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 June 30, 2021

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

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 August 5, 2021: N/A

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNITED STATES POSTAL SERVICE
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Revenue:				
Operating revenue	$ 18,484	$ 17,639	$ 58,869	$ 54,831
Other revenue	10	1	28	6
Total revenue	**18,494**	**17,640**	**58,897**	**54,837**
Operating expenses:				
Compensation and benefits	12,271	12,158	37,871	36,470
Retirement benefits	1,824	1,710	5,404	5,143
Retiree health benefits	1,432	1,045	3,832	3,495
Workers' compensation	1,053	153	(485)	2,948
Transportation	2,364	2,182	7,309	6,587
Other operating expenses	2,505	2,562	7,620	7,578
Total operating expenses	**21,449**	**19,810**	**61,551**	**62,221**
Loss from operations	**(2,955)**	**(2,170)**	**(2,654)**	**(7,384)**
Interest and investment income	5	9	20	83
Interest expense	(37)	(49)	(117)	(172)
Net loss	**$ (2,987)**	**$ (2,210)**	**$ (2,751)**	**$ (7,473)**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
BALANCE SHEETS

(in millions)	June 30, 2021 (unaudited)	September 30, 2020
Current Assets:		
Cash and cash equivalents	$ 22,271	$ 14,358
Restricted cash	542	354
Receivables, net (less allowances of $135 and $87)	1,483	1,359
Supplies, advances and prepayments	188	224
Total current assets	**24,484**	**16,295**
Property and equipment, net	14,721	14,567
Operating lease right-of-use assets	4,591	4,488
Other assets	645	554
Total assets	**$ 44,441**	**$ 35,904**
Current Liabilities:		
Compensation and benefits	$ 3,143	$ 2,788
Retirement benefits	13,911	11,583
Retiree health benefits	55,698	51,865
Workers' compensation	1,324	1,320
Payables and accrued expenses	2,551	2,328
Deferred revenue-prepaid postage	2,445	2,489
Operating lease liabilities	1,211	1,206
Customer deposit accounts	1,157	1,260
Other current liabilities	1,415	1,336
Short-term debt	1,000	3,000
Total current liabilities	**83,855**	**79,175**
Workers' compensation, noncurrent	16,944	18,754
Operating lease liabilities, noncurrent	3,493	3,425
Employees' accumulated leave, noncurrent	2,290	2,201
Other noncurrent liabilities	1,747	2,057
Long-term debt	10,000	11,000
Total liabilities	**118,329**	**116,612**
Net Deficiency:		
Capital contributions of the U.S. government	12,745	3,132
Deficit since 1971 reorganization	(86,633)	(83,840)
Total net deficiency	**(73,888)**	**(80,708)**
Total liabilities and net deficiency	**$ 44,441**	**$ 35,904**

See accompanying notes to the unaudited financial statements.

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

For the three and nine months ended June 30, 2020

(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)**
Net loss	—	(4,515)	(4,515)
Balance, March 31, 2020	**$ 3,132**	**$ (79,927)**	**$ (76,795)**
Net loss	—	(2,210)	(2,210)
Balance, June 30, 2020	**$ 3,132**	**$ (82,137)**	**$ (79,005)**

See accompanying notes to the unaudited financial statements.

For the three and nine months ended June 30, 2021

(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)**
Capital contributions of the U.S. government	8,649	—	8,649
Net loss	—	(82)	(82)
Balance, March 31, 2021	**$ 11,781**	**$ (83,646)**	**$ (71,865)**
Capital contributions of the U.S. government	964	—	964
Net loss	—	(2,987)	(2,987)
Balance, June 30, 2021	**$ 12,745**	**$ (86,633)**	**$ (73,888)**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in millions)	Nine Months Ended June 30, 2021	Nine Months Ended June 30, 2020
Cash flows from operating activities:		
Net loss	$ (2,751)	$ (7,473)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,254	1,283
Loss on disposals of property and equipment, net	9	12
Lease expense	(103)	(53)
Increase in other assets	(91)	(64)
(Decrease) increase in noncurrent workers' compensation	(1,810)	1,625
Increase (decrease) in noncurrent deferred appropriations and other revenue	77	(4)
Increase in noncurrent operating lease liabilities	68	102
(Decrease) increase in other noncurrent liabilities	(248)	793
Changes in current assets and liabilities:		
Receivables, net	(166)	(8)
Other current assets	36	(15)
Retirement benefits	2,328	2,282
Retiree health benefits	3,833	3,495
Payables, accrued expenses and other	410	(96)
Operating lease liabilities	5	76
Deferred revenue-prepaid postage and other deferred revenue	44	6
Net cash provided by operating activities	**2,895**	**1,961**
Cash flows from investing activities:		
Purchases of property and equipment	(1,395)	(1,187)
Proceeds from sales of property and equipment	12	25
Net cash used in investing activities	**(1,383)**	**(1,162)**
Cash flows from financing activities:		
Issuance of notes payable	—	3,400
Payments on notes payable	(3,000)	—
Payments on finance lease obligations	(24)	(31)
Contributions of the U.S. government	9,613	—
Net cash provided by financing activities	**6,589**	**3,369**
Net increase in cash, cash equivalents & restricted cash	8,101	4,168
Cash, cash equivalents & restricted cash - beginning of period	14,712	9,161
Cash, cash equivalents & restricted cash - end of period	**$ 22,813**	**$ 13,329**
Supplemental cash flow disclosures:		
Cash paid for interest	$ 114	$ 165

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 June 30, 2021, the results of operations for the three and nine months ended June 30, 2021 and 2020, the changes in net deficiency for the three and nine months ended June 30, 2021 and 2020, and cash flows for the nine months ended June 30, 2021 and 2020. Operating results for the three and nine months ended June 30, 2021 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 nine months ended June 30, 2021.

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

In March 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act,* enacted as Public Law 116-136 (the "*CARES Act*") in response to the coronavirus ("COVID-19") pandemic. On December 27, 2020, the President signed Public Law 116-260, the *Consolidated Appropriations Act, 2021,* amending the *CARES Act.* The *CARES Act*, as amended, allows the Postal Service to receive up to $10.0 billion from the U.S. Department of the Treasury ("U.S. Treasury") to fund operating expenses.

During the third quarter of 2021, the Postal Service received $964 million in funding from the U.S. Treasury under the *CARES Act*, as amended. As of June 30, 2021, total funding received pursuant to the *CARES Act*, as amended, was approximately $9.6 billion, all of which was recorded as a capital contribution in the accompanying *Balance Sheets.* As of June 30, 2021, all of the funding received has been allocated to qualified operating expenses. On July 29, 2021, the Postal Service received an additional $387 million and, as of this date, all $10.0 billion authorized by the *CARES Act*, as amended, has been received.

The *CARES Act* also 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 June 30, 2021. 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*.

Excluding the funding provided by the U.S. Treasury pursuant to the *CARES Act*, 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. Treasury.

As of June 30, 2021 and September 30, 2020, the Postal Service held unrestricted cash and cash equivalents of $22.3 billion and $14.4 billion, respectively.

The Postal Service also holds restricted cash that is not considered part of its liquidity. Restricted cash represents Postal Service cash that is not available for general use, including:

- Funds originated from forfeitures or seizures due to consumer fraud or other criminal activity related to the mail and either held for third-party beneficiaries or awaiting disposition;
- 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
- Funds that are otherwise restricted.

As of June 30, 2021 and September 30, 2020, the Postal Service held restricted cash of approximately $542 million and $354 million, respectively.

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 and to allow 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 June 30, 2021 and September 30, 2020, the aggregate principal of all debt outstanding was $11.0 billion and $14.0 billion, respectively, 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.

As of June 30, 2021, the Postal Service had $4.0 billion in remaining borrowing capacity under the PRA, though it is still 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.

Liquidity Concerns

The Postal Service continues to face systemic imbalances that make its current operating model unsustainable. As communicated in the *Delivering for America* plan that was published in March 2021, the Postal Service is implementing strategic operational reforms to meet the changing needs of its business and residential customers. However, success of the plan requires rational legislative and administrative changes to retiree benefit funding rules and pricing authority aligned with the organization and marketplace needs. Absent legislative action, regulatory change, and timely implementation of 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 repaying its maturing 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 pandemic continues to have a material and unpredictable effect on certain of the Postal Service's results of operations. At the onset of the pandemic, the Postal Service experienced a significant decline in mail services and substantial growth in sales from Shipping and Packages, its most labor-intensive revenue stream.

As the U.S. economy recovers, the impact of COVID-19 on the Postal Service's volume trends has partially abated. However, the pandemic has significantly transformed the mix of mail and packages processed through the Postal Service's network, with a substantially higher percentage of Shipping and Packages volume, compared to pre-pandemic levels. While this shift contributes to net positive cash flow, Shipping and Packages produces a lower contribution margin per revenue dollar due to higher associated labor and transportation expenses.

The Postal Service's operating expenses have also been significantly impacted by the pandemic, beyond the impact of higher package volume, as it has incurred expenses for personal protective equipment ("PPE"), increased sick leave, increased costs for hiring and training new employees, increased overtime costs, higher air transportation costs due to lower availability of commercial air flights, and certain general pandemic-related inefficiencies in the workplace including increased hours managing PPE, sanitizing work areas, social distancing in postal facilities, and the acclimation of new hires. While these costs are still higher than pre-pandemic levels, they have decreased from those incurred at the onset of the pandemic.

Despite the continued distribution and administration of vaccinations, the duration of the COVID-19 disruption remains uncertain, particularly with the emergence of COVID-19 variants. The Postal Service expects that its liquidity may worsen if the nation experiences a prolonged period of disruption or 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”), enacted as Public Law 109-435, 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 for the first three quarters of 2021 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. The PRC’s decision is subject to an ongoing appeal in the United States Court of Appeals for the District of Columbia Circuit.

Unlike the prices for Postal Service’s Market-Dominant services, 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

The Postal Service reported operating expenses of approximately $82 billion in 2020 and has incurred cumulative net losses of $89.8 billion from 2007 through June 30, 2021. 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 health and 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 generally 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 the 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 and nine months ended June 30, 2021 and 2020, by each service category:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2021	2020[1]	2021	2020[1]
Operating Revenue:				
First-Class Mail[2]	$ 5,533	$ 5,479	$ 17,817	$ 18,331
Marketing Mail[3]	3,450	2,427	10,843	10,577
Shipping and Packages[4]	7,664	8,310	24,818	20,730
International	545	544	1,768	1,835
Periodicals	237	245	716	797
Other[5]	1,055	634	2,907	2,561
Total operating revenue	**$ 18,484**	**$ 17,639**	**$ 58,869**	**$ 54,831**

[1] 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 have no effect on total operating revenue for the period. These reclassifications are required by Postal Service regulatory requirements and are included in this document for consistency amongst publicly-available information.

[2] Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.

[3] Excludes *Marketing Mail Parcels*.

[4] 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*.

[5] 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.

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 June 30, 2021 and September 30, 2020:

(in millions)	June 30, 2021	September 30, 2020
Deferred revenue-prepaid postage:		
Forever stamps	$ 1,461	$ 1,446
Mail-in-transit	555	589
Metered postage	312	329
Other prepaid postage	117	125
Total deferred revenue-prepaid postage	**2,445**	**2,489**
Prepaid PO Box and Caller Service fees	**560**	**489**
Total deferred revenue	**$ 3,005**	**$ 2,978**

The following table provides details of revenue recognized for the nine months ended June 30, 2021 that was reported in the Postal Service's contract liabilities for deferred revenue as of September 30, 2020:

(in millions)		Nine Months Ended June 30, 2021
Revenue recognized in the period from deferred revenue:		
Forever stamps	$	1,034
Mail-in-transit		589
Metered postage		329
Other prepaid postage		96
PO Box and Caller Service fees		468

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.

During the third quarter of 2021, the Postal Service received $964 million in funding from the U.S. Treasury under the *CARES Act*, as amended. As of June 30, 2021, total funding received pursuant to the *CARES Act*, as amended, was approximately $9.6 billion, all of which was recorded as a capital contribution in the accompanying *Balance Sheets.* On July 29, 2021, the Postal Service received an additional $387 million and, as of this date, all $10.0 billion authorized by the *CARES Act*, as amended, has been received.

The following table presents related-party assets and liabilities as of June 30, 2021 and September 30, 2020:

(in millions)		June 30, 2021		September 30, 2020
Related-party assets:				
Carrying amount of revenue forgone installment receivable[1]	$	499	$	485
Related-party liabilities:				
Short-term debt	$	1,000	$	3,000
Other current liabilities[2]		71,135		64,146
Long-term debt		10,000		11,000
Other noncurrent liabilities[3]		16,949		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.

On March 11, 2021, the President signed the *American Rescue Plan Act of 2021*, enacted as Public Law 117-2, which includes $570 million in funding for COVID-19 related leave for all federal employees, including Postal Service employees. Pursuant to this law, the Postal Service is eligible for reimbursement of certain pandemic-related leave expenses. However, receipt of funds under this law is not guaranteed as it is subject to approval from the U.S. Office of Personnel Management ("OPM") and the available remaining balance. On June 16, 2021, the Postal Service received $71 million in reimbursements under this law, and this amount was recorded as a contra expense in the accompanying unaudited *Statements of Operations*, and included as a contra expense in the below related-party operating expenses. Between June 30, 2021 and the date of this report, the Postal Service received an additional $85 million in reimbursements that will be recorded in the fourth quarter.

The following table presents related-party revenue and expenses for the three and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2021	2020	2021	2020
Related-party operating revenue[1]	$ 345	$ 290	$ 1,008	$ 1,098
Related-party operating expenses[2]	$ 4,678	$ 4,214	$ 13,707	$ 13,085
Related-party interest income[3]	$ 5	$ 9	$ 20	$ 83
Related-party interest expense[4]	$ 36	$ 47	$ 113	$ 163

[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 and nine months ended June 30, 2021 and 2020 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 June 30, 2021 and 2020, depreciation and amortization expense was $416 million and $429 million, respectively. For both the nine months ended June 30, 2021 and 2020, depreciation and amortization expense was approximately $1.3 billion. 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 Association of Letter Carriers, AFL-CIO (“NALC”). For additional information, see *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies* in the Annual Report.

In May 2021, the Postal Service agreed to extend contract negotiations on a new collective bargaining agreement with the National Rural Letter Carriers’ Association (“NRLCA”). The contract with the NRLCA expired on May 20, 2021, and the respective parties mutually agreed to extend negotiations beyond the deadline.

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 as of June 30, 2021 and September 30, 2020:

(in millions)	June 30, 2021	September 30, 2020
Current / noncurrent portions of contingent liabilities:		
Current portion[1]	$ 134	$ 103
Noncurrent portion[2]	210	188
Total contingent liabilities	**$ 344**	**$ 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 $250 million to $1.2 billion at June 30, 2021, 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 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 and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2021	2020	2021	2020
FERS normal costs	$ 1,034	$ 939	$ 3,034	$ 2,830
CSRS unfunded retirement benefits amortization[1]	454	450	1,363	1,349
FERS unfunded retirement benefits amortization[2]	336	321	1,007	964
Total retirement benefits	**$ 1,824**	**$ 1,710**	**$ 5,404**	**$ 5,143**

[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 and $3.9 billion for both the three and nine months ended June 30, 2021 and 2020, respectively. 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. On July 27, 2021, the Postal Service received OPM's invoice for 2021, which indicated the year-end amortization payment amount due September 30, 2021 is $907 million. This is higher than the Postal Service's initial estimate of $900 million and a proportionate adjustment to the accrual has been recorded.

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. OPM's invoice indicated the year-end normal cost payment due September 30, 2021 is approximately $4.2 billion. This is higher than the Postal Service's initial estimate of $3.9 billion and a proportionate adjustment to the accrual has been recorded. The invoiced amount was higher than the initial estimate due to changes in long-term economic assumptions, including the single equivalent discount rate, which increases the overall cost per participant.

The following table details retiree health benefits expenses for the three and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
PSRHBF unfunded liability amortization[1]	$ 230	$ 158	$ 680	$ 608
Normal cost of retiree health benefits[2]	1,202	887	3,152	2,887
Total retiree health benefits expense	**$ 1,432**	**$ 1,045**	**$ 3,832**	**$ 3,495**

[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. 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 June 30, 2021 liability and related expense by approximately $2.0 billion. Likewise, a 1% decrease in the discount rate would increase the June 30, 2021 liability and related expense by approximately $2.5 billion.

The following table details the applicable inflation and discount rates for compensation and medical claims, which are used to estimate the workers' compensation liability as of June 30, 2021 and September 30, 2020:

	June 30, 2021	September 30, 2020
Compensation claims liability:		
Discount rate	1.75%	1.09%
Long-term wage inflation rate	2.60%	2.60%
Medical claims liability:		
Discount rate	1.77%	1.12%
Medical inflation rate	3.10%	3.50%

As of June 30, 2021 and September 30, 2020, the Postal Service's total liability for workers' compensation was approximately $18.3 billion and $20.1 billion, respectively. As of June 30, 2021 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 $17.0 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, actuarial valuation of new cases, and revaluation of existing cases are components of total workers' compensation expense (benefit) 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 and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Impact of discount rate changes	$ 581	$ (55)	$ (1,577)	$ 2,030
Actuarial revaluation of existing cases	159	(124)	112	(128)
Cost of new cases	292	311	917	983
Administrative fee	21	21	63	63
Total workers' compensation expense (benefit)	**$ 1,053**	**$ 153**	**$ (485)**	**$ 2,948**

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 in leases 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 and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Operating lease cost	$ 326	$ 316	$ 995	$ 1,075
Variable lease cost	169	176	575	545
Short-term lease cost	59	25	225	128
Total lease cost	**$ 554**	**$ 517**	**$ 1,795**	**$ 1,748**

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 nine months ended June 30, 2021 and 2020:

	Nine Months Ended June 30,	
($ in millions)	**2021**	**2020**
Operating cash flows from operating leases	$ 1,016	$ 942
Right-of-use assets obtained in exchange for operating lease liabilities	$ 194	$ 312
Weighted-average remaining lease term - operating leases	5.39 years	5.29 years
Weighted-average discount rate - operating leases	1.46 %	1.71 %

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 carrying amounts of certain current assets and liabilities, including cash and cash equivalents, restricted 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, which are 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:

	June 30, 2021		September 30, 2020	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue forgone installment receivable[1]	$ 499	$ 541	$ 485	$ 579
Long-term debt[2]	$ 10,000	$ 10,475	$ 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.

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.

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 and nine months ended June 30, 2021 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”), enacted as Public Law 109-435, 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 mission, 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, precise, efficient, and effective manner; and remaining an employer of choice, including attracting and retaining high-quality employees.

DELIVERING FOR AMERICA

As previously reported, in March 2021, we published our vision and ten-year plan to achieve financial stability and service excellence entitled *Delivering for America* (https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf).

Our comprehensive plan delivers:

- A modernized Postal Service capable of providing world class service reliability at affordable prices;
- Maintenance of universal six-day mail delivery and expanded seven-day package delivery;
- Workforce stability and investment strategies that empower, equip, and engage each employee and put them in the best possible position to succeed;
- Innovation that grows revenue and meets changing marketplace needs; and
- Financial sustainability to fund our universal service mission.

We can accomplish these goals with legislative and regulatory changes, effective use of newly acquired and existing pricing authorities, operating more precisely and efficiently across our enterprise, and by driving revenue growth through innovative customer solutions.

Our plan's strategies for revenue growth, cost savings, and investment, combined with legislative and administrative actions, will enable us to operate in a financially self-sustaining manner while fulfilling our universal service mission. We have begun implementation of core elements of our plan, but the plan must be implemented timely and in full to meet our financial targets.

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 secularly 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 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 a crucial 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 pandemic continues to have a material and unpredictable effect on certain our results of operations. At the onset of the pandemic, we experienced a significant decline in mail services volume and substantial growth in volume from Shipping and Packages, our most labor-intensive revenue stream.

As the U.S. economy recovers, the impact of COVID-19 on our volume trends has begun to abate. Mail services, particularly *Marketing Mail*, has experienced growth during the quarter, compared to the same period last year, while Shipping and Packages volume declined. Despite these reversals in volume trends during the quarter, the pandemic has significantly transformed the mix of mail and packages processed through our network, with a substantially higher percentage of Shipping and Packages volume, compared to pre-pandemic levels. While this shift contributes to net positive cash flow, Shipping and Packages produces a lower contribution margin per revenue dollar due to higher associated labor and transportation expenses.

Our operating expenses have also been significantly impacted by the pandemic, beyond the impact of higher package volume, as we have incurred expenses for personal protective equipment ("PPE"), increased sick leave, increased costs for hiring and training new employees, increased overtime costs, higher air transportation costs due to lower availability of commercial air flights, and certain general pandemic-related inefficiencies in the workplace including increased hours managing PPE, sanitizing work areas, social distancing in postal facilities, and the acclimation of new hires. While these costs are still higher than pre-pandemic levels, they have decreased from those incurred at the onset of the pandemic.

Despite the continued distribution and administration of vaccinations, the duration of the COVID-19 disruption remains uncertain, particularly with the emergence of COVID-19 variants. We expect that our liquidity may worsen if the nation experiences a prolonged period of disruption or the surge in e-commerce diminishes.

Three Months Ended June 30, 2021

As more fully described below in *Operating Revenue and Volume*, our operating revenue for the three months ended June 30, 2021 increased $845 million, or 4.8%, compared to the same period last year, driven by the following:

- *Marketing Mail* revenue increase of approximately $1.0 billion, or 42.2%, compared to the same period last year, with a volume growth of approximately 4.3 billion pieces, or 38.6%, compared to the same period last year. *Marketing Mail* experienced steep volume declines at the onset of the pandemic last year, but has been rebounding as the economy continues to recover. *Marketing Mail* has generally proven to be a resilient marketing channel, and as the economy has shown a sharp recovery, its value to U.S. businesses remains strong due to healthy customer returns on investment and better data and technology integration;
- Other services revenue increase of $421 million, or 66.4%, compared to the same period last year, due to a combination of fluctuations in deferred stamp revenue estimates, higher passport revenue, reflective of reduced travel restrictions associated with the pandemic, and higher revenue from certain services, including signature confirmation services and insurance; and
- *First-Class Mail* revenue increase of $54 million, or 1.0%, compared to the same period last year, with a volume growth of 130 million pieces, or 1.1%, compared to the same period last year, as the economy continues to recover. Despite the slight increase in the current quarter, *First Class Mail* volume remains lower than pre-pandemic levels and we expect continued secular declines.

The above increases were partially offset by a decrease in Shipping and Packages revenue of $646 million, or 7.8%, with a volume decline of 300 million pieces, or 14.1%, compared to the same period last year. Despite these decreases in the current quarter, Shipping and Packages volume remains higher than pre-pandemic levels due to the continued surge in the nation's use of e-commerce. We believe consumer behavior has evolved during the pandemic and our Shipping and Packages volume is not expected to return to pre-pandemic levels, as the nation has increasingly relied on the safety and convenience of e-commerce. However, competition in the overall market has increased as certain major customers have returned to diverting their volume from our network and aggressively pricing their products and services to fill their networks and grow package density.

As more fully described below in *Operating Expenses*, our operating expenses for the three months ended June 30, 2021 increased approximately $1.6 billion, or 8.3%, compared to the same period last year, primarily driven by the following:

- Workers' compensation expense increase of $900 million, or 588.2%, compared to the same period last year, due to the impact of changes in discount rates and actuarial revaluation, which are outside of management's control;
- Retiree health benefits expense increase of $387 million, or 37.0%, compared to the same period last year, due to the impact of changes in discount rates, which are outside of management's control;
- Transportation expense increase of $182 million, or 8.3%, compared to the same period last year, reflective of the impact of higher package volume on highway transportation, variation in the modes of transportation due to the pandemic, and higher average jet and diesel fuel prices;
- Retirement benefits increase of $114 million, or 6.7%, compared to the same period last year, primarily due to contribution rate increases established by OPM. This increase is also driven by changes in discount rates, which are outside of management's control; and
- Compensation and benefits expense increase of $113 million, or 0.9%, compared to the same period last year, primarily due to contractual wage increases and certain general pandemic-related workplace inefficiencies, offset by a reimbursement of $71 million from the U.S. government for certain eligible pandemic-related leave costs pursuant to the *American Rescue Plan Act of 2021.*

Overall, we reported a net loss of approximately $3.0 billion for the three months ended June 30, 2021, compared to net loss of approximately $2.2 billion for the same period last year. Excluding the combined effects of non-cash workers' compensation adjustments due to fluctuations in discount rates and other actuarial revaluations, the loss for the quarter would have been approximately $2.3 billion, compared to a loss of approximately $2.4 billion for the same period last year.

Nine Months Ended June 30, 2021

As more fully described below in *Operating Revenue and Volume*, our operating revenue for the nine months ended June 30, 2021, increased approximately $4.0 billion, or 7.4%, compared to the same period last year, due to the following:

- Shipping and Packages revenue increase of approximately $4.1 billion, or 19.7%, compared to the same period last year, on volume growth of 512 million pieces, or 9.6%, compared to the same period last year, largely driven by the surge in e-commerce resulting from the pandemic and record holiday volume. However, this surge has begun to abate as the economy continues to recover and market competition intensifies; and
- *Marketing Mail* revenue increase of $266 million, or 2.5%, compared to the same period last year, with a volume growth of approximately 1.3 billion pieces, or 2.6%, compared to the same period last year. *Marketing Mail* benefited from higher revenue and volume for political and election mail associated with the 2020 general election and associated primary elections. Absent these political and election mail increases, revenue would have been relatively flat and volume would have decreased, compared to the same period last year. *Marketing Mail* experienced steep volume declines at the onset of the pandemic last year, but has been rebounding as the economy continues to recover. *Marketing Mail* has generally proven to be a resilient marketing channel, and as the economy has shown a sharp recovery, its value to U.S. businesses remains strong due to healthy customer returns on investment, and better data and technology integration.

The above increases in operating revenue were partially offset by a decrease in *First-Class Mail* revenue of $514 million, or 2.8%, compared to the same period last year, with a volume decline of approximately 1.6 billion pieces, or 3.9%, compared to the same period last year, reflecting the continuing migration from mail to electronic communication and transaction alternatives, which has been exacerbated by the pandemic. However, as the economy continues to recover, the impact of COVID-19 on *First-Class Mail* volume has begun to subside.

As more fully described below in *Operating Expenses*, our operating expenses for the nine months ended June 30, 2021, decreased $670 million, or 1.1%, compared to the same period last year. Operating expenses decreased due to the workers' compensation expense decrease of approximately $3.4 billion, or 116.5%, compared to the same period last year, driven by changes in discount rates, which are outside of management's control. This decrease in operating expenses was partially offset by the following:

- Compensation and benefits expense increase of approximately $1.4 billion, or 3.8%, compared to the same period last year, primarily due to additional work hours associated with the higher Shipping and Packages volume, contractual wage increases, an increase in paid sick leave as a result of the pandemic, and certain general pandemic-related workplace inefficiencies;
- Transportation expense increase of $722 million, or 11.0%, compared to the same period last year, reflective of the impact of higher package volume on air and highway transportation and variation in the modes of transportation due to the pandemic;
- Retiree health benefits expense increase of $337 million, or 9.6%, compared to the same period last year, due to the impact of changes in discount rates, which are outside of management's control; and
- Retirement benefits increase of $261 million, or 5.1%, compared to the same period last year, primarily due to contribution rate increases established by OPM. This increase is also driven by changes in discount rates, which are outside of management's control.

Overall, we reported net loss of approximately $2.8 billion for the nine months ended June 30, 2021, compared to a net loss of approximately $7.5 billion for the same period last year. Excluding the combined effects of non-cash workers' compensation adjustments due to fluctuations in discount rates and other actuarial revaluations, the loss for the nine-month period would have been approximately $4.3 billion, compared to a loss of approximately $5.5 billion for the same period last year.

Non-GAAP Controllable 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 use various non-GAAP measures to help us better manage our business. However, these non-GAAP measures should not be considered a substitute for net loss and other GAAP reporting measures.

We calculate loss excluding workers' compensation adjustments, a non-GAAP measure, by excluding workers' compensation expenses driven by actuarial revaluation and discount rate changes, which can fluctuate significantly and over which we have no control.

We calculate controllable loss, a non-GAAP measure, by excluding the workers' compensation adjustments, as well as PSRHBF actuarial revaluation and amortization expenses and the amortization of unfunded pension liabilities. The variance in these expenses depends primarily on factors over which we have no control, such as changes in projected discount rates and inflation.

The following table reconciles our GAAP net loss to our non-GAAP measures for the three and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Net loss	**$ (2,987)**	**$ (2,210)**	**$ (2,751)**	**$ (7,473)**
Change in workers' compensation liability resulting from fluctuations in discount rates	581	(55)	(1,577)	2,030
Other change in workers' compensation liability[1]	143	(95)	71	(88)
Loss excluding workers' compensation adjustments	**$ (2,263)**	**$ (2,360)**	**$ (4,257)**	**$ (5,531)**
PSRHBF unfunded liability amortization expense[2]	230	158	680	608
CSRS unfunded liability amortization expense[3]	454	450	1,363	1,349
FERS unfunded liability amortization expense[4]	336	321	1,007	964
Change in normal cost of retiree health benefits due to revised actuarial assumptions[5]	227	(113)	227	(113)
Controllable loss	**$ (1,016)**	**$ (1,544)**	**$ (980)**	**$ (2,723)**

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

[2] 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.

[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.

[5] Represents the accrual for the portion of the increase in the annual normal cost payments due September 30, 2021 and 2020, attributable to revised actuarial assumptions and discount rate changes, based on OPM's invoices for the respective year. This amount represents the noncontrollable portion of the expense recorded for normal cost of retiree health benefits.

We had a controllable loss of approximately $1.0 billion for the three months ended June 30, 2021, compared to a controllable loss of approximately $1.5 billion for the same period last year, a decrease of $528 million. This decrease was largely driven by the $845 million increase in operating revenue, partially offset by higher transportation expenses of $182 million, higher compensation and benefits expenses of $113 million, and higher FERS normal costs of $95 million. These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses* below.

We had a controllable loss of $980 million for the nine months ended June 30, 2021, compared to a controllable loss of approximately $2.7 billion for the same period last year, a decrease of approximately $1.7 billion. This decrease was largely driven by the approximately $4.0 billion increase in operating revenue, partially offset by higher compensation and benefits expenses of approximately $1.4 billion, higher transportation expenses of $722 million, and higher FERS normal costs of $204 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 and nine months ended June 30, 2021 and 2020, by each service category:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020[1]**	**2021**	**2020[1]**
Operating Revenue:				
First-Class Mail[2]	$ 5,533	$ 5,479	$ 17,817	$ 18,331
Marketing Mail[3]	3,450	2,427	10,843	10,577
Shipping and Packages[4]	7,664	8,310	24,818	20,730
International	545	544	1,768	1,835
Periodicals	237	245	716	797
Other[5]	1,055	634	2,907	2,561
Total operating revenue	**$ 18,484**	**$ 17,639**	**$ 58,869**	**$ 54,831**
Volume:				
First-Class Mail[2]	12,135	12,005	38,945	40,537
Marketing Mail[3]	15,581	11,240	49,711	48,442
Shipping and Packages[4]	1,828	2,128	5,863	5,351
International	93	185	323	615
Periodicals	939	980	2,819	3,111
Other[6]	68	75	231	362
Total volume	**30,644**	**26,613**	**97,892**	**98,418**

[1] 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 have no effect on total operating revenue for the period. These reclassifications are required by Postal Service regulatory requirements and are included in this document for consistency amongst publicly-available information.

[2] Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.

[3] Excludes *Marketing Mail Parcels*.

[4] 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*.

[5] 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.

[6] Volume includes Postal Service internal mail and free mail provided to certain congressionally mandated groups.

We implemented a time-limited price increase on certain Shipping and Packages subcategories from October 18, 2020 through December 27, 2020, after which prices reverted to the 2020 pricing schedule. On January 24, 2021, we implemented the 2021 pricing schedule, increasing prices for certain Market-Dominant and Competitive services.

On July 19, 2021, the PRC approved our plan to increase prices on certain Market-Dominant services by an average of 6.8%. The price increases are scheduled to be effective August 29, 2021.

<u>First-Class Mail</u>

For the three months ended June 30, 2021, *First-Class Mail* revenue increased $54 million, or 1.0%, on volume growth of 130 million pieces, or 1.1%, compared to the same period last year. For the nine months ended June

30, 2021, *First-Class Mail* revenue decreased $514 million, or 2.8%, on a volume decline of approximately 1.6 billion pieces, or 3.9%, compared to the same period last year. The most significant factor contributing to the declining trend in *First-Class Mail* volume over the nine-month period was the continuing migration from mail to electronic communication and transaction alternatives, which has been accelerated by the pandemic. However, as the economy continues to recover, the impact of COVID-19 on *First-Class Mail* volume began to subside during the current quarter. Revenue grew at a greater rate than volume in the three-month period and declined at a slower rate than volume in the nine-month period due to the January 2021 price increase applicable to certain Market-Dominant services.

Marketing Mail

For the three months ended June 30, 2021*, Marketing Mail* revenue increased approximately $1.0 billion, or 42.2%, on volume growth of approximately 4.3 billion pieces, or 38.6%, compared to the same period last year. *Marketing Mail* experienced steep volume declines at the onset of the pandemic last year, but has been rebounding as the economy continues to recover. *Marketing Mail* has generally proven to be a resilient marketing channel, and its value to U.S. businesses remains strong due to healthy customer returns on investment and better data and technology integration. However, this category has been challenged by commercial mailers' increasing use of digital and mobile advertising, which had been accelerated by the pandemic, and *Marketing Mail* volume remains lower than pre-pandemic levels.

For the nine months ended June 30, 2021*, Marketing Mail* revenue increased $266 million, or 2.5%, on volume growth of approximately 1.3 billion pieces, or 2.6%, compared to the same period last year. For the nine months ended June 30, 2021*,* our revenue and volume from political and election mail increased by approximately $270 million and approximately 1.7 billion pieces, respectively, compared to the same period last year. Absent the positive impact of political and election mail last year, *Marketing Mail* revenue would have been relatively flat and volume would have decreased for the nine months ended June 30, 2021, reflective of the continuing migration to digital and mobile advertising, which had been accelerated by the pandemic.

Shipping and Packages

The following table summarizes our operating revenue and volume for Shipping and Packages for the three and nine months ended June 30, 2021 and 2020, by each service subcategory:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Shipping and Packages Revenue:				
Priority Mail Services[1]	$ 3,343	$ 3,492	$ 11,164	$ 9,166
Parcel Services[2]	2,309	2,560	7,315	6,520
First-Class Package Services[3]	1,822	2,044	5,709	4,423
Package Services	190	214	630	621
Total Shipping and Packages revenue	**$ 7,664**	**$ 8,310**	**$ 24,818**	**$ 20,730**
Shipping and Packages Volume:				
Priority Mail Services[1]	337	367	1,116	952
Parcel Services[2]	873	1,019	2,756	2,649
First-Class Package Services[3]	502	601	1,596	1,313
Package Services	116	141	395	437
Total Shipping and Packages volume	**1,828**	**2,128**	**5,863**	**5,351**

[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 June 30, 2021, Shipping and Packages revenue decreased 7.8%, with a volume decline of 14.1%, compared to the same period last year. For the nine months ended June 30, 2021, Shipping and Packages revenue increased 19.7%, with a volume growth of 9.6%, compared to the same period last year. We believe consumer behavior has evolved during the pandemic and our Shipping and Packages volume is not expected to return to pre-pandemic levels, as the nation has increasingly relied on the safety and convenience of e-commerce. However, the surge in e-commerce has begun to abate as the economy continues to recover. Furthermore, competition in the overall market has increased as certain major customers have returned to diverting their volume from our network and aggressively pricing their products and service to fill their networks and grow package density. Revenue declined at a slower rate than volume in the three-month period, and grew at a greater rate than volume in the nine-month period, due to the January 2021 price increases associated with certain Competitive services. Revenue in the nine-month period was also impacted by 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 44% and 42% of the total for the three months ended June 30, 2021 and 2020, respectively, and approximately 45% and 44% for the nine months ended June 30, 2021 and 2020, respectively. However, Priority Mail Services accounted for approximately 18% and 17% of the total Shipping and Packages volume for three months ended June 30, 2021 and 2020, respectively, and approximately 19% and 18% for the nine months ended June 30, 2021 and 2020, respectively.

For the three months ended June 30, 2021, Priority Mail Services revenue decreased 4.3%, on a volume decline of 8.2%, compared to the same period last year, reflective of the economy continuing to recover and growing market competition. For the nine months ended June 30, 2021, Priority Mail Services revenue grew 21.8%, on volume growth of 17.2%, compared to the same period last year, largely driven by the surge in e-commerce resulting from the pandemic and record holiday volume. Revenue declined at a slower rate than volume in the three-month period, and grew at a greater rate than volume in the nine-month period due to the January 2021 price increases associated with certain Competitive services. Revenue in the nine-month period was also impacted by the time-limited price increase effective during the first quarter of 2021.

Parcel Services
For the three months ended June 30, 2021, revenue from Parcel Services decreased 9.8%, on a volume decline of 14.3%, compared to the same period last year, reflective of the economy continuing to recover and growing market competition. For the nine months ended June 30, 2021, revenue from Parcel Services increased 12.2%, on volume growth of 4.0%, compared to the same period last year, largely driven by the surge in e-commerce resulting from the pandemic and record high holiday volume. Parcel Services is primarily a last-mile service that bypasses much of our infrastructure and therefore is one of our lowest-priced package services. Revenue declined at a slower rate than volume in the three-month period and grew at a greater rate than volume in the nine-month period, due to the January 2021 price increases associated with certain Competitive services. Revenue in the nine-month period was also impacted by the time-limited price increase effective during the first quarter of 2021.

First-Class Package Services
For the three months ended June 30, 2021, First-Class Package Services revenue decreased 10.9%, on a volume decline of 16.5%, compared to the same period last year, reflective of the economy continuing to recover and growing market competition. For the nine months ended June 30, 2021, First-Class Package Services revenue increased 29.1%, with a volume growth of 21.6%, compared to the same period last year, largely driven by the surge in e-commerce resulting from the pandemic and record holiday volume. Revenue declined at a slower rate than volume in the three-month period and grew at a greater rate than volume in the nine-month period due to the January 2021 price increases associated with certain Competitive services. Revenue in the nine-month period was also impacted by the time-limited price increase effective during the first quarter of 2021.

Package Services
For the three months ended June 30, 2021, Package Services revenue decreased 11.2%, on a volume decline of 17.7%, compared to the same period last year, reflective of the economy continuing to recover and growing market competition. Revenue declined at a slower rate than volume in the three-month period due to shifts in the mix of services provided and the January 2021 price increases associated with certain Competitive services. For the nine months ended June 30, 2021, Package Services revenue increased 1.4%, despite a volume

decline of 9.6%, compared to the same period last year. Revenue grew despite the volume decline for the nine-month period due to shifts in the mix of services provided and the January 2021 price increases applicable to Market-Dominant services.

International Mail

For the three months ended June 30, 2021, *International Mail* revenue increased 0.2%, despite a volume decline of 49.7%, compared to the same period last year. For the nine months ended June 30, 2021, *International Mail* revenue decreased 3.7%, on a volume decline of 47.5%, compared to the same period last year. The declines in volume for both the three-month and the nine-month periods were due to various competitive pricing, political and economic factors, including the impact of the pandemic on transportation logistics, and the global economy in general. Revenue for the *International Mail* category increased, despite the volume declines, as a result of the July 2020 rate increases from the self-declared rates.

Periodicals

For the three months ended June 30, 2021, *Periodicals* revenue decreased 3.3% and volume declined 4.2%, compared to the same period last year. For the nine months ended June 30, 2021, *Periodicals* revenue decreased 10.2% and volume declined 9.4%, compared to the same period last year. These declines are consistent with the systemic trends in hard-copy reading behavior and the shifts of advertising away from print.

Other

Other services revenue includes ancillary services such as *Certified Mail*, *PO Box* services, and Return Receipt services. Also included in this category are the fluctuations in our deferred revenue estimates, money order services, passport services, signature-on-delivery services, insurance, and our own internal mail, which generates no revenue but has volume that can vary significantly from year to year.

Other services revenue increased 66.4% for the three months ended June 30, 2021, compared to the same period last year. This increase was driven by changes in fluctuations of our deferred stamp revenue estimates. We defer recognition of revenue from stamp sales until postage is used. Revenue is recognized over time as mail is processed through our network and is fully recognized once the mail reaches its final delivery point. During the three months ended June 30, 2021, recognition of deferred stamp revenue was higher, compared to the same period last year, due to variations in consumer trends.

Other services revenue also increased during the three months ended June 30, 2021, compared to the same period last year, due to higher passport revenue, reflective of reduced travel restrictions associated with the pandemic, and higher revenue from certain services, including signature confirmation services and insurance.

Other services revenue increased 13.5% for the nine months ended June 30, 2021, compared to the same period last year.

For additional information on deferred revenue, see *Item 8. Financial Statements*, *Notes to Financial Statements*, *Note 1 - Organization and Summary of Significant Accounting Policies* in our Annual Report.

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 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 volume. 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%.

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 and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Compensation	$ 9,985	$ 9,961	$ 30,960	$ 29,819
Employee health benefits	1,326	1,281	3,934	3,871
Social Security	568	555	1,762	1,670
Thrift Savings Plan	308	290	910	879
Other	84	71	305	231
Total compensation and benefits	**$ 12,271**	**$ 12,158**	**$ 37,871**	**$ 36,470**

Overall, our compensation and benefits expenses increased 0.9% for three months ended June 30, 2021, compared to the same period last year, primarily due to contractual wage increases. The increase is also due to certain general inefficiencies in the workplace as a result of the pandemic, including increased hours managing PPE, sanitizing work areas, social distancing in postal facilities, and training and developing new hires. These increases were partially offset by lower paid leave due to leave reimbursed pursuant to the *American Rescue Plan Act of 2021* as described below and leave used at a lower rate this quarter than at the onset of the pandemic last year.

On March 11, 2021, the President signed the *American Rescue Plan Act of 2021*, enacted as Public Law 117-2, which includes $570 million in funding for COVID-19 related leave for all federal employees, including our employees. Pursuant to this law, we are eligible for reimbursement of certain COVID-19 related leave expenses. However, receipt of funds under this law is not guaranteed as it is subject to OPM's approval and the available remaining balance. On June 16, 2021, we received $71 million in reimbursements under this law, and this amount was recorded as a contra expense. Between June 30, 2021 and the date of this report, we received an additional $85 million that will be recorded in the fourth quarter.

Overall, our compensation and benefits expenses increased 3.8% for the nine months ended June 30, 2021, respectively, compared to the same period last year, driven by increased work hours, contractual wage increases, general inefficiencies in the workplace as a result of the pandemic, and increased paid leave hours. Increased paid leave hours included regular sick leave, 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, as described in our Annual Report.

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. In most instances, the cost of an overtime hour is less than the cost of a straight-time hour as adding employees results in additional costs for hiring training, and benefits. Furthermore, certain benefit costs are only calculated as a percentage of basic pay and do not increase with higher overtime pay.

For the three months ended June 30, 2021, total work hours were approximately 291 million, relatively unchanged compared to the same period last year, consisting of an increase of approximately 1 million overtime hours, offset by a decrease of approximately 1 million straight-time hours.

For the nine months ended June 30, 2021, total work hours were approximately 900 million, an increase of approximately 18 million hours, or 2.0%, compared to the same period last year, consisting of an increase of approximately 23 million overtime hours, partially offset by a decrease of approximately 5 million straight-time hours. The increase in total work hours for the period was reflective of the higher Shipping and Packages volume from the surge in e-commerce growth due to the pandemic as well as the record holiday volume, the influx of volume associated with the 2020 general elections, and hours attributable to general inefficiencies associated with the pandemic.

Workforce Composition
The number of career employees at June 30, 2021 was approximately 508,500, an increase of nearly 11,000 employees, or 2.2%, compared to the same date a year ago. The increase is the result of more conversions from non-career to career status, pursuant to our contractual obligations from various union agreements, than departures through normal attrition.

The number of non-career employees at June 30, 2021 was approximately 132,000, a decrease of nearly 11,000 employees, or 7.7%, compared to the same date a year ago. The decrease is due to the conversions, as well as lagging replacement hiring for the career conversions, and reductions in employee augmentation for COVID-19.

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 Association of Letter Carriers, AFL-CIO (“NALC”). 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.

In May 2021, we agreed to extend contract negotiations on a new collective bargaining agreement with the National Rural Letter Carriers’ Association (“NRLCA”). Our contract with the NRLCA expired on May 20, 2021, and the respective parties mutually agreed to extend negotiations beyond the deadline.

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 and nine months ended June 30, 2021, our retirement benefits expenses increased 6.7% and 5.1%, respectively, compared to the same periods last year, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization and increased FERS normal costs associated with both contribution rate increases and normal 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 during the most recent year.

On July 27, 2021, we received OPM’s invoice for 2021, which indicated the year-end amortization payment amount and the normal cost payment due September 30, 2021 are $907 million and approximately $4.2 billion, respectively. These amounts are higher than our initial estimates of $900 million and $3.9 billion for the year-end amortization payment amount due and the normal cost payment due, respectively. The invoiced amounts were higher than the initial estimates due to changes in long-term economic assumptions, including the single equivalent discount rate, which increases the overall cost per participant. We have recorded proportionate adjustments to the accruals accordingly.

For the three and nine months ended June 30, 2021, our retiree health benefits expenses increased 37.0% and 9.6%, respectively, compared to the same periods 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 our employees for workers' compensation obligations, for the three and nine months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Impact of discount rate changes	$ 581	$ (55)	$ (1,577)	$ 2,030
Actuarial revaluation of existing cases	159	(124)	112	(128)
Cost of new cases	292	311	917	983
Administrative fee	21	21	63	63
Total workers' compensation expense (benefit)	**$ 1,053**	**$ 153**	**$ (485)**	**$ 2,948**
Less cash payments made by DOL on behalf of workers' compensation obligations	(329)	(303)	(1,021)	(1,006)
Total workers' compensation non-cash expense (benefit)	**$ 724**	**$ (150)**	**$ (1,506)**	**$ 1,942**

For the three and nine months ended June 30, 2021, the portion of workers' compensation expense (benefit) driven by discount rate changes increased $636 million and decreased approximately $3.6 billion, respectively, compared to the same periods last year.

The combined costs of new workers' compensation cases and revaluation of existing workers' compensation cases increased by $264 million and $174 million for the three and nine months ended June 30, 2021, respectively, compared to the same periods 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 facilities, comprising highway, air, and international transportation contracts, plus contract delivery services. We rely on third-parties under highway contract routes for the significant majority of 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 facilities.

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

The components of transportation expenses for the three and nine months ended June 30, 2021 and 2020, are presented in the following table:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Highway	$ 1,295	$ 1,114	$ 4,081	$ 3,618
Air	909	951	2,737	2,527
International	148	105	455	407
Other	12	12	36	35
Total transportation expenses	**$ 2,364**	**$ 2,182**	**$ 7,309**	**$ 6,587**

Overall, transportation expenses increased 8.3% and 11.0% for the three and nine months ended June 30, 2021, respectively, compared to the same periods last year, as the pandemic has continued to impact the modes of transportation available.

Highway transportation expenses increased 16.2% and 12.8% for the three and nine months ended June 30, 2021, respectively, compared to the same periods last year, primarily due to an increase in the number of miles driven. Expenses grew at a greater rate during the three-month period as we shifted package volume from air to highway transportation when more economical but allowing for improved reliability and service performance. Expenses were further impacted by higher average diesel fuel rates in the three-month period, but lower average diesel fuel rates in the nine-month period.

Air transportation expenses decreased 4.4% and increased 8.3% for the three and nine months ended June 30, 2021, respectively, compared to the same periods last year. Expenses declined in the three-month period due to the shift of certain volume to highway transportation and the greater availability of commercial air flights in the current quarter, when compared to the onset of the pandemic last year. This decrease was partially offset by higher average jet fuel prices. Expenses increased in the nine-month period driven by higher volume and the reduced usage of commercial airlines due to the limited availability of commercial flights during the first half of 2021. The increase in expenses was partially offset by lower average jet fuel prices during the nine months ended June 30, 2021, despite the higher average jet fuel prices during the three months ended June 30, 2021.

<u>Other Operating Expenses</u>

Other operating expenses for the three and nine months ended June 30, 2021 and 2020, are detailed in the following table:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Supplies and services	$ 694	$ 857	$ 2,247	$ 2,326
Depreciation and amortization	416	429	1,254	1,283
Rent and utilities	423	403	1,322	1,318
Information technology and communications	246	247	729	657
Vehicle maintenance service	151	157	471	467
Rural carrier equipment maintenance	135	150	419	449
Fuel - delivery vehicles	140	67	375	326
Miscellaneous other	300	252	803	752
Total other operating expenses	**$ 2,505**	**$ 2,562**	**$ 7,620**	**$ 7,578**

Total other operating expenses decreased by 2.2% and increased by 0.6% for the three and nine months ended June 30, 2021, respectively, compared to the same periods in the prior year. The decline in the three-month period was driven by lower costs associated with supplies and services, as our costs for PPE and other pandemic-related supplies and services were lower in the third quarter of 2021 than at the onset of the pandemic last year. This decrease was partially offset by an increase in fuel for delivery vehicles due to higher average fuel prices. Aside from these items, the period-over-period changes in the various components of other operating expenses for the three and nine months ended June 30, 2021 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 June 30, 2021 and September 30, 2020, we held unrestricted cash and cash equivalents of $22.3 billion and $14.4 billion, respectively. During the nine months ended June 30, 2021, our average daily liquidity balance was $18.5 billion. This amount represented approximately 93 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).

In March 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act,* enacted as Public Law 116-136 (the “*CARES Act*”) in response to the pandemic. On December 27, 2020, the President signed Public Law 116-260, the *Consolidated Appropriations Act, 2021,* amending the *CARES Act*. The *CARES Act*, as amended, allows us to receive up to $10.0 billion from the U.S. Department of the Treasury (“U.S. Treasury”) to fund operating expenses. As of June 30, 2021, we had received approximately $9.6 billion, all of which has been allocated to qualified operating expenses. On July 29, 2021, we received an additional $387 million and, as of this date, all $10.0 billion authorized by the *CARES Act*, as amended, has been received.

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 $2.9 billion for the nine months ended June 30, 2021, compared to approximately $2.0 billion for the same period last year. This increase of $934 million was driven by the approximately $4.0 billion increase in operating revenue, partially offset by increased cash outlays for operating expenses.

Investing Activities

We invested approximately $1.4 billion in the purchase of property and equipment for the nine months ended June 30, 2021, which is an increase of $208 million, or 17.5%, 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

Net cash provided by financing activities was approximately $6.6 billion for the nine months ended June 30, 2021, an increase of approximately $3.2 billion, driven by the receipt of funding pursuant to the *CARES Act* and changes in debt.

During the third quarter of 2021, we received $964 million in funding from the U.S. Treasury under the *CARES Act*, as amended. As of June 30, 2021, total funding received pursuant to the *CARES Act*, as amended, was approximately $9.6 billion, all of which was recorded as a capital contribution in the accompanying *Balance Sheets.*

DEBT

As of June 30, 2021 and September 30, 2020, the aggregate principal of all debt outstanding was $11.0 billion and $14.0 billion, respectively, 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.

As of June 30, 2021, $1.0 billion of our debt was recorded as *Short-term debt* in the accompanying *Balance Sheets*, representing a fixed-rate note due April 15, 2022. As of June 30, 2021, we had $4.0 billion in remaining borrowing capacity under the PRA, though we are still 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.

LIQUIDITY OUTLOOK

We are constrained by laws and regulations, including the PAEA, which restrict revenue sources and mandate 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.

While our *Delivering for America* plan provides our vision and a framework for achieving service excellence and financial sustainability over the next decade, 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 our 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 legislative and regulatory reform 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 are implementing strategic operational reforms, as outlined in our ten-year strategic business plan, to meet the changing needs of our business and residential customers. However, success of the plan requires rational legislative and administrative changes to retiree benefit funding rules and pricing authority aligned with the organization and marketplace needs. Absent legislative action, regulatory reform and timely implementation of operational reforms, we project continuing annual net losses in the future. As a result of these losses and our ongoing liquidity concerns, 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 $8.3 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 June 30, 2021. One half of these deferred payments is due by December 31, 2021, and the other half is due 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 mission will amount to approximately $600 million for the remainder of 2021, and up to approximately $19 billion for years 2022 through 2025, depending on the timing of investments to replace our delivery fleet and other appropriate capital assets, as outlined in our *Delivering for America* plan. Although our future projections include these capital cash outlays, the severity and duration of the 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 for health and safety 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 generally 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 the 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 consists of our Postmaster General, Deputy Postmaster General, and nine independent governors (“Governors”). The President appoints the Governors with the advice and consent of the U.S. Senate (“Senate”). We have nine Senate-confirmed Governors currently in office.

BOARD OF GOVERNORS

On May 12, 2021, the Senate confirmed the nomination of Ronald A. Stroman to serve on the Board for a term expiring December 8, 2021, and a second term expiring December 8, 2028.

On May 13, 2021, the Senate confirmed the nomination of Amber F. McReynolds to serve on the Board for a term expiring December 8, 2026.

On May 28, 2021, the Senate confirmed the nomination of Anton G. Hajjar to serve on the Board for a term expiring December 8, 2023.

All three Governors were sworn in on June 15, 2021. With these appointments, we have a complete Board for the first time since 2010.

APPROPRIATIONS

On June 29, 2021, the House Appropriations Committee approved the *Financial Services and General Government (“FSGG”) Appropriations Act, 2022* (H.R. 4345), which includes $58.6 million in funding for free mail for the blind and overseas voting. As in past versions, the proposed bill requires continuation of six-day delivery and prohibits any of the appropriated funds from being used to consolidate or close small rural or other small Post Offices. The proposed bill also provides $300 million for the procurement of zero emission and electric passenger motor vehicles and the associated charging infrastructure. These funds are appropriated to the General Services Administration in addition to any other amounts available for such purposes and can be transferred to and merged with appropriations at other federal agencies, including for the procurement of charging infrastructure for the Postal Service.

In a non-binding report (H. Rept. 117-79) to accompany the *FSGG* bill, the committee recommends that the Postal Service prioritize the robust procurement of a battery electric fleet to greatest extent possible. The report also includes the recommendation that $6 million of the amount allotted to the Postal Service Fund be used to carry out pilot programs to modernize postal non-banking financial services.

Finally, the report encourages the PRC to analyze the feasibility of restoring service standards for Market-Dominant products that were in effect on July 1, 2012, including an examination of the resources and structural and operational changes needed and the impacts on market growth and revenue. If service standards are decreased from their January 2021 levels, the PRC should also conduct a similar analysis of the costs and benefits of restoring service and performance levels to those in place on January 1, 2021.

The proposed bill was incorporated into a seven-bill appropriations package (H.R. 4502) that is currently under consideration by the full House.

LEGISLATION

The *Postal Service Electric Fleet Authorization Act of 2021* (H.R. 3521), a bill to modernize our fleet of delivery vehicles with electric or zero-emission vehicles, was introduced in the House on May 25, 2021. The bill would authorize $8.0 billion in funding for the acquisition of vehicles and the infrastructure required to operate a fleet of electric vehicles.

POSTAL SERVICE REFORM

On May 13, 2021, the House Committee on Oversight and Reform voted to approve the *Postal Service Reform Act of 2021* (H.R. 3076) and the *Postal Service Improvement Act* (H.R. 3077). Among other provisions, H.R. 3076 would require Medicare integration of Postal Service employees and repeal the requirement to pre-fund retiree health benefits; require the development and maintenance of an online, publicly available dashboard to track service performance for Market-Dominant products; require delivery six days per week using an integrated delivery network; and allow us to enter into certain agreements with state, local, and tribal governments and to provide non-commercial property and services.

As introduced, H.R. 3077 would require all mail-in ballots to include a Postal Service trackable barcode and provide postal employees with 12 weeks of paid parental leave. It was amended during the committee markup to authorize $8.0 billion to fund electric vehicles and electric vehicle charging infrastructure and to require the maintenance of the *First-Class Mail* service standard that was in effect on January 1, 2021.

Both proposed bills were reported to the full House where they await additional consideration.

The *Postal Service Reform Act of 2021 (*S. 1720), a nearly identical companion to H.R. 3076, was introduced in the Senate on May 19, 2021, and referred to the Senate Homeland Security and Governmental Affairs Committee.

FAIR VALUE MEASUREMENTS

As required by authoritative accounting literature, certain fair value disclosures for the periods ended June 30, 2021 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 and nine months ended June 30, 2021. All recognized losses have been incorporated into our financial statements as of June 30, 2021.

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 have not purchased or held derivative financial instruments for speculative purposes.

We also have provisions in our debt agreements that allow us to prepay our $11.0 billion debt with the FFB 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 June 30, 2021. 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 June 30, 2021 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, 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 the disclosures in *Item 1A. Risk Factors* of our Annual Report.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit 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: August 5, 2021

/s/ Joseph Corbett

Joseph Corbett
Chief Financial Officer and Executive Vice President

Date: August 5, 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: August 5, 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: August 5, 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 June 30, 2021, (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: August 5, 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 June 30, 2021, (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: August 5, 2021

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