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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO 39 U.S.C. § 3654 AND SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2020

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐
Smaller reporting company ☐	Emerging growth company ☐	Not applicable ☑

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Not applicable	Not applicable	Not applicable

The number of shares of common stock outstanding as of February 8, 2021: N/A

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNITED STATES POSTAL SERVICE
STATEMENTS OF OPERATIONS
(UNAUDITED)

(in millions)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Revenue:		
Operating revenue	$ 21,495	$ 19,351
Other revenue	3	3
Total revenue	**21,498**	**19,354**
Operating expenses:		
Compensation and benefits	13,279	12,508
Retirement benefits	1,791	1,615
Retiree health benefits	1,200	1,225
Workers' compensation	(278)	(202)
Transportation	2,601	2,397
Other operating expenses	2,554	2,536
Total operating expenses	**21,147**	**20,079**
Income (loss) from operations	**351**	**(725)**
Interest and investment income	8	41
Interest expense	(41)	(64)
Net income (loss)	**$ 318**	**$ (748)**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
BALANCE SHEETS

(in millions)	December 31, 2020 (Unaudited)	September 30, 2020
Current Assets:		
Cash and cash equivalents	$ 15,171	$ 14,358
Restricted cash	560	354
Receivables, net (less allowances of $123 and $87)	1,349	1,359
Supplies, advances and prepayments	286	224
Total current assets	**17,366**	**16,295**
Property and equipment, net	14,599	14,567
Operating lease right-of-use assets	4,487	4,488
Other assets	567	554
Total assets	**$ 37,019**	**$ 35,904**
Current Liabilities:		
Compensation and benefits	$ 3,326	$ 2,788
Retirement benefits	12,343	11,583
Retiree health benefits	53,065	51,865
Workers' compensation	1,259	1,320
Payables and accrued expenses	2,460	2,328
Deferred revenue-prepaid postage	2,729	2,489
Operating lease liabilities	1,220	1,206
Customer deposit accounts	1,188	1,260
Other current liabilities	1,386	1,336
Short-term debt	3,000	3,000
Total current liabilities	**81,976**	**79,175**
Workers' compensation, noncurrent	17,217	18,754
Operating lease liabilities, noncurrent	3,402	3,425
Employees' accumulated leave, noncurrent	2,195	2,201
Other noncurrent liabilities	1,661	2,057
Long-term debt	11,000	11,000
Total liabilities	**117,451**	**116,612**
Net Deficiency:		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	(83,564)	(83,840)
Total net deficiency	**(80,432)**	**(80,708)**
Total liabilities and net deficiency	**$ 37,019**	**$ 35,904**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
STATEMENTS OF CHANGES IN NET DEFICIENCY
(UNAUDITED)

For the three months ended December 31, 2019

(in millions)	Capital Contributions of U.S. Government	Accumulated Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2019	**$ 3,132**	**$ (74,664)**	**$ (71,532)**
Net loss	—	(748)	(748)
Balance, December 31, 2019	**$ 3,132**	**$ (75,412)**	**$ (72,280)**

See accompanying notes to the unaudited financial statements.

For the three months ended December 31, 2020

(in millions)	Capital Contributions of U.S. Government	Accumulated Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2020	**$ 3,132**	**$ (83,840)**	**$ (80,708)**
Cumulative effect adjustment for adoption of new accounting pronouncement	—	(42)	(42)
Net income	—	318	318
Balance, December 31, 2020	**$ 3,132**	**$ (83,564)**	**$ (80,432)**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in millions)	Three Months Ended December 31, 2020	2019
Cash flows from operating activities:		
Net income (loss)	$ 318	$ (748)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	419	431
Loss (gain) on disposals of property and equipment, net	4	(2)
Lease expense	1	71
Increase in other assets	(13)	(28)
Decrease in noncurrent workers' compensation	(1,537)	(1,524)
Decrease in noncurrent deferred appropriations and other revenue	(1)	(1)
Net lease liabilities	(9)	60
Decrease in other noncurrent liabilities	(356)	(39)
Changes in current assets and liabilities:		
Receivables, net	(32)	96
Other current assets	(62)	(86)
Retirement benefits	760	637
Retiree health benefits	1,200	1,225
Payables, accrued expenses and other	594	(399)
Deferred revenue-prepaid postage and other deferred revenue	242	(3)
Net cash provided by (used in) operating activities	**1,528**	**(310)**
Cash flows from investing activities:		
Purchases of property and equipment	(505)	(418)
Proceeds from sales of property and equipment	4	8
Net cash used in investing activities	**(501)**	**(410)**
Cash flows from financing activities:		
Payments on finance lease obligations	(8)	(11)
Net cash used in financing activities	**(8)**	**(11)**
Net increase (decrease) in cash, cash equivalents & restricted cash	1,019	(731)
Cash, cash equivalents & restricted cash - beginning of period	14,712	9,161
Cash, cash equivalents & restricted cash - end of period	**$ 15,731**	**$ 8,430**
Supplemental cash flow disclosures:		
Cash paid for interest	$ 33	$ 56

See accompanying notes to the unaudited financial statements.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Interim Financial Statements

The accompanying unaudited interim financial statements of the United States Postal Service (the "Postal Service") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of the U.S. Securities and Exchange Commission Regulation S-X. These financial statements should be read in conjunction with the Postal Service's financial statements for the year ended September 30, 2020 included in its Annual Report on Form 10-K ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 13, 2020, and do not include all information and footnotes which are normally included in the Annual Report. Except as otherwise specified, all references to years are to fiscal years beginning October 1 and ending September 30, and quarters are quarters within fiscal years 2021 and 2020.

In the opinion of management, the accompanying unaudited interim financial statements reflect all material adjustments, including recurring adjustments, necessary to fairly present the financial position as of December 31, 2020, the results of operations for the three months ended December 31, 2020 and 2019, the changes in net deficiency for the three months ended December 31, 2020 and 2019, and cash flows for the three months ended December 31, 2020 and 2019. Operating results for the three months ended December 31, 2020 are not necessarily indicative of the results that may be expected for all of 2021. Mail volume and revenue are historically greatest in the first quarter of the year, which includes the holiday mailing season.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update 2016-13 Financial Instruments - Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-13 *Financial Instruments - Credit Losses*, which has since been codified in Accounting Standards Codification ("ASC") 326, *Financial Instruments - Credit Losses* ("ASC 326"). The new standard requires entities to measure expected credit losses on financial instruments and other commitments by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The Postal Service adopted ASC 326 on October 1, 2020. Upon adoption, the Postal Service adjusted its allowance for credit losses by $42 million, resulting in an opening *Balance Sheet* adjustment as of October 1, 2020, reducing *Receivables, net* and increasing the *Deficit since 1971 reorganization* by this amount. The adoption of ASC 326 did not have an impact on the accompanying unaudited *Statement of Operations* or *Statement of Cash Flows*.

Accounting Standards Update 2018-15 Intangibles - Goodwill and Other - Internal-Use Software

In August 2018, the FASB issued Accounting Standards Update 2018-15 *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*, which has since been codified in ASC Subtopic 350-40, *Intangibles - Goodwill and Other - Internal-Use Software* ("ASC 350-40"). This is an update to a standard the FASB issued in April 2015 for entities evaluating the accounting for fees paid by a customer in a cloud computing (hosting) arrangement. The update reduces the complexity of accounting for costs of implementing a cloud computing service arrangement by aligning the guidance for capitalizing these implementation costs, regardless of whether such arrangements include a software license.

The Postal Service adopted ASC 350-40 prospectively on October 1, 2020. There was no material impact in the three-month period ended December 31, 2020.

Accounting Standards Update 2018-13 Fair Value Measurement

In August 2018, the FASB issued Accounting Standards Update 2018-13 *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which has since been codified in ASC 820, *Fair Value Measurement* ("ASC 820"). The new standard modifies the disclosure requirements for fair value measurements by adding, modifying or removing certain disclosures.

The Postal Service adopted ASC 820 on October 1, 2020. The adoption of ASC 820 had no impact on its financial statements but amended the information disclosed in *Note 12 - Fair Value Measurement*.

NOTE 3 - LIQUIDITY

The Postal Service's liquidity consists of unrestricted cash and cash equivalents plus authorized borrowing capacity under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435 (the "PRA").

Cash

The Postal Service generates its cash almost entirely through the sale of postal products and services. The Postal Service holds its *Cash and cash equivalents* and *Restricted cash* with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly-liquid, short-term investments issued by the U.S. Department of the Treasury ("U.S. Treasury").

As of December 31, 2020 and September 30, 2020, the Postal Service held unrestricted cash and cash equivalents of $15.2 billion and $14.4 billion, respectively.

In March 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act,* enacted as Public Law 116-136 (the "*CARES Act*"). The *CARES Act* offered certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages from March 27, 2020 through December 31, 2020. In accordance with this provision, the Postal Service had deferred approximately $1.8 billion as of December 31, 2020. One half of these deferred payments is due by December 31, 2021 and is recorded within *Compensation and benefits* in the accompanying *Balance Sheets.* The other half is due by December 31, 2022 and is recorded within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

As of December 31, 2020 and September 30, 2020, the Postal Service held restricted cash of $560 million and $354 million, respectively. Restricted cash represents Postal Service cash that is not available for general use. This includes cash originated from forfeitures or seizures related to consumer fraud or other criminal activity related to the mail and either held for third-party beneficiaries or awaiting disposition. Restricted cash also includes funds designated for specific use due to congressional appropriation for Postal Service obligations to the PRC and the United States Postal Service Office of Inspector General, or that are otherwise restricted.

Debt

The PRA authorizes the Postal Service to raise cash through the issuance of debt obligations. The PRA requires the Postal Service to notify the Secretary of the Treasury of its intent to issue debt, allowing the U.S. Treasury the first option to purchase such obligations. However, if the Secretary of the Treasury elects not to purchase such obligations, the PRA authorizes the Postal Service to issue and sell such obligations to a party or parties other than the U.S. Treasury, which may include a transaction in the public or private debt markets. Under the PRA, the Postal Service is limited by statute to annual net increases in debt of $3.0 billion calculated as of the end of each fiscal year, and total debt of $15.0 billion.

As of December 31, 2020 and September 30, 2020, the aggregate principal of all debt outstanding was $14.0 billion, all of which was issued to the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury. Of this amount, $3.0 billion relating to a revolving credit facility must be repaid by April 2, 2021 and is recorded within *Short-term debt* in the accompanying *Balance Sheets.* The remaining $11.0 billion relating to a combination of fixed-rate and floating-rate notes with various maturities is recorded as *Long-term debt* in the accompanying *Balance Sheets*. As of December 31, 2020, the Postal Service had $1.0 billion in remaining borrowing capacity under the PRA.

Notwithstanding the $15.0 billion statutory debt limit and the $3.0 billion limit on annual borrowing, the *CARES Act* allows the Postal Service to receive up to an additional $10.0 billion in financing from the U.S. Treasury to fund operating expenses associated with the COVID-19 pandemic. On December 27, 2020, the President signed Public Law 116-260, the *Consolidated Appropriations Act, 2021,* amending the *CARES Act* to remove the repayment requirement for any amounts received under the $10.0 billion borrowing authority. This legislation altered the basis of the previously reported agreement in principle reached with the U.S. Treasury in July 2020 and new terms and conditions were required to be established before the Postal Service could access any funds.

On January 19, 2021, the Postal Service and the U.S. Treasury agreed to the terms and conditions applicable to funding under the *CARES Act*, as amended by the *Consolidated Appropriations Act, 2021*, nullifying the terms of the agreement in principle from July 2020. Pursuant to this new memorandum of understanding, the Postal Service may request up to $10.0 billion in funding from the U.S. Treasury for COVID-19 related operating expenses which would not bear interest and which would not need to be repaid. Advances under this agreement are subject to certain terms and conditions and approval by the U.S. Treasury.

Liquidity Concerns

The Postal Service reported operating expenses of approximately $82 billion in 2020 and has incurred cumulative net losses of $86.7 billion from 2007 through December 31, 2020. The Postal Service continues to face systemic imbalances that make its current operating model unsustainable. The Postal Service intends to adopt operational reforms to meet the changing needs of its business and residential customers. Absent legislative and regulatory change and operational reforms, the Postal Service projects continuing annual net losses in the future. As a result of these losses and its liquidity concerns, the Postal Service may not have sufficient liquidity to meet all of its existing legal obligations when due while also reducing its debt and making the critical infrastructure investments that have been deferred in recent years.

Furthermore, while the Postal Service has the statutory authority to issue debt obligations within the statutory borrowing authority, it has no assurance that it would be able to raise additional cash through new debt financing with the FFB, or that such financing would be provided on terms comparable to those applicable to its prior debt issuances. Alternatively, if the Postal Service were to use its authority under the PRA to issue and sell obligations to a party or parties other than the FFB, it has no assurance it would be successful in raising additional cash, or that such financing would be provided on terms comparable to those applicable to its prior debt issuances.

COVID-19 Considerations

The coronavirus (“COVID-19”) pandemic continues to have a material effect on certain of the Postal Service’s results of operations. As a result of the pandemic, and to a lesser extent, secular mail declines, the Postal Service’s sales from mail services has continued to decline during the first quarter of 2021. Meanwhile, the Postal Service’s sales from Shipping and Packages, its most labor-intensive revenue stream, has continued to experience substantial growth as a result of the surge in e-commerce driven by the pandemic. While this shift contributes to increased cash flow and overall higher revenue results for the quarter, such results may not be sustained in future periods. Also, Shipping and Packages produces a lower contribution margin per revenue dollar due to higher associated labor and transportation expenses.

During the first quarter of 2021, the U.S. Food and Drug Administration issued two emergency use authorizations permitting the release of vaccines for the prevention of COVID-19. Despite the distribution of these vaccines, the duration of the COVID-19 disruption remains uncertain, and the Postal Service expects that its liquidity may worsen if the nation experiences a prolonged period of disruption and the surge in e-commerce diminishes.

Business Model Challenges and Constraints

The Postal Service is constrained by laws and regulations, including the *Postal Accountability and Enhancement Act* (“PAEA”), which restrict revenue sources and mandate certain expenses.

Market-Dominant services, which include, but are not limited to, *First-Class Mail*, *Marketing Mail*, *Periodicals* and certain parcel services, accounted for approximately 58% of the Postal Service's annual operating revenues in 2020. The prices in effect for Market-Dominant services during the first quarter were established under a price cap system measured by the Consumer Price Index for All Urban Consumers ("CPI-U"). On November 30, 2020, the PRC announced its final decision in connection with its ten-year review of the system for regulating rates and classes for Market-Dominant products, as required by the PAEA, that modifies the price cap system by providing some additional pricing flexibility and authority.

Unlike the Postal Service's Market-Dominant prices, the Postal Service's costs are not similarly constrained or capped. Under the price cap system in effect prior to the PRC's final ruling, the Postal Service has generally been unable to increase prices sufficiently to offset increased costs. As discussed above, the PRC's final decision will provide the Postal Service with some additional pricing flexibility and authority when determining future price increases. However, the Postal Service is constrained by law, or by contract, from reducing many of its costs or from pursuing many alternate sources of revenue. A large portion of its cost structure cannot be altered expeditiously due to the Postal Service's universal service obligation and many employee and retiree benefit costs are mandated by law and cannot be altered without legislative change.

Because the Postal Service provides its services primarily through its employees, its costs are heavily concentrated in wages and benefits for both current employees and retirees. These costs are significantly impacted by contractual wage increases, employee health benefit premium increases, and statutorily mandated retirement and workers' compensation programs. Some of these costs have historically increased at a higher rate than inflation. See *Note 8 - Retirement Plans*, *Note 9 - Health Benefits Plans* and *Note 10 - Workers' Compensation* in this document for further information on statutorily mandated costs.

Further, the number of delivery points continues to grow by more than one million per year, which drives up delivery costs. When combined with the impact of lower mail volume, the average number of pieces delivered per delivery point per day has decreased from approximately 5.5 pieces in 2007 to 3.0 pieces in 2020, a decline of approximately 46%.

Past Due Obligations

In order to preserve liquidity and ensure that its ability to fulfill its primary mission is not placed at undue risk, the Postal Service has not made certain payments to the Civil Service Retirement System ("CSRS") and the Federal Employees Retirement System ("FERS") for certain retirement benefits, nor has it made certain payments to the Postal Service Retiree Health Benefit Fund ("PSRHBF") for certain retiree health benefit programs. The following table presents the total expenses accrued but unpaid by the Postal Service as of September 30, 2020 and the fiscal years in which the accruals were recorded:

(in millions)	2020	2019	2018	2012 to 2017	Total
PSRHBF prefunding fixed amount	$ —	$ —	$ —	$ 33,900	$ 33,900
PSRHBF unfunded benefits amortization	810	789	815	955	3,369
Normal cost of retiree health benefits	3,850	3,775	3,666	3,305	14,596
CSRS unfunded retirement benefits amortization	1,817	1,617	1,440	1,741	6,615
FERS unfunded retirement benefits amortization	1,343	1,060	958	1,412	4,773
Total expenses accrued but unpaid	**$ 7,820**	**$ 7,241**	**$ 6,879**	**$ 41,313**	**$ 63,253**

As of the date of this report, the Postal Service has not incurred any penalties or negative financial consequences as a result of not making these payments.

Mitigating Circumstances

The Postal Service continues to pursue strategies within its control to increase operational efficiency and improve liquidity. The Postal Service has managed capital in recent years by spending what it believed was essential to maintain its existing facilities and service levels, to ensure employee safety and to increase efficiencies. However, some increases in capital investment are necessary to upgrade its facilities, fleet of vehicles and processing equipment in order to remain operationally viable. Aggressive management of the business operations and legislative and regulatory reforms that will enable it to increase revenue and reduce costs will all be necessary to restore the Postal Service to financial health.

The Postal Service's status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual total revenue in 2020 of approximately $73 billion, a financially sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that it supports. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail, as well as vital mail and packages like medicine, essential consumer staples, benefits checks, and important information. In the event of a cash shortfall, the U.S. government would likely prevent the Postal Service from significantly curtailing or ceasing operations. The Postal Service continues to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges it faces and the legislative and regulatory changes that are required to restore its financial stability.

In the event that circumstances leave the Postal Service with insufficient liquidity, it would likely be required to implement additional contingency plans to ensure that its primary mission is fulfilled and that mail deliveries continue. These measures may require the Postal Service to prioritize payments to the FFB, employees and suppliers ahead of some payments to fund retirement and retiree health benefits, as has been done in the past.

NOTE 4 - REVENUE RECOGNITION

The Postal Service generates the majority of its revenue from contracts associated with the processing and delivery of different types of mail and packages, both domestically and internationally, which generally occur over a relatively short period of time (e.g., several days).

Disaggregation of Revenue

The following table summarizes the Postal Service's disaggregated operating revenue for the three months ended December 31, 2020 and 2019, by each service category:

	Three Months Ended December 31,	
(in millions)	2020	2019*
Operating Revenue:		
First-Class Mail	$ 6,301	$ 6,478
Marketing Mail	4,165	4,411
Shipping and Packages	9,378	6,599
International	666	688
Periodicals	244	287
Other	741	888
Total operating revenue	**$ 21,495**	**$ 19,351**

* Prior period amounts for certain service categories include reclassifications of amounts amongst service categories to conform to current period presentation. These reclassifications are immaterial for each affected category, and had no effect on total operating revenue for the period.

Contract Liabilities

The following table presents the balances of the Postal Service's contract liabilities, including *Deferred revenue-prepaid postage* and prepaid *PO Box* and Caller Service fees, as of December 31, 2020 and September 30, 2020:

(in millions)	December 31, 2020	September 30, 2020
Deferred revenue-prepaid postage:		
Forever stamps	$ 1,568	$ 1,446
Mail-in-transit	732	589
Metered postage	307	329
Other prepaid postage	122	125
Total deferred revenue-prepaid postage	**2,729**	**2,489**
Prepaid PO Box and Caller Service fees	**483**	**489**
Total deferred revenue	**$ 3,212**	**$ 2,978**

The following table provides details of revenue recognized for the three months ended December 31, 2020 that was reported in the Postal Service's contract liabilities for deferred revenue as of September 30, 2020:

(in millions)	Three Months Ended December 31, 2020
Revenue recognized in the period from deferred revenue:	
Forever stamps	$ 613
Mail-in-transit	589
Metered postage	329
Other prepaid postage	55
PO Box and Caller Service fees	252

NOTE 5 - RELATED PARTIES

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities, which are considered related parties for accounting purposes.

The following table presents related-party assets and liabilities as of December 31, 2020 and September 30, 2020:

(in millions)	December 31, 2020	September 30, 2020
Related-party assets:		
Carrying amount of revenue forgone installment receivable[1]	$ 490	$ 485
Related-party liabilities:		
Current portion of debt	$ 3,000	$ 3,000
Other current liabilities[2]	66,895	64,146
Long-term debt	11,000	11,000
Other noncurrent liabilities[3]	17,230	20,013

[1] Included within *Other assets* in the accompanying *Balance Sheets*. See further discussion in *Note 12 - Fair Value Measurement.*
[2] Amounts include CSRS, FERS, PSRHBF and current workers' compensation obligations, as well as payables to other agencies.
[3] Amounts include noncurrent workers' compensation obligations.

The following table presents related-party revenue and expenses for the three months ended December 31, 2020 and 2019:

(in millions)	Three Months Ended December 31, 2020		Three Months Ended December 31, 2019	
Related-party operating revenue[1]	$	294	$	269
Related-party operating expenses[2]	$	4,499	$	4,290
Related-party interest income[3]	$	8	$	41
Related-party interest expense[4]	$	39	$	60

[1] Included within *Operating revenue* in the accompanying unaudited *Statements of Operations*.

[2] Included within *Operating expenses* in the accompanying unaudited *Statements of Operations*.

[3] Represents interest imputed on the revenue forgone installment receivable, as well as interest generated on U.S. Treasury instruments and other cash equivalents held with the Federal Reserve Bank of New York. Included within *Interest and investment income* in the accompanying unaudited *Statements of Operations*.

[4] Incurred on debt issued to the FFB, and included within *Interest expense* in the accompanying unaudited *Statements of Operations*.

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Assets within *Property and equipment, net* in the accompanying *Balance Sheets* are recorded at cost, which includes the interest on borrowings used to finance construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during both the three months ended December 31, 2020 and 2019 was not significant. Fixed assets are depreciated over estimated useful lives ranging from 3 to 40 years using the straight-line method.

For the three months ended December 31, 2020 and 2019, depreciation and amortization expense was approximately $419 million and $431 million, respectively. These items are included within *Other operating expenses* in the accompanying unaudited *Statements of Operations*.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Collective Bargaining Agreements

The Postal Service has active contracts with the American Postal Workers Union, AFL-CIO ("APWU"), the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") and the National Rural Letter Carriers Association ("NRLCA"). For additional information, see *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies* in the Annual Report.

On November 25, 2020, the Postal Service reached a tentative agreement with the National Association of Letter Carriers, AFL-CIO (“NALC”) on a new 44-month collective bargaining agreement. The previous contract with the NALC expired on September 20, 2019. The tentative agreement is subject to ratification by the NALC members. As of the date of this report, the agreement is still pending ratification.

Contingent Liabilities

The Postal Service’s contingent liabilities consist primarily of claims resulting from labor and employment matters; asset retirement obligations and environmental matters; property damage and injuries on Postal Service properties; and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, the Postal Service evaluates each claim to determine its potential liability. If the Postal Service determines that an unfavorable outcome from a new claim is both probable and reasonably estimable, it records a liability for the amount. Preexisting claims are also reviewed and adjusted quarterly for resolutions or revisions to prior estimates based on new facts and circumstances.

The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its financial condition or operations. For additional information see *Item 3. Legal Proceedings* and *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies* in the Annual Report.

Provision for Losses
The Postal Service has made adequate provision for probable losses arising from all claims. The following table presents contingent liabilities by current and noncurrent portions and by category, as of December 31, 2020 and September 30, 2020:

(in millions)	December 31, 2020	September 30, 2020
Current / noncurrent portions of contingent liabilities:		
Current portion[1]	$ 96	$ 103
Noncurrent portion[2]	197	188
Total contingent liabilities	**$ 293**	**$ 291**

[1] Included within *Payables and accrued expenses* in the accompanying *Balance Sheets*.
[2] Included within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

Reasonably Possible Contingencies
The Postal Service does not accrue for contingencies which it deems reasonably possible of an unfavorable outcome. These ranged in amount from approximately $225 million to $1.1 billion at December 31, 2020, and from approximately $200 million to $1.1 billion at September 30, 2020.

NOTE 8 - RETIREMENT PLANS
The majority of career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, which are administered by the Office of Personnel Management ("OPM"). Associated costs include the FERS normal costs, contributions based on a percentage of active employee's basic pay, and CSRS and FERS amortization costs to fund the remaining unfunded liabilities. These costs are recorded in *Retirement Benefits* in the accompanying unaudited *Statement of Operations*. Employees who participate in FERS are also eligible to receive matching retirement contributions to the Thrift Savings Plan ("TSP"), a defined contribution plan, and are eligible for Social Security, resulting in Social Security payroll taxes. However, the TSP and Social Security contributions are recorded in *Compensation and Benefits* in the accompanying unaudited *Statement of Operations*.

In October 2020, OPM provided the Postal Service with an actuarial report indicating the projected annual amortization payments due September 30, 2021 would be approximately $1.8 billion for the CSRS obligation and approximately $1.3 billion for the FERS obligation. The Postal Service expects to receive the invoice from OPM for the actual amounts due September 30, 2021 during the fourth quarter of 2021, and this invoice may differ from the estimated projections and calculations due to further changes in experience and/or actuarial assumptions as of the calculation date.

The following table presents the retirement benefits expenses for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(in millions)	2020	2019
FERS normal costs	$ 1,001	$ 946
CSRS unfunded retirement benefits amortization[1]	454	404
FERS unfunded retirement benefits amortization[2]	336	265
Total retirement benefits	**$ 1,791**	**$ 1,615**

[1] Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. Payments are to be made through 2043 based on OPM invoices.
[2] Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on OPM invoices.

For additional information, see *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 12 - Retirement Plans* in the Annual Report.

NOTE 9 - HEALTH BENEFITS PLANS

The Federal Employee Health Benefit ("FEHB") Program covers nearly all career employees and also covers non-career employees and retirees who meet certain eligibility requirements. OPM administers FEHB and allocates the cost of funding the program to participating U.S. government employers. Separate from FEHB, the Postal Service offers its own healthcare plan to certain non-career employees who are ineligible for FEHB.

Active Employees

Postal Service employee health benefits expense (which includes the employer portion of Medicare taxes) is most significantly impacted by the number of employees electing coverage and the premium costs of the selected plans. Postal Service employee health benefits expense was approximately $1.3 billion for both the three-month periods ended December 31, 2020 and 2019. These expenses are included within *Compensation and benefits* in the accompanying unaudited *Statements of Operations*.

Retirees

Postal Service retirees who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. Qualifying survivors of retirees are also eligible to receive benefits.

As required by PAEA, OPM annually performs an actuarial valuation for the purpose of developing a payment schedule for the Postal Service to fund the remaining unfunded PSRHBF obligation in annual payments through the year 2056. Based on preliminary calculations provided by OPM, the amortization payment due September 30, 2021 is estimated to be $900 million.

Furthermore, the Postal Service is obligated to pay the estimated normal cost of retiree health benefits attributable to the service of its employees during the most recent year. Based on preliminary information provided by OPM, the Postal Service has estimated the normal cost payment, also due by September 30, 2021, to be $3.9 billion.

The Postal Service expects to receive the invoice from OPM with the actual amounts due during the fourth quarter of 2021 and these may differ from the original projected amounts due to changes in discount rates, actuarial assumptions and experience as of the calculation date.

The following table details retiree health benefits expenses for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
PSRHBF unfunded liability amortization[1]	$ 225	$ 225
Normal cost of retiree health benefits[2]	975	1,000
Total retiree health benefits expense	**$ 1,200**	**$ 1,225**

[1] Expense for the accrual for the annual payment due to OPM by September 30 of the respective year, as calculated by OPM, to amortize the unfunded PSRHBF retirement health benefit obligation. Payments are to be made through 2056 based on OPM invoices.

[2] Expense for the accrual for the annual payment due to the PSRHBF by September 30 of the respective year, based on information provided by OPM, for actuarially determined normal cost of retiree health benefits for current employees.

For additional information, see *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 13 - Health Benefits Plans* in the Annual Report.

NOTE 10 - WORKERS' COMPENSATION

Postal Service employees injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by the U.S. Department of Labor's ("DOL") Office of Workers' Compensation Programs, which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service reimburses DOL for all workers' compensation benefits paid to or on behalf of Postal Service employees, plus an administrative fee.

Workers' Compensation Liability

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured on the job and are eligible for benefits, or for their qualified survivors. Both the current and noncurrent portions of the workers' compensation liability are recorded in the accompanying *Balance Sheets*. The Postal Service uses an estimation model that utilizes four generally accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked.

Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial assumptions, new compensation and medical cases, the progression of existing cases and changes in interest (discount) and inflation rates, including long-term cost of living adjustments ("COLA") rates for compensation claims, and medical rates for medical claims. These rates are updated as of the balance sheet date and factored into the model.

To determine the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries and the expected trend in future costs. The Postal Service then calculates the amount that would need to be invested at current interest (discount) rates to fully fund the future total cost of claims, and this calculated present value is the recorded value of the workers' compensation liability.

This liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the December 31, 2020 liability and related expense by approximately $2.2 billion. Likewise, a 1% decrease in the discount rate would increase the December 31, 2020 liability and related expense by approximately $2.8 billion.

The following table details the applicable inflation and discount rates for compensation and medical claims used to estimate the workers' compensation liability as of December 31, 2020 and September 30, 2020:

	December 31, 2020	September 30, 2020
Compensation claims liability:		
Discount rate	1.28%	1.09%
Long-term wage inflation rate	2.60%	2.60%
Medical claims liability:		
Discount rate	1.31%	1.12%
Medical inflation rate	3.50%	3.50%

As of December 31, 2020 and September 30, 2020, the Postal Service's total liability for workers' compensation was approximately $18.5 billion and $20.1 billion, respectively. As of December 31, 2020 and September 30, 2020, the current portion of the liability was approximately $1.3 billion and $1.3 billion, respectively, and the noncurrent portion of the liability was approximately $17.2 billion and $18.8 billion, respectively, as reflected in the accompanying *Balance Sheets*.

Workers' Compensation Expense (Benefit)

The impacts of changes in discount rates and inflation rates, as well as the actuarial valuation of new cases and revaluation of existing cases, are components of total workers' compensation expense (benefit) as recorded in the accompanying unaudited *Statements of Operations*. In addition, the Postal Service pays an administrative fee to DOL, which is considered a component of workers' compensation expense (benefit).

The following table presents the components of workers' compensation expense (benefit) for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(in millions)	2020	2019
Impact of discount rate changes	$ (479)	$ (543)
Actuarial revaluation of existing cases	(146)	17
Cost of new cases	326	303
Administrative fee	21	21
Total workers' compensation benefit	**$ (278)**	**$ (202)**

For additional information, see *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 14 - Workers' Compensation* in the Annual Report.

NOTE 11 - LEASES

The Postal Service holds lessee positions in real property leases as well as lessee positions embedded in service contracts involving rights to use transportation equipment and facilities.

Lease costs for operating leases for all non-cancellable leases are set forth below for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(in millions)	2020	2019
Operating lease cost	$ 329	$ 448
Variable lease cost	183	178
Short-term lease cost	87	42
Total lease cost	**$ 599**	**$ 668**

The following information represents supplemental cash and non-cash information as well as lease term and discount rate information separately for operating leases, for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
($ in millions)	2020	2019
Operating cash flows from operating leases	$ 336	$ 300
Right-of-use assets obtained in exchange for operating lease liabilities	$ 60	$ 81
Weighted-average remaining lease term - operating leases	5.38 years	5.35 years
Weighted-average discount rate - operating leases	1.62 %	1.72 %

For additional information, see *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 15 - Leases* in the Annual Report.

NOTE 12 - FAIR VALUE MEASUREMENT

The Postal Service defines fair value as the price that would be received upon sale of an asset or the price that would be paid to transfer a liability between unrelated parties.

The carrying amounts of certain current assets and liabilities, including cash, accounts receivable, accounts payable and accrued expenses, approximate fair value due to their short-term nature. Assets within *Property* *and equipment, net* are recorded at cost and measured at fair value on a nonrecurring basis if they are determined to be impaired or classified as assets held for sale.

Noncurrent receivables and long-term debt are disclosed at fair value using inputs of the fair value hierarchy model. This model prioritizes observable and unobservable inputs used to measure fair value, and consists of three broad levels, as defined in authoritative literature.

The carrying amount and fair value of the revenue forgone installment receivable and long-term debt are presented for disclosure purposes only in the following table:

	December 31, 2020		September 30, 2020	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue forgone installment receivable[1]	$ 490	$ 546	$ 485	$ 579
Long-term debt[2]	$ 11,000	$ 11,764	$ 11,000	$ 11,881

[1] The carrying amount is included within *Other assets* (which includes items in addition to the revenue forgone installment receivable) in the accompanying *Balance Sheets*.

[2] The fair value amount reflects the premium or discount associated with prepayment of all debt based on prevailing interest rates plus any prepayment penalties, as applicable.

The revenue forgone installment receivable qualifies as a financial instrument in accordance with authoritative literature. To calculate its fair value, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of this receivable using the interest method, which converts future cash flows to a single discounted amount using interest rates for similar assets, which are considered *Level 2* inputs. The Postal Service then calculates the net present value of anticipated annual installment payments to be received, discounted by the 20-year U.S. Treasury Constant Maturity Rate, which was 1.45% and 1.23% as of December 31, 2020 and September 30, 2020, respectively.

The long-term debt also qualifies as a financial instrument. Because no active market exists for its debt with the FFB, the Postal Service estimates the fair value of the long-term debt by imputing future payments at discount rates provided by the FFB, considered *Level 3* inputs. The FFB discount rates, based on U.S. Treasury Yield Curve Rates, ranged from 0.08% to 1.62%, with a weighted average of 0.38% as of December 31, 2020. The FFB discount rates ranged from 0.08% to 1.42%, with a weighted average of 0.32% as of September 30, 2020.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting the financial results, liquidity, capital resources and critical accounting estimates of the United States Postal Service ("Postal Service," "USPS," "we," "our" and "us"). Our results of operations may be impacted by risks and uncertainties discussed here and in our Annual Report on Form 10-K for the year ended September 30, 2020 ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 13, 2020. Such factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated.

Our operating results for the three months ended December 31, 2020 are presented in accordance with accounting principles generally accepted in the United States ("GAAP"). These results are not necessarily indicative of the results to be expected for the year ended September 30, 2021 and should be read in conjunction with our Annual Report. 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 quarters within fiscal years 2021 and 2020.

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 included in this report use such words as “may,” “will,” “could,” “expect,” “believe,” “plan,” “estimate,” “project” or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report. These risks include, but are not limited to, the effects of the novel strain of coronavirus (“COVID-19”) on our business, financial condition and results of operations. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

With our mandate to provide universal postal services to the nation, we serve consumer and commercial customers in the U.S. as well as internationally. Our operations include an extensive and integrated retail, processing, distribution, transportation and delivery network, and we operate throughout the U.S., its possessions and territories. We do not operate in segments; we report our performance as a single business.

The *Postal Accountability and Enhancement Act* (“PAEA”) classifies our products into two broad categories: Market-Dominant and Competitive “products,” however, we use the term “services” in this document for consistency with other descriptions of services offered. The statutes under which we operate also establish certain requirements that affect our financial results, including obligations for retirement benefits within the Civil Service Retirement System (“CSRS”) and the Federal Employee Retirement System (“FERS”), and obligations for retiree health benefits including funding of the Postal Service Retiree Health Benefits Fund (“PSRHBF”). We must coordinate with the U.S. Office of Personnel Management (“OPM”) to address these obligations.

We have successfully implemented initiatives that have reduced the growth in certain costs by billions of dollars while offering new features for customers such as *Informed Delivery*. However, legal restrictions on pricing, service diversification and operations restrict our ability to cover our costs to provide prompt, reliable and efficient postal services to the nation.

As an independent establishment of the U.S. government, we have a unique mission to:

- Serve the American people and, through the universal service obligation, bind our nation together by maintaining and operating our unique, vital and resilient infrastructure;
- Provide trusted, safe and secure communications and services between the U.S. government and the American people, businesses and their customers, and the American people with each other; and
- Serve all areas of our nation, making full use of evolving technologies.

We will carry out this mission by remaining an integral part of the U.S. government and providing all Americans with universal and open access to our unrivaled delivery and retail network; using technology, innovation and, where appropriate, private-sector partnerships to meet our customers’ changing needs; operating in a modern, efficient and effective manner; and remaining an employer of choice, including attracting and retaining high-quality employees.

RESULTS OF OPERATIONS

SUMMARY

The major factors that impact our operating results include overall customer demand, the mix of postal services and contribution associated with those services, volume of mail and packages processed through our network and our ability to manage our cost structure in line with declining levels of mail volume, increased competition in the more labor-intensive Shipping and Packages business and an increasing number of delivery points.

Effects of COVID-19

In March 2020, the World Health Organization (“WHO”) declared COVID-19 a global pandemic, which has since spread throughout the U.S. Given our mandate to provide universal postal services to the nation, we provide an essential service as part of the nation’s critical infrastructure and have continued to process and deliver mail and packages during the pandemic. We serve an imperative role in the U.S. economy as at least six days per week, and in some instances seven, our employees accept, process, transport, and deliver vital mail and packages like medicine, fundamental consumer staples, benefits checks, and important information.

The COVID-19 pandemic has continued to have a material impact on certain of our results of operations. As a result of the pandemic, and to a lesser extent, secular mail declines, our sales from mail services, has continued to decline during the first quarter of 2021. Meanwhile, our sales from Shipping and Packages, our most labor-intensive revenue stream, has continued to experience substantial growth as a result of the surge in e-commerce driven by the pandemic. While this shift contributed to increased cash flow and overall higher revenue results for the year, such results may not be sustained in future periods. Also, Shipping and Packages produces a lower contribution margin per revenue dollar due to higher associated labor and transportation expenses.

Three Months Ended December 31, 2020

As more fully described below in *Operating Revenue and Volume*, our operating revenue for the three months ended December 31, 2020 increased approximately $2.1 billion, or 11.1%, compared to the same period last year, driven by record holiday Shipping and Packages volumes that increased approximately 435 million pieces, or 25.0%, and contributed an increase of approximately $2.8 billion in revenue, compared to the same period last year. However, this increase was partially offset by combined decreases in *First-Class* and *Marketing mail* volumes of approximately 1.4 billion pieces, or 4.0%, resulting in a decrease of revenue of $423 million, compared to the same period last year, due to systemic declines that have been exacerbated by the COVID-19 pandemic.

While we benefited significantly from the growth in Shipping and Packages, this revenue category is subject to intense competition from both national and local competitors. Although we believe consumer behavior has evolved during the pandemic as the nation has increasingly relied on the safety and convenience of e-commerce, we still expect this surge to partially abate as the economy opens, at which time, we expect certain major customers will return to diverting their volume from our network, and aggressively pricing their products and service in order to fill their networks and grow package density.

As more fully described below in *Operating Expenses*, our operating expenses for the three months ended December 31, 2020 increased approximately $1.1 billion, or 5.3%, compared to the same period last year, primarily driven by the following:

- Compensation and benefits expense increase of $771 million, or 6.2%, compared to the same period last year, resulting from higher work hours associated with the record holiday Shipping and Packages volumes and paid leave associated with the COVID-19 pandemic;
- Transportation expense increase of $204 million, or 8.5%, compared to the same period last year, primarily due to the impact of higher volumes on air and highway transportation; and
- Retirement benefits expense increase of $176 million, or 10.9%, compared to the same period last year, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization, which are outside of management's control, and higher contributions for FERS normal costs consistent with general compensation increases.

Overall, we reported net income of $318 million for the three months ended December 31, 2020, compared to net loss of $748 million for the same period last year. Excluding the combined effects of non-cash workers' compensation adjustments due to fluctuations in interest rates and other actuarial revaluations, as well as a time-limited peak surcharge, the loss for the quarter would have been approximately $650 million.

Non-GAAP Controllable Income (Loss)

In the day-to-day operation of our business, we focus on costs that can be managed in the course of normal business operations, such as salaries and transportation. We calculate controllable income (loss), a non-GAAP measure, by excluding items over which we have no control, such as PSRHBF actuarial revaluation and amortization expenses, workers' compensation expenses caused by actuarial revaluation and discount rate changes, and retirement expenses caused by actuarial revaluation. Controllable income (loss) should not be considered a substitute for net income (loss) and other GAAP reporting measures.

The following table reconciles our GAAP net income (loss) to controllable income (loss) for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
Net income (loss)	**$ 318**	**$ (748)**
PSRHBF unfunded liability amortization expense[1]	225	225
Change in workers' compensation liability resulting from fluctuations in discount rates	(479)	(543)
Other change in workers' compensation liability[2]	(127)	10
CSRS unfunded liability amortization expense[3]	454	404
FERS unfunded liability amortization expense[4]	336	265
Controllable income (loss)	**$ 727**	**$ (387)**

[1] Expense for the accrual for the annual payment due to OPM by September 30 of the respective year, as calculated by OPM, to amortize the unfunded PSRHBF retirement health benefit obligation. Payments are to be made through 2056 based on OPM invoices.

[2] Net amounts include changes in assumptions, valuation of new claims and revaluation of existing claims, less current year claim payments.

[3] Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. Payments are to be made through 2043 based on OPM invoices.

[4] Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on OPM invoices.

We had controllable income of $727 million for the three months ended December 31, 2020, compared to a controllable loss of $387 million for the same period last year, a difference of approximately $1.1 billion. This change was largely driven by the approximately $2.1 billion increase in operating revenue, partially offset by higher compensation and benefits expenses of $771 million, higher transportation expenses of $204 million and higher FERS normal costs of $55 million. These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses* below.

OPERATING REVENUE AND VOLUME

Although we operate as a single segment, we monitor and report revenue by mail classes, products and shapes. We use the following broad service categories to describe and report on our performance: *First-Class Mail*, *Marketing Mail*, Shipping and Packages, *International Mail*, *Periodicals*, and Other services. Additional information on these service categories can be found in *Item 1. Business, Services* and *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations, Operating Revenue and Volume* in our Annual Report.

The following table summarizes our operating revenue and volume for the three months ended December 31, 2020 and 2019, by each service category:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
Operating Revenue:		
First-Class Mail[1]	$ 6,301	$ 6,478
Marketing Mail[2]	4,165	4,411
Shipping and Packages[3]	9,378	6,599
International	666	688
Periodicals	244	287
Other[4]	741	888
Total operating revenue	**$ 21,495**	**$ 19,351**
Volume:		
First-Class Mail[1]	13,735	14,329
Marketing Mail[2]	19,514	20,302
Shipping and Packages[3]	2,173	1,738
International	131	238
Periodicals	944	1,109
Other[5]	88	95
Total volume	**36,585**	**37,811**

[1] Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.
[2] Excludes *Marketing Mail Parcels*.
[3] Includes *Priority Mail*, *USPS Retail Ground*, *Parcel Select Mail*, *Parcel Return Service Mail*, *Marketing Mail Parcels*, *Package Service Mail*, *First-Class Package Service - Retail*, *First-Class Package Service - Commercial* and *Priority Mail Express*.
[4] Revenue includes *PO Box* services, *Certified Mail*, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, *Registered Mail*, Stamped Envelopes and Cards, Money Orders and Other services.
[5] Volume includes Postal Service internal mail and free mail provided to certain congressionally mandated groups.

On September 4, 2020, the PRC approved our plan to increase prices on certain Shipping and Packages subcategories on a time-limited basis. These increased prices were effective October 18, 2020 through December 27, 2020, after which prices reverted to the 2020 pricing schedule.

On October 9, 2020, we filed with the PRC a notice of our intent to increase prices for certain Market-Dominant services by an average of 1.7%. On November 18, 2020, the PRC approved these price increase plans. The approved prices went into effect on January 24, 2021.

On November 16, 2020, we filed with the PRC a notice of our intent to increase prices for certain Competitive services. The average price increases vary by Competitive services product. On December 9, 2020, the PRC approved these price increase plans. The approved prices went into effect on January 24, 2021.

First-Class Mail

For the three months ended December 31, 2020, *First-Class Mail* revenue decreased $177 million, or 2.7%, on a volume decline of 594 million pieces, or 4.1%, compared to the same period last year. The most significant factor contributing to the declining trend in *First-Class Mail* volume was the continuing migration from mail to electronic communication and transaction alternatives. Revenue declined at a slower rate than volume due to the January 2020 price increase applicable to certain Market-Dominant services.

Marketing Mail

For the three months ended December 31, 2020, *Marketing Mail* revenue decreased $246 million, or 5.6%, and volume declined 788 million pieces, or 3.9%, compared to the same period last year. For the three months ended December 31, 2020, our revenue and volume from political and election mail increased by nearly $400 million and more than 2.3 billion pieces, respectively, compared to the same period last year, due to the mailings associated with the 2020 general election. If not for the positive impact of political and election mail, *Marketing Mail* revenue and volume would have decreased by an even greater extent for the three months ended December 31, 2020, reflective of the continuing migration to digital and mobile advertising which has been accelerated by the COVID-19 pandemic.

Shipping and Packages

The following table summarizes our operating revenue and volume for Shipping and Packages for the three months ended December 31, 2020 and 2019, by each service subcategory:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
Shipping and Packages Revenue:		
Priority Mail Services[1]	$ 4,337	$ 2,975
Parcel Services[2]	2,741	2,186
First-Class Package Services[3]	2,078	1,232
Package Services	222	206
Total Shipping and Packages revenue	**$ 9,378**	**$ 6,599**
Shipping and Packages Volume:		
Priority Mail Services[1]	424	304
Parcel Services[2]	1,022	908
First-Class Package Services[3]	585	372
Package Services	142	154
Total Shipping and Packages volume	**2,173**	**1,738**

[1] Includes *Priority Mail, Priority Mail Express* and *USPS Retail Ground.*
[2] Includes *Parcel Select*, *Parcel Return*, and *Marketing Mail Parcels*.
[3] Includes *First-Class Package Services - Retail* and *First-Class Package Services - Commercial*.

For the three months ended December 31, 2020, Shipping and Packages revenue increased 42.1%, with a volume growth of 25.0%, compared to the same period last year. The volume increased due to the surge in e-commerce resulting from the COVID-19 pandemic, and revenue outpaced volume increases due to the January 2020 price increases associated with certain Competitive services, as well as the time-limited price increase effective during the first quarter of 2021.

Priority Mail Services

Priority Mail Services accounted for our largest portion of Shipping and Packages revenue, representing approximately 46% of the total for the three months ended December 31, 2020, compared to approximately 45% for the same period last year. However, Priority Mail Services accounted for approximately 20% of the total Shipping and Packages volume for three months ended December 31, 2020, compared to approximately 17% for the same period last year.

For the three months ended December 31, 2020, Priority Mail Services revenue grew 45.8%, on volume growth of 39.5%, compared to the same period last year. Revenue and volume increased due to the surge in e-commerce from the COVID-19 pandemic, while revenue grew at a greater rate than volume, largely due to the January 2020 price increases applicable to Competitive services, as well as the time-limited price increase effective during the first quarter of 2021.

Parcel Services

For the three months ended December 31, 2020, revenue from Parcel Services increased 25.4%, on volume growth of 12.6%, compared to the same period last year. This subcategory is primarily a last-mile service that bypasses much of our infrastructure and therefore is one of our lowest-priced package services. Revenue and volume increased due to the surge in e-commerce from the COVID-19 pandemic. Revenue grew at a greater rate than volume largely due to the January 2020 price increases applicable to Competitive services, as well as the time-limited price increase effective during the first quarter of 2021.

First-Class Package Services
For the three months ended December 31, 2020, First-Class Package Services revenue increased 68.7%, with a volume growth of 57.3%, compared to the same period last year. Revenue and volume increased due to the surge in e-commerce from the COVID-19 pandemic. Revenue grew at a greater rate than volume largely due to the January 2020 price increases applicable to Competitive services, as well as the time-limited price increase effective during the first quarter of 2021.

Package Services
For the three months ended December 31, 2020, Package Services revenue increased 7.8%, despite a volume decline of 7.8%, compared to the same period last year. Revenue grew despite the volume decline for the three-month period, due to the January 2020 price increase applicable to Market-Dominant services.

International Mail
For the three months ended December 31, 2020, *International Mail* revenue decreased 3.2%, with a volume decline of 45.0%, compared to the same period last year. Revenue decreased at a slower rate than volume due to the January 2020 price increases applicable to Competitive services. The declines in both inbound and outbound volume were due to various competitive pricing, political and economic factors, including the impact of the COVID-19 pandemic on transportation logistics and the global economy in general.

Periodicals
For the three months ended December 31, 2020, *Periodicals* revenue decreased 15.0% and volume declined 14.9%, compared to the same period last year, consistent with the systemic trends in hard-copy reading behavior and shifts of advertising away from print have eroded this business.

Other
Other services revenue decreased 16.6% for the three months ended December 31, 2020, compared to the same period last year.

OPERATING EXPENSES
In an effort to align our resources with anticipated future mail and package volume, we continue to aggressively manage operating expenses under management's control.

We originally designed our mail processing and distribution network to provide overnight delivery service of *First-Class Mail* within specified delivery areas for a much higher volume of mail than we are required to process and deliver today, and the network's legacy capabilities are not completely aligned to today's mail mix and volumes. Consequently, certain of our processing and distribution facilities continue to operate at less than full capacity. Our challenge to contain costs is also compounded by the increasing number of delivery points, which, when combined with lower mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.0 pieces in 2020, a reduction of approximately 46%.

As discussed in greater detail below, our operating expenses for the three months ended December 31, 2020 reflect the impacts of the COVID-19 pandemic. Specifically, we have incurred greater expenses for supplies, higher air transportation costs due to lower availability of commercial air flights, and greater compensation costs representing both increased sick leave and labor costs associated with the higher volumes in our more labor-intensive Shipping and Packages category.

Compensation and Benefits
Compensation and benefits is our largest operating expense category. These expenses consist of costs related to our active career and non-career employees other than retirement costs associated with U.S. government defined benefit pension programs and retiree health costs which are further discussed in *Retirement Benefits* and *Retiree Health Benefits*, respectively.

The following table presents compensation and benefits expenses for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
Compensation	$ 10,932	$ 10,276
Employee health benefits	1,323	1,295
Social security	614	569
TSP	292	287
Other	118	81
Total compensation and benefits	**$ 13,279**	**$ 12,508**

Overall, our compensation and benefits expenses increased 6.2% for the three months ended December 31, 2020, compared to the same period last year, driven by increased work hours, increased paid leave hours, and general wage increases. Increased paid leave hours included regular sick leave, newly negotiated sick leave provided to our bargaining-unit employees, and sick leave as provided by the *Families First Coronavirus Response Act*, enacted as Public Law 116-127 ("FFCRA") as described in our Annual Report. Our compensation and benefits expenses are also impacted by certain general inefficiencies in the workplace as a result of the pandemic, including increased hours managing Personal Protective Equipment ("PPE"), sanitizing work areas and social distancing in postal facilities.

Work Hours

Work hours are a significant component of compensation expense. We are committed to minimizing costs by using the appropriate mix of work hours based on the complement and the assessment of relative cost for each work hour type. In some instances, the use of overtime hours may be necessary to meet service standard commitments and obligations for mail delivery or to serve as a more cost effective option, as in most instances, the cost of an overtime hour is less than the cost of a straight-time hour due to benefits and the flexibility offered by overtime.

For the three months ended December 31, 2020, total work hours were approximately 316 million, an increase of 3.3% compared to the same period last year. This increase was reflective of the higher Shipping and Packages volumes during the period from the holiday shipping season, compounded by the surge in e-commerce growth due to the COVID-19 pandemic and the influx of volume associated with the 2020 general elections, as well as hours attributable to general inefficiencies associated with the pandemic. The total increase for the three months ended December 31, 2020 included an increase in overtime work hours of approximately 13 million, partially offset by a decrease of straight-time hours of approximately 3 million, compared to the same period last year, due to employee availability during the pandemic and management's strategy to use more cost effective hours.

Workforce Composition

The number of career employees at December 31, 2020 was approximately 493,500, a decrease of over 1,500 employees, or 0.3%, compared to the same date a year ago, as a result of normal attrition.

The number of non-career employees at December 31, 2020 was approximately 182,000, an increase of nearly 19,500 employees, or 12.0%, compared to the same date a year ago. This increase primarily reflects additions to the workforce to address the surge in Shipping and Packages volumes, as well as to accommodate limited employee availability during the pandemic.

Collective Bargaining Agreements

We have active contracts with the American Postal Workers Union, AFL-CIO ("APWU"), the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") and the National Rural Letter Carriers Association ("NRLCA"). For additional information, see *Item 1. Business, Bargaining Agreements* and *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies* in our Annual Report.

On November 25, 2020, we reached a tentative agreement with the National Association of Letter Carriers, AFL-CIO (“NALC”) on a new 44-month collective bargaining agreement. The previous contract with the NALC expired on September 20, 2019. The tentative agreement is subject to ratification by the NALC members. As of the date of this report, the agreement is still pending ratification.

Retirement Benefits

We participate in FERS and CSRS, federal employee defined pension benefit programs administered by OPM. Our retirement benefits expenses include statutorily required contributions to amortize the unfunded portion of these programs, and a percentage of basic pay for our active employees, as established by OPM. For the three months ended December 31, 2020, our retirement benefits expenses increased 10.9%, compared to the same period last year, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization and increased FERS normal costs associated with compensation increases.

For additional information, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 8 - Retirement Plans*, in this document and *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 12 - Retirement Plans* in our Annual Report.

Retiree Health Benefits

We participate in federal employee benefit programs for retiree health benefits. Our retiree health benefit expenses include a statutorily required contribution to amortize the unfunded portion of this program, and the “normal cost”, an amount calculated by OPM as the present value of the estimated retiree health benefits attributable to active employees' current year of service. For the three months ended December 31, 2020, our retiree health benefits expenses decreased 2.0% compared to the same period last year, due to revised actuarial assumptions for retiree health benefit normal costs.

For additional information, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 9 - Health Benefits Plans*, *Retirees*, in this document and *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 13 - Health Benefits Plans*, *Retirees* in our Annual Report.

Workers’ Compensation

Our employees injured on the job are covered by the Federal Employees’ Compensation Act (“FECA”), administered by the U.S. Department of Labor’s (“DOL”) Office of Workers’ Compensation Programs, as described in our Annual Report.

On a daily basis we focus on costs that can be managed in the course of normal business operations. Certain aspects of workers’ compensation can be managed through human resource initiatives, safety measures and training. Other workers’ compensation costs cannot be managed in the course of normal business operations and are less predictable, including expenses caused by actuarial revaluation and discount rate changes. We subtract the cash payments made by DOL on behalf of workers' compensation obligations, which are relatively predictable, from total workers' compensation expense (benefit) in order to determine the non-cash component of workers' compensation expense (benefit), a non-GAAP financial measure.

The following table presents the components of workers' compensation expense (benefit), including the cash payments made by DOL on behalf of workers' compensation obligations, for the three months ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
Impact of discount rate changes	$ (479)	$ (543)
Actuarial revaluation of existing cases	(146)	17
Cost of new cases	326	303
Administrative fee	21	21
Total workers' compensation benefit	**$ (278)**	**$ (202)**
Less cash payments made by DOL on behalf of workers' compensation obligations	(328)	(331)
Total workers' compensation non-cash benefit	**$ (606)**	**$ (533)**

For the three months ended December 31, 2020, the portion of workers' compensation benefit due to the impact of discount rate changes increased approximately $64 million, compared to the same period last year.

The combined costs of new workers' compensation cases and revaluation of existing workers' compensation cases decreased by $140 million for the three months ended December 31, 2020, compared to the same period last year. Changes in actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial estimation, the progression of existing cases and updated cost of living adjustments ("COLA") assumptions, which are largely outside of management's control.

For additional information, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 10 - Workers' Compensation* in this document and *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 14 - Workers' Compensation* in our Annual Report.

Transportation

Transportation expenses include the costs we incur to transport mail and packages between our facilities, comprising highway, air and international transportation contracts, plus contract delivery services. We rely on third-parties under highway contract routes for much of the long-haul transportation services between facilities. Furthermore, we do not own or operate aircraft and we rely on third-parties for the air transportation service required to deliver our mail and packages to various destinations within the U.S. and abroad.

With the exception of contract delivery services, our costs to deliver mail and other products to delivery points are not included within *Transportation* but in *Compensation and benefits* for employee costs and in *Other operating expenses* for fuel, vehicle maintenance and repair, and other costs in the accompanying unaudited *Statements of Operations.* Furthermore, transportation expenses do not include the compensation and related costs of employees responsible for transporting mail and packages between our facilities.

Variations in the volume and weight of mail transported, the mode of transportation used, and fuel prices have significant impact on transportation expenses.

The components of transportation expenses for the three months ended December 31, 2020 and 2019, are presented in the following table:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
Highway	$ 1,522	$ 1,420
Air	913	803
International	154	161
Other	12	13
Total transportation expenses	**$ 2,601**	**$ 2,397**

Overall, transportation expenses increased 8.5% for the three months ended December 31, 2020, compared to the same period last year. Travel and logistics restrictions associated with the COVID-19 pandemic continued to impact the modes of transportation available during the three months ended December 31, 2020, though the impact was less significant than experienced at the onset of the pandemic.

Highway transportation expenses increased 7.2% for the three months ended December 31, 2020, compared to the same period last year, primarily due to an increase in the number of miles driven, partially offset by lower diesel rates.

Air transportation expenses increased 13.7% for the three months ended December 31, 2020, compared to the same period last year, due primarily to higher volumes and, to a lesser extent, the lower availability of commercial air flights, partially offset by lower average jet fuel prices.

Other Operating Expenses

Other operating expenses for the three months ended December 31, 2020 and 2019, are detailed in the following table:

	Three Months Ended December 31,	
(in millions)	**2020**	**2019**
Supplies and services	$ 810	$ 769
Depreciation and amortization	419	431
Rent and utilities	429	471
Information technology and communications	219	179
Vehicle maintenance service	161	158
Rural carrier equipment maintenance	151	157
Fuel - delivery vehicles	114	131
Miscellaneous other	251	240
Total other operating expenses	**$ 2,554**	**$ 2,536**

Total other operating expenses increased by 0.7% for the three months ended December 31, 2020, compared to the same period in the prior year, impacted by higher costs for PPE associated with the pandemic partially offset by lower costs for rent and utilities. While these aggregate changes were relatively immaterial, the period-over-period changes in the various components of other operating expenses for the three months ended December 31, 2020 were also relatively immaterial.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity consists of unrestricted cash and cash equivalents plus our authorized borrowing capacity under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435 (the "PRA"). As of December 31, 2020 and September 30, 2020, we held unrestricted cash and cash equivalents of $15.2 billion and $14.4 billion, respectively. During the three months ended December 31, 2020, our average daily liquidity balance was $15.3 billion. This amount represented approximately 77 days of liquidity, which we define as average liquidity divided by our 2020 cash expenses (total expenses excluding depreciation expense, expenses accrued but unpaid for PSRHBF, CSRS and FERS, and the deferred employer contributions for Social Security) and capital expenditures per calendar day (366 days in 2020).

Although our liquidity has generally increased since 2012, it remains insufficient to support an organization with approximately $82 billion in annual operating expenses, to make capital investments necessary for continuity of operations and to prepare for unexpected contingencies.

Furthermore, in order to preserve liquidity, and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk, we have not made certain payments for retirement and retiree health benefits. As of September 30, 2020, past due amounts payable to the PSRHBF and to OPM for CSRS and FERS totaled $63.3 billion.

CASH FLOW ANALYSIS

Operating Activities

Cash provided by operating activities was approximately $1.5 billion for the three months ended December 31, 2020, compared to cash used in operating activities of $310 million for the same period last year, a difference of approximately $1.8 billion, driven by the increase in operating revenue and the deferred payment for the employer contribution of Social Security benefits as authorized by the *Coronavirus Aid, Relief, and Economic Security Act,* enacted as Public Law 116-136 (the "*CARES Act*"). In March 2020, the President signed the *CARES Act*, offering certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages from March 27, 2020, through December 31, 2020.

Investing Activities

We invested $505 million in the purchase of property and equipment for the three months ended December 31, 2020, which is an increase of $87 million, or 20.8%, compared to the same period last year. As of the date of this report, the amount of our full year projected capital expenditures is approximately $2.0 billion.

Financing Activities

Except as described otherwise in this quarterly report, the nature and amounts of our payment obligations under our debt, finance and operating lease agreements, purchase commitments and other liabilities as of December 31, 2020 have not materially changed from those described in our Annual Report.

DEBT

As of both December 31, 2020 and September 30, 2020, the aggregate principal balance of our outstanding debt was $14.0 billion, all of which was issued to the Federal Financing Bank ("FFB"). Our outstanding debt included $3.0 billion in short-term debt relating to the revolving credit facility payable by April 2, 2021, and $11.0 billion in long-term debt consisting of fixed-rate notes and floating-rate notes. As of December 31, 2020, our incremental borrowing capacity under our PRA authority was $1.0 billion.

Notwithstanding the $15.0 billion statutory debt limit and the $3.0 billion limit on annual borrowing, the *CARES Act* allows us to receive up to an additional $10.0 billion in financing from the U.S. Department of the Treasury ("U.S. Treasury") to fund operating expenses associated with the COVID-19 pandemic. On December 27, 2020, the President signed Public Law 116-260, the *Consolidated Appropriations Act, 2021,* amending the *CARES Act* to remove the repayment requirement for any financing issued under the $10.0 billion borrowing authority. This legislation altered the basis of the previously reported agreement in principle reached with the U.S. Treasury in July 2020 and new terms and conditions were required to be established before we could access any funds.

On January 19, 2021, we reached an agreement with the U.S. Treasury on the terms and conditions applicable to amounts received under the *CARES Act*, as amended by the *Consolidated Appropriations Act, 2021,* nullifying the terms and conditions of the agreement in principle from July 2020. Pursuant to this new memorandum of understanding, we may request up to $10.0 billion in funding from the U.S. Treasury for COVID-19 related operating expenses which would not bear interest and which would not need to be repaid. Advances under this agreement are subject to certain terms and conditions and approval by the U.S. Treasury.

LIQUIDITY OUTLOOK

We are constrained by laws and regulations, including the PAEA, which restrict revenue sources and mandates certain expenses. Statutorily mandated expenses include amortization payments to provide full funding of retirement benefits under the CSRS and the FERS, as well as FERS normal costs, described in greater detail in *Note 8 - Retirement Plans*. Additionally, the PAEA established the PSRHBF and mandated certain obligations for paying normal costs, the present value of the estimated retiree health benefits attributable to active employees' current year of service, and amortization payments for full prefunding of retiree health benefits. These prefunding obligations, described in greater detail in *Note 9 - Health Benefits Plans*, are unlike expenses imposed on most other federal entities or private-sector businesses that offer such benefits.

We continue to face challenges from the ongoing migration of mail to electronic alternatives, and we are legally limited under current law in how we can price our products and streamline our legacy business model. Our operations will require significant capital investment over the next few years to modernize and improve our processing and delivery infrastructure and update our delivery fleet in order to continue to meet our primary statutory obligation to provide prompt, reliable and efficient postal services to the nation.

Absent legislative and regulatory change, we project continuing annual net losses in the future. As a result of these losses and our liquidity concerns, we may not have sufficient cash balances to meet all of our existing legal obligations and make all of the critical investments in our infrastructure that are necessary for operational continuity and that have been deferred in recent years.

Furthermore, while we have the statutory authority to issue debt obligations within the statutory borrowing limitations, we have no assurance that we would be able to raise additional cash through new debt financing with the FFB, or that such financing would be provided on terms comparable to those applicable to our prior debt issuances. Alternatively, if we were to use our authority under the PRA to issue and sell obligations to a party or parties other than the FFB, we have no assurance that we would be successful in raising additional cash, or that such financing would be provided on terms comparable to those applicable to our prior debt issuances.

In the event that circumstances leave us with insufficient liquidity to continue operating, we may deem it necessary to implement additional contingency plans to ensure that our primary mission is fulfilled and that mail deliveries continue. These measures include prioritizing payments to the FFB, our employees and suppliers ahead of some payments to fund retirement and retiree health benefits, as we have done in the past.

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue long-term financial sustainability by focusing on the following items:

1. Continued efforts to control costs and drive efficiencies, innovate to keep mail relevant and generate increased revenue; and
2. Postal Service reform legislation that addresses our overall cost structure and enhances our revenue-generating opportunities.

Although we continue to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, we have no assurances that our requests will result in meaningful reform in the foreseeable future.

2021 and Beyond

We continue to face systemic imbalances that make our current operating model unsustainable. We intend to adopt operational reforms to meet the changing needs of our business and residential customers. We anticipate that given our ongoing liquidity concerns, and without legislative action, regulatory reform and operational reforms, we may not be able to pay all legally required obligations and also invest in much-needed capital expenditures in 2021 and future years that are necessary to ensure our ability to fulfill our primary mission. Furthermore, we believe that continuing productivity improvements alone will not be sufficient to address the challenges presented by declining Market-Dominant volume and revenue, and any future growth in operating revenue would unlikely keep pace with increased costs.

Legally Required Obligations

In addition to our previously discussed obligations for unfunded retirement and retiree health benefits of approximately $8.0 billion due on September 30, 2021, we expect to pay the DOL approximately $1.3 billion in October 2021, representing the workers' compensation claims paid by DOL for the chargeback year July 1, 2020 to June 30, 2021, plus the estimated administrative fee.

The *CARES Act* offered certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020 through December 31, 2020. In accordance with this provision, we had deferred approximately $1.8 billion as of December 31, 2020. One half of these deferred payments is due by December 31, 2021, and the other half by December 31, 2022.

Capital Investments

We currently estimate that our required cash outlays for capital investments necessary to ensure that we can continue to perform our universal service obligation will amount to approximately $1.5 billion for the remainder of 2021, and an additional $10.1 billion for years 2022 through 2025, as we plan to invest in a new fleet of delivery vehicles and other appropriate capital assets. Although our future projections include these capital cash outlays, the severity and duration of the COVID-19 pandemic may impact these outlays and the future cash flow from operations alone may not generate the cash needed to enable us to fully fund such necessary capital investments.

Mitigating Circumstances

We continue to pursue strategies within our control to increase operational efficiency and improve liquidity. We have managed capital in recent years by spending only what we believed was essential to maintain our existing facilities and service levels, and to increase efficiencies. However, continued increases in capital investment are necessary to upgrade our facilities, fleet of vehicles and processing equipment in order to remain operationally viable. Aggressive management of the business operations, as well as legislative and regulatory reforms that will enable us to increase revenue and reduce costs, will all be necessary to restore our financial health.

Our status as an independent establishment of the executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual total revenue in 2020 of approximately $73 billion, a financially sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that we support. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail, and in the event of a cash shortfall, the U.S. government would likely prevent us from significantly curtailing or ceasing operations. We continue to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face and the legislative and regulatory changes that are required to restore our financial stability.

LEGISLATIVE UPDATE

As a self-funded independent establishment of the executive branch, our business model and operations are influenced by congressional oversight and legislation. Consistent with our independent self-funded design, Congress intended for us to be governed by an eleven-member Board of Governors ("Board") which generally consists of our Postmaster General, a Deputy Postmaster General and nine independent governors ("Governors"). The President appoints the Governors with the advice and consent of the Senate. We have six Senate-confirmed Governors currently in office.

APPROPRIATIONS

On December 27, 2020, the President signed Public Law 116-260, the *Consolidated Appropriations Act, 2021,* funding the U.S. government for 2021 and providing coronavirus emergency response and relief. The law includes a $55.3 million payment to the Postal Service Fund, which we subsequently received in January 2021, for revenue forgone for free mail for the blind and overseas voting. It requires continuation of six-day delivery, prohibits any of the appropriated funds from being used to consolidate or close small rural or other small Post Offices, and provides that the Postal Service may not destroy, and must continue to sell the Multinational Species Conservation Funds Semipostal Stamp. The law additionally amended the *CARES Act* to remove the repayment requirement for any amounts received under the $10.0 billion borrowing authority. It also allowed for the acceptance of certain low risk inbound international postal shipments without transmission of advance electronic data through March 15, 2021.

POSTAL SERVICE REFORM

The 117th Congress has not introduced any Postal Service reform bills to date. Legislative and regulatory reforms remain critical for us to meet the needs of the American public, and we will continue to work with Congress and all of our stakeholders to enact Postal Service reform legislation.

BOARD OF GOVERNORS

On December 17, 2020, the President submitted to the Senate the nomination of Romolo A. Bernardi to serve on the Board for a term expiring December 8, 2023. That nomination was not acted upon before the conclusion of the 116th Congress, resulting in the nomination being withdrawn.

REGULATORY MATTERS

In December 2016, the PRC initiated its ten-year review of the system for regulating rates and classes for Market-Dominant products as required by the PAEA. The purpose of the ten-year review was to determine if the system for regulating such rates and classes has achieved the objectives Congress established in the PAEA. As part of this review, the PRC evaluated the CPI-U price cap for our Market-Dominant services.

In its initial decision in December 2017, the PRC had concluded that the rates system has not achieved its necessary objectives and needed to be changed, because it does not enable us to achieve our mission of providing prompt, reliable, and efficient universal postal services to the American people in a financially sustainable manner.

On November 30, 2020, the PRC announced its final decision in connection with its ten-year review of the system for regulating rates and classes for Market-Dominant products as required by the PAEA. The PRC's final changes to the system do not include the elimination of the CPI-U price cap; however, it does provide for some additional pricing flexibility and authority within a price cap system.

FAIR VALUE MEASUREMENTS

As required by authoritative accounting literature, certain fair value disclosures for the periods ended December 31, 2020 and September 30, 2020, are discussed in *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements, Note 12 - Fair Value Measurement*. We did not recognize gains as a result of valuation measurements during the three months ended December 31, 2020. All recognized losses have been incorporated into our financial statements as of December 31, 2020.

RELATED PARTY TRANSACTIONS

As disclosed throughout this quarterly report, we have significant transactions with other U.S. government entities, which are considered related parties for reporting purposes. For a more detailed description, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 5 - Related Parties*.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, alternative policies or estimation techniques may 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. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report. Management normally discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board.

RECENT ACCOUNTING STANDARDS

See *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 2 - Recent Accounting Pronouncements*, for a description of recently announced accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

We also have provisions in our debt agreements that allow us to prepay our $14.0 billion debt at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the U.S. Treasury market at the time of repayment.

See *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* in the Annual Report for additional information.

ITEM 4. CONTROLS AND PROCEDURES

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

DISCLOSURE CONTROLS

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 PAEA, and that this information is accumulated and communicated to our management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and the Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of December 31, 2020. Based upon and as of the date of the evaluation, the Postmaster General and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

INTERNAL CONTROLS

We have made no changes in our internal control over financial reporting during the three months ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings affecting us, please refer to *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements* and *Note 7 - Commitments and Contingencies*, as well as our Annual Report.

ITEM 1A. RISK FACTORS

No material changes have transpired in our risk factors from those disclosed in *Item 1A. Risk Factors* of our Annual Report.

ITEM 6. EXHIBITS

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

Signatures

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

United States Postal Service

/s/Louis DeJoy

Louis DeJoy
Postmaster General and Chief Executive Officer

Date: February 8, 2021

/s/Joseph Corbett

Joseph Corbett
Chief Financial Officer and Executive Vice President

Date: February 8, 2021

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, Louis DeJoy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (“Postal Service”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service’s Board of Governors:
    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 significant role in the Postal Service’s internal control over financial reporting.

Date: February 8, 2021

/s/Louis DeJoy

Louis DeJoy

Postmaster General and Chief Executive Officer

Exhibit 31.2

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

I, Joseph Corbett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (“Postal Service”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service’s Board of Governors:
    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 significant role in the Postal Service’s internal control over financial reporting.

Date: February 8, 2021

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service (“Postal Service”) on Form 10-Q for the period ended December 31, 2020, (the “Report”), I, Louis DeJoy, 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.

Date: February 8, 2021

/s/Louis DeJoy

Louis DeJoy

Postmaster General and Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of the United States Postal Service ("Postal Service") on Form 10-Q for the period ended December 31, 2020, (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.

Date: February 8, 2021

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