $5.4 billion to $5.8 billion per year through 2016 into this fund. Although P.L. 109-435 specifies the funding requirements through 2016, the amounts to be funded and the timing of the funding can be changed at any time with passage of a new law or upon amendment of an existing law. On October 1, 2009, P.L. 111-68 became law and decreased the scheduled 2009 payment by $4.0 billion — from $5.4 billion to $1.4 billion. Similar legislation was not enacted regarding the 2010 scheduled payment and, accordingly, on September 30, 2010, the Postal Service made a $5.5 billion contribution to the PSRHBF.

Not later than 2017, OPM will conduct an actuarial valuation and determine whether any further payments into the fund are required. If additional payments are required, OPM will design an amortization schedule to fully amortize the remaining liability, if any, by 2056. Beginning in 2017, the PSRHBF will begin to pay the Postal Service's portion of the retiree health premiums, but also beginning in 2017, we will fund the actuarially determined normal cost.

The 2010, 2009, and 2008 payments to the PSRHBF were $5.5 billion, $1.4 billion, and $5.6 billion, respectively. See Note 7, *Health Benefit Programs,* in the Notes to the Financial Statements, for further discussion of the accounting treatment for P.L. 111-68.

Under P.L. 109-435, OPM continues to charge us for the premiums for postal retirees participating in FEHBP, and we continue to expense these payments as they become due, until 2017. The major drivers of retiree health benefits premium costs are the number of retirees and survivors on the rolls, the mix of plans selected by retirees, the premium costs of those plans, and the apportionment of premium costs to the federal government for retiree service prior to 1971. Retiree health benefit premium expense, exclusive of the expense for pre-funding the PSRHBF, has increased every year. Retiree health benefits premium expense increased 12.9% in 2010, 10.1% in 2009 and 4.7% in 2008. The number of Postal Service annuitants and survivors has grown to approximately 473,000 in 2010, compared to 463,000 in 2009 and 452,000 in 2008. The average monthly apportionment, the percentage of retiree premiums charged to the Postal Service, has increased from 69.9% in 2008, to 72.0% in 2009, and to 74.9% in 2010.

The following table shows the components of retiree health benefits expense for 2010, 2009, and 2008.

Retiree Health Benefit Expenses

(Dollars in millions)	2010	2009	2008
Employer Premium Expense	$ 2,247	$ 1,990	$ 1,807
P.L. 109-435 Scheduled Payment to PSRHBF	5,500	1,400	5,600
Total Retiree Health Benefit Expenses	$ 7,747	$ 3,390	$ 7,407

PSRHBF

P.L. 109-435 requires that OPM provide, and that we report, certain information concerning the obligations, costs, and funding status of the PSRHBF. The following table is based upon information provided by OPM and shows the funded status and components of net periodic costs.

Postal Service Retiree Health Benefit Fund Funded Status and Components of Net Periodic Costs as calculated by OPM *

(Dollars in millions)	2010	2009
Beginning Actuarial Liability at October 1	$ 87,472	$ 86,082
- Actuarial Gain	(1,600)	(4,593)
+ Normal Costs	3,055	2,902
+ Interest @ 5.10% and 6.25%, respectively	4,379	5,093
Subtotal Net Periodic Costs	5,834	3,402
- Premium Payments	(2,247)	(2,012)
Actuarial Liability at September 30	91,059	87,472
- Fund Balance at September 30	(42,492)	(35,482)
Unfunded Obligations at September 30	$ 48,567	$ 51,990

* The 2010 medical inflation assumption was 7.5% as of the valuation date and grades down to an ultimate value of 4.5%. The 2009 medical inflation assumption was 6.3%.

The OPM valuation of post retirement health liabilities and normal costs was prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 5 and SFFAS No. 33, which require the use of the aggregate entry age normal actuarial cost method.

Demographic assumptions and an interest rate assumption of 5.1% are consistent with the pension valuation assumptions, and decrements are based upon counts or numbers rather than dollars.

The normal cost, which is on a per-participant basis, is computed to increase annually by a constant medical inflation rate which is assumed to be 7.5% per annum as of the valuation date and trend down to an ultimate value of 4.5%. Past year medical inflation was assumed to be 6.3%. Normal costs are derived from the current FEHBP on-roll population with an accrual period from entry into FEHBP to assumed retirement. Entry into the FEHBP is generally later than entry into the retirement systems.

The accrued liability is equal to the total liability less future normal payments. The amounts used in these valuations use the same methodology and assumptions as for OPM's financial statements except the average government share of premium payments for annuitants is substituted for annuitant medical costs less annuitant premium payments. This amount is assumed to increase at 7.5% per annum as of the valuation date and trend down to an ultimate value of 4.5%. For current postal annuitants, the government share of premium payments is adjusted to reflect the pro-rata share of civilian service to total service for which the Postal Service is responsible. The pro-rata adjustment is made by applying calculated factors based upon actual payments that vary by the age and Medicare status of the enrollments. For active Postal employees, the pro-rata share in retirement is assumed to be 93% of the total.

The following table shows the net assets of the PSRHBF.

Net Assets of Postal Service Retiree Health Benefit Fund
(as calculated by OPM)

(Dollars in millions)	2010	2009
Beginning Balance at October 1	$ 35,482	$ 32,610
Contributions and Transfers	5,500	1,400
Earnings at 4.2% and 4.5%, respectively	1,510	1,472
Net increase	7,010	2,872
Fund Balance at September 30	$ 42,492	$ 35,482

The assets of the PSRHBF are comprised entirely of special issue Treasury securities with maturities of up to 15 years. The long-term securities bear interest rates ranging from 2.88% to 5.0% and the short-term securities have interest rates ranging from 2.13% to 2.88%. The expected rate of return was 5.10% for 2010 and 6.25% 2009 and the actual rates of return were 4.2% for 2010 and 4.5% for 2009.

Because calculation of this liability involves several areas of judgment, estimates of the liability could vary significantly depending on the assumptions used. Utilizing the same underlying data that was used in preparing the estimate in the table above, the September 30, 2010, unfunded obligation could range from $37 billion to $62 billion, solely by varying the inflation rate by plus or minus 1%, and the 2009 unfunded obligation would range from $37 billion to $65 billion.

Projection of PSRHBF Contributions and Benefit Payments
(Dollars in millions)

	Contributions	Payments
2011	$ 5,500	$ -
2012	5,600	-
2013	5,600	-
2014	5,700	-
2015	5,700	-

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 and administers payment of claims. We reimburse the DOL for all workers' compensation claims paid on our behalf and pay an administrative fee to DOL.

We use an estimation model that combines four generally accepted actuarial valuation techniques to project future claim payments based upon currently open claims and past claim payment experience.

We record a liability for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the period. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The liability for claims arising more than 10 years ago is determined by an independent actuary. The payout of the estimated liability will, in some cases, be for the rest of the lives of the claimants.

As noted above, the liability for estimated future workers' compensation payments is recorded at its present value. To record the liability and annual expense, we must estimate the amount of funding that would need to be invested at current interest rates, in order to fully fund all estimated future payments. We update inflation and discount (interest) rates as of the date of our financial statements to determine the present value of our workers' compensation liability at fair value in accordance with GAAP. The impact of changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in operating expenses.

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the September 30, 2010 liability and 2010 expense, by $1,029 million. A discount rate decrease of 1% would increase the September 30, 2010 liability and 2010 expense, by $1,255 million.

At September 30, 2010, the present value of the liability for future workers' compensation payments is $12,589 million, an increase of $2,456 million, or 24.2%, from $10,133 million at September 30, 2009. The current portion of the liability is $1,115 million and $1,069 million at September 30, 2010 and 2009, respectively. At September 30, 2009, our liability increased $2,165 million, or 27.2%, from September 30, 2008.

Changes in the workers' compensation liability are primarily attributable to the combined impact of changes in the discount and inflation rates, and, to a lesser extent, routine changes in actuarial estimation, new compensation and medical cases and the progression of existing cases. The impact of the changes in discount and inflation rates accounted for $2,017 million and $718 million of the increase in the 2010 liability and 2009 liability, respectively.

Beginning in Quarter III, 2009, we experienced a significant change in the discount and inflation rates used to estimate the workers' compensation liability. The economic recession that began in December 2007 and corresponding response by the Federal Reserve resulted in interest rates declining significantly. GAAP requires us to use discount rates based on the best available information at the measurement date. Accordingly, discount rates used in estimating the present value of the workers' compensation liability decreased significantly for both 2009 and 2010.

The inflation and discount rates used to estimate our liability at September 30, 2010, 2009, and 2008 are shown in the following table.

Workers' Compensation Liability Inflation and Discount Rates	September 30, 2010	2009	2008
Compensation Claims Liability			
Discount Rate	2.9%	4.9%	5.6%
Wage inflation	2.9%	3.2%	3.0%
Medical Claims Liability			
Discount Rate	3.0%	4.4%	5.4%
Medical inflation	7.4%	3.8%	5.0%

In 2010, we began to use the average rate of medical inflation experienced by our workers' compensation claimants over the past five years as an estimate for future medical inflation. Prior to 2010 we had used forecasted medical inflation rates published by an independent source. During 2010, we determined that our own history served as a better indicator of future costs and revised our estimation accordingly. The impact of this change was to increase our liability by $50 million and is accounted for as a change in accounting estimate.

Workers' Compensation Expense (Dollars in millions)	Years Ended September 30, 2010	2009	2008
Impact of discount & inflation rate changes	$ 2,017	$ 718	$ 154
Actuarial revaluation of existing cases	483	625	263
Subtotal	2,500	1,343	417
Costs of new cases	1,009	825	758
Administrative fee	57	55	52
Total Workers' Compensation Expense	$ 3,566	$ 2,223	$ 1,227

In 2010, workers' compensation expense was $3,566 million, an increase of $1,343 million, or 60.4% compared to 2009. The 2009 expense of $2,223 million increased $996 million, or 81.2% from 2008. The components of workers' compensation expense are as follows:

In 2010, we experienced a $48 million or 4.6% increase in total claims paid on our behalf to $1,085 million. Medical claims payments increased 7.2% or $30 million while payments of compensation claims increased 2.9% or $18 million compared to 2009. Actual claim payments in 2009 increased $78 million, or 8.1%, over 2008.

Also significantly impacting the increase in the 2009 liability was a change in the timing of the annual payment to DOL for claims paid on our behalf. In 2009, we began making the payment on the statutorily-required deadline of October 15, instead of September 15 as had been done in previous years. This timing change resulted in a one-time increase of $1,051 million to our 2009 year-end liability.

TRANSPORTATION EXPENSES

Transportation expenses are primarily for air and highway transportation. Transportation expenses in 2010 were $5,878 million, a decrease of $148 million, or 2.5%, compared to 2009. Compared to 2008, 2009 transportation expenses decreased $935 million, or 13.4%.

Transportation Expense (Dollars in millions)	2010	2009	2008
Highway	$ 3,205	$ 3,044	$ 3,499
Air	2,425	2,626	3,047
Other	248	356	415
Total Transportation Expense	$ 5,878	$ 6,026	$ 6,961

HIGHWAY TRANSPORTATION

Highway transportation expenses in 2010 were $3,205 million, an increase of $161 million, or 5.3% from 2009. The increase was the result of higher fuel prices and increased contractual mileage driven.

Diesel fuel, which historically represents approximately 93% of all fuel purchased, cost an average of $2.89 per gallon during 2010, compared to $2.52 per gallon in 2009, an increase of 14.7%. Gasoline prices increased 19.4%, to an average of $2.71 in 2010, compared to 2009's average of $2.27. Although fuel costs are only a portion of total transportation expenses, the increase in fuel prices from last year contributed significantly to the overall increase in highway transportation expenses.

In addition, contractual miles driven in 2010 were 1.6 billion miles, an increase of 34.8 million miles, or 2.2%, from 2009. The increase in contractual miles was anticipated and is primarily attributable to the implementation of our Network Distribution Centers (NDCs) which began in 2009. The NDC network will improve the flow of mail into the network, consolidate package distribution, and improve transportation utilization. The 2010 increase in contractual miles was partially offset by decreases in rail transportation costs, which are included in "Other transportation expense," and decreased air transportation expense.

Highway transportation expenses for 2009 were $3,044 million, a decrease of $455 million, or 13.0%, from 2008. This decrease was primarily the result of lower fuel prices and a reduction in contractual miles driven. Diesel fuel cost an average of $2.52 per gallon in 2009, compared to $3.87 per gallon in 2008, a 34.9% decrease. Similarly, gasoline prices decreased by 33.4% per gallon in 2009 compared to 2008. In addition to the drop in fuel prices, mail volume reductions and contract adjustments resulted in a slight decrease in contracted miles driven of 1.3 million miles, or 0.8%.

AIR TRANSPORTATION
Air transportation expenses in 2010 of $2,425 million decreased by $201 million, or 7.7%, from 2009. Domestic air expense of $1,976 million decreased $38 million, or 1.9%, compared to 2009. This was primarily due to lower mail volume and shifts from higher cost air transportation to lower cost highway transportation created by the NDC implementation.

For 2010, international air expense of $449 million decreased $163 million, or 26.6%, compared to last year as a result of lower volume, decreases in foreign postal transaction fees, and negotiated air carrier rates.

Air transportation expenses in 2009 decreased $421 million, or 13.8%, compared to 2008 expenses of $3,047 million. Domestic air expense decreased $322 million, or 13.8%, and international air expenses decreased $99 million, primarily due to lower volume and a decrease in foreign postal transaction fees compared to 2008.

OTHER TRANSPORTATION
Other transportation expenses for 2010 were $248 million, which was $108 million, or 30.3%, lower than 2009 expenses of $356 million. The decrease was due chiefly to lower settlements for foreign surface transportation resulting from lower international mail volume in 2010 as compared to 2009. Lower rail transportation expense which decreased $48 million, or 55.0%, also contributed to this decrease, as we shifted business to other modes of transportation as part of the NDC project implementation.

OTHER OPERATING EXPENSES

For 2010, other operating expenses of $9,200 million, decreased $60 million, or 0.6%, compared to 2009. Supplies and services, which include advertising expenses, were $2,236 million in 2010, a $85 million decrease from 2009. Advertising costs increased by $42 million in 2010, or 40.3%, primarily due to increased promotion of the Priority Mail Flat Rate products. Information technology and communications expense of $664 million in 2010 returned to 2008 levels and thus decreased $58 million, or 8.0%, from 2009 expense of $722 million when communications upgrades occurred.

Other Operating Expenses

(Dollars in millions)	2010	2009	2008
Supplies and Services	$ 2,236	$ 2,321	$ 2,597
Depreciation and Amortization	2,469	2,270	2,319
Rent and Utilities	1,692	1,778	1,779
Vehicle Maintenance Service	820	760	926
Information Technology and Communications	664	722	658
Rural Carrier Equipment Maint. Allowance	534	510	545
Other	785	899	961
Total Other Operating Expenses	$ 9,200	$ 9,260	$ 9,785

Depreciation and amortization of $2,469 million in 2010 was $199 million, or 8.8%, greater than 2009 depreciation and amortization of $2,270 million, as 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, rent expense decreased and depreciation and amortization increased. Vehicle maintenance service expense of $820 million in 2010, which includes fuel costs used by the carrier fleet, increased by $60 million, or 7.9%, from 2009, primarily as a result of the previously discussed increase in fuel costs during the year. Other expenses, which included travel, were $785 million, or 12.7%, less than last year. Travel expenses were reduced by 17.0% as a result of stringent cost control efforts.

In 2009, other operating expenses of $9,260 million decreased $525 million, or 5.4%, from the comparable 2008 amount. The reduction was driven by a decrease in supplies and services of $276 million, or 10.6%. Vehicle maintenance service expense, which includes the carrier fleet fuel costs, decreased by $166 million, or 17.9%, primarily as a result of lower fuel costs in 2009 compared to 2008. Depreciation and amortization expense decreased by $49 million, or 2.1%, as a result of lower equipment purchases while information technology and communications expense increased by $64 million, or 9.7%, as a result of upgrades of IT systems and voice communication services.

PRODUCTIVITY

Despite these financial challenges, in 2010 we were able to significantly increase operating efficiency

Operating efficiency, as measured by Total Factor Productivity (TFP) increased 2.2 percent in 2010 as compared to 2009. This marks the ninth year of positive TFP growth since 2000 with cumulative TFP growth of 20.3% since 1972. Productivity gains are a result of effective workforce management, efficient use of material (supplies, services, and transportation), and maximizing the return on capital investments (mainly automation projects).

Work hours were reduced by 75 million, or 6.0%, in 2010 despite an increase of 740,000 delivery points during the year. Non-personnel expenses were reduced by 1.2% while mail volume declined 3.5%.

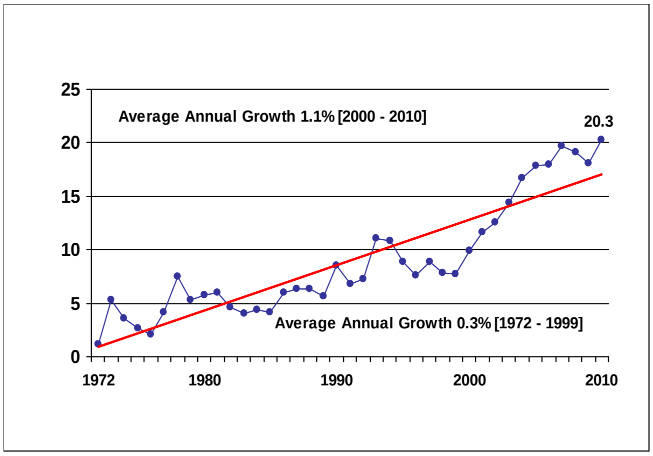
Work hour savings included approximately 26.6 million work hours in mail processing operations in 2010. This was accomplished through processing plant and network consolidations along with continued advancements in automation.

In 2009, the Postal Service consolidated carrier routes, eliminating over 11,000 routes, with an additional 1,100 routes eliminated in 2010. The net result of these actions helped drive a 20.1 million work hour reduction in City and Rural Delivery operations and a reduction of over 3,000 postal-owned vehicles.

Declines in customer mail volume coupled with increased electronic access to our services, such as Click-n-Ship, PC Postage, and Automated Postal Centers, helped reduce customer service work hours. These efforts have improved customer access and made possible an 18.1 million work hour reduction in customer service operations.

Overall spending reductions in 2010 also included a 24% decrease in capital expenditures. The capital spending freeze, initiated in 2009, limited capital spending to projects that are necessary for safety and health, to maintain operations, or provide future savings.

The following graph shows the TFP cumulative trend from 1972 through 2010.



SERVICE AND PERFORMANCE

The Postal Service has measured service performance from the customer perspective since the early 1990s. This type of measurement sets the stage for continuous improvement through increased focus on performance and the monitoring of transparent results. Through consultation with the Postal Regulatory Commission, we developed and implemented new service standards and requirements for new or expanded measurement processes for Mailing Services in 2009. The service performance information and results are posted quarterly on the Postal Service website at *www.usps.com/serviceperformance.*

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Liquidity is the cash we maintain at the U.S. Treasury and our available credit with the Federal Financing bank (FFB). Our note purchase agreement with the FFB provides for revolving credit lines of $4.0 billion. These credit lines enable us to draw up to $3.4 billion with two days notice, and up to $600 million on the same business day the funds are needed. Under this agreement, we can also use a series of other notes with varying provisions to draw upon with two days notice. This arrangement provides the flexibility to borrow short-term or long-term, using fixed- or floating-rate debt. Fixed-rate notes can be either callable or non-callable. These credit arrangements generally provide adequate tools to effectively fund routine cash requirements and manage interest expense and risk. See Note 4, *Debt*, in the Notes to the Financial Statements for additional information about the debt obligations.

The majority of our revenue is earned in cash and the majority of cash outflow is to support the biweekly payroll. Historically, cash flow from operations reaches a seasonal peak in the first quarter and a seasonal low in the fourth quarter of the fiscal year. The first quarter includes the fall mailing and holiday seasons. Beginning in 2010, the shift of the annual workers' compensation payment into the first quarter from the fourth quarter of the previous year largely offset the increased cash inflow from seasonal revenue. In the fourth quarter we make a cash payment to fund the PSRHBF. This payment is scheduled to be $5.5 billion in 2011. Net cash flows for the fourth quarter are projected to remain at annual lows as revenue remains lower relative to the other quarters.

LIQUIDITY CHALLENGES

We believe that as of September 30, 2011, we will have a cash shortfall and will be unable to meet all of our financial obligations.

The Postal Service had net losses of $8,505 million, $3,794 million, and $2,806 million for the years ended September 30, 2010, 2009, and 2008, respectively, and also experienced negative cash flow from operations in 2010 and 2008. Operating cash flows would have been negative in 2009 as well had P.L. 111-68 not been enacted. To alleviate pressure on liquidity, in September 2009, P.L. 111-68, *Making appropriations for the Legislative Branch for the fiscal year-ending September 30, 2010, and for other purposes*, changed the $5.4 billion PSRHBF pre-funding payment scheduled for September 30, 2009 to $1.4 billion. P.L. 111-68 did not, however, address future payments into the PSRHBF and, accordingly, on September 30, 2010, the Postal Service made the scheduled pre-funding payment of $5.5 billion to the PSRHBF as no similar legislation was passed in 2010. The PSRHBF pre-funding payment scheduled for September 2011 is $5.5 billion. Even with a continuing economic recovery and stringent cost control efforts, we estimate that the Postal Service will not generate sufficient funds during 2011 to meet all of its projected financial obligations, including the requirement to make the $5.5 billion pre-funding payment to the PSRHBF on September 30, 2011.

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 experience a cash shortfall on September 30, 2011 if legislation similar to that passed in September 2009 is not passed to reduce, eliminate, or defer the PSRHBF pre-funding payment due on that date, or make other changes that would enable the Postal Service to have sufficient liquidity to meet all its obligations.

As previously reported, Postal Service losses for the past three years are primarily attributable to declines in mail volume that began in 2008, the statutory limitations on the Postal Service's ability to reduce costs and increase revenue, and the statutory requirement to pre-fund retiree health benefits. The declines in mail volume 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 migration to electronic media accelerated during the recession and is expected to continue.

Since peaking at 213 billion pieces in 2006, mail volume dropped 42 billion pieces, or 19.7%, to 171 billion pieces in 2010, including reductions of 9.5 billion pieces in 2008, 26.0 billion pieces in 2009, and 6.2 billion pieces in 2010. The resulting revenue in 2010 was $67,052 million, a $1,038 million, or 1.5%, decrease, from 2009 and almost $8 billion less than 2008. While we expect the rate of mail volume decline to stabilize as a result of a strengthening economy, forecasting in this uncertain economic environment is subject to significant uncertainties. Our operational plan for 2011 anticipates relatively flat mail volume versus 2010 levels. It is possible that mail volume, and therefore revenue, could decrease at a rate greater than this projection.

Personnel costs including compensation, retirement, and health expenses as well as workers' compensation costs and retiree health benefits expenses represent approximately 80% of total operating costs. Although we have taken significant steps to decrease these costs in response to declining mail volume, many of these costs remain fixed and beyond our control. Contracts with our unions are fixed until times of renegotiation, retirement benefits are not determined by management but rather by the Federal government, and health care benefits costs, also mandated by contract, continue to rise well above the rate of inflation. In addition, our ability to adjust our workforce and network infrastructure is limited by both contractual and political obstacles.

The Postal Service has two substantial cash payments scheduled for September and October 2011: the previously-noted $5.5 billion due to the PSRHBF on September 30, 2011; and approximately $1.2 billion due in October 2011 to the DOL for the Postal Service's annual payment on its workers' compensation liability. Based on the cash balance at September 30, 2010, current borrowing capacity of $3 billion, and projections of cash available from operations, there will be insufficient cash available to fund these financial obligations absent regulatory adjustments to some, or all, of these obligations. The legal and/or regulatory consequences to the Postal Service if the PSRHBF or the workers' compensation obligations cannot be fully funded are unknown.

To address its financial challenges, the Postal Service has substantially reduced work hours and other costs. As previously reported, work hours were reduced by 50 million in 2008, 115 million hours in 2009, and an additional 75 million work hours in 2010. The number of career employees was reduced by approximately 22,000 in 2008, 40,000 in 2009, and 39,000 in 2010 due primarily to normal retirement and attrition. The Postal Service is continuing its efforts to increase revenue and operational efficiencies and has halted new construction of facilities. However, the ability of the Postal Service to execute strategies to increase efficiency, reduce costs, and retain and grow revenue is constrained by contractual, statutory, and regulatory restrictions. Given these restrictions, it is unlikely that Postal Service efforts to positively impact cash flow, will be, either individually or in the aggregate, sufficient to offset a cash shortfall on September 30, 2011. Further, it should be noted that, absent significant changes, the $15 billion debt ceiling is projected to be reached in 2011. No assurance can be given that Postal Service efforts to secure legislative changes will be successful, or that Congress will enact restructuring legislation in time to impact 2011, or at all.

In addition to its cost reduction and revenue generation efforts, in July 2010, the Postal Service filed a request with the PRC seeking an exigent price increase. In its filing, the Postal Service estimated that implementation of this increase in January 2011 would generate $2 billion in additional 2011 revenue. This request for a price increase that exceeded the postal pricing cap tied to Consumer Price Index, was denied by the PRC on September 30, 2010. After reviewing the decision, on October 22, 2010, the Postal Service filed a petition in the U.S. Court of Appeals for the District of Columbia Circuit seeking a review of the PRC's interpretation of the law that governs how prices can be set under extraordinary and exceptional circumstances. The Postal Service believes that the PRC misread the statute and applied an incorrect standard in evaluating the request for an exigent price increase. No decision is likely in time to impact 2011.

Even if legislation is enacted to address shorter-term liquidity matters such as the PSRHBF pre-funding payment schedule, the Postal Service still faces longer-term financial stability 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 statutory and regulatory structure, assuming cooperation of Postal Service stakeholders. To address the remaining projected deficit of at least $115 billion over the next decade, a balanced set of actions has been proposed. These actions will require additional legislation and the cooperation of a range of stakeholders, and include changes in the following areas: reduction of retiree health benefits funding; reassessment of CSRS obligation; delivery frequency; modernized access to postal services; workforce flexibility; pricing flexibility; expansion of products and services; and oversight.

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 of the United States Code. The PRC is expected to issue its advisory opinion before the end of the calendar year. Congressional action would then be required to reduce the number of legally-required delivery days. No immediate savings would occur from the ability to adjust the six-day delivery requirement. If the request is granted, it would be 6 to 12 months before the impact of the financial benefits would begin to be realized. This provides time for customer notifications and changes to internal systems and operations that would be required in order to achieve the expected cost savings. Thus, due to legal and practical constraints, it is unlikely that full savings from altering the delivery schedule could be achieved before 2012, at the earliest.

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 (OIG) issued a report in which it evaluated the funding of the Postal Service's CSRS 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. A similar issue is the projected overfunding of the Postal Service's FERS obligation, as noted by the OIG in their August 16, 2010 report. Using the long-term economic assumptions of OPM's Board of Actuaries, this overfunding is $6.9 billion as of September 30, 2009. The Office of Personnel Management (OPM) and the Postal Service are evaluating these studies, and the Postal Service is pursuing a legislative solution to address the actuarial valuation and funding issues.

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 pre-funding payment to pre-fund retiree health benefits due on September 30, 2011, or any payments due thereafter.

Additional legislation, S. 3831, *the Postal Operations Sustainment and Transformation (POST) Act of 2010*, was introduced in the Senate on September 23, 2010, to address many other concerns impacting the Postal Service's financial viability. These are discussed in greater detail in the Legislative Update Section below. The proposed legislation has been referred to the Committee on Homeland Security and Government Affairs.

The Postal Service's status as a self-supporting entity within the federal government presents unique requirements and restrictions, but also mitigates some of the financial risk that would otherwise be associated with a cash shortfall. Despite falling mail volume, the Postal Service is still widely recognized to provide an essential government service and there are a wide variety of potential legislative remedies that could resolve the short-term liquidity concern. Therefore, it is unlikely that, in the event of a cash shortfall, the federal government would cause or allow the Postal Service to cease operations.

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 on September 30, 2011, and beyond. There can be no assurance that the requested adjustments to the PSRHBF pre-funding payment schedule, or any other legislative changes, will be made by September 30, 2011, or at all.

CAPITAL INVESTMENTS

At the beginning of 2010, there were 20 major projects in progress (i.e., greater than $25 million), representing $4.5 billion in approved capital funding. During the year, three new projects were approved, which totaled $0.2 billion in additional capital funding. A total of 9 projects representing $1.0 billion in approved capital funding were completed. The year ended with 14 open projects that amount to $3.7 billion in approved capital.

While the funding for a project is authorized in one year, the commitment or contract to purchase or build may take place over several years. By year-end, approximately $3.1 billion had been committed to these 14 open projects. Actual capital cash outlays will occur over several years. Through the end of 2010, approximately $2.5 billion has been paid for the 14 projects.

As of September 30, 2010, all capital commitments (including the 14 projects mentioned above), consisting of building improvements, equipment and vehicle projects, were $1.3 billion. These projects will be funded by borrowings from the FFB. See Note 5, *Leases and Other*

Commitments, in the Notes to the Financial Statements for additional information.

At the beginning of 2009, there were 27 projects in progress, representing $5.9 billion in approved capital funding. During the year, 3 new projects were approved, which totaled $0.2 billion in additional capital funding. A total of 10 projects representing $1.6 billion in approved capital funding were completed. The year ended with 20 major projects in progress representing $4.5 billion in approved capital.

CASH FLOW

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash used by operating activities was $3.3 billion in 2010, compared to $1.6 billion provided by operations in 2009, a year-to-year increase of cash used by operations of $4.9 billion, primarily due to a $4.1 billion increase in the PSRHBF contribution and a $1.0 billion decrease in revenue. Cash and cash equivalents at September 30, 2010 were $1.2 billion compared to $4.1 billion at the end of 2009, due primarily to the $5.5 billion payment to the PSRHBF made in 2010 compared to the $1.4 billion payment in 2009. Without the enactment of P.L. 111-68, cash and cash equivalents at the end of 2009 would have been $89 million, rather than the reported amount of $4.1 billion, and without this added liquidity entering the fiscal year we would not have been able to make the full payment to the PSRHBF in 2010.

Net cash provided by operating activities was $1.6 billion in 2009, compared to $0.4 billion used in 2008. Net cash provided by operating activities was $2 billion higher in 2009 versus 2008 primarily due to a non-cash increase in our workers' compensation liability of $2.1 billion, $1.1 billion of which occurred as a result of changing the cash payment date from September 2009 to October 2009. The net loss in 2009 was $1 billion higher in 2009 compared to 2008 but would have been $5 billion higher were it not for P.L. 111-68 which reduced the PSRHBF expense and payment in 2009 from $5.4 billion to $1.4 billion.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used by investing activities in 2010 was $1.3 billion, compared to $1.8 billion in 2009. Purchases of property and equipment in 2010 of $1.4 billion decreased by $446 million from the prior year and proceeds from building sales and the sale of property and equipment totaled $70 million in 2010, compared to $33 million in 2009.

Net cash used by investing activities was $1.8 billion in 2009, compared to $1.9 billion used in 2008. Purchases of property and equipment of $1.8 billion decreased by $156 million in 2009 from the $2.0 billion purchased in 2008. Proceeds from building sales and the sale of property and equipment totaled $33 million in 2009, compared to $57 million in 2008.

CASH FLOWS FROM FINANCING ACTIVITIES

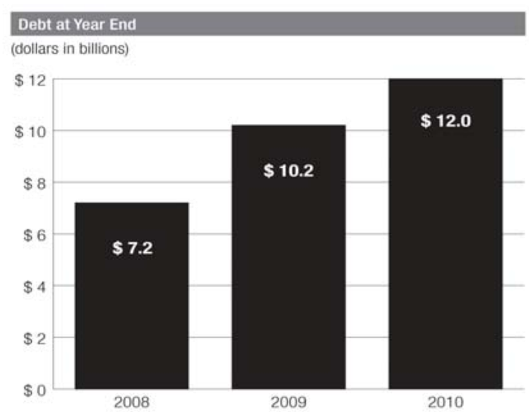
Net cash provided by financing activities was $1.7 billion in 2010 and $2.9 billion in 2009 and 2008. Debt with the FFB increased by $1.8 billion in 2010, and by the maximum allowable $3 billion in both 2009 and 2008.

FINANCING ACTIVITIES

DEBT

As an "independent establishment of the executive branch of the Government of the United States," the Postal Service receives no tax dollars for ongoing operations, and has not received an appropriation for operational costs since 1982. We fund operations chiefly through cash generated from operations and by borrowing from the FFB.

The amount borrowed is largely determined by three major factors: (1) the difference between cash flow from operations (which in 2010, 2009, and 2008 included pre-funding payments to the PSRHBF of $5.5 billion, $1.4 billion, and $5.6 billion, respectively); (2) capital cash outlays, which includes funds invested for new facilities, new automation equipment, and new services; and (3) annual borrowings which are limited by statute to $3 billion. Beginning in 2011, an additional determinant will be our statutory debt ceiling of $15 billion. On September 30, 2010, there was $12.0 billion in debt outstanding, an increase from September 30, 2009 of $1.8 billion.



INTEREST EXPENSE

In 2010, interest expense was $156 million, an increase of $76 million, or 95%, compared to 2009. Net losses for the three years ended September 30, 2010 have resulted in higher debt levels. Although long-term debt carries higher interest rates than prevailing rates for short-term debt, long-term obligations were issued in 2009 at historically favorable rates and represent a prudent restructuring of our debt portfolio. Financing a portion of debt at fixed rates decreases interest rate risk and interest expense volatility in future years. At September 30, 2010, $4.5 billion of these long-term obligations remain outstanding. A combination of higher debt levels and higher rates, due to the addition of long-term debt in 2009, led to higher interest expense in 2010 versus prior years. In 2009 and 2008, with less debt outstanding throughout the year, interest expense totaled $80 million and $36 million, respectively.

INTEREST AND INVESTMENT INCOME

When we determine that available funds exceed current needs, funds are invested with the U.S. Treasury's Bureau of Public Debt in overnight securities issued by the U.S. Treasury. Due to net losses sustained during the years, historically low interest rates and increased levels of debt, investment income was only $1 million in 2010 and $2 million in 2009. In 2008, with less debt to repay and higher cash on hand, the Postal Service earned investment income of $11 million.

Interest and Investment Income (Dollars in millions)	2010	2009	2008
Imputed Interest - Revenue Forgone	24	24	25
Other Interest	1	2	11
Total Interest and Investment Income	$ 25	$ 26	$ 36

We also recognize imputed interest on the funds owed to us under the *Revenue Forgone Reform Act of 1993*. Under the Act, Congress agreed to reimburse the Postal Service $29 million annually through 2035 for services performed in prior years. See Note 11, *Revenue Forgone*, in the Notes to the Financial Statements for additional information.

The following table summarizes the cash requirements of contractual obligations as of September 30, 2010.

Contractual Obligations (Dollars in millions)	Total	Payments Due by Year: Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt (1)	$ 12,000	$ 7,500	$ -	$ 300	$ 4,200
Interest on debt (1)	2,187	158	306	297	1,426
PSRHBF	33,900	5,500	11,200	11,400	5,800
Capital lease obligations	845	101	198	179	367
Operating leases	7,828	770	1,409	1,172	4,477
Capital commitment (2)	1,315	763	382	110	60
Purchase obligations (2)	4,226	1,455	2,764	7	-
Workers' compensation (3)	18,096	1,100	3,361	2,382	11,253
Employees' leave	2,220	262	263	267	1,428
Total Contractual Obligations	$ 82,617	$ 17,609	$ 19,883	$ 16,114	$ 29,011

(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 $12,589 million is reflected in our Balance Sheet at September 30, 2010.

FAIR VALUE MEASUREMENTS

In 2010 and 2009, our financial statements contain fair value disclosures required by GAAP. We did not have any recognized gains as a result of these valuation measurements in these years. All recognized losses have been incorporated into our financial statements, and the unrecognized gains and losses are not considered to have a significant impact upon our operations. See Note 10, *Fair Value Measurement*, in the Notes to the Financial Statements for additional information.

LEGISLATIVE UPDATE

APPROPRIATIONS

On December 16, 2009, the President signed the *Consolidated Appropriations Act of 2010*, which provided federal funding for 2010 and became Public Law 111-117. The law provided the Postal Service with $118 million for free and reduced rate mail for the blind and overseas voters, along with the annual $29 million payment pursuant to the *Revenue Forgone Reform Act of 1993*. The annual rider mandating six-day delivery was continued in the law. Also included was report language dealing with stations and branch closures; a request for an updated GAO study on Postal Service operations; and requests for the Postal Service to develop a legislative proposal in coordination with OPM and OMB on the pre-funding of retiree health benefits.

For fiscal year 2011, Congress passed P.L. 111-242, the *Continuing Appropriations Act, 2011*, on September 30, 2010. However this Continuing Resolution did not contain any provisions for the Postal Service, such as the requested deferral of $4 billion for pre-funding of retiree health benefits, nor did it include compensatory appropriations for revenue forgone by the Postal Service for providing free and reduced rate mail for the blind and for absentee voters overseas, as required by law. During the upcoming session, Congress may address fiscal year 2011 appropriations requests within an omnibus bill, but there are no assurances that this will occur.

POSTAL OPERATIONS SUSTAINMENT AND TRANSFORMATION (POST) ACT OF 2010

On September 23, 2010, S. 3831, *the Postal Operations Sustainment and Transformation (POST) Act of 2010* was introduced in the Senate. This measure seeks to address a wide array of fundamental structural changes, including but not limited to the following: modifying the existing methodology used by OPM to calculate Civil Service Retirement System (CSRS) obligations and transferring any surplus to the PSRHBF; giving the USPS greater authority and flexibility in decisions regarding closure of Post Offices, including changing the prohibition against closing Post Offices solely for economic reasons; amending the current law requiring mail delivery six days per week; giving the USPS greater latitude in providing a broad selection of non-postal services; providing for enhanced leasing and licensing authority; and requiring an arbitrator to consider the financial health of the Postal Service when deciding collective bargaining agreements. S. 3831 was referred to the Committee on Homeland Security and Governmental Affairs.

CSRS OVERPAYMENT

As noted in the Liquidity section previously, the Office of Inspector General and an independent actuary reporting to the PRC have each estimated that the Postal Service has over-contributed to the CSRS by at least $50 billion. As a result, H.R. 5746, *United States Postal Service's CSRS Obligation Modification Act of 2010*, was approved by the House Subcommittee on Federal Workforce, Postal

Service and the District of Columbia on July 21, 2010. The measure would change the methodology for calculating the amount of any postal surplus or supplemental liability under the Civil Service Retirement System (CSRS). H.R. 5746 does not address the immediate liquidity shortfall facing the Postal Service because it does not alter the statutorily-mandated payments to pre-fund retiree health benefits.

DELIVERY

Introduced on July 29, 2010, H.R. 5919 would grant the Postmaster General the authority to implement up to 12 non-mail delivery days each fiscal year. The measure would require that six months prior to a fiscal year, the Postmaster General submit a report to the Board of Governors listing the dates on which non-mail delivery would occur. Employees whose normal work schedule falls on a non-mail delivery date would be entitled to receive their normal pay and benefits for that day. The bill was referred to a House committee.

FACILITIES AND OPERATIONS

H.R. 4612 would amend Title 39, United States Code, to provide that the procedures governing the closure or consolidation of stations and branches be the same as those for Post Offices. Introduced in February of 2010, the measure remains in a House committee. Because the Postal Service already actively seeks input from communities impacted by efforts to right-size our network, we do not believe that additional legislation is needed specifically for stations and branches, as such actions would hinder our ability to become more efficient.

Several bills (H.R. 5004, H.R. 4895, and S. 3145) were introduced in early 2010 that would amend Title 39, United States Code, to require that the Postal Service ensure reasonable and sustainable workloads and schedules for supervisory and management employees. These measures would impose additional requirements in managing supervisory and management staff. These bills contain very broad proposals, such as requiring “reasonable and sustainable workloads and schedules.” It is not clear what these terms would require of the Postal Service. These measures would also impact the current method of consultation in place for managers and supervisors, since these categories of employee are not covered under collective bargaining agreements. None of these bills has moved beyond introduction.

OUTLOOK

The financial outlook for the Postal Service is closely linked to the outlook for the U.S. economy and changes in the use of the mail. In the past two years, the American economy experienced its worst economic downturn since the Great Depression and mail volume fell precipitously. We saw a gradual economic recovery in 2010, but lingering high unemployment remains a major concern. It is estimated that GDP growth will be less than 1.5% in the final quarter of 2010. Growth in consumer spending is estimated at 2% for the fourth quarter while business investment should grow approximately 10%, which is less than previously forecast. The consumer spending and estimated business investment trends do not provide the growth stimulus necessary to return to significantly higher mail volumes.

IHS Global Insight, an economic and forecasting consulting firm, is forecasting positive year-over-year growth in the economy as measured by real GDP throughout 2011 and growth of 3% in 2012.

Mail volume, however, has become only weakly correlated with GDP. Trends in employment, investment expenditures, and retail sales are better indicators of mail volume trends. Weak growth in employment and retail sales is predicted for 2011. Recovery in employment is expected to lag the broader economic recovery, just as it did in the recession of 2001. Business investment is the sole bright spot in these indicators, fueled by healthy corporate balance sheets, low financing costs, and the need to replace aging equipment.

In the longer term, economic growth as measured by all these statistics is expected to continue, but at growth rates below those of the late 1990s and early 2000s. The slower long-term growth trend is expected to suppress long-term growth in mail volume.

These economic indicators suggest that the worst is over in terms of the precipitous volume decline the Postal Service has experienced and that volume and revenue in 2011 should be relatively flat.

REVENUE OUTLOOK

The revenue outlook for 2011 is worsened after the PRC’s rejection of the Postal Service’s request for an exigent price increase. This increase, if approved, would have generated approximately $2 billion in additional revenue in 2011. Although the Postal Service has decided to appeal this ruling, no decision is likely to occur in time to impact 2011. Thus, the revenue outlook for 2011 is largely dependent on the course of the economy and to a lesser extent, revenue initiatives.

Although the economy is largely responsible for the recent revenue and volume decrease, electronic diversion presents an ongoing, long-term challenge, particularly with respect to First-Class Mail.

First-Class and Standard Mail account for 94% of total mail volume. First-Class Mail volume is expected to continue its long-term decline, while Standard Mail is expected to grow slowly. Total mail volume is expected to be virtually flat in 2011 and then show steady growth beginning in 2012 as the economy continues to recover, but is unlikely to ever return to the peak 2006 levels.

For 2011, we project revenue to be flat versus 2010. Revenue will see a small boost from the recently announced Shipping Services price increases offset by First-Class Mail declines.

First-Class Mail volume is expected to decline during 2011. Even when employment, consumer spending, and capital investment recover, the growing use of the internet and other electronic means of communication will continue to suppress mail growth. First-Class single-piece letters have been in decline for more than a decade and are expected to continue to decline in both the short- and long-term.

Standard Mail volume has fallen by approximately 20% since peaking in 2007. For 2011, Standard Mail revenue and volume are expected to begin a slow rebound.

Periodicals volume is projected to decrease modestly in 2011. While the projected declines in Periodicals are not as dramatic as some other mail categories, they represent the continuation of a long-term trend.

Shipping Services revenue and volume are expected to increase in 2011. This entire group is influenced by competitors' prices, which often include fuel surcharges and by our own advertising and promotional initiatives.

EXPENSE OUTLOOK

Total expenses for 2011, excluding retiree health benefits, are expected to increase, as planned cost reductions are outweighed by the impact of contractual wage and benefit increases and inflation.

Plans are to aggressively reduce costs wherever possible, while maintaining high levels of service. We are projecting more than $2 billion in cost savings including over 40 million in work hour reductions in 2011.

A continuing challenge that must be overcome in order to achieve these work hour savings targets will be our ability to reduce employee complement to fully capture the savings generated by these initiatives.

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 2011 compensation and benefit expenses. In addition, we are currently negotiating new contracts with the APWU and the NRLCA because current agreements expire on November 20, 2010. The financial impact of the new labor contracts cannot be determined at this time.

In addition, it should be noted that the outlook for non-cash workers' compensation expenses cannot be predicted because these changes are largely dependent on the level of interest rates. A 1% increase or decrease in interest rates could decrease or increase workers' compensation expense by over $1 billion.

Finally, the 2011 financial outlook remains clouded by continuing uncertainty regarding the unsupportable large PSRHBF pre-funding contribution required in 2011, and the continuing need for structural reform.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK DISCLOSURE

In the normal course of business, we are exposed to market risk from changes in commodity prices, certain foreign currency exchange rate fluctuations, and interest rates. We do not use derivative financial instruments to manage market risks. Additionally, we do not purchase or hold derivative financial instruments for speculative purposes.

FUEL COST RISK

As of September 30, 2010, we estimate a 1.0% increase in fuel and natural gas costs would result in a $23 million increase in expense. We do not use derivative commodity instruments to manage the risk of changes in energy prices during the periods covered by this report.

FOREIGN EXCHANGE RISK

We are exposed to market risk arising from changes in currency exchange rates as a result of operations outside the United States. Currency exchange rate fluctuations may favorably or unfavorably impact reported earnings.

We estimate that a 1.0% increase or decrease in foreign exchange rates would have an insignificant impact on our financial statement due to the small percentage of our revenue received in foreign currencies.

INTEREST RATE RISK

We have not used derivative financial instruments to manage risk related to interest rate fluctuations for debt instruments. However, we did issue long-term fixed rate debt in 2009 that will mitigate exposure to rising interest rates in future years. We estimate that a 1.0% increase in interest rates would result in a $74 million increase in interest expense.

In addition, our workers' compensation is highly sensitive to changes in inflation and discount rates. An increase of 1% in the interest rates assumptions would decrease our estimate of the liability by approximately $1.0 billion. A decrease of 1% would increase our estimate of the liability by approximately $1.3 billion.

LABOR CONTRACTS

As discussed in Item 1A, Risk Factors, the contracts with two of our four largest unions include provisions granting COLAs linked to changes in the CPI-W. The contracts with the other two unions are currently under negotiation.

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited Statements of Operations, Balance Sheets, Statements of Changes in Net Deficiency, and Statements of Cash Flows are included in Item 15 of this report.

ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A — CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports 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 management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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 September 30, 2010. Based upon, and as of the date of, the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Postal Service's internal controls over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate controls over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions, providing reasonable assurance that transactions are recorded as necessary for the preparation of our financial statements, providing reasonable assurance that receipts and expenditures of assets are made in accordance with management authorization and providing reasonable assurance that unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2010.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of our internal control over financial reporting as of September 30, 2010, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited our financial statements included in this Annual Report on Form 10-K. Ernst & Young LLP's report on our internal control over financial reporting is included in this Annual Report on Form 10-K on Page 53.

ITEM 9B — OTHER INFORMATION

None.

Part III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

THE POSTAL SERVICE IS GOVERNED BY AN ELEVEN MEMBER BOARD OF GOVERNORS.

The Board is composed of nine Governors appointed by the President of the United States with the advice and consent of the United States Senate, plus the Postmaster General and the Deputy Postmaster General. The nine currently appointed Governors are:

Name, Age, and Term of Office	Positions and Experience
Louis J. Giuliano, Chairman of the Board of Governors, Age 63	Chairman of the Board of Governors since January 2010. Vice Chairman of the Board of Governors, February 2009 to January 2010. Chairman, Operations Subcommittee, and member, Compensation and Management Resources Committee. Former Chairman of Board of Directors, President and Chief Executive Officer of ITT Corp. from 2001 through 2004. Director of the John Maneely Company and Senior Advisor at the Carlyle Group. Formerly a director of The ServiceMaster Company.
Governor since November 2004. Term expiring December 2014.	
Thurgood Marshall, Jr. Vice Chairman of the Board of Governors, Age 54	Vice Chairman of the Board of Governors since January 2010. Chairman, Government Relations and Regulatory Committee, and member, Audit and Finance Committee. Partner since 2006 at the law firm of Bingham McCutchen and principal with Bingham Consulting Group since 2006. Served President Clinton as former Assistant to the President and Cabinet Secretary. Former Director of Legislative Affairs and Deputy Counsel for Vice President Gore. Director, Corrections Corporation of America.
Governor since December 2006. Term expiring December 2011.	
Mickey D. Barnett, Governor, Age 59	Member of Governance and Strategic Planning Committee, and member, Audit and Finance Committee. Attorney in Albuquerque, New Mexico. Former member, New Mexico State Senate. Former member, Appellate Nominating Commission for the New Mexico Supreme Court of Appeals. Former Legislative Assistant to Senator Pete Domenici of New Mexico.
Governor since August 2006. Term expiring December 2013.	
James H. Bilbray, Governor, Age 72	Member of Governance and Strategic Planning Committee, and member, Government Relations and Regulatory Committee. Attorney at the law firm of Kaempfer Crowell Renshaw Gronauer & Fiorentino in Las Vegas, Nevada. Former member, U.S. House of Representatives from Nevada. Former member, Nevada State Senate. Former Deputy District Attorney in Clark County, Nevada. Member of 2005 Base Realignment and Closing Commission.
Governor since August 2006. Term expiring December 2015.	

Name, Age, and Term of Office	Positions and Experience
Carolyn Lewis Gallagher, Chairman Emeritus of the Board of Governors, Age 55	Past Chairman of the Board of Governors, February 2009 to January 2010. Vice Chairman of the Board of Governors from January 2008 to January 2009. Member, Compensation and Management Resources Committee. Former President and Chief Executive Officer of Texwood Furniture, Inc. Former Trustee and Board Chair, Texas Employees' Retirement System. Appointed by President Bush in 2003 to serve on the President's Commission on the United States Postal Service.
Governor since November 2004. Term expired December 2009 but continues to serve hold-over year which expires December 2010.	
Alan C. Kessler, Governor, Age 60	Past Chairman of the Board of Governors January 2008 to January 2009. Vice Chairman of the Board of Governors from January 2005 to January 2008. Chairman, Governance and Strategic Planning Committee. Partner at the law firm of Duane Morris, LLP. Member of the Presidential Transition Team, 1992-93, Former Vice Chair of the Presidential/Congressional Commission on Risk Assessment and Risk Management; Former member of the Electoral College, Pennsylvania. Currently Serves on the Boards of the Greater Philadelphia Chamber of Commerce, the Philadelphia Industrial Development Corporation, and the Central Philadelphia Development Corporation. Former commissioner for Lower Merion Township, Pennsylvania, Member of the Philadelphia City Planning Commission, and member of the Executive Committee of Philadelphia 2000. Chairman, Pennsylvania Supreme Court Continuing Legal Education Board.
Governor since November 2000. Term expiring December 2015.	
James C. Miller III, Governor, Age 68	Past Chairman of the Board of Governors, 2005 through 2008. Chairman, Audit and Finance Committee, and a member of the Governance and Strategic Planning Committee. Senior Advisor at the international law firm of Husch Blackwell LLP since 2006. Senior Fellow (by courtesy) of the Hoover Institution at Stanford University since 1988 and Senior Fellow of the Center for Study of Public Choice at George Mason University since 1988. Member of Boards of Washington Mutual Investors Fund, American Funds Tax-Exempt Series I, the JP Morgan Value Opportunities Fund and Clean Energy Fuels Corp. Former Director, United States Office of Management and Budget and Member of National Security Council from 1985 to 1988. Former Chairman, United States Federal Trade Commission from 1981 to 1985. Formerly a director of FLYi, Inc. (operator of Independence Air).
Governor since April 2003. Term expiring December 2010.	
Dennis J. Toner, Governor, Age 59	Member of the Compensation and Management Resources Committee. Founder and principal since 2006 of Horizon Advisors, a private consulting business which provides guidance and strategic planning to private clients and non-profit organizations and maintains a professional resource network intended to advise and promote dialogue among the public, private and non-profit sectors. Deputy Chief of Staff, to then-Senator and now-Vice President Joseph Biden, Jr., 1995 to 2005.
Governor since October 2010. Term expiring December 2012.	

Name, Age, and Term of Office	Positions and Experience
Ellen C. Williams, Governor, Age 53	Chairman of the Compensation and Management Resources Committee and member, Government Relations and Regulatory Committee. Owner and CEO of Capital Network, a government affairs and lobbying firm, since its establishment in 2006. Former Vice Chairman of the Kentucky Public Service Commission from 2004 to 2005. Former Commissioner of the Governor's Office for Local Development in Kentucky from 2005 to 2006. Former Chairman of the Republican Party of Kentucky from 1999 to 2004. Staff assistant to former U.S. Representative Larry Hopkins.
Governor since August 2006. Term expiring December 2014.	

THE POSTAL SERVICE BOARD OF GOVERNORS HAS AN AUDIT AND FINANCE COMMITTEE.

The Audit and Finance Committee has three Governors, as follows: Governor Miller, Chairman, Governor Barnett, and Governor Marshall. The Board of Governors has determined that Governor Miller qualifies as an audit committee financial expert as defined by the rules of the SEC. All Audit and Finance Committee members are independent as defined by the rules of the SEC.

THE POSTAL SERVICE BOARD OF GOVERNORS HAS A COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE.

The Compensation and Management Resources Committee composed of Chairman Williams, Governor Gallagher, and Governor Giuliano during the 2010 fiscal year, was responsible for making recommendations to the Governors with respect to compensation decisions. Governor Toner became a member of the Compensation and Management Resources Committee after the end of fiscal year 2010.

AT SEPTEMBER 30, 2010, THE POSTAL SERVICE HAD TEN EXECUTIVE OFFICERS. THESE EXECUTIVE OFFICERS ARE:

Name and Age	Positions and Experience
John (Jack) E. Potter, Age 55	72nd Postmaster General, Chief Executive Officer and member of the Board of Governors since June 2001. Chief Operating Officer and Executive Vice President from October 2000 to June 2001 and Senior Vice President, Operations from February 1999 to October 2000.
Patrick R. Donahoe, Age 55	19th Deputy Postmaster General, Chief Operating Officer and a member of the Board of Governors since April 2005. Chief Operating Officer and Executive Vice President during the years 2001 to 2005. Senior Vice President, Operations from February 2001 to September 2001.
Joseph Corbett, Age 51	Chief Financial Officer and Executive Vice President since 2009. Founder and Managing Director of FinSol, LLC, a finance and accounting CFO services firm from 2005 to 2009. Consultant, Chief Financial Officer and Executive Vice President of BearingPoint, Inc., a U.S. government contracting, consulting, and systems integration company, from 2004 to 2005. Executive Vice President and Chief Financial Officer of Intelsat, Ltd., from 1998 to 2004 and Intelsat Controller from 1995 to 1998.
Marie Therese Dominguez, Age 44	Vice President, Government Relations and Public Policy since June 2007. Partner at FieldWorks, LLC, from 2004 to 2007. Director of Capital and Management for Serco International, from 2001 to 2004. Deputy Assistant Secretary of the Army for Civil Works from 1999 to 2001.
Mary Anne Gibbons, Age 60	Senior Vice President and General Counsel since December 2003. Vice President and General Counsel from 1999 to December 2003.
Stephen M. Kearney, Age 54	Senior Vice President, Customer Relations since July 2008. Vice President, Pricing and Classification from September 2001 to July 2008.
Linda A. Kingsley, Age 48	Senior Vice President, Strategy and Transition since January 2007. Vice President, Strategic Planning from August 2003 to January 2007.
Ross Philo, Age 58	Executive Vice President and Chief Information Officer since February 2008. Director of Global Energy Solutions from December 2006 to February 2008 at Cisco Systems. President and Chief Executive Officer from August 2006 to December 2006 of Visean Inc., a global startup company providing remote data communication services for the oil and gas industry. Senior Vice President and Chief Information Officer at Halliburton from December 2003 to April 2006.
Anthony J. Vegliante, Age 59	Chief Human Resources Officer and Executive Vice President since April 2005. Vice President, Labor Relations from February 1999 to April 2005.
Paul Vogel, Age 60	President, Mailing and Shipping Services since August 2010. Served as private sector consultant focusing on postal industry strategy and international logistics from 2009 to August 2010. Managing Director of Global Business and Senior Vice President from 2006 to 2009. Vice President, Network Operations Management prior to 2006.

CODE OF ETHICS

The Standards of Ethical Conduct for Employees of the Executive Branch at 5 Code of Federal Regulations (C.F.R.) §2635 apply to all Postal Service employees. The Standards were issued in 1993 by the U.S. Office of Government Ethics, and replaced the individual agency standards then applicable to all employees of the executive branch.

The Postal Service has also adopted a Senior Financial Managers Code of Ethics. This Code of Ethics can be found on our website *USPS.com* under: *www.usps.com/financials/_coe/SeniorFinancialManagersCodeofEthics.html*.

Our employees are also covered by the Supplemental Standards of Ethical Conduct for Employees of the United States Postal Service at 5 C.F.R. §7001. The Standards and Supplemental Standards are detailed and contain many examples to help employees recognize and resolve ethical issues. We give employees a summary of the standards, and other ethical conduct materials at initial employee orientation training and other times during the year. We also provide annual ethics training for all employees who file a financial disclosure report. To support our employees on ethical issues, we maintain a dedicated telephone line and e-mail address for providing ethical advice.

ITEM 11 — EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

ROLE OF THE BOARD OF GOVERNORS AND STATUTORY COMPENSATION AND BENEFITS REQUIREMENTS AND LIMITATIONS

The Board of Governors of the Postal Service establishes executive officer compensation and benefits, subject to the requirements and limitations of federal law. The Board has delegated to its Compensation and Management Resources Committee ("Compensation Committee") authority for initial review of management proposals related to compensation and benefits for executive officers. The Compensation Committee, which meets several times throughout the year, is composed solely of presidentially-appointed, Senate-confirmed Governors who are independent of postal management. The Compensation Committee makes recommendations to the full Board for their review and approval.

Federal law governing the Postal Service, set forth in Title 39 of the United States Code, provides that compensation and benefits for all officers in the Postal Service shall be comparable to the compensation and benefits paid for comparable levels of work in the private sector of the economy. The Postal Service is the second largest civilian employer in the nation, with approximately 670,000 career and non-career employees as of the end of 2010. The Postal Service operates nearly 216,000 motor vehicles and more than 32,000 retail units. The Postal Service delivers almost half the world's mail and more than 171 billion pieces annually. In 2010, the Postal Service generated $67 billion in revenue. In 2010, the Postal Service ranked 92nd in Fortune Magazine's listing of Fortune Global 500 Companies. By way of comparison, two of our largest competitors ranked 157th and 205th on this list. If the Postal Service were listed on the Fortune 500 annual ranking of America's largest corporations, it would be ranked 29th. The same two of our largest competitors are ranked 43rd and 60th on that list.

Given the Postal Service's size and scope of operations, the comparability requirement in Title 39 would suggest that the Postal Service's executive officer compensation and benefits should be on par with the compensation and benefits of the very largest private sector companies in the United States. Even in these challenging economic times, comparably sized companies typically provide their top executives with annual salaries well in excess of $1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consist of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites.

Although the law governing the Postal Service provides that executives and others should be compensated at a level comparable to the private sector, the law does not afford the Governors the tools to achieve a standard of compensation comparable to the private sector. Postal law imposes three different caps on compensation for postal employees. The first cap provides that no officer or employee may be paid compensation "at a rate in excess of the rate for level I of the Executive Schedule under section 5312 of title 5" of the United States Code. 39 U.S.C. § 1003(a). This compensation cap was set at $191,300 for calendar year 2008, $196,700 for calendar year 2009 and $199,700 for calendar year 2010.

With the approval of the Board, however, the Postal Service may develop a program to award a bonus or other reward in excess of the compensation cap discussed above, as long as this does not cause the total compensation paid to the officer in a year to "exceed the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which the bonus or award is paid." 39 U.S.C. § 3686(a)-(b). This total compensation cap was $221,100 for calendar year 2008, $227,300 for calendar year 2009 and $230,700 for calendar year 2010. In approving any such program, the Board must determine that the bonus or award is based on a performance appraisal system that makes meaningful distinctions based on relative performance.

In addition, the Board may allow up to 12 officers or employees of the Postal Service in critical senior executive or equivalent positions to be paid total annual compensation up to “120 percent of the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which such payment is received.” 39 U.S.C. § 3686(c). Based on the Vice President’s salary for calendar years 2008, 2009 and 2010, this compensation cap was $265,320 for calendar year 2008, $272,760 for calendar year 2009 and $276,840 for calendar year 2010.

By law, postal employees, including executive officers, are entitled to participate in either the Civil Service Retirement System or Federal Employee Retirement System, depending on when their federal employment began. These retirement systems are described later in this compensation discussion and analysis. In addition, in order to remain competitive with comparable employment in private industry and other parts of the federal government, postal policy also authorizes certain additional benefits for all officers of the Postal Service, including executive officers. These include participation in the Federal Employees Health Benefits plans, paid life insurance, a periodic physical examination and parking. Other than changes required by law, the Board must authorize any changes to benefits for officers.

Compensation for postal executive officers is significantly below that of the private sector. As explained later, an independent consulting firm retained by the Board found USPS executive base salaries continue to remain well below market when compared against published survey data of comparable jobs in the private sector. The most recent assessment using 2010 data indicates that USPS executive salaries have continued to erode further over the past twelve months.

COMPENSATION PHILOSOPHY AND OBJECTIVES

The Board recognizes that there is a significant disconnect between the comparability requirement and the compensation caps in the law governing the Postal Service and that the various compensation caps do not enable the Board to provide compensation and benefits for executive officers that are fully comparable to the private sector. The Board also recognizes that many of the compensation and benefit tools available in the private sector, such as equity ownership, are not available to the Postal Service, given its status as part of the federal government. These limitations make it difficult for the Postal Service to compete in the marketplace for executive officers and to retain current executive officers. To attempt to achieve some level of comparability within the confines of the law, the Board has designed a compensation system that balances amounts paid as salary to executives in a given year, with the ability of the executive to earn additional compensation by meeting performance goals and objectives; a portion of this compensation may need to be deferred because of the compensation caps.

Within the confines of its legislative authority, the Board’s philosophy is that:

- There should be a strong connection between individual executive compensation and the Postal Service’s performance on a number of dimensions, including service, net income and productivity.
- Compensation and benefits should be designed to attract and retain top organizational contributors to ensure the Postal Service has the caliber of executives that will enable it to operate at the highest levels of performance and productivity.
- Lump sum incentives should be set to motivate executives to improve performance continuously on a long-term basis and to perform above the annually-established goals and objectives. If individual performance exceeds the goals and objectives set for the year, the employee should receive additional compensation. Likewise, if overall performance falls below the annual goals and objectives, the individual should be paid less.
- A significant amount of the executive’s compensation should be at risk and the “at-risk” amount should increase as the executive’s level of responsibility increases.
- Innovation, effectiveness as an agent for change, the ability to balance day-to-day priorities and long-term strategies, and organizational value as defined by the achievement of key corporate goals and objectives should be rewarded.
- Executive compensation should be fair and equitable internally, recognizing the width and breadth of the responsibilities of the Postal Service’s executives.
- Executive success is defined by a number of factors, including financial returns, the quality of service the Postal Service provides, the results achieved by the executive’s actions to enhance the organization’s efficiency and overcome challenges and whether an executive met established individual goals. For these reasons, lump sum incentives may be appropriate even in years in which the Postal Service sustains financial losses. This is especially true where the Postal Service maintained service levels while significantly reducing costs.

THE COMPENSATION PROGRAM

In 2007, after enactment of the Postal Act of 2006, the Compensation Committee of the Board of Governors retained the services of Watson Wyatt (now Towers Watson), an independent consulting firm specializing in executive compensation matters, to assist the Board in implementing the compensation provisions of the Postal Act of 2006 and to review and update the overall program for officer compensation and benefits. Towers Watson provided the Compensation Committee with comparative data on market pay and compensation design practices for executive officers in other companies. Peer group selection was challenging because no other organization shares the same mission, scope of operations, and legislative oversight as the Postal Service. The labor market group chosen for benchmarking executive officer compensation was predominantly comprised of organizations that excel in one or more of the Postal Service's core capabilities of processing technologies, transportation services, retail and delivery and distribution operations. Another important selection criterion was based on comparators' reputations for excellence in their industry.

The data showed that, in addition to base salary, individuals in comparable companies typically receive an annual bonus and an equity interest in the company in the form of stock or stock options and participate in one or more long-term incentive plans. For comparison purposes, Towers Watson did not include payments not directly related to performance, such as severance pay and perquisites in the assessment of total cash compensation. Generally, a significant portion of executive officers' total compensation in the comparator companies is at risk and the higher the executive officer's rank, the more total compensation is at risk.

Once again for 2010, Towers Watson found that, USPS executive base salaries are significantly below market when compared against published survey data of comparable jobs in the private sector. Moreover, the most recent assessment using 2010 data indicates that USPS executive salaries have continued to erode further over the past twelve months. Although market data for equity or other long-term incentives was not a focus of this analysis, inclusion of such data would likely cause USPS executive total compensation to fall even further from the comparator marketplace.

Based on the Board's objectives to design a compensation program that would optimize the new legislative flexibility, reduce internal pay compression, improve external marketplace competitiveness and honor legislative constraints and existing pay ranges, Towers Watson recommended that the maximum of the highest salary band (for the Postmaster General) be set at the legislative salary cap. As explained above for other executive officers, Towers Watson recommended pay band relationships based on pay relationships in the external market. Based upon their assessment, in all instances, the market predicted maximum for executive officers exceeded the maximum available for Postal Service executive officers given the constraints of the legislative pay cap.

Based on data provided by the consulting firm and recommendations from the Compensation Committee, the Board has approved 2010 salary ranges for the Postmaster General, other executive officers and other high-level Postal Service officers commensurate with their scope of responsibility and within the confines of the statutory compensation caps. The Board determined that the Postmaster General's salary should be set at the legislative salary cap, and that the Deputy Postmaster General and the other executive officer salary bands should be based on salary relationships of comparable executive officers in the comparator marketplace. The Board authorized the Postmaster General to establish actual salaries for the other executive officers, within the confines of the salary ranges established by the Board.

For calendar year 2010, after reviewing recommendations from the Postmaster General and the Compensation Committee, the Board increased salary ranges by 1.5%, in line with the increase for the Federal Government's executive schedule. The Board authorized salary increases within these ranges based on organizational and individual performance in addressing the Postal Service's significant challenges.

In 2010, the Postal Service continued to employ a national performance assessment program ("NPA") to set annual performance goals and metrics that vary among executive officers and are weighted to reflect appropriately the degree to which an executive is able to influence the overall performance of the Postal Service. Annual NPA metrics and targets generally take into consideration the Postal Service's performance during the prior year and particular challenges the Postal Service expects to face during the upcoming year. The NPA places emphasis on objective, measurable performance indicators. The Governors also set individual metrics and targets for the Postmaster General and Deputy Postmaster General and authorizes the Postmaster General to establish individual metrics and targets for other officers.

The Board establishes annual pay-for-performance (PFP) incentive opportunities to provide incentives and to reward executives for reaching various levels of performance. Incentive payouts are not made for a particular goal if the Postal Service fails to meet minimum acceptable performance standards. Annual PFP incentives are paid out in cash or deferred for future payment where required due to the compensation caps.

NPA performance goals and rewards fall into several categories. These include areas that an officer may directly influence, such as service, efficiency, employee satisfaction, and productivity, as well as those that are more susceptible to being affected by general economic conditions, such as revenue generation.

The Board believes that this mix of goals has helped the Postal Service to continue to deliver high-quality service even in the face of an unsettled economy. Particularly in a troubled economy, in order to remain viable, the Postal Service must serve its customers with the highest levels of efficiency and productivity. Rewarding executive officers for continuing to provide high-quality service at reduced costs is one way that the Postal Service sustains this performance. This is particularly true in light of the significant limits on officer compensation imposed by law.

For each goal, the Postmaster General establishes indicators identifying the type of performance that will enable the Postal Service to achieve or surpass the goal. These performance indicators are aligned at the corporate, functional, and individual levels and are weighted. The higher an individual's position is in the organization, the more his or her pay-for-performance goals will be tied to overall corporate performance. The executive officers' goals are aligned with national performance goals and linked to the overall success of the Postal Service.

Once the goals and indicators are established, executive officers are advised as to what the Postal Service expects of them in terms of performance during the year, how their performance will impact the entire Postal Service, and the potential level of performance-based incentives they can expect depending on the Postal Service's and their individual performance. Under this program, an individual executive officer can receive a rating of Non-Contributor, Contributor, High Contributor or Exceptional Contributor, with a numerical rating within each category, depending on how the Postal Service performs on the national indicators and the individual's performance, as determined by the Postmaster General. As shown in the chart below, a rating of Non-Contributor would result from an overall numerical rating of between 1 and 3. A rating of Contributor would result from a numerical score of between 4 and 9. A rating of High Contributor would result from a score between 10 and 12 and a rating of Exceptional Contributor would result from a score between 13 and 15.

Overall Performance Rating

Adjective Rating	**Number rating**
Exceptional Contributor (EC)	13, 14, 15
High Contributor (HC)	10, 11, 12
Contributor (C)	4 to 9
Non Contributor (NC)	1, 2, 3

Based on the individual executive officer's performance rating, the executive officer would be eligible for an increase to base salary as well as a performance-based lump sum payment. Due to statutory cap limitations, increases to the maximum of the salary range for executive officers generally follow the percentage increase to the Executive Schedule for any given year. Any salary increases for executive officers are limited by these maximums and are solely performance based as determined by the Postmaster General. Lump sum incentive payments are based on the executive officer's performance rating given by the Postmaster General and multiplied by a range of 1.33% to 2.50% based on the degree to which the individual has achieved previously set individual goals and metrics. The Postmaster General's discretion on Pay-for-Performance incentives for executive officers in a given year is limited by the Postal Service's overall performance on NPA goals and metrics. All executive officer performance scores must average to the Postal Service's overall NPA performance score for the fiscal year.

Salary increases, if any, are determined after the end of the fiscal year and any new salaries become effective for the following calendar year. Although management achieved very significant accomplishments in addressing the many challenges the Postal Service faced in Fiscal Year 2010, the Governors determined that salaries should be frozen in calendar year 2011 in light of the Postal Service's financial challenges. The Postmaster General, with the approval of the Governors, determined that performance incentives should be paid for Fiscal Year 2010 for the other named executive officers. These incentives were based on the named executive officers' individual achievements and contributions to address the overall challenges the Postal Service faced in Fiscal Year 2010. The Governors noted that, despite the significant downturn in mail volumes over the past several years, management achieved very high total factor productivity, more than doubling the score achieved 10 years ago. Postal management achieved this very high total factor productivity score by reducing the workforce, overtime, and supplier expenses, as well as through a number of other process improvement efforts. Of equal importance, management maintained high levels of service and employee satisfaction, increased customer access to products and services and offered mailers pricing incentives to help stem the volume decline. Management continued to streamline operations, including implementation of the National Distribution Center network. Management also completed its first comprehensive review, under the Sarbanes Oxley law, of the Postal Service's internal controls over financial reporting. The Postal Service's external auditors concluded that the Postal Service's internal controls over financial control are effective.. Finally, management also took significant actions to pursue legislative reform in areas key to the Postal Service's ability to provide universal service in the future.

The Governors recognize that, particularly for the Postmaster General, the restraints in governing law make it difficult to provide an overall level of compensation and benefits that comes even close to a level of comparability with similarly-situated individuals in the private sector. Based on a desire to retain the Postmaster General in his current role as well as to attempt to provide him with compensation and benefits that provide comparability to the extent legally possible, the Governors have maintained an employment agreement with the Postmaster General since 2001. The current agreement provides that the Postmaster General's salary is set at the maximum of the compensation cap. In addition to salary, the agreement provides for certain items of compensation and benefits beyond that offered to other executive officers. Among other items, the Postmaster General's agreement allows him to earn deferred performance-based incentives upon achievement of performance objectives set by the Governors, in addition to any pay-for-performance award to which the Postmaster General may be entitled under the Postal Service's pay-for-performance program.

The Governors determined that the Postmaster General's salary will increase, effective January 2011, to the maximum allowed by the statutory compensation cap. Even with this increase, the Postmaster General's compensation will continue to be significantly below that of chief executive officers in the private sector who have comparable responsibility. The Governors also awarded incentive compensation to the Postmaster General based on his achievement of personal goals set by the Governors and in accordance with his contract. Among other achievements, the Governors noted that the Postmaster General established a comprehensive plan, announced publicly on March 2, 2010, that identifies the steps necessary to ensure the Postal Service's ability to fulfill its universal service mission now and in future years. To the extent legislative reform is needed to implement this plan, the Governors also recognized the significant steps the Postmaster General pursued in an attempt to achieve the needed legislative changes. The Governors also noted the Postmaster General's leadership in expanding products, services and customer access, significantly improving communication with customers, achieving a historic level of total factor productivity through ongoing substantial process improvement and cost reduction measures, workforce reductions, and filing with the PRC a request for review of a proposal to change mail delivery to five days per week.

Due to Mr. Potter's extraordinary leadership during the difficult and unprecedented economic challenges of 2010 and the results he achieved in implementing a number of process improvements that maintained service while lowering costs, his significant staff reductions, his development of a comprehensive plan to guide the Postal Service for the next decade, and his achievement of personal goals set by the Governors for the fiscal year, the Governors determined that it was appropriate to award the incentive compensation he is entitled to receive according to his contract. Other items of additional compensation and benefits for the Postmaster General are identified in the tables that follow. To the extent the statutory compensation cap precludes payment of any amounts earned by the Postmaster General in a particular year, these amounts are deferred for payment upon his separation from the Postal Service.

Components of the executive officer compensation and benefits program are further outlined below.

BASE SALARY

Base salaries provide a level of financial security that is appropriate for the executive's position within the Postal Service. Within the confines of law, base salaries are scaled within pay ranges designed to be competitive with the market median. As discussed above, maximum payouts in a given year are set by federal law. Executive officer salaries are reviewed at least annually and adjusted, as appropriate, to reflect factors such as individual performance, range of responsibilities, value and contribution to the organization, and experience.

ANNUAL INCENTIVE

Annual incentives serve as a mechanism for adjusting total compensation levels commensurate with the attainment of planned results, thereby ensuring affordability and appropriate return to the Postal Service. As discussed above, the Postal Service uses a national performance assessment program to set annual corporate performance goals and metrics. Executive officers' individual performance ratings are determined by the Postmaster General based on the degree to which the individual has achieved previously set individual goals and metrics. As discussed above, the named executive officers will be eligible to receive incentive payments this year based on their individual performance.

Other Compensation Incentives

Executive officers are also eligible for performance awards for specific activities that reflect a high degree of leadership. Only a small number of these individual awards are given out each year. In addition, executive officers are eligible for retention and recruitment incentives designed to attract and retain highly talented and marketable individuals in key postal positions. The payment of some of these awards may be deferred, in whole or in part, due to the Postal Service's compensation limits.

Retirement Annuities

Officers are covered either by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both systems have a defined benefit component and a defined contribution component. CSRS and FERS service is creditable for Medicare coverage. FERS service is creditable for Social Security.

CSRS Defined Benefit: The CSRS Basic Benefit annuity is a percentage of the high-3 salary multiplied by years of service. The percentage is 1.5% for the first 5 years of service, plus 1.75% from 5 years to 10 years of service and 2% for all years of service thereafter. Optional retirement thresholds are age 55 with 30 years of service, age 60 with 20 years of service, and age 62 with 5 years of service, with a requirement of completing at least 5 years of creditable civilian service. The annuity is fully indexed to the Consumer Price Index (CPI). Disability, early retirement, deferred and survivor benefits are available.

FERS Defined Benefit: The FERS Basic Benefit annuity is 1 percent of high-3 salary per year of service, or 1.1 percent for retirement at age 62 with at least 20 years of service. Optional retirement thresholds are the Minimum Retirement Age (MRA is 55 to 57 depending on year of birth) with 30 years of service, age 60 with 20 years of service, age 62 with 5 years of service, or MRA with 10 years of service (at a reduced benefit), with a requirement of completing at least 5 years of creditable civilian service. Employees who retire at MRA with 30 years of service, or at age 60 with 20 years of service, receive a retirement supplement approximating the value of Social Security benefits attributable to federal service; this benefit is paid until age 62. Beginning at age 62, the annuity is indexed to CPI, fully when the CPI increase is 2 percent or less, at 2 percent when the CPI increase is between 2 and 3 percent, and at CPI - 1 when the CPI is at least 3 percent. Disability, early retirement, deferred and survivor benefits are available.

Defined Contribution: The Thrift Savings Plan (TSP) is similar to 401(k) plans. CSRS and FERS employees may contribute up to the indexed IRS maximum ($16,500 in 2010). There is no Postal Service contribution for CSRS employees. For FERS employees, after an initial waiting period of 6 months to a year, the Postal Service makes an automatic contribution of 1 percent of basic pay and a matching contribution of up to 4 percent of basic pay, for a total employer contribution of up to 5 percent of basic pay. Employees who will be at least age 50 in the year of contribution may make a separate catch-up contribution up to the indexed IRS maximum ($5,500 in 2010). TSP investment options are a government securities fund; index funds that track the Barclays Capital Aggregate Bond Index, the S&P 500, the Wilshire 4500, and the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) stock index; and lifecycle funds.

Supplemental Non-Qualified Deferred Compensation

Where appropriate and on a highly selective basis (and currently only to the Postmaster General), the Postal Service offers supplemental non-qualified deferred compensation as a recruitment or retention tool. As noted above, the Postmaster General's employment agreement provides for deferred incentive compensation each year upon achievement of performance objectives as set by the Board, in addition to any pay-for-performance award to which the Postmaster General may be entitled under the Postal Service's pay-for-performance program.

Life Insurance

Officers are entitled to basic group life insurance coverage under the Federal Employees Group Life Insurance (FEGLI) Program in the amount of their annual basic salary, rounded up to the next $1,000, plus $2,000. If basic coverage is held, an officer will also receive an additional $10,000 coverage (Option A) and Option B coverage up to three times salary. All premiums for Option A, Option B, and basic coverage are paid by the USPS. At their own expense, officers may elect additional Option B coverage in an amount equal to two times their salary. Also at their own expense, officers may elect Option C, family optional insurance coverage, of up to 5 multiples of $5,000 for their spouse and $2,500 for each eligible dependent child. Officers continuously covered under FEGLI for the 5 years immediately preceding retirement, or since the first opportunity, may continue coverage during retirement (if entitled to an immediate annuity). USPS pays former officers an actuarially determined lump sum to cover the cost of Option A premiums during retirement to retiring officers.

Health Benefits

The Postal Service participates in the Federal Employees Health Benefits ("FEHB") program, which allows all career employees to be enrolled in one of a number of individual or family health benefit plans offered as part of this program. The Postal Service pays the full cost of the premium for its officers and executives. For employees who have participated in an FEHB plan for the five years preceding their retirement, the Postal Service is required by law to continue paying up to 75% of their FEHB plan premium.

OTHER BENEFITS

To remain competitive with the comparator marketplace, the Postal Service also offers the following additional benefits to its executive officers: periodic physical examinations, parking, financial counseling services, employer-paid life insurance premiums, and membership in up to two airline clubs per year.

FISCAL YEAR 2010 EXECUTIVE OFFICER COMPENSATION

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Bonus ($)	Non-equity incentive plan compensation ($)	Change in pension value and Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(g)	(h)	(i)	(j)
John E. Potter	FY10	$273,296		$228,088	$219,095	$77,939	$798,418
Postmaster General, CEO	FY09	$265,320	-	-	$393,054	$76,276	$734,650
	FY08	$263,575	-	$135,041	$381,496	$77,347	$857,459
Patrick R. Donahoe	FY10	$247,615		$31,100	$195,472	$6,901	$481,088
Deputy Postmaster General & COO	FY09	$240,000	-	-	$317,538	$39,591	$597,129
	FY08	$238,654	-	$36,000	$316,805	$8,567	$600,026
Joseph Corbett	FY10	$236,231		$58,600	$19,950	$18,901	$333,682
Chief Financial officer & Executive VP	FY09	$150,385	$75,000	-	$11,891	$7,121	$244,397
	FY08	-	-	-	-	-	-
Anthony J. Vegliante	FY10	$236,923		$37,800	$101,777	$9,342	$385,842
Chief Human Resources Officer & Executive VP	FY09	$230,000	-	-	$199,763	$10,627	$440,390
	FY08	$228,654	-	$32,200	$209,273	$12,693	$482,820
Stephen M. Kearney	FY10	$196,538		$31,300	$144,137	$16,907	$388,882
Senior Vice President, Customer Relations	FY09	-	-	-	-	-	-
	FY08	-	-	-	-	-	-

Note: Column (c) Salaries for executive level officers were frozen for calendar year 2009. The salary amounts vary from FY10, FY09 and FY08 because USPS salaries are based on the calendar year and not the fiscal year. Therefore, FY10 salary numbers include a portion of calendar year 2009 salary figures, FY09 salary numbers include a portion of calendar year 2008 salary figures and FY08 salary numbers include a portion of calendar 2007 salary figures. Joseph Corbett assumed the position of Chief Financial Officer as of January 31, 2009, and therefore did not earn FY08 salary. This is the first year that Stephen Kearney is a named executive officer and as such, information for FY08 and FY09 are not reported.

Column (d) The payment amounts listed for Mr. Corbett reflect lump sum incentive compensation that was required to recruit and/or retain him. Any amounts that could not be paid to him due to the compensation cap were deferred for future payment. Pursuant to his contract with the Postal Service, Mr. Corbett was awarded a recruitment amount of $75,000; he was paid $50,000 of this award in FY09 and the remainder was deferred.

Column (g) The amounts in this column reflect the performance-based incentive compensation awarded to executive officers. Mr. Potter's non-equity incentive plan compensation was deferred for FY08 and FY10 due to the compensation cap and will be paid in ten annual installments after he leaves postal employment. Pursuant to his employment contract, Mr. Corbett's non-equity incentive plan compensation includes $30,000 in deferred performance-based compensation for FY10.

Column (h) Mr. Potter, Mr. Donahoe, and Mr. Vegliante all participate in the Civil Service Retirement System (CSRS), which is a defined benefit plan. Mr. Corbett participates in the Federal Employees Retirement System (FERS), a portion of which is a defined benefit plan. Mr. Kearney's annuity includes both a FERS and a CSRS component. The calculation of retirement annuities under CSRS and FERS is explained on page 44 in the Retirement Annuities section of this Compensation Discussion and Analysis. The amounts shown in column (h) for each of these individuals are the amounts by which the value of their annuities has increased since the end of the prior fiscal year. "Nonqualified deferred compensation earnings" is defined as above-market earnings on deferred income. There were no reportable amounts of non-qualified deferred compensation earnings for the named executive officers in FY2010, with the exception of Mr. Corbett whose above-market earnings on deferred income is $167.

Column (i) For all executive officers listed, the 'All Other Compensation' category includes: financial planning services, Thrift Savings Plan employer matching contribution for FERS employees, non-cash awards, parking, physical examinations, life insurance premiums paid for by the Postal Service, airline clubs, spousal travel, and relocation costs. Security costs valued at $70,485 are also included for the Postmaster General. The amounts listed in this column for FERS employees (Mr. Corbett and Mr. Kearney) include any amounts they received in TSP matching funds.

GRANTS OF PLAN-BASED AWARDS

The following table presents information regarding potential non-equity incentive grants to the named executive officers for fiscal year 2011. Whether executive officers receive an award and, if so, the amount for an award for fiscal year 2011 will depend on the Postal Service's and the individual's performance.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
		Threshold ($)	Target ($)	Maximum ($)
(a)	(b)	(c)	(d)	(e)
John E. Potter	October 2010	$ 14,862	$ 33,523	$ 104,760
Patrick P. Donahoe	October 2010	$ 13,353	$ 30,120	$ 94,125
Joseph Corbett	October 2010	$ 12,715	$ 28,680	$ 89,625
Anthony J. Vegliante	October 2010	$ 12,768	$ 28,800	$ 90,000
Stephen M. Kearney	October 2010	$ 10,587	$ 23,880	$ 74,625

Note: Columns (c)-(e). The USPS Pay-for-Performance (PFP) program relies on a 15-point scale with clearly defined and transparent corporate goals. The PFP plan target in any given year is set at a rating of 6. Incentives are not paid for any rating below or equal to 3 .The maximum threshold for payment is set at a rating of 15. Individual ratings vary but the corporate score is used as the regulator.

PENSION BENEFITS

The table below shows the present value of accumulated pension benefits payable to the named executive officer.

Name	Plan name	Number of years credited service (#)	Present value of accumulated benefit ($)
(a)	(b)	(c)	(d)
John E. Potter	USPS Pension Benefit	n/a	$ 1,350,318
John E. Potter	CSRS Annuity	32 Years	$ 3,065,205
Patrick R. Donahoe	CSRS Annuity	35 Years	$ 3,035,580
Joseph Corbett	FERS Annuity	2 Years	$ 31,568
Anthony J. Vegliante	CSRS Annuity	33 Years	$ 2,473,240
Stephen M. Kearney	FERS (with CSRS Component) Annuity	25 Years	$ 1,305,585

Note: Column (d) Mr. Potter is the only USPS officer who also has a USPS Pension Benefit pursuant to contractual agreement. The amount in the first line in column (d) above for Mr. Potter is payable for his attainment of required performance objectives over the six-year period from June 2001 – June 2007 and was not based on Mr. Potter's years of service to the Postal Service. Since 2007, the Board has not continued the USPS Pension Benefit and has frozen the amount of that benefit. Instead, since that time, Mr. Potter has been eligible for a performance incentive each year if he meets required performance objectives. The above amount of USPS Pension Benefit will be paid to Mr. Potter in monthly installments during his lifetime after he leaves postal employment, with a survivor annuity equal to 55% of the amount payable to Mr. Potter. All officers, including Mr. Potter, are eligible for CSRS or FERS retirement benefits available to career employees of the Federal Government. These benefits are described in the Retirement Annuities section of this Compensation Discussion and Analysis. The present value of the accumulated CSRS or FERS benefit represents the value of the pension over the actuarial lifetime, as of September 30, 2010. Mr. Donahoe and Mr. Vegliante participate in CSRS, Mr. Corbett participates in FERS, and Mr. Kearney's annuity includes both a FERS and a CSRS component. Mr. Potter, Mr. Donahoe, and Mr. Vegliante are eligible for retirement, the calculation of which is described in the Retirement Annuities section of the Compensation Discussion and Analysis. The valuation for Mr. Corbett assumes that he has satisfied vesting requirements for retirement; however, because of his short tenure with the Postal Service, his retirement annuity has not vested.

NONQUALIFIED DEFERRED COMPENSATION

The following table presents information regarding the contributions to and earnings on the named executive officers' deferred compensation balances during the fiscal year ended September 30, 2010, and also shows the total deferred amounts for the named executive officers as of September 30, 2010.

Name	Executive contributions in last FY ($)	Aggregate earnings in last FY ($)	Aggregate balance at September 30, 2010 ($)
(a)	(b)	(c)	(d)
John E. Potter	$ 228,088	$ 31,487	$ 881,548
Patrick R. Donahoe	$ 5,500	$ 432	$ 7,354
Joseph Corbett	$ 30,000	$ 677	$ 39,874
Anthony J. Vegliante	$ 1,200	$ -	$ 1,200

Notes:
Column (b) The amounts in this column represent amounts deferred due to the compensation cap. The amount shown for Mr. Corbett reflects the amount that has been deferred as a result of lump sum incentive compensation that was required to retain him. That incentive amount was contractually required.

Column (c) The Postal Service calculates interest on deferred compensation semi-annually at 5.0% per year. Interest is prorated from the relevant pay period of the deferral.

Column (d) Mr. Potter's balance includes awards and performance incentives he earned in the 1990's before becoming Postmaster General, performance incentives he earned during the period from 2001 to 2008, and interest paid on these amounts. This total amount for Mr. Potter is payable in equal installments over a 10-year period after Mr. Potter's postal employment ends.

DIRECTOR COMPENSATION

Name	Fees earned or paid in cash ($)	All other compensation ($)	Total ($)
Louis J. Giuliano	$36,000	-	$36,000
Mickey D. Barnett	$37,800	-	$37,800
James H. Bilbray	$37,200	-	$37,200
Carolyn Lewis Gallagher	$34,800	-	$34,800
Alan C. Kessler	$36,000	-	$36,000
Thurgood Marshall, Jr.	$37,500	-	$37,500
James C. Miller III	$37,200	-	$37,200
Ellen C. Williams	$35,400	-	$35,400

Note: Each Governor receives a basic stipend of $30,000 per year plus $300 per day for not more than 42 days of meetings each year.

POTENTIAL PAYMENTS UPON TERMINATION

As described in the Compensation Discussion and Analysis, the Postmaster General has an employment agreement with the Postal Service that provides for, among other things, pension benefits and deferred compensation payable at certain intervals following his departure from the Postal Service. Additionally, in 2009 the Postal Service entered into an employment agreement with Joseph Corbett, the Chief Financial Officer, for recruitment and retention purposes. Mr. Corbett's agreement provides for deferred compensation payable in installments commencing on the date of his separation from the Postal Service or October 22, 2019, whichever is later. In addition, the Postmaster General is eligible to receive benefits pursuant to the Civil Service Retirement System (CSRS). All of the other named executives are subject to the standard policies governing the CSRS or FERS, as described in the Compensation Discussion and Analysis. The present value of these CSRS and FERS benefits are found in the Pension Benefits table in the Compensation section of this report. The information below describes and quantifies certain compensation, in addition to that due pursuant to CSRS or FERS, that would become payable under existing plans and arrangements if the named executive officer's employment had terminated on September 30, 2010. Additionally, pursuant to statutes and regulations generally applicable to federal employees, the named executives would be entitled to receive the federal employer's standard contribution toward retiree health benefits, in the event they have qualifying service and participated in the Federal Employees Health Benefits Plan for the requisite period of time prior to retiring.

DEFERRED COMPENSATION

All federal employees, including Postal Service employees, are subject to annual compensation limits established pursuant to federal statutes and regulations. When amounts earned by federal employees cannot be paid because of these compensation limits, these payments are deferred until a year in which their payment would not cause an employee's total annual compensation to exceed the compensation limit, or the year in which an employee leaves federal service, whichever occurs first. Additionally, as described in the note accompanying the Pension Benefits table in the Executive Officer Compensation section of this report, the Postmaster General's employment agreement provides for performance-based incentive payments; these are also deferred. When the Postmaster General concludes his Postal Service employment, all deferred earnings, plus interest, will be paid to him in ten annual installments, beginning in the tax year after the tax year in which he ends his Postal Service employment. Had the Postmaster General terminated his Postal Service employment on September 30, 2010, his first annual payment derived from his deferred compensation, commencing in 2011 would have been $81,591. This annual installment would vary slightly thereafter, due to accumulated interest. In addition to the Postmaster General, named executive officers appearing in the Nonqualified Deferred Compensation table in the Executive Officer Compensation section of this report have deferred compensation in the amounts indicated therein. These amounts would have been paid to them in a lump sum shortly following their departure, had they ended their Postal Service employment on September 30, 2010. Mr. Corbett's employment agreement provides for deferred incentives linked in part to his performance. Mr. Corbett is eligible to begin accruing deferred performance-based compensation at the end of fiscal year 2010. When Mr. Corbett concludes his Postal Service employment, or on October 22, 2019, if that date is later than Mr. Corbett's departure from the Postal Service, his deferred compensation will be paid to him in three approximately equal annual installments.

SUPPLEMENTAL PENSION BENEFIT

As described in the note accompanying the Pension Benefits table in the Compensation section of this report, the Postmaster General's employment agreement provides for a Postal Service pension benefit. The Pension Benefits table reflects the present value of this accumulated benefit. Had the Postmaster General terminated his employment as of September 30, 2010, his annual Postal Service pension benefit would have amounted to $71,632.

SEVERANCE PAYMENT

Pursuant to his employment agreement, the Postmaster General is entitled to a monthly severance payment, which when added to his CSRS benefits and Postal Service pension benefit, will equal 1/12th of his annual salary at the date of the termination of his Postal Service employment. This benefit would continue for one year after the Postmaster General leaves his employment with the Postal Service. Had he terminated his employment as of September 30, 2010, the annual value of this benefit would have been $58,531. Mr. Corbett is entitled to a severance payment of $230,000, in the event the Postal Service terminates his employment for any reason other than for cause or breach of contract.

INSURANCE BENEFITS

The Postmaster General's employment agreement provides that, for a period of one year after he leaves employment with the Postal Service, he will be provided continuation of his medical, life and disability insurance coverage, subject to changes made in these programs as they apply to active officers of the Postal Service, and further, subject to the Postmaster General making the contributions required from active officers of the Postal Service.

As a federal retiree, Mr. Potter would be entitled to participate in the Federal Employees Health Benefits (FEHB) Program and the Federal Employees' Group Life Insurance (FEGLI) Program in the manner available to all qualifying federal employees. As of September 30, 2010, the one year severance period value of the Postal

Service's contributions to cover the extra cost of retiree premiums for this insurance coverage would be $18,358.

OUTPLACEMENT ASSISTANCE

At the conclusion of his employment, the Postmaster General will be entitled to reasonable outplacement assistance by a provider selected by the Postal Service. This assistance may continue for up to two years from the date of the Postmaster General's separation from service. Had the Postmaster General separated from the Postal Service on September 30, 2010, the cost of this assistance for one year would have been $10,500. In the event a second year's outplacement assistance is necessary, its cost might be slightly higher.

ACCRUED ANNUAL LEAVE

All Postal Service employees are entitled to receive and accrue paid days off, known as annual leave. Upon their separation from the Postal Service, all postal employees, including the named executive officers, are entitled to be paid, in a lump sum, the value of all accrued annual leave. The table below shows the accrued value of the annual leave of the named executive officers, as of September 30, 2010.

Name	Value of accrued annual leave ($)
John E. Potter	$ 243,978
Patrick R. Donahoe	$ 158,198
Joseph Corbett	$ 16,546
Anthony J. Vegliante	$ 245,529
Stephen M. Kearney	$ 48,313

COMPENSATION COMMITTEE REPORT

The Compensation and Management Resources Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation and Management Resources Committee recommended to the Governors that the Compensation Discussion and Analysis be included in this Report.

The Compensation and Management Resources Committee

Ellen C. Williams, Chairman
Carolyn L. Gallagher, Member
Louis J. Giuliano, Member
Dennis J. Toner, Member

ITEM 12 — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Not applicable to the United States Postal Service. As an "independent establishment of the executive branch of the Government of the United States," we do not issue equity securities.

ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

CERTAIN TRANSACTIONS

We enter into significant transactions with other government agencies, as disclosed throughout this report and the financial statements.

Prior to 2010, the Postal Service infrequently entered into financially immaterial transactions with certain highly-limited groups of eligible employees. Until 2009, in connection with the relocations of eligible employees, the Postal Service provided fully-secured mortgage loans to assist in the purchase of residential housing at the new location.

In 2005, the Postal Service made a 30 year secured loan to Susan Plonkey, who served as Acting President, Shipping and Mailing Services, from June 2, 2010 until August 13, 2010. At the time the loan was originally made, Ms. Plonkey served as Vice President, Service and Market Development. The initial loan amount was $686,815. The highest principal amount of the loan during fiscal year 2010 was $660,320. The amount of the loan outstanding as of September 30, 2010 is $653,006. During fiscal year 2010, Ms. Plonkey paid $7,314 in principal and $19,518 in interest on the loan. 60% of the loan bears interest at the rate of 5.125% and the other 40% of the loan does not bear interest. Instead, the Postal Service will share in 35% of the appreciation in the value of the residence upon sale, or the occurrence of certain other events resulting in the prepayment or acceleration of the loan.

The above loan was made pursuant to an established program designed to provide financial assistance to eligible employees that transfer to high cost-of-living areas, so that they are able to purchase a suitable home. This program specified certain loan parameters, including the maximum amount of any first or second mortgage, required down payments, and the maximum shared appreciation portion of the loan. The fixed portion of the loan is at market rates at the time the loan was made. The loan program was established 1989 and was terminated in 2009.

DIRECTOR INDEPENDENCE

All of the Governors of the Postal Service Board of Governors who are currently serving and have been appointed by the President of the United States with the advice and consent of the Senate are independent based on the New York Stock Exchange definition of independence.

ITEM 14 — PRINCIPAL ACCOUNTANT FEES AND SERVICES

In 2002, the Board of Governors selected Ernst & Young LLP as its independent auditor to perform external auditing services. In October 2009, the contract was extended to February 2014 with 2 option years to February 2016. As with previous contracts for external audit services, Ernst & Young LLP will not perform consulting work for us for the duration of the contract. Fees for audit services totaled approximately $10.2 million in 2010, $8.2 million in 2009, and approximately $5.9 million in 2008, including fees associated with the annual audit, including the reviews of the Postal Service's quarterly reports on Form 10-Q and testing of management's internal control assessment in accordance with the Sarbanes Oxley Act in 2010.

Part IV
Financial Review

ITEM 15 — EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A)(1) AND (2) FINANCIAL STATEMENTS; FINANCIAL STATEMENT SCHEDULES

In 2002, the Board of Governors selected Ernst & Young LLP to audit the Postal Service's financial statements, together with the notes thereto. The report of Ernst & Young LLP dated November 15, 2010 is presented on page 54 of this Form 10-K. The financial statements included are the Statement of Operations, the Balance Sheets, the Statements of Changes in Net Deficiency, the Statements of Cash Flows and the Notes to the Financial Statements.

1. FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm — page 54

Statements of Operations for the Years Ended September 30, 2010, 2009 and 2008 — page 55

Balance Sheets as of September 30, 2010 and 2009 — pages 56-57

Statements of Changes in Net Deficiency for the Years Ended September 30, 2010, 2009 and 2008 — page 58

Statements of Cash Flows for the Years Ended September 30, 2010, 2009 and 2008 — page 59

Notes to Financial Statements — pages 60-72

2. FINANCIAL STATEMENT SCHEDULES

Operating Statistics from the Years Ended September 30, 2006 to 2010 — pages 73-76

Financial History Summary from the Year ended September 30, 2006 to 2010 — page 77

Selected Quarterly Financial Data from the beginning of the year 2008 to 2010 — page 78

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Postal Service's financial statements or the notes thereto.

(A)(3) EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Employment/Compensation Contract with John E. Potter, Postmaster General and Chief Executive Officer, as of August 8, 2007 as amended November 25, 2008 (filed with the PRC on December 1, 2008, as Exhibit No. 10.1 to the Annual Report on Form 10-K for the year ended September 30, 2008).
10.2	Employment/Compensation Contract with Robert F. Bernstock, President of Shipping and Mailing Services (filed with the PRC on August 11, 2008, as Exhibit No. 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
10.3	Employment/Compensation Contract with Ross Philo, Chief Information Officer (filed with the PRC on May 8, 2008, as Exhibit No. 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
10.4	Employment/Compensation Contract with Joseph Corbett, Chief Financial Officer (filed with the PRC on January 29, 2009, as Exhibit No. 10.1 to the Current Report on Form 8-K).
10.5	Employment/Compensation Contract with Paul Vogel, President of Shipping and Mailing Services dated July 27, 2010.
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.

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Report of Independent Registered Public Accounting Firm

The Board of Governors of the United States Postal Service

We have audited United States Postal Service's internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). United States Postal Service's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the United States Postal Service's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, United States Postal Service maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Oversight Board (United States), the balance sheets of United States Postal Service as of September 30, 2010 and 2009, and the related statements of operations, changes in net (deficiency) capital, and cash flows for each of the three years in the period ended September 30, 2010 of the United States Postal Service and our report dated November 15, 2010 expressed an unqualified opinion thereon that included an explanatory paragraph regarding the significant uncertainty as to whether the United States Postal Service will generate sufficient cash flow to avoid a shortfall of cash required to meet its obligations throughout their fiscal year ended September 30, 2011 and make the $5.5 billion payment on September 30, 2011 required by Public Law 109-435, the *Postal Accountability and Enhancement Act*.

Ernst + Young LLP

November 15, 2010

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Report of Independent Registered Public Accounting Firm

The Board of Governors of the United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2010 and 2009, and the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2010. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2010, in conformity with US generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the United States Postal Service, an independent establishment of the executive branch of the Government of the United States, is dependent upon future actions of the Government to continue its operations in the ordinary course. The Postal Service has experienced increasing losses primarily related to a downward trend in mail volume. The ability of the Postal Service to execute strategies to increase efficiency, reduce costs and retain and grow revenue is constrained by statutory and regulatory restrictions. It is unlikely that without regulatory or statutory changes the Postal Service will generate sufficient cash flow to avoid a shortfall of cash required to meet its obligations throughout their fiscal year ended September 30, 2011 and make the $5.5 billion payment on September 30, 2011 required by Public Law 109-435, the *Postal Accountability and Enhancement Act*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the United States Postal Service's internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 15, 2010 expressed an unqualified opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2010 on our consideration of the United States Postal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst + Young LLP

November 15, 2010

STATEMENTS OF OPERATIONS

(Dollars in millions)	Years Ended September 30, 2010	2009	2008
Operating revenue	$ 67,052	$ 68,090	$ 74,932
Operating expenses			
Compensation and benefits	49,035	50,931	52,358
Retiree health benefits	7,747	3,390	7,407
Workers' compensation	3,566	2,223	1,227
Transportation	5,878	6,026	6,961
Other	9,200	9,260	9,785
Total operating expenses	75,426	71,830	77,738
Loss from operations	**(8,374)**	**(3,740)**	**(2,806)**
Interest and investment income	25	26	36
Interest expense	(156)	(80)	(36)
Net loss	**$ (8,505)**	**$ (3,794)**	**$ (2,806)**

See accompanying notes to the financial statements

BALANCE SHEETS — ASSETS

	September 30, 2010	September 30, 2009
(Dollars in millions)		
Current Assets		
Cash and cash equivalents	$ 1,161	$ 4,089
Receivables:		
Foreign countries	714	526
U.S. government	173	150
Other	224	177
Receivables before allowances	1,111	853
Less: Allowance for doubtful accounts	32	29
Total receivables, net	1,079	824
Supplies, advances and prepayments	114	138
Total Current Assets	**2,354**	**5,051**
Property and Equipment, at Cost		
Buildings	23,822	23,189
Equipment	20,646	20,970
Land	2,974	2,995
Leasehold improvements	1,026	968
	48,468	48,122
Less: allowances for depreciation and amortization	28,333	26,889
	20,135	21,233
Construction in progress	1,460	1,447
Total Property and Equipment, Net	**21,595**	**22,680**
Other Assets - Principally Revenue Forgone Receivable	**377**	**387**
Total Assets	$ **24,326**	$ **28,118**

See accompanying notes to the financial statements

BALANCE SHEETS — LIABILITIES AND NET DEFICIENCY

(Dollars in millions)	September 30, 2010	September 30, 2009
Current Liabilities		
Compensation and benefits	$ 2,924	$ 2,766
Workers' compensation	1,115	1,069
Payables and accrued expenses:		
Trade payables and accrued expenses	1,311	1,170
Foreign countries	586	470
U.S. government	136	175
Total payables and accrued expenses	2,033	1,815
Deferred revenue-prepaid postage	2,584	2,445
Customer deposit accounts	1,429	1,379
Outstanding postal money orders	639	640
Prepaid box rent and other deferred revenue	452	461
Debt	7,500	3,675
Total Current Liabilities	**18,676**	**14,250**
Noncurrent Liabilities		
Workers' compensation costs	11,474	9,064
Employees' accumulated leave	2,088	2,096
Deferred appropriation and other revenue	392	457
Long-term portion capital lease obligations	512	544
Deferred gains on sales of property	309	305
Contingent liabilities and other	248	290
Debt	4,500	6,525
Total Noncurrent Liabilities	**19,523**	**19,281**
Total Liabilities	**38,199**	**33,531**
Net Deficiency		
Capital contributions of the U.S. government	3,132	3,087
Deficit since 1971 reorganization	(17,005)	(8,500)
Total Net Deficiency	**(13,873)**	**(5,413)**
Total Liabilities and Net Deficiency	$ **24,326**	$ **28,118**

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN NET DEFICIENCY

(Dollars in millions)	Capital Contributions of U.S. Government	Retained Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2007	$ 3,034	$ (1,900)	$ 1,134
Net loss	-	(2,806)	(2,806)
Balance, September 30, 2008	3,034	(4,706)	(1,672)
Additional capital contributions	53	-	53
Net loss	-	(3,794)	(3,794)
Balance, September 30, 2009	3,087	(8,500)	(5,413)
Additional capital contributions	45	-	45
Net loss	-	(8,505)	(8,505)
Balance, September 30, 2010	$ 3,132	$ (17,005)	$ (13,873)

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(Dollars in millions)	Years Ended September 30, 2010	2009	2008
Cash flows from operating activities:			
Net Loss	$ (8,505)	$ (3,794)	$ (2,806)
Adjustments to reconcile net loss to cash provided by operations:			
Depreciation and amortization	2,469	2,270	2,319
Loss (gain) on disposals of property and equipment and impairments, net	8	109	(16)
Decrease (increase) in other assets - primarily, appropriations receivable revenue forgone	10	52	(47)
Increase in noncurrent workers' compensation liability	2,410	2,061	203
(Decrease) increase in employees' accumulated leave	(8)	30	81
Decrease in noncurrent deferred appropriations and other revenue	(2)	(4)	(5)
(Decrease) in other noncurrent liabilities	(11)	(4)	(167)
Changes in current assets and liabilities:			
Receivables, net	(255)	(95)	30
Supplies, advances and prepayments	24	55	8
Compensation and benefits	158	71	(125)
Workers' compensation	46	104	(6)
Payables and accrued expenses	182	123	(261)
Customers deposit accounts	50	(93)	(67)
Deferred revenue-prepaid postage	139	756	547
Outstanding postal money orders	(1)	(58)	(149)
Prepaid box rent and other deferred revenue	(6)	(10)	22
Net cash (used in) provided by operating activities	**(3,292)**	**1,573**	**(439)**
Cash flows from investing activities:			
Purchase of property and equipment	(1,393)	(1,839)	(1,995)
Proceeds from deferred building sale	19	6	4
Proceeds from sales of property and equipment	51	27	53
Net cash (used in) provided by investing activities	**(1,323)**	**(1,806)**	**(1,938)**
Cash flows from financing activities:			
Issuance of notes payable	4,100	7,000	4,500
Payments on notes payable	(2,500)	(4,500)	(1,000)
Net change in revolving credit line	200	500	(500)
Payments on capital lease obligations, net	(50)	(46)	(29)
U.S. government appropriations - expensed	(63)	(64)	(61)
Net cash provided by financing activities	**1,687**	**2,890**	**2,910**
Net (decrease) increase in cash and cash equivalents	(2,928)	2,657	533
Cash and cash equivalents at beginning of year	4,089	1,432	899
Cash and cash equivalents at end of year	**$ 1,161**	**$ 4,089**	**$ 1,432**
Supplemental cash flow disclosures:			
Interest paid	$ 161	$ 43	$ 37

See accompanying notes to the financial statements

Notes to the Financial Statements

NOTE 1 — DESCRIPTION OF BUSINESS

NATURE OF OPERATIONS

The United States Postal Service (Postal Service) provides a variety of classes of mail service without undue discrimination among its many customers. This means that, within each class of mail, price does not unreasonably vary by customer for the service provided. This fulfills the Postal Service's legal mandate to offer universal service at a fair price. Operations are conducted primarily in the domestic market, with international mail representing less than 4% of revenue.

Postal services are divided into two broad categories: Mailing Services and Shipping Services, which represent approximately 87% and 13% of revenue, respectively. First-Class Mail and Standard Mail account for about 94% of mail volume, and Priority Mail and Express Mail are significant products in the Shipping Services category. Markets for products and services include the financial services, communications, distribution, delivery, advertising, and other market sectors. Products and services are sold through over 32,000 Post Offices, stations, branches, contract postal units, and a large network of commercial outlets which sell stamps on our behalf.

More than 85% of career employees are covered by collective bargaining agreements and are 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). By law, the Postal Service also consults with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide an opportunity for non-bargaining employees in the field to participate directly in the planning, development, and implementation of programs and policies affecting managerial employees.

POSTAL REORGANIZATION

Operations began on July 1, 1971, in accordance with the provisions of the *Postal Reorganization Act*. The Postal Service is an "independent establishment of the executive branch of the Government of the United States." Governing decisions are made by a Board of Governors, which consists of nine independent members who are appointed by the President with the advice and consent of the Senate; the Board of Governors also includes the Postmaster General and Deputy Postmaster General, who are appointed by the nine independent members of the Board of Governors.

The U.S. government's equity in the former Post Office Department (POD) became the Postal Service's beginning capital, with initial assets valued at original cost less accumulated depreciation. The transfer of assets from the POD, which included property, equipment, and cash, totaled $1.7 billion. Subsequent cash contributions and transfers of assets between 1972 and 1982 totaled approximately $1.3 billion. In 2010 and 2009, approximately 6,500 fuel efficient vehicles were contributed to the Postal Service under the provisions of the American Recovery and Reinvestment Act. The excess of the fair value of these vehicles over the fair value of the vehicles traded-in was recorded as additional non-cash capital contributions by the U.S. government of $53 million in 2009 and $45 million in 2010. Total capital contributions of the U.S. government were $3,132 million as of September 30, 2010. Although the U.S. government remains responsible for the POD's liabilities, *The Balanced Budget Act of 1997* transferred the POD's workers' compensation liability to the Postal Service.

The 2006 Postal Accountability and Enhancement Act, Public Law 109-435 (P.L. 109-435), made further reforms in the governance of the Postal Service. It also significantly altered some financial responsibilities, particularly with respect to the funding of Civil Service Retirement System (CSRS) benefits and retiree health benefits. Public Law 111-68, *Making appropriations for the Legislative Branch for the fiscal year-ending September 30, 2010, and for other purposes* amended P.L. 109-435 by changing the required Postal Service payments to the Postal Service Retiree Health Benefits Fund (PSRHBF) for the year ended September 30, 2009 from $5.4 billion to $1.4 billion. This law affected only the 2009 payment and did not change the 2010 payment requirement of $5.5 billion or the payments scheduled from 2011 to 2016. See Note 7, *Health Benefit Programs*, for additional information.

NOTE 2 — LIQUIDITY MATTERS

Our current projections are that as of September 30, 2011, we will have a cash shortfall and will be unable to meet all of our financial obligations.

The Postal Service had net losses of $8,505 million, $3,794 million, and $2,806 million for the years ended September 30, 2010, 2009 and 2008, respectively, and also experienced negative cash flow from operations in 2010 and 2008. Operating cash flows would have been negative in 2009 as well had P.L. 111-68 not been enacted. To alleviate pressure on liquidity, in September 2009, P.L. 111-68, *Making appropriations for the Legislative Branch for the fiscal year-ending September 30, 2010, and for other purposes*, changed the $5.4 billion PSRHBF pre-funding payment scheduled for September 30, 2009 to $1.4 billion. P.L. 111-68 did not, however, address future payments into the PSRHBF and, accordingly, on September 30, 2010, the Postal Service made the scheduled pre-funding payment of $5.5 billion to the PSRHBF as no similar legislation was passed in 2010. The PSRHBF pre-funding payment scheduled for September 2011 is $5.5 billion. Even with a continuing economic recovery and stringent cost control efforts, we estimate that the Postal Service will not generate sufficient funds during 2011 to meet all of its projected financial obligations, including the requirement to make the $5.5 billion pre-funding payment to the PSRHBF on September 30, 2011.

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 experience a cash shortfall on September 30, 2011 if legislation similar to that passed in September 2009 is not passed to reduce, eliminate, or defer the PSRHBF pre-funding payment due on that date, or make other changes that would enable the Postal Service to have sufficient liquidity to meet all its obligations.

As previously reported, Postal Service losses for the past three years are primarily attributable to declines in mail volume that began in 2008, the statutory limitations on the Postal Service's ability to reduce costs and increase revenue, and the statutory requirement to pre-fund retiree health benefits. The declines in mail volume 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 migration to electronic media accelerated during the recession and is expected to continue.

Since peaking at 213 billion pieces in 2006, mail volume dropped 42 billion pieces, or 19.7%, to 171 billion pieces in 2010, including reductions of 9.5 billion pieces in 2008, 26.0 billion pieces in 2009, and 6.2 billion pieces in 2010. The resulting revenue in 2010 was $67,052 million, a $1,038 million, or 1.5%, decrease from 2009 and almost $8 billion less than 2008. While we expect the rate of mail volume decline to stabilize as a result of a strengthening economy, forecasting in this uncertain economic environment is subject to significant uncertainties. Our operational plan for 2011 anticipates relatively flat mail volume versus 2010 levels. It is possible that mail volume, and therefore revenue, could decrease at a rate greater than this projection.

Personnel costs including compensation, retirement, and health expenses as well as workers' compensation costs and retiree health benefits expenses represent approximately 80% of total operating costs. Although we have taken significant steps to decrease these costs in response to declining mail volume, many of these costs remain fixed and beyond our control. Contracts with our unions are fixed until times of renegotiation, retirement benefits are not determined by management but rather by the Federal government, and health care benefits costs, also mandated by contract, continue to rise well above the rate of inflation. In addition, our ability to adjust our workforce and network infrastructure is limited by both contractual and political obstacles.

The Postal Service has two substantial cash payments scheduled for September and October 2011: the previously-noted $5.5 billion due to the PSRHBF on September 30, 2011; and approximately $1.2 billion due in October 2011 to the Department of Labor (DOL) for the Postal Service's annual payment on its workers' compensation liability. Based on the cash balance at September 30, 2010, current borrowing capacity of $3 billion, and projections of cash available from operations, there will be insufficient cash available to fund these financial obligations absent regulatory adjustments to some, or all, of these obligations. The legal and/or regulatory consequences to the Postal Service if the PSRHBF or the workers' compensation obligations cannot be fully funded are unknown.

To address its financial challenges, the Postal Service has substantially reduced work hours and other costs. As previously reported, work hours were reduced by 50 million in 2008, 115 million hours in 2009, and an additional 75 million work hours in 2010. The number of career employees was reduced by approximately 22,000 in 2008, 40,000 in 2009, and 39,000 in 2010 due primarily to normal retirement and attrition. The Postal Service is continuing its efforts to increase revenue and operational efficiencies, and has halted new construction of facilities. However, the ability of the Postal Service to execute strategies to increase efficiency, reduce costs, and retain and grow revenue is constrained by contractual, statutory, and regulatory restrictions. Given these restrictions, it is unlikely that Postal Service efforts to positively impact cash flow, will be, either individually or in the aggregate, sufficient to offset a cash shortfall on September 30, 2011. Further, absent significant changes, the $15 billion debt ceiling is projected to be reached in 2011. No assurance can be given that Postal Service efforts to secure legislative changes will be successful, or that Congress will enact restructuring legislation in time to impact 2011, or at all.

In addition to its cost reduction and revenue generation efforts, in July 2010, the Postal Service filed a request with the PRC seeking an exigent price increase. In its filing, the Postal Service estimated that implementation of this increase in January 2011 would generate $2 billion in additional 2011 revenue. This request for a price increase that exceeded the postal pricing cap tied to Consumer Price Index, was denied by the PRC on September 30, 2010. After reviewing the decision, on October 22, 2010, the Postal Service filed a petition in the U.S. Court of Appeals for the District of Columbia Circuit seeking a review of the PRC's interpretation of the law that governs how prices can be set under extraordinary and exceptional circumstances. The Postal Service believes that the PRC misread the statute and applied an incorrect standard in evaluating the request for an exigent price increase. No decision is likely to occur in time to impact 2011.

Even if legislation is enacted to address shorter-term liquidity matters such as the PSRBHF pre-funding payment schedule, the Postal Service still faces longer-term financial stability 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 statutory regulatory structure, assuming the full cooperation of all Postal Service stakeholders. To address the remaining projected deficit of at least $115 billion over the next decade, a balanced set of actions has been proposed. These actions will require additional legislation and the cooperation of a range of stakeholders, and include changes in the following areas: reduction of retiree health benefits funding; reassessment of CSRS obligation; delivery frequency; modernized access to postal services; workforce flexibility; pricing flexibility; expansion of products and services; and oversight.

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 of the United States Code. The PRC is expected to issue its advisory opinion before the end of the calendar year. Congressional action would then be required to reduce the number of legally-required delivery days. No immediate savings would occur from the ability to adjust the six-day delivery requirement. If the request is granted, it would be 6 to12 months before the impact of the financial benefits would begin to be realized. This provides time for customer notifications and changes to internal systems and operations that would be required in order to achieve the expected cost savings. Thus, due to legal and practical constraints, it is unlikely that full savings from altering the delivery schedule could be achieved before 2012, at the earliest.

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 (OIG) issued a report in which it evaluated the funding of the Postal Service's CSRS 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. A similar issue is the projected overfunding of the Postal Service's FERS obligation, as noted by the OIG in its August 16, 2010 report. Using the long-term economic assumptions of OPM's Board of Actuaries, this overfunding is $6.9 billion as of September 30, 2009. The Office of Personnel Management (OPM) and the Postal Service are evaluating these studies, and the Postal Service is pursing a legislative solution to address the actuarial valuation and funding issues.

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 pre-funding payment to pre-fund retiree health benefits due on September 30, 2011, or any payments due thereafter.

Additional legislation, S. 3831, *the Postal Operations Sustainment and Transformation (POST) Act of 2010*, was introduced into the Senate on September 23, 2010, to address many other concerns impacting the Postal Service's financial viability. The proposed legislation has been referred to the Committee on Homeland Security and Government Affairs.

The Postal Service's status as a self-supporting entity within the federal government presents unique requirements and restrictions, but also mitigates some of the financial risk that would otherwise be associated with a cash shortfall. Despite falling mail volume, the Postal Service is still widely recognized to provide an essential government service and there are a wide variety of potential legislative remedies that could resolve the short-term liquidity concern. Therefore, it is unlikely that, in the event of a cash shortfall, the federal government would cause or allow the Postal Service to cease operations.

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 on September 30, 2011, and beyond. There can be no assurance that the requested adjustments to the PSRHBF pre-funding payment schedule, or any other legislative changes, will be made by September 30, 2011, or at all.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The Postal Service conforms to accounting principles generally accepted in the United States (GAAP) and maintains its accounting records and prepares its financial statements on the accrual basis of accounting. Following these principles, estimates and assumptions are made that affect the amounts reported in the Financial Statements and disclosed in the Notes to the Financial Statements. Actual results may differ from estimates.

These financial statements reflect the audited results of operations of the United States Postal Service for the years ended September 30, 2010, 2009 and 2008 and its financial position as of September 30, 2010 and 2009. All references to years, unless otherwise stated, refer to the fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2010, 2009 and 2008. Subsequent events through November 15, 2010, the date that the financial statements were issued, have been evaluated.

SEGMENT INFORMATION

The Postal Service operates in one segment throughout the United States, its possessions and territories.

RECLASSIFICATIONS

Certain prior year amounts related to Property and equipment, 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 losses and net losses.

RELATED PARTIES

The Postal Service has significant transactions with other U.S. government agencies, as disclosed throughout this report. In addition to those amounts disclosed, deferred revenue of $71 million for 2010 and $32 million for 2009 related to government deposits is included in the Balance Sheets in "Customer Deposits".

CASH AND CASH EQUIVALENTS

Securities that mature within 90 days from the purchase date are deemed to be cash equivalents.

Included in Cash and cash equivalents are funds designated to be used for law enforcement purposes and consumer fraud prevention awareness. The amounts so designated at the end of 2010 and 2009 were $170 million and $126 million, respectively.

RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables are carried at cost. Receivables are generally liquidated within one year and do not have a stated interest rate.

Provision is made for doubtful accounts on outstanding receivables based on historical collection experience and an estimate of uncollectible accounts as of the reporting date. The following summarizes activity in the allowance for doubtful accounts:

Allowance for Doubtful Accounts

(Dollars in millions)	2010	2009	2008
Beginning Balance	$ 29	$ 41	$ 44
Provision for Doubtful Accounts	11	6	7
Write-offs	8	18	10
September 30 Balance	$ 32	$ 29	$ 41

SUPPLIES AND REPAIR PARTS

Supplies and repair parts consist of parts for mail processing equipment and are valued at average cost. Total supplies and repair parts were $91 million for 2010 and $95 million for 2009. A majority of motor vehicle spare parts are supplied through consignment agreements.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost, including interest paid on funds borrowed to pay for the construction of major capital additions.

Property and equipment are depreciated over estimated useful lives, which range from 3 to 40 years, except for buildings with historic status, which are depreciated over 75 years, using the straight-line method.

The depreciation and amortization of capital assets over the estimated useful lives, and the determination of salvage value, requires management to make judgments about future events. Because capital assets are utilized over relatively long periods of time, periodic evaluations of whether adjustments to the estimated service lives or salvage values are necessary to insure these estimates properly match the economic use of the asset. These evaluations may result in changes to the estimated lives and residual values. These estimates affect the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on disposal of the asset. Changes in the estimated lives of assets will result in an increase or decrease in the amount of depreciation and amortization recognized in future periods.

DEFERRED GAINS ON SALES OF PROPERTY

Deferred gains on sales of property are recognized in income and the sold assets removed from the accounting records when any lease-backs or other conditions requiring continued Postal Service involvement in the properties have expired.

Deferred gains recognized in income were $18 million in 2010, $11 million in 2009, and $44 million in 2008.

IMPAIRED ASSETS

Losses on long-lived assets are recorded when events or circumstances indicate that the assets might be impaired and valuation indicates that the fair value of the asset is less than the carrying value. To meet the Postal Service's universal service requirement, certain real estate and other assets are maintained which are underutilized. Such assets are not deemed impaired solely on the basis of volume of activity but, rather, are evaluated for impairment when no longer required to provide mailing services. When such a determination is made, impaired assets are written down to the lower of cost or fair value. Fair value is determined by comparison to independent appraisals for real property, adjusted for estimated selling costs. Due to the absence of a market for most types of mailing equipment, impaired equipment assets are assigned a fair value of zero.

Impairment charges of $26 million and $71 million were recorded in 2010 and 2009, respectively, and are included in the Statement of Operations in "Other". The majority of the impairments in 2009 related to a project under development that was cancelled prior to implementation. Impairment charges in 2008 were immaterial.

INTEREST CAPITALIZATION

Capitalized interest was not material in 2010 and 2009. There was no interest capitalized in 2008.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to expense as incurred. This expense amounted to $676 million in 2010, $703 million in 2009 and $711 million in 2008.

ASSETS HELD FOR SALE

Assets held for sale were immaterial to the total fixed asset balance in 2010 and 2009.

ASSET RETIREMENT OBLIGATIONS

A liability for the estimated costs of legally binding obligations to perform asset retirement activities is included in "Contingent liabilities and other" on the Balance Sheets.

AMORTIZATION OF LEASEHOLD IMPROVEMENTS

Leasehold improvements are amortized over the period of the lease or the useful life of the improvement, whichever is shorter.

Leasehold improvements that are placed in service after the start of the lease term are amortized over the shorter of the useful life of the asset or the remaining lease term, including renewal options that are reasonably assured to be executed.

FOREIGN CURRENCY TRANSLATION

Foreign currency risk exists related to settlements with foreign postal administrations for international mail. The majority of international accounts are denominated in special drawing rights (SDRs). The SDR exchange rate fluctuates daily based on a basket of currencies comprised of the euro, Japanese yen, British pound sterling and the U.S. dollar. Changes in the relative value of these currencies will increase or decrease the value of the settlement accounts and result in a gain or loss that is included in operating results. The impact of foreign currency translation on operating results was insignificant for 2010, 2009, and 2008.

OUTSTANDING POSTAL MONEY ORDERS

Postal money orders are sold at retail locations. A fee is charged at the time of sale. The fee is recognized as revenue at the time of sale. A current liability is recorded for money orders expected to be presented for payment.

REVENUE RECOGNITION/DEFERRED REVENUE-PREPAID POSTAGE

Deferred revenue - prepaid postage represents the estimate of postage that has been sold but has not yet been used by customers. Revenue is recognized when services are rendered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected in the Balance Sheets as "Deferred revenue–prepaid postage". We monitor postage sold. Two categories of postage sales account for the bulk of deferred revenue – prepaid postage: stamp sales and postage meters.

Stamp sales in 2010 totaled $8.8 billion. Deferred revenue on stamp sales is estimated using statistical samples of stamped mail exiting our system across the country. The estimated stamp usage is subtracted from stamp sales, with the difference representing our obligation to perform future services. We also include a provision for stamps sold that may never be used, either through loss, damage, or collecting activity. Changes in consumer stamp usage patterns can significantly impact the estimated liability related to stamp sales.

In contrast to postage paid for by purchasing stamps, metered postage is primarily used by businesses. Accordingly, the deferral amount is much smaller as a percentage of annual sales than for stamps, because business customers generally manage their cash flow much more closely. Metered postage receipts in 2010 totaled $16.3 billion. Deferred revenue related to meters is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings allows us to derive a deferral percentage, which is applied to all postage meters.

We also include in our estimate of deferred revenue – prepaid postage, an estimate for mail that is in-transit within the postal system. We do this because our earnings process is not considered complete until mail is delivered to the customer.

In 2009, we refined our estimation methodology to reflect changes in customer usage patterns of both Forever and denominated stamps demonstrated by newly available data. For the year ended September 30, 2009, the stamp portion of the deferred revenue-prepaid postage liability was increased by $846 million, $655 million of which is considered a change in estimate that was attributable to changes in consumer behavior that were not identifiable based on data available previously.

In Quarter III, 2010, the estimation technique was further refined to reflect new information concerning the amount of purchased Forever stamps that will never be used, commonly referred to as the “breakage factor”. This resulted in an increase of deferred revenue-prepaid postage by $112 million, $103 million of which is attributable to changes that were not identifiable based on data previously available.

These changes are both considered changes in accounting estimates under GAAP and, accordingly, the impact of the changes was reflected in the quarter that the estimate changes were made.

ADVERTISING EXPENSES

Advertising costs are expensed as incurred and are classified in other operating expenses. Advertising expenses were $147 million in 2010, $105 million in 2009 and $106 million in 2008.

COMPENSATION AND BENEFITS

Compensation and benefits payable are the salaries and benefits owed to current and former employees, including the amounts employees have earned but have not yet been paid, unemployment, and health benefit costs.

RETIREE BENEFITS

Employees are eligible to participate in the federal government sponsored pension and retiree health benefits programs. The Postal Service is required to provide funding for these plans as determined by the administrator of the plans, the OPM. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Accordingly, the plans are accounted for using multiemployer plan accounting rules and expense is recorded in the period the contribution is due and payable. These amounts can fluctuate significantly from year to year if changes in funding requirements are made. See Note 7, *Health Benefit Programs*, and Note 8, *Retirement Programs*, for additional information.

WORKERS’ COMPENSATION

Workers’ compensation expenses are incurred under a program administered by the Department of Labor (DOL) and include employees’ medical expenses, compensation for wages lost, and DOL administrative fees. See Note 9, *Workers’ Compensation*, for additional information.

REVENUE FORGONE APPROPRIATION

Revenue forgone is an appropriation from Congress which covers the cost of providing mailing services to certain groups at no cost or at reduced rates. The costs incurred for this service are estimated by the Postal Service and submitted to Congress annually. Congress subsequently approves or alters the amount and funds the necessary appropriation. See Note 11, *Revenue Forgone*, for additional information.

EMERGENCY PREPAREDNESS APPROPRIATION

Emergency preparedness appropriations were received from Congress to help pay the costs of keeping the mail, postal employees and postal customers safe, and are restricted for such use. These funds were accounted for as deferred revenue upon receipt and were generally utilized to procure capital equipment. Revenue for emergency preparedness appropriations is recognized when depreciation expense for the purchased equipment is recorded. The emergency preparedness appropriations revenue recognized during the years ended September 30 was $63 million in 2010, $64 million in 2009, and $61 million in 2008.

Deferred revenue at September 30 related to emergency preparedness appropriations was $423 million in 2010 and $486 million in 2009. The current portion is included in Prepaid box rent and other deferred revenue, and the noncurrent portion is included in “Deferred appropriations and other revenue” on the Balance Sheets.

NOTE 4 — DEBT

DEBT LIMITS

Under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435, the Postal Service can issue debt obligations. However, annual increases in debt are limited to $3 billion and total debt cannot exceed $15 billion.

NOTE PURCHASE AGREEMENTS

Note purchase agreements with the Federal Financing Bank (FFB), a government-owned corporation under the general supervision of the Secretary of the Treasury, provide the Postal Service revolving credit lines of $4 billion. A short-term credit line provides up to $3.4 billion credit with two days advance notice. Borrowings under this facility are typically done on an overnight basis but can have a maturity of up to one year. The second credit facility allows borrowings of up to $600 million on the same business day the funds are needed. The interest rates for borrowings under these credit facilities are determined by the Treasury each business day.

In addition, under these agreements the Postal Service can also use a series of other notes with varying provisions to draw upon with two days advance notice, which allows the flexibility to borrow short-term or long-term, using fixed-rate or floating-rate debt. Fixed-rate notes can be either callable or non-callable. 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 market at the time of repayment. During 2010, four floating-rate notes were repaid and three additional floating-rate notes were borrowed.

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

Indebtedness to Federal Financing Bank[1]

(Dollars in millions)

Maturity		Debt Type	September 30, 2010 Balance	Rate	September 30, 2009 Balance	Rate
December 30, 2010		Fixed rate-payable at maturity	$ 1,900	0.282%	$ -	- %
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
July 15, 2011	[2]	Floating rate	1,000	0.206	-	-
July 15, 2011	[2]	Floating rate	700	0.206	-	-
July 15, 2011	[2]	Floating rate	500	0.206	-	-
November 15, 2042		Floating rate	-	-	500	0.184
June 15, 2043		Floating rate	-	-	500	0.271
December 15, 2042		Floating rate	-	-	1,025	0.216
October 15, 2009		Floating rate	-	-	475	0.155
[3]		Short-term revolving credit line	3,400	0.206	3,200	0.145
Total debt			$ 12,000		$ 10,200	
Less: Current portion of debt			7,500		3,675	
Long-term portion of debt			$ 4,500		$ 6,525	

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

[2] Floating Rate Note — Repurchasable at par and the interest rate resets on October 15, 2010, January 15, 2011, and April 15, 2011. Rate reset to 0.258% on October 15, 2010.

[3] Funds are typically borrowed overnight. Current credit agreements with FFB expire on May 3, 2011. Prior credit agreements expired April 30, 2010.

At September 30, 2010, scheduled repayment of debt principal, exclusive of capital leases, is as follows:

Scheduled Debt Principal Repayments

(Dollars in millions)

2011	$ 7,500
2012	-
2013	-
2014	300
2015	-
After 2015	4,200
Total Debt	$ 12,000

NOTE 5 — LEASES AND OTHER COMMITMENTS

LEASES

Future minimum lease payments for all non-cancelable leases as of September 30, 2010, are as follows.

Lease Obligations (Dollars in millions)	Operating	Capital
2011	$ 770	$ 101
2012	731	102
2013	678	96
2014	615	91
2015	557	88
After 2015	4,477	367
Total Lease Obligations	$ 7,828	$ 845
Less: Interest		281
Total Capital Lease Obligations		564
Less: Current Portion of Capital Lease Obligations		52
Noncurrent portion of capital lease obligations		$ 512

Leases generally have renewal options for periods ranging from 3 to 20 years. Certain non-cancelable real estate leases have purchase options at prices specified in the leases.

Capital leases included in buildings at September 30 were $920 million in 2010 and $909 million in 2009. Total accumulated amortization was $510 million and $474 million at September 30, 2010 and 2009, respectively. Amortization expense for assets recorded as capital leases is included in "Other" in the Statements of Operations.

Rental expense for the years ended September 30 is summarized as follows.

Rental Expense (Dollars in millions)	2010	2009	2008
Non-cancellable real estate leases	$ 964	$ 992	$ 967
GSA facilities leases*	44	43	44
Equipment and other short-term rentals	287	298	294
Total Rental Expense	$ 1,295	$ 1,333	$ 1,305

*General Services Administration; leases subject to 120-day cancellation notice.

CAPITAL COMMITMENTS

At September 30, 2010, financial commitments for approved capital projects in progress are as follows:

Capital Commitments (Dollars in millions)	
Mail Processing Equipment	$ 772
Building Improvements	397
Postal Support Equipment	73
Construction and Building Purchase	33
Retail Equipment	33
Vehicles	7
Total Capital Commitments	$ 1,315

NOTE 6 — CONTINGENT LIABILITIES

Contingent liabilities consist primarily of claims and suits resulting from labor, equal employment opportunity and environmental issues, property damage claims, injuries on postal properties, issues arising from postal contracts, personal claims and traffic accidents.

Each quarter, new claims and litigation are evaluated for the probability of an adverse outcome. If a claim is deemed probable of an unfavorable outcome and the amount of potential settlement is estimable, a liability for the loss is recorded. Prior claims and litigation are also reviewed quarterly and, when necessary, the loss accrual is adjusted for settlements or revisions to prior estimates. No individual claim currently assessed as probable of an unfavorable outcome is material to the financial statements when taken as a whole. The following table summarizes contingent liabilities provided for in our financial statements at September 30, 2010 and 2009:

Contingent Liabilities (Dollars in millions)	2010	2009
Labor	$ 189	$ 174
Equal Employment Opportunity	49	52
Environmental	40	40
Tort	35	35
Contractual	1	-
Total Contingent Liabilities	$ 314	$ 301

Adequate provision has been made for probable losses from claims and suits. The current portion of this liability at September 30, 2010 and 2009, of $114 million and $86 million, respectively, is included on the Balance Sheets in "Trade payables and accrued expenses." The noncurrent portion of $200 million and $215 million at September 30, 2010 and 2009, respectively, is included in "Contingent liabilities and other" in the Balance Sheets.

The Postal Service also has other claims and lawsuits which are possible of an unfavorable outcome. The range of possible losses is $1.4 billion to $1.6 billion at September 30, 2010. No provisions for these possible losses are included in the financial statements.

NOTE 7 — HEALTH BENEFIT 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 various participating government agency employers. The Postal Service cannot direct the costs, benefits, or funding requirements of the plan and, therefore, accounts for program expenses using multiemployer plan accounting rules.

The Postal Service cost is based upon the weighted-average premium cost of the various employee coverage choices and the specific coverage choices made by employees. Employees paid approximately 20% of the premium costs in 2010, 19% in 2009 and 18% in 2008. Postal Service employee health care expense was $5,141 million in 2010, $5,294 million in 2009, and $5,376 million in 2008.

RETIREES

Employees who participate in the FEHBP for the five years immediately preceding their retirement may participate in the FEHBP during their retirement. The Postal Service is required to pay the employer's share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retire on or after July 1, 1971. Costs attributable to federal civil service before that date are not included.

In 2006, P.L. 109-435 created the PSRHBF, which is held by the U.S. Treasury and controlled by OPM, but funded by the Postal Service. P.L.109-435 established a ten-year schedule of Postal Service payments into the fund that average $5.6 billion per year. However, the 2009 scheduled payment was decreased from $5.4 billion to $1.4 billion due to the enactment of P.L. 111-68. This law affected only the 2009 payment and did not change the 2010 payment requirement of $5.5 billion or the payments scheduled from 2011 to 2016. Although P.L. 109-435 dictates the annual funding requirements through 2016, these amounts and the timing of funding could be changed at any time with passage of a new law or an amendment of existing law.

At September 30, 2010, scheduled payments to the PSRHBF are:

PSRHBF Commitment (Dollars in millions)	P.L. 109-435 Requirement
2011	$ 5,500
2012	5,600
2013	5,600
2014	5,700
2015	5,700
After 2015	5,800
Total PSRHBF Commitment	$ 33,900

These annual payments are in addition to the regularly allocated cost of premiums for current retirees, which continue to be payable through 2016. The law requires that not later than 2017, OPM will perform an actuarial valuation to determine if additional payments into the PSRHBF are required. If required, OPM will design an amortization schedule to fully fund any remaining liability by 2056. Starting in 2017, the Postal Services' share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF. Beginning in 2017, the Postal Service will also fund the actuarially determined normal cost. The Postal Service paid $5.5 billion, $1.4 billion and $5.6 billion into the fund in 2010, 2009 and 2008, respectively. At September 30, 2010, the balance in the fund was $42.5 billion.

Total retiree health benefits expenses were $7,747 million in 2010, $3,390 million in 2009 and $7,407 million in 2008. Components of retiree health benefits expense for the three years ended September 30, 2010, are as follows:

Retiree Health Benefit Expenses (Dollars in millions)	2010	2009	2008
Employer Premium Expense	$ 2,247	$ 1,990	$ 1,807
P.L. 109-435 Scheduled Payment to PSRHBF	5,500	1,400	5,600
Total Retiree Health Benefit Expenses	$ 7,747	$ 3,390	$ 7,407

Because the amounts to be paid into the PSRHBF were set by legislation, our retiree health expense may not represent the full cost of the benefits earned by USPS employees. These costs are reflected as "Retiree health benefits" in the Statements of Operations.

NOTE 8 — RETIREMENT PROGRAMS

PENSION PROGRAMS

Employees participate in one of three pension programs based on the starting date of employment with the federal government. Employee and employer contributions are made to the Civil Service Retirement System (CSRS), the Dual Civil Service Retirement System/Social Security (Dual CSRS), or the Federal Employees Retirement

System (FERS), all of which are administered by the OPM. Employees may also participate in the Thrift Savings Plan (TSP), a defined contribution retirement savings and investment plan, administered by the Federal Retirement Thrift Investment Board.

CSRS

Officers and career employees hired prior to January 1, 1984, are covered by the CSRS, which provides a basic annuity toward which the Postal Service and the employee contribute at rates prescribed by law. Effective October 2006, P.L.109-435 suspends the employer obligation to make contributions for CSRS employees' retirement until 2017. At that time, OPM will perform an actuarial valuation to determine whether additional payments are necessary. The Postal Service does not match TSP contributions for employees participating in CSRS.

Dual CSRS

Employees with prior U.S. government service who were rehired between January 1, 1984, and January 1, 1987, are covered by Dual CSRS, which consists of a basic annuity and Social Security. The Postal Service and the employee contribute to Social Security and the basic annuity at rates prescribed by law. The Postal Service does not match TSP contributions for employees participating in Dual CSRS.

FERS

Effective January 1, 1987, officers and career employees hired since December 31, 1983, are covered by the *Federal Employees Retirement System Act of 1986*, except for those covered by Dual CSRS. Also included are employees formerly covered by CSRS who elected in either 1987, 1988, or 1998 to participate in FERS.

FERS consists of Social Security, a basic annuity plan, and TSP. The Postal Service and the employee contribute to Social Security and the basic annuity plan at the rates prescribed by law. The Postal Service is required to contribute to TSP a minimum of 1% per year of the basic pay of employees covered by this system. It also matches a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of an employee's contribution of between 3% and 5% of basic pay.

EMPLOYEE / EMPLOYER CONTRIBUTIONS

For the last three years, employer contributions, as a percentage of employee basic pay were 11.2% for FERS and zero for CSRS and Dual CSRS. Employer contributions, as a percentage of employee basic pay for FERS will increase to 11.7% in 2011. Employee contributions for the past three years, as a percentage of employee basic pay were 7.0% for CSRS and 0.8% for Dual CSRS and FERS. The number of employees enrolled in each of the retirement plans at the end of 2010, 2009, and 2008 is as follows.

Retirement Enrollment by Program

(Actual numbers)	2010	2009	2008
CSRS	90,480	110,024	130,126
Dual CSRS	5,206	5,947	7,128
FERS	488,222	507,157	525,984
Total Enrollment	583,908	623,128	663,238

EXPENSE COMPONENTS

The following table lists the components of our total retirement expenses included in "Compensation and benefits" expense in the Statements of Operations for 2010, 2009, and 2008.

Retirement Expense

(Dollars in millions)	2010	2009	2008
FERS	$ 2,904	$ 2,962	$ 2,909
Social Security	1,856	1,882	1,932
FERS Thrift Savings Plan	1,049	1,073	1,058
Total Retirement Expense	$ 5,809	$ 5,917	$ 5,899

Employer cash contributions to retirement plans were $4,002 million in 2010, $4,024 million in 2009, and $3,936 million in 2008. These amounts do not include Social Security contributions.

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 and administers payment of claims. The Postal Service reimburses the DOL for all workers' compensation claims paid on its behalf and pays an administrative fee to the DOL.

An estimation model that combines four generally accepted actuarial valuation techniques is used to project future claim payments based upon currently open claims and past claim payment experience.

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the period. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The liability for claims arising more than 10 years ago is determined by an independent actuary. The payout of the estimated liability will, in some cases, be for the rest of the lives of the claimants.

As noted, the liability for estimated future workers' compensation payments is recorded at its present value. This means that, in recording the liability and annual expense, an estimate must be made of the amount of funding that must be invested at current interest rates, in order to fully fund all estimated future payments. The Postal Service updates inflation and discount (interest) rates as of the date of its financial statements to determine the present value of the workers' compensation liability at fair value in accordance with GAAP. The impact of changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in operating expenses.

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the September 30, 2010 liability and 2010 expense by $1,029 million. A decrease of 1% would increase the September 30, 2010 liability and 2010 expense by $1,255 million.

At September 30, 2010, the present value of the liability for future workers' compensation payments is $12,589 million, an increase of $2,456 million, or 24.2%, from $10,133 million at September 30, 2009. The current portion of the liability is $1,115 million and $1,069 million at September 30, 2010 and 2009, respectively.

Changes in the workers' compensation liability are primarily attributable to the combined impact of changes in the discount and inflation rates, and, to a lesser extent, routine changes in actuarial estimation, new compensation and medical cases and the progression of existing cases. The impact of the changes in discount and inflation rates accounted for $2,017 million and $718 million of the increase in the 2010 liability and 2009 liability, respectively.

The inflation and discount rates used to estimate the liability at September 30, 2010, 2009, and 2008 are shown in the following table.

Workers' Compensation Liability Inflation and Discount Rates	September 30, 2010	2009	2008
Compensation Claims Liability			
Discount Rate	2.9%	4.9%	5.6%
Wage inflation	2.9%	3.2%	3.0%
Medical Claims Liability			
Discount Rate	3.0%	4.4%	5.4%
Medical inflation	7.4%	3.8%	5.0%

In 2010, the Postal Service began to use the average rate of medical inflation experienced by its workers' compensation claimants over the past five years as an estimate for future medical inflation. Prior to 2010, forecasted medical inflation rates published by an independent source had been used. During 2010, the Postal Service determined that its own history served as a better indicator of future costs and revised our estimation accordingly. The impact of this change was to increase the liability by $50 million and is accounted for as a change in accounting estimate.

In 2010, workers' compensation expense was $3,566 million compared to $2,223 million in 2009 and $1,227 million in 2008. The components of workers' compensation expense are as follows:

Workers' Compensation Expense (Dollars in millions)	Years Ended September 30, 2010	2009	2008
Impact of discount & inflation rate changes	$ 2,017	$ 718	$ 154
Actuarial revaluation of existing cases	483	625	263
Subtotal	2,500	1,343	417
Costs of new cases	1,009	825	758
Administrative fee	57	55	52
Total Workers' Compensation Expense	$ 3,566	$ 2,223	$ 1,227

In 2010, the Postal Service experienced a $48 million or 4.6% increase in total claims paid on our behalf to $1,085 million. Medical claims payments increased 7.2% or $30 million while payments of compensation claims increased 2.9% or $18 million compared to 2009. Actual claim payments of $1,037 million in 2009 increased $78 million, or 8.1%, over 2008.

NOTE 10 — FAIR VALUE MEASUREMENT

The Postal Service assumes that the carrying value of current assets and current liabilities approximates fair values. The Postal Service also has noncurrent financial instruments, such as the long-term portion of debt (see Note 4 - *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 noncurrent 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 noncurrent U.S. Treasury securities that have a similar maturity, a level 2 input.

The carrying values and the fair values of noncurrent 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

(Dollars in millions)

	September 30, 2010		September 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue Forgone	$ 360	$ 490	$ 360	$ 462
Total Long-Term Financial Assets	360	490	360	462
Debt	4,500	4,815	6,525	6,519
Total Long-Term Financial Liabilities	$ 4,500	$ 4,815	$ 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)

Balance at September 30, 2009	$ 6,519
Repayment of Debt	(2,025)
Unrecognized Loss	321
Balance at September 30, 2010	$ 4,815

For the year ended September 30, 2010, there were no significant transfers between Level 1 and Level 2 assets or liabilities.

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 quarter of 2010 and 2009 and, based on those analyses, impairment charges of $26 million and $71 million were recorded in 2010 and 2009, respectively; impairment charges recorded in 2008 were not material. 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 section on impaired assets in Note 3 — *Significant Accounting Policies.*

NOTE 11 — REVENUE FORGONE

Revenue forgone is an appropriation that compensates the Postal Service for the cost of services that it is required to perform at no cost or reduced cost to certain groups. Congress appropriates funds to reimburse the Postal Service for the revenue that has been forgone in providing these services.

The lost revenue associated with the services that will be provided during a given year is estimated and forwarded to Congress with a funding request. At the end of the year, the actual value of services provided is reconciled with this funding request. If the actual services provided differs from that underlying the initial funding request, the Postal Service will request additional funding or return any excess funding through a reduction to the next revenue forgone funding request.

During 2010, the Postal Service recognized $113 million in revenue, including $24 million of imputed interest, from the appropriations, compared to $71 million, including $24 million of imputed interest in 2009. In 2008, $128 million was recognized in revenue, which included $25 million of imputed interest. The revenue forgone receivable is included in the Balance Sheets as “Receivables: U.S. government.”

The *Revenue Forgone Reform Act of 1993* authorized Congress to make 42 annual payments of $29 million each, beginning in 1994 and continuing through 2035, to reimburse the Postal Service for certain services performed or revenue forgone from 1991 through 1998. The payments authorized by the *Revenue Forgone Reform Act of 1993* totaled $1,218 million, which had a present value calculated at a 7% discount rate of approximately $390 million. The $390 million was recognized as revenue during fiscal years 1991 through 1998. The discounted present value of the remaining future payment for the years ended September 30 was $339 million in 2010 and $344 million in 2009.

The total receivable for revenue forgone was $449 million in 2010 of which $89 million was classified as current assets. In 2009, the total receivable was $448 million and the current portion was $88 million.

Operating Statistics

Mailing and Shipping Statistics	2010	2009	2008	2007	2006
(In millions of units indicated, unaudited)					
Mailing Services					
First-Class Mail					
Revenue	$ 34,026	$ 35,883	$ 38,179	$ 38,404	$ 37,605
Pieces, Number	78,203	83,766	91,697	96,297	98,016
Weight, Pounds	3,693	3,683	4,165	4,401	4,418
Standard Mail					
Revenue	$ 17,331	$ 17,345	$ 20,586	$ 20,779	$ 19,877
Pieces, Number	82,525	82,448	99,084	103,516	102,460
Weight, Pounds	9,346	9,279	11,017	11,820	11,771
Periodicals					
Revenue	$ 1,879	$ 2,038	$ 2,295	$ 2,188	$ 2,215
Pieces, Number	7,269	7,901	8,605	8,796	9,022
Weight, Pounds	2,778	3,018	3,677	3,896	4,041
Package Services					
Revenue	$ 1,516	$ 1,684	$ 1,845	$ 1,812	$ 1,751
Pieces, Number	658	731	846	915	919
Weight, Pounds	1,691	1,873	2,155	2,297	2,323
U.S. Postal Service					
Pieces, Number	431	455	824	1,008	1,010
Weight, Pounds	131	126	149	141	128
Free Matter for the Blind					
Pieces, Number	68	62	72	72	74
Weight, Pounds	31	30	34	34	36
Total Mailing Services Mail					
Revenue	**$ 54,752**	**$ 56,950**	**$ 62,905**	**$ 63,183**	**$ 61,448**
Pieces, Number	**169,154**	**175,363**	**201,128**	**210,604**	**211,501**
Weight, Pounds	**17,670**	**18,009**	**21,197**	**22,589**	**22,717**
Ancillary & Special Services					
Registered Mail					
Revenue	$ 48	$ 50	$ 57	$ 53	$ 73
Number of articles	3	3	4	4	7
Certified Mail					
Revenue	$ 752	$ 731	$ 718	$ 698	$ 631
Number of articles	269	267	269	280	266
Insurance					
Revenue	$ 126	$ 129	$ 145	$ 157	$ 137
Number of articles	39	44	52	57	53
Delivery Receipt Services					
Revenue	$ 769	$ 717	$ 704	$ 640	$ 620
Number of articles	1,587	1,284	1,192	1,098	1,020
Money Orders					
Revenue	$ 182	$ 190	$ 205	$ 211	$ 191
Face value of issues (non-add)	$ 22,792	$ 23,839	$ 25,709	$ 27,194	$ 28,277
Number of articles	123	135	149	163	176
Box Rent Revenue & Caller Services	$ 926	$ 929	$ 897	$ 837	$ 814
Stamped Envelope and Card Revenue	$ 15	$ 17	$ 24	$ 17	$ 25
Other Mailing Services Revenue*	$ 801	$ 123	$ 895	$ 1,108	$ 1,224
Total Ancillary & Special Services Revenue	**$ 3,619**	**$ 2,886**	**$ 3,645**	**$ 3,721**	**$ 3,715**
Total Mailing Services Revenue	**$ 58,371**	**$ 59,836**	**$ 66,550**	**$ 66,904**	**$ 65,163**

Operating Statistics

Mailing and Shipping Statistics	2010	2009	2008	2007	2006
(In millions of units indicated, unaudited)					
Shipping Services					
Revenue	$ 8,533	$ 8,112	$ 8,355	$ 7,852	$ 7,461
Pieces, Number	1,420	1,381	1,575	1,630	1,637
Weight, Pounds	2,989	2,775	3,040	3,054	3,215
Shipping Services					
Ancillary & Special Services Revenue	$ 148	$ 142	$ 27	$ 23	$ 26
Total Shipping Services Revenue	**$ 8,681**	**$ 8,254**	**$ 8,382**	**$ 7,875**	**$ 7,487**
Postal Service Totals					
Revenue	$ 63,285	$ 65,062	$ 71,261	$ 71,035	$ 68,909
Pieces, Number	170,574	176,744	202,703	212,234	213,138
Weight, Pounds	20,659	20,784	24,237	25,643	25,932
Total Ancillary & Special Services Revenue	$ 3,767	$ 3,028	$ 3,671	$ 3,744	$ 3,741
Total Operating Revenue	**$ 67,052**	**$ 68,090**	**$ 74,932**	**$ 74,779**	**$ 72,650**

* Includes a $103 million, a $655 million, and a $230 million increase to the deferred revenue-prepaid postage liability in 2010, 2009, and 2008, respectively. As this is a change in estimate, the decrease in revenue is accounted for in Other Mailing Services revenue.

Note: The totals for certain mail categories have been reclassified for 2009 to better reflect classifications used in the current year. These reclassifications did not impact total mail revenue for 2009, and it also did not change previously reported data for 2008, 2007, or 2006.

Operating Statistics

Career Employees	2010	2009	2008	2007	2006
(Actual numbers, unaudited)					
Headquarters and HQ Related Employees					
Headquarters	2,937	2,811	2,892	2,856	2,761
Headquarters - Field Support Units	4,876	4,455	4,429	4,527	4,402
Inspection Service - Field	2,435	2,617	2,890	2,991	3,130
Inspector General	1,108	1,155	1,159	1,147	1,071
Total HQ and HQ Related Employees	11,356	11,038	11,370	11,521	11,364
Field Employees					
Area Offices	1,079	1,047	1,316	1,281	1,395
Postmasters / Installation Heads	23,111	23,672	25,250	25,285	25,429
Supervisors / Managers	27,792	28,812	31,787	32,635	33,201
Professional Administration and Technical Personnel	5,926	6,460	8,010	8,058	8,539
Clerks	157,168	177,842	194,773	204,145	213,920
Nurses	-	-	134	160	166
Mail Handlers	48,650	52,954	55,812	57,882	57,158
City Delivery Carriers	192,180	200,658	211,661	222,132	224,400
Motor Vehicle Operators	7,413	8,113	8,558	8,726	8,715
Rural Delivery Carriers - Full-Time	66,845	67,749	68,900	67,584	66,344
Building and Equipment Maintenance Personnel	37,403	39,531	40,248	39,948	39,986
Vehicle Maintenance Employees	4,985	5,252	5,419	5,405	5,521
Total Field Employees	572,552	612,090	651,868	673,241	684,774
Total Career Employees	583,908	623,128	663,238	684,762	696,138
Noncareer Employees					
Casuals	6,503	4,271	12,000	22,078	22,518
Nonbargaining Temporary	1,910	1,659	1,119	1,244	1,135
Rural Part-Time: Subs / RCA / RCR / AUX	51,801	54,529	58,072	60,444	59,087
Postmaster Relief and Leave Replacements	11,350	11,477	12,327	12,169	12,188
Transitional Employees	16,215	17,018	18,332	5,232	5,133
Total Noncareer Employees	87,779	88,954	101,850	101,167	100,061
Total Employees	671,687	712,082	765,088	785,929	796,199

Operating Statistics

Post Office and Delivery Points	2010	2009	2008	2007	2006
(In actual units indicated, unaudited)					
Post Offices, Stations, and Branches					
Postal-managed					
Post Offices	27,077	27,161	27,232	27,276	27,318
Classified Stations, Branches, and Carrier Annexes	5,451	5,501	5,509	5,419	5,557
Total Postal-Managed	**32,528**	**32,662**	**32,741**	**32,695**	**32,875**
Contract Postal Units	2,931	3,037	3,148	3,131	3,014
Community Post Offices	763	797	834	895	937
Total Offices, Stations, and Branches	**36,222**	**36,496**	**36,723**	**36,721**	**36,826**
Residential Delivery Points					
City Delivery	80,531,231	80,187,505	79,848,415	79,470,894	78,949,153
Rural	38,638,280	38,264,946	37,684,158	37,022,488	36,068,838
PO Box	15,739,698	15,601,883	15,639,031	15,635,480	15,615,744
Highway Contract	2,607,138	2,576,166	2,516,783	2,473,323	2,345,255
Total Residential Delivery	**137,516,347**	**136,630,500**	**135,688,387**	**134,602,185**	**132,978,990**
Business Delivery Points					
City Delivery	7,457,500	7,483,461	7,436,965	7,411,582	7,343,020
Rural	1,453,292	1,439,266	1,407,942	1,360,478	1,297,022
PO Box	4,355,674	4,489,688	4,587,454	4,548,973	4,490,102
Highway Contract	72,648	72,966	71,538	69,304	65,062
Total Business Delivery	**13,339,114**	**13,485,381**	**13,503,899**	**13,390,337**	**13,195,206**
Total Delivery Points	**150,855,461**	**150,115,881**	**149,192,286**	**147,992,522**	**146,174,196**
Change in Delivery Points	739,580	923,595	1,199,764	1,818,326	1,847,831

Financial History Summary

(Dollars in millions)	2010	2009	2008	2007	2006
Statements of Operations					
Total revenue	$ 67,077	$ 68,116	$ 74,968	$ 74,973	$ 72,817
Total expense **	75,582	71,910	77,774	80,115	71,917
Net (Loss) Income	**$ (8,505)**	**$ (3,794)**	**$ (2,806)**	**$ (5,142)**	**$ 900**
Operating revenue	$ 66,963	$ 68,043	$ 74,829	$ 74,715	$ 72,551
Revenue foregone	89	47	103	63	99
Total operating revenue	67,052	68,090	74,932	74,778	72,650
Compensation and benefits**	49,035	50,931	52,358	53,306	53,386
Retiree health benefits **	7,747	3,390	7,407	10,084	1,637
Workers' compensation	3,566	2,223	1,227	880	1,279
Other expenses	15,078	15,286	16,746	15,835	15,379
Total operating expenses **	75,426	71,830	77,738	80,105	71,681
(Loss) Income from operations	(8,374)	(3,740)	(2,806)	(5,327)	969
Interest and investment income	25	26	36	195	167
Interest expense deferred retirement	-	-	-	-	(231)
Other interest expense	(156)	(80)	(36)	(10)	(5)
Net (Loss) Income	**$ (8,505)**	**$ (3,794)**	**$ (2,806)**	**$ (5,142)**	**$ 900**
Balance Sheets					
Current assets *	$ 2,354	$ 5,051	$ 2,354	$ 1,859	$ 2,041
Property, equipment, and other assets	21,972	23,067	23,632	23,988	26,447
Total assets	**$ 24,326**	**$ 28,118**	**$ 25,986**	**$ 25,847**	**$ 28,488**
Current liabilities *	$ 18,676	$ 14,250	$ 16,871	$ 13,923	$ 11,719
Other liabilities *	19,523	19,281	10,787	10,790	10,493
(Deficit) Equity	(13,873)	(5,413)	(1,672)	1,134	6,276
Total liabilities and net capital	**$ 24,326**	**$ 28,118**	**$ 25,986**	**$ 25,847**	**$ 28,488**
Changes in Net Capital					
Capital contributions of the U.S. government	$ 3,087	$ 3,034	$ 3,034	$ 3,034	$ 3,034
(Deficit) Equity since 1971 reorganization	(8,500)	(4,706)	(1,900)	3,242	2,342
Total beginning balance	(5,413)	(1,672)	1,134	6,276	5,376
Additional Capital Contributions	45	53	-	-	-
Net (loss) income	**(8,505)**	**(3,794)**	**(2,806)**	**(5,142)**	**900**
Ending balance	**$ (13,873)**	**$ (5,413)**	**$ (1,672)**	**$ 1,134**	**$ 6,276**

* Certain reclassifications have been made to previously reported amounts.

** The net impact of P.L.111-68 was $4.0 billion reduction of expense in 2009. The net impact of P.L.109-435 legislation was $6.8 billion of additional expense in 2007 ($8.4 billion in additional Retiree health benefits less $1.6 billion in CSRS savings).

Selected Quarterly Financial Data

2010	Quarter 1	Quarter 2	Quarter 3	Quarter 4
(Dollars in millions, unaudited)				
Operating revenue	$ 18,355	$ 16,697	$ 16,045 a	$ 15,955
Total operating expenses	18,618	18,250	19,510 b	19,048
(Loss) from operations	(263)	(1,553)	(3,465)	(3,093)
Interest income (expense) - net	(34)	(31)	(33)	(33)
Net (Loss)	**$ (297)**	**$ (1,584)**	**$ (3,498)**	**$ (3,126)**

2009	Quarter 1	Quarter 2	Quarter 3	Quarter 4
(Dollars in millions, unaudited)				
Operating revenue	$ 19,095	$ 16,938	$ 16,339	$ 15,718 d
Total operating expenses	19,475	18,840	18,721 c	14,794 e
(Loss) Income from operations	(380)	(1,902)	(2,382)	924
Interest income (expense) - net	(4)	(3)	(19)	(28)
Net (Loss) Income	**$ (384)**	**$ (1,905)**	**$ (2,401)**	**$ 896**

2008	Quarter 1	Quarter 2	Quarter 3	Quarter 4
(Dollars in millions, unaudited)				
Operating revenue	$ 20,369	$ 18,916	$ 17,910 f	$ 17,737
Total operating expenses	19,683	19,622	19,015	19,418
Income (loss) from operations	686	(706)	(1,105)	(1,681)
Interest income (expense) - net	(14)	(1)	7	8
Net Income (Loss)	**$ 672**	**$ (707)**	**$ (1,098)**	**$ (1,673)**

a - Includes the impact of $103 million increase to the stamp portion of the deferred revenue-prepaid postage, due to change in estimate.

b - Includes the impact of the $1,656 million increase in workers' compensation expense, due to a change in discount and inflation rates.

c - Includes the impact of the $807 million increase in workers' compensation expense, due to a change in discount and inflation rates.

d - Includes the impact of the $655 million increase to the stamp portion of the deferred revenue-prepaid postage liability, due to a change in estimate.

e - Includes the impact of the $4 billion reduction in the PSRHBF contribution due to P.L. 111-68.

f - Includes the impact of the $450 million increase to the stamp portion of the deferred revenue-prepaid postage liability, due to a change in estimate.

Glossary

Accounting Standards Codification (ASC). Codifies authoritative accounting literature and guidance into a single source and establishes two levels of U.S. Generally Accepted Accounting Principles, or GAAP — authoritative and nonauthoritative. ASC is the source of authoritative GAAP.

Accruals. Revenue and expenses that are recorded as they occur, even though they may not have actually been paid.

Amortize. To reduce the value of an asset through regular charges to income over time; or to write off expenses by prorating them over a period of time.

Appropriation. Public funds set aside by Congress for a specific purpose.

Asset. An economic resource that is expected to be of benefit in the future.

Cautionary Statements. Statements contained in Management's Discussion and Analysis that represent our best estimate of the trends we know about, the trends we anticipate, and the trends we think are relevant to our future operations.

Capitalize. To treat an expenditure as an asset; or to compute the present value of a future payment that will be paid over a period of time.

Contribution. The difference between the revenue from a class of mail and that class's volume-variable costs. For example, if a class of mail has revenue of $1.5 billion and volume-variable costs of $1 billion, its contribution is $500 million, which means that this class of mail covers its costs and contributes $500 million to the common costs of all mail services.

Contingent Liability. A potential liability that is contingent on a future event.

Delivery Confirmation. A special service that provides the date of delivery or attempted delivery for Priority Mail and Standard Mail parcels, Bound Printed Matter, and Library Mail.

Depreciate. To periodically reduce the estimated value of an asset over the course of its useful life.

Direct Mail. A form of advertising often employed by businesses to reach targeted groups of potential customers by mail.

Enhanced Carrier Route. A subclass of Standard Mail for mail pieces weighing less than 16 ounces and prepared in carrier route sequence.

Equity. The difference between the value of all assets less all liabilities.

Express Mail. The Postal Service's premium delivery service, providing guaranteed overnight delivery for documents and packages weighing up to 70 pounds. Both domestic and international services are offered.

First-Class Mail. A class of mail including letters, postcards, and all matter sealed or otherwise closed against inspection. This service is required for personal correspondence, handwritten or typewritten letters, and bills or statements of account.

Fiscal Year. As used in the financial section of this report, the Postal Service fiscal year, which is the 12-month period during which the Postal Service keeps accounts, beginning Oct. 1 and closing Sept. 30.

Fixed Asset. Any tangible property such as buildings, machinery and equipment, furniture, and leasehold improvements.

Forever Stamp. A stamp that once purchased is good for mailing one-ounce First-Class Mail letters anytime in the future — regardless of price changes. It was introduced in 2007.

Generally Accepted Accounting Principles (GAAP). The rules and procedures of accepted accounting practice as defined by the Financial Accounting Standards Board.

Impaired Asset. When the market value of an economic resource has been permanently lowered below the recorded value of the asset.

Inspector General. The Inspector General is appointed by and reports directly to the Governors of the Postal Service and is independent of postal management. The Office of Inspector General (OIG) primarily investigates and evaluates programs and operations of the Postal Service to ensure the efficiency and integrity of the postal system.

Intelligent Mail. Products and services or a strategy used to describe products and services that use machine readable codes, such as barcodes, to uniquely identify mail. This enables large mailers to follow the progress of their mail through the many stages of processing all the way to delivery.

Glossary

Leasehold. An asset that gives the Postal Service the right to use property under a lease.

Liability. Any debt or obligation that is owed by the Postal Service at some future period of time.

Mailing Services. Market-dominated products as defined by the PRC. These are products for which the Postal Service has market power to set prices substantially above costs without risk of losing business to others. The Mailing Services products include: First-Class Mail letters and sealed parcels; First-Class Mail cards; Periodicals; Standard Mail; single-piece Parcel Post; Media Mail; Bound Printed Matter; Library Mail; Special Services; and single-piece International Mail.

Operating Expense. Expenses that are incurred in providing our primary business services and products.

Operating Margin. A financial indication calculated by dividing income from operations by operating revenue.

Operating Revenue. Revenues that are earned from our primary business services and products.

OPM. Office of Personnel Management. The agency that manages and maintains the government retirement and health benefit plans.

Package Services. Mailing category offered for any merchandise or printed matter weighing up to 70 pounds. These services include Parcel Post, Bound Printed Matter, Library Mail, and Media Mail.

Payable. Money that is owed by the Postal Service.

Periodicals. A class of mail formerly called second-class mail that consists of magazines, newspapers, and other publications.

Postal Inspection Service. The investigative arm of the Postal Service responsible for investigating criminal acts involving the mail and misuse of the postal system.

Postal Regulatory Commission (PRC) (formerly the Postal Rate Commission). An independent federal establishment with oversight responsibility for the Postal Service to review and approve prices, review financial data, and hear and rule on price and service complaints.

Prepaid. Payments made in advance of service being provided.

Present Value. The value today of a future payment that is discounted at a stated rate of compound interest. For example, the present value of $100 that will be paid to the Postal Service 10 years from now is about $38.55, if we discount that $100 at a rate equal to 10% interest compounded annually.

Priority Mail. Priority mail is a 1-3-day non-guaranteed delivery service.

Receivable. Money that is owed to the Postal Service.

Recognize. To record in Postal Service accounts as income or expense.

Shipping Services. Products that are not Mailing Services and are considered competitive products. The competitive product list includes: Priority Mail; Expedited Mail; Bulk Parcel Post; and Bulk International Mail.

Special Services. A category of services that add value to mail by providing added security, proof of delivery or loss recovery. These services include: Certified Mail, Registered Mail, Delivery Confirmation, Signature Confirmation, and insurance up to $1,000.

Standard Mail. Mailing service offered for any item, including advertisements and merchandise weighing less than 16 ounces that are not required to be sent using First-Class Mail. Standard Mail is typically used for bulk advertising to multiple delivery addresses.

U.S. Mail. Any mailable matter that is accepted for mail processing and delivery by the Postal Service.

Universal Service. The Postal Service’s mandate and commitment to the nation to provide mail delivery service at uniform and reasonable rates to everyone, everywhere.

Workshare. Tasks performed by mailers that otherwise would be done by the Postal Service, such as, preparing, sorting, barcoding, and transporting mail. Reduced postage rates are offered to these customers.

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: November 15, 2010

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, this Report has been signed below by the following persons on behalf of the Postal Service and in the capacities indicated as of November 15, 2010.

Signature	Title
/s/ Louis J. Giuliano Louis J. Giuliano	Chairman of the Board of Governors
/s/ Thurgood Marshall, Jr. Thurgood Marshall, Jr.	Vice Chairman of the Board of Governors
/s/ Carolyn Lewis Gallagher Carolyn Lewis Gallagher	Chairman Emeritus of the Board of Governors
/s/ Mickey D. Barnett Mickey D. Barnett	Governor
/s/ James H. Bilbray James H. Bilbray	Governor
/s/ Alan C. Kessler Alan C. Kessler	Governor
/s/ James C. Miller III James C. Miller III	Governor
/s/ Dennis J. Toner Dennis J. Toner	Governor
/s/ Ellen C. Williams Ellen C. Williams	Governor

Signature	Title
/s/ John E. Potter John E. Potter	Board Member, Postmaster General and Chief Executive Officer
/s/ Patrick R. Donahoe Patrick R. Donahoe	Board Member, Deputy Postmaster General and Chief Operating Officer
/s/ Joseph Corbett Joseph Corbett	Chief Financial Officer and Executive Vice President (Principal financial officer)
/s/ Vincent H. DeVito Vincent H. DeVito	Vice President, Controller (Principal accounting officer)

EMPLOYMENT AGREEMENT

The following shall constitute the contract of employment between the United States Postal Service ("Postal Service") and Paul E. Vogel ("Mr. Vogel").

1. This contract is entered into under the authority of section 204 of Title 39 of the United States Code.

2. The Postal Service agrees to employ Mr. Vogel in the position of President, Shipping & Mailing Services at the Postal Service's Headquarters located at 475 L'Enfant Plaza, S.W., Washington, DC. Mr. Vogel's employment in this position shall commence on August 14, 2010.

3. The Postal Service will compensate Mr. Vogel with a basic salary paid at the annual rate of $245,000, provided however, that as more fully provided in paragraph 4 below, certain amounts will be withheld from this sum because Mr. Vogel will be a reemployed annuitant. In accordance with standard Postal Service policy and practice, this basic salary rate may be reviewed and adjusted on an annual basis during each succeeding year in which this Agreement remains effective. Unless required by law, the basic salary rate will not be lower than set forth here. In addition to a basic salary, Mr. Vogel will be eligible to participate in the Pay for Performance Program, or any successor program, that is generally applicable to officers of the Postal Service. Mr. Vogel's participation in this program shall be according to the standard policies and practices governing the Pay for Performance Program, or any successor program.

4. For the purposes of this agreement, "basic salary" shall be defined as the sum of the "base salary" and the "annuity amount" appearing on Mr. Vogel's Notification of Personnel Action, PS Form 50, as of the relevant date or event. Mr. Vogel's "base salary" during the term of employment covered by this agreement shall never be lower than Mr. Vogel's "base salary" on the date Mr. Vogel commences employment as the President, Shipping & Mailing Services, except as may be required by any statutory limit on compensation. Mr. Vogel must inform the Postal Service's Director, Compensation and Benefits, or the incumbent in any successor position, of any change in Mr. Vogel's annuity amount within fourteen days of any such change.

5. Statutes of Title 5 of the United States Code and regulations of the Office of Personnel Management (OPM) govern the retirement, life insurance, and health care insurance coverage of reemployed annuitants. Statutes of Title 5 of the United States Code and regulations of the Federal Retirement Thrift Investment Board govern the participation in the Thrift Savings Plan of reemployed annuitants. Furthermore, statutes of Title 5 of the United States Code and OPM regulations require the Postal Service to set off and withhold from Mr. Vogel's salary an amount equal to the annuity he receives as a

federal retiree. The Postal Service will withhold the required annuity amount from Mr. Vogel's basic salary, on a bi-weekly basis. As a reemployed annuitant, during the term of this agreement and to the extent allowed by statutes of Title 5 of the United States Code and regulations issued by the OPM and the Federal Thrift Retirement Investment Board, Mr. Vogel will be eligible for all benefits available to officers of the Postal Service pursuant to standard Postal Service policy and practice, provided however, that these benefits shall be subject to the standard policies in effect for re-employed annuitants. These benefits include annual leave, sick leave, life and health insurance and participation in the Thrift Savings Plan and the Civil Service Retirement System or Federal Employees Retirement System. As provided by law, Mr. Vogel shall elect which retirement plan he shall participate in.

6. In order to induce Mr. Vogel to enter into his Agreement, the Postal Service shall provide the following additional benefits to Mr. Vogel:

    a. A one-time recruitment payment of $95,000, less required withholding and deductions. To the extent allowed by law, this payment will be made to Mr. Vogel during the first sixty days after he begins employment with the Postal Service, on the condition that he is employed by the Postal Service at the time payment is due. In the event Mr. Vogel does not remain employed by the Postal Service through August 13, 2011 for any reason other than being required to resign because of a change in leadership of the Postal Service or for cause, he shall, within fourteen calendar days after he ceases to be employed by the Postal Service, refund to the Postal Service a prorated portion of the $95,000 payment that he received for the purpose of inducing him to accept the position of President, Shipping and Mailing Services, less any applicable deductions. In the event Mr. Vogel is required to refund any monies to the Postal Service pursuant to this paragraph of this agreement, the prorated amount of the incentive payment that he shall be entitled to retain shall be equal to the fraction of that incentive payment created by dividing by twelve the number of full calendar months that Mr. Vogel was employed by the Postal Service. Provided, notwithstanding any other provision of this agreement, in the event Mr. Vogel is terminated for cause prior to August 14, 2011, he shall be required to refund to the Postal Service the entire one-time recruitment payment which he has received pursuant to this agreement. In the event any amounts to be refunded to the Postal Service pursuant to this paragraph of this agreement have been deferred pursuant to paragraph 7 of this agreement, Mr. Vogel hereby relinquishes any right to such deferred amounts. In relinquishing all rights to any deferred amounts that are to be refunded to the Postal Service pursuant to this paragraph of this Agreement, Mr. Vogel understands that he is waiving the provisions of the Debt Collection Act and subchapter 450 of the Employee and Labor

Relations Manual. Any portion of such one-time payment required to be deferred by the limitation found at section 3686 of Title 39 of the United States Code will be paid as deferred compensation pursuant to paragraph 7 of this agreement.

b. In addition to all other compensation specified in this agreement, Mr. Vogel shall receive a performance incentive, as set forth in this paragraph. For each twelve-month period listed below in this paragraph, Mr. Vogel shall be entitled to, at a minimum, a performance incentive award of 25% of his basic salary in effect as of the end of each twelve-month period. The maximum amounts he may be awarded for each twelve-month period are specified below in this paragraph. Within the limits established by this paragraph for the annual minimum and maximum amounts, the Postmaster General, in his sole discretion, shall determine the amount of the performance incentive to be awarded for each twelve-month period. The Postmaster General shall make this determination no later than December 31 of each year specified below, and all amounts due to Mr. Vogel will be paid, or accrued pursuant to paragraph 7 of this Agreement if required by law, no later than sixty days after the Postmaster General determines the amount to be awarded to Mr. Vogel pursuant to this paragraph. Mr. Vogel's right to a performance incentive award for each twelve-month period specified below shall vest, and not be subject to forfeiture, as of September 30 of each twelve-month period specified below, as long as he remains employed by the Postal Service as of that date. In the event Mr. Vogel separates from the Postal Service for a reason other than cause prior to the conclusion of any twelve-month period listed below, then for that period, he shall be entitled to receive a prorated fractional performance incentive, calculated as follows: First, a fraction shall be created by dividing by twelve the number of full calendar months during the relevant twelve-month period that Mr. Vogel was employed by the Postal Service. Second, the basic salary in effect as of the date of Mr. Vogel's separation from the Postal Service shall be multiplied by the fraction derived pursuant to the foregoing sentence. Third, the amount derived pursuant to the foregoing sentence shall be multiplied by a percentage, as determined by the Postmaster General. This percentage shall be within the range established for the pertinent time period, per subparagraphs i through iv, below.

   i. For the twelve-month period ending on September 30, 2011, the amount of the performance incentive shall be up to 50% of Mr. Vogel's basic salary as of September 30, 2011.
   ii. For the twelve-month period ending on September 30, 2012, the amount of the performance incentive shall be up to 50% of Mr. Vogel's basic salary as of September 30, 2012.

iii. For the twelve-month period ending on September 30, 2013, the amount of the performance incentive shall be up to 50% of Mr. Vogel's basic salary as of September 30, 2013.

iv. For each twelve-month period ending on September 30 of each year following 2013 during which he is employed as an officer of the Postal Service, the amount of the performance incentive shall be up to 50% of Mr. Vogel's basic salary as of September 30, subject to proration as set forth in paragraph 5.b of this agreement.

c. Prior to executing this agreement, as a retired officer of the Postal Service, and pursuant to the Postal Service's standard policies, Mr. Vogel was entitled to receive post-employment relocation benefits. Pursuant to the standard Postal Service policy in effect as of the date of Mr. Vogel's retirement from the Postal Service, Mr. Vogel's eligibility to receive those benefits, but for the terms of this contract, would expire five years from January 30, 2009, the date of his previous retirement from the Postal Service. Pursuant to the terms of this agreement, Mr. Vogel's eligibility to receive the officer relocation benefits in effect as of January 30, 2009 will be extended for a period equal to the period of service under this contract, but in no event will the extension of his eligibility to receive these benefits exceed three additional years, or eight years from January 30, 2009. The relocation benefits that will be available to Mr. Vogel will be those that were in effect as of January 30, 2009.

7. In executing this Agreement, both parties acknowledge that Mr. Vogel's total compensation is subject to the statutory limits on total compensation contained in Title 39 of the United States Code. As a result of those limits, it may be necessary to defer compensation that would otherwise be payable to Mr. Vogel while he is employed by the Postal Service, including but not limited to, basic salary, performance awards, individual awards and bonuses. Such deferred compensation shall be subject to the following:

   a. All deferred compensation under this paragraph 7 shall be held by the Postal Service as part of its general operating funds, and held for future payment to Mr. Vogel.

   b. Compensation deferred pursuant to this paragraph 7 may accrue interest in accordance with the standard policy in effect at the time of accrual until paid to Mr. Vogel, or until his separation from the Postal Service, whichever occurs first. Any interest accrual shall be calculated per the standard policy in effect for deferred compensation at the time of accrual.

c. Unless otherwise restricted by Title 39 of the United States Code, the total amount deferred under this paragraph 7 (including all interest accrued on compensation deferred) shall be paid to Mr. Vogel within 90 days after the date of his separation.

d. Section 409A Compliance. The provisions of paragraph 7(f) and paragraph 7(g) of this Agreement shall apply to compensation deferred pursuant to this paragraph 7. This Agreement, including this paragraph 7, is intended to fully comply with all the requirements of Section 409A of the Internal Revenue Code, as amended, and Treasury regulations thereunder ("Section 409A") so as to not result in any income inclusion to Mr. Vogel under Section 409A(a)(1)(A). Upon future request by Mr. Vogel (if any) to further defer the payment due him under this paragraph 7, the Postal Service may agree to an amendment of this Agreement as provided in Section 13 of this Agreement, provided such an amendment satisfies the second sentence of this paragraph 7(d). Generally, this means that an amendment to provide for a further deferral and a new election for a new distribution date made under that amendment must be made no later than one year prior to the distribution (payment) date which is to be further deferred, and any new further deferred distribution date must be at least five years after the original distribution date.

e. In the event Mr. Vogel dies before all payments due Mr. Vogel under this Agreement have been made, any amounts owed Mr. Vogel pursuant to this Agreement shall be paid to Mr. Vogel's designated beneficiary in a lump sum within 90 days after the date of his death, provided however, that survivor benefits payable pursuant to sections 681 and 682 of the Handbook EL-380 shall be paid in the manner prescribed in that Handbook; Mr. Vogel's designated beneficiary is an intended third-party beneficiary with respect to the payments set forth in this Agreement in the event of Mr. Vogel's death; and this Agreement may be enforced by Mr. Vogel's designated beneficiary in accordance with the terms of this Agreement.

f. Unforeseen Emergency: Notwithstanding subparagraph (c) above, Mr. Vogel may receive a distribution of his deferred compensation in the event of an "unforeseeable emergency" with respect to Mr. Vogel, as such term is defined pursuant to Section 409A. Any such distribution of deferred compensation in the event of an unforeseeable emergency must comply with Section 409A and the limitation on compensation found at section 3686 of Title 39 of the United States Code. The Postmaster General shall make all determinations required under Section 409A with respect to an unforeseeable emergency. For informational purposes, an unforeseeable emergency generally means a severe financial hardship arising from illness, loss or destruction of property, or certain other events, but the definition of unforeseeable emergency for purposes of the Agreement shall be as provided in Section 409A.

g. Section 409A Compliance: All references in this agreement to Mr. Vogel's "termination of employment" with the Postal Service, or words of similar meaning, as a condition for the payment of any form of deferred compensation, shall be deemed to be references to Mr. Vogel's "separation from service" with the Postal Service within the meaning of Section 409A of the Internal Revenue Code and applying the default rules thereof.

8. Mr. Vogel understands and agrees that as an officer of the Postal Service, he is bound by the rules and regulations of the Postal Service, including, but not limited to, those applicable to employee conduct and conflicts of interest.

9. Mr. Vogel shall have the right to terminate his employment thirty days after providing the Postal Service with written notice of his intent to do so. By mutual agreement, the parties may shorten this time period. Mr. Vogel shall send this notice by certified mail to the Manager, Corporate Personnel Management, 475 L'Enfant Plaza, S.W., Washington, D.C. 20260-4261. Except for deferred compensation which may be payable pursuant to paragraph 7 of this agreement, in the event Mr. Vogel terminates his employment, he shall not be entitled to any compensation under this agreement for any period beyond the date on which he terminates his employment.

10. As provided in section 204 of Title 39 of the United States Code, Mr. Vogel shall serve in the position of President, Shipping & Mailing Services or in any other position to which he may be assigned at the pleasure of the Postmaster General. Subject to the next paragraph of this agreement, in the event the Postmaster General exercises his or her right to terminate Mr. Vogel's employment after Mr. Vogel has served as the President, Shipping & Mailing Services or in any other position to which he may be assigned for a total period of no more than one year, Mr. Vogel will be entitled to a severance payment in an amount equal to 200% of his annual basic salary, at the annual rate of his basic salary in effect at the time of his separation from the Postal Service. In the event the Postmaster General exercises his or her right to terminate Mr. Vogel's employment after Mr. Vogel has served as the President, Shipping & Mailing Services or any other position to which he may be assigned for a total period of more than one year, but less than two years, Mr. Vogel will be entitled to a severance payment in an amount equal to 150% of his basic salary, at the annual rate of his basic salary in effect at the time of his separation from the Postal Service. In the event the Postmaster General exercises his or her right to terminate Mr. Vogel's employment after Mr. Vogel has served as the President, Shipping & Mailing Services or in any

other position to which he may be assigned for a total period of at least two full years, Mr. Vogel will be entitled to a severance payment in an amount equal to 100% of his basic salary, at the annual rate of his basic salary in effect at the time of his separation from the Postal Service. To the extent permitted by section 3686 of Title 39 of the United States Code, this severance payment will be issued to Mr. Vogel no later than sixty days after he ceases to be employed by the Postal Service. In the event section 3686 of Title 39 of the United States Code prevents Mr. Vogel from receiving any portion of this severance payment, that portion will be paid as deferred compensation pursuant to paragraph 7 of this agreement. The severance payment stipulated in this paragraph of this agreement will be Mr. Vogel's sole remedy, and the total amount of damages he may recover, in the event he is terminated pursuant to this paragraph of this agreement.

11. Notwithstanding the previous paragraph of this agreement, in the event Mr. Vogel's employment is terminated for cause or for breach of contract, he shall not be entitled to any compensation for any period beyond the date on which his employment is terminated (but shall receive deferred compensation pursuant to paragraph 7). That is, in the event Mr. Vogel is terminated for cause or breach of contract, he forfeits all monies that may be due and owing to him pursuant to paragraph 10 of this agreement. In the event a court should determine that there was neither cause for his termination nor breach of contract to warrant termination, Mr. Vogel shall be entitled to, and his damages shall be limited to, the severance pay set forth in the preceding paragraph of this agreement.

12. For the purposes of this agreement, "cause" shall mean (i) the material breach by Mr. Vogel of his duties and responsibilities as an employee of the Postal Service; (ii) the commission of an act of dishonesty by Mr. Vogel relating to Mr. Vogel's duties and responsibilities which may or does cause harm to the Postal Service; (iii) the commission by Mr. Vogel of an act of moral turpitude which may or does cause harm to the Postal Service; (iv) a material violation by Mr. Vogel of the Standards of Ethical Conduct as set forth in 5 CFR Part 2635, 39 CFR Part 447, and Subchapter 660 of the Employee and Labor Relations Manual, or successors thereto; or (v) a personal and material violation by Mr. Vogel of the employment anti-discrimination laws. Nothing in this agreement shall be construed to limit or waive the Postmaster General's authority to remove Mr. Vogel from his position as an officer of the Postal Service for any reason, including but not limited to removal for cause.

13. Any waiver or any breach of this agreement shall not be construed to be a continuous waiver or consent to any subsequent breach on the part of either party.

14. This agreement may be amended or modified upon the written agreement of the parties, provided that any such amendment or modification is permitted by Section 409A. No amendment or modification of this agreement shall be valid or effective unless in writing and executed by the parties to this agreement.

15. This agreement embodies the entire agreement of the parties hereto with respect to its subject matter and merges with and supersedes all prior discussion, agreement, commitments or understanding of every kind and nature relating thereto, whether oral or written, between Mr. Vogel and any representative of the Postal Service. Neither party shall be bound by any term or condition other than as is expressly set forth herein.

16. Mr. Vogel represents and agrees that he has carefully read and fully understands all of the provisions of this agreement, that he is competent to execute this agreement, that his decision to execute this agreement has not been obtained by any duress, that he freely and voluntarily enters into this agreement, and that he has read this document in its entirety and fully understands the meaning, intent and consequences of this agreement.

Postal Service	Paul E. Vogel
Date: 7/27/10	Date: 7/27/10

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 annual report on Form 10-K 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-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. 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

   d. 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 control 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: November 15, 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 annual report on Form 10-K 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-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. 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

   d. 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 control 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: November 15, 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 Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 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: November 15, 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 Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 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: November 15, 2010

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