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

FORM 10-K

(Mark One)

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

For the fiscal year ended SEPTEMBER 30, 2009

or

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

For the transition period from ____________ to ____________

Commission file number N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

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

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

Yes ☑ No ☐

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ Not Applicable ☑

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Not Applicable ☑

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

The aggregate market value of shares of common stock held by non-affiliates at September 30, 2009, was N/A

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at November 16, 2009
No Common Stock	N/A

DOCUMENTS INCORPORATED BY REFERENCE

None

United States Postal Service

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Part I

ITEM 1 — BUSINESS

OVERVIEW

The United States Postal Service (we) commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States" with the mandate that we offer a "fundamental service" to the American people, "at fair and reasonable rates." We fulfill this legal mandate to provide universal service at a fair price by offering a variety of classes of mail services without undue discrimination among our many customers. This means that within each class of mail our price does not unreasonably vary by customer for the levels of service provided. Established as the successor to the Post Office Department (POD) by the Postal Reorganization Act, we are governed by an eleven-member Board of Governors. The Board is comprised of nine Governors appointed by the President of the United States with the advice and consent of the Senate, plus the Postmaster General and the Deputy Postmaster General. The Postal Accountability and Enhancement Act, Public Law 109-435 (P.L. 109-435) made further revisions to the Postal Reorganization Act. The Postal Service's governing statute is codified in title 39, United States Code.

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

The law divides our services into two broad categories: market-dominant and competitive. Throughout this document and in the day-to-day operation of the organization, we refer to market-dominant services as "Mailing Services" and competitive services as "Shipping Services". Mailing Services include, but are not limited to, First-Class Mail, Standard Mail, Periodicals, and Package Services. Price increases for these services are subject to a price cap based on the Consumer Price Index — All Urban Consumers (CPI-U).

Shipping Services include Priority Mail, Express Mail, Bulk Parcel Post, and Bulk International Mail. The regulations for Shipping Services place no upper limit on price changes while setting a price floor.

We sell Mailing and Shipping Services through over 36,000 Post Offices, stations, branches, contract postal units, our website www.usps.com, and a network of consignees. We deliver mail to more than 150 million city, rural, Post Office box, and highway delivery points. We conduct operations primarily in the domestic market, with international revenue representing less than 4% of total revenue.

P.L.109-435, as amended by P.L. 111-68, requires that, over time, we fully fund our obligations for the established health and retirement benefits of current and future postal retirees. To accomplish this, the law established a new Postal Service Retiree Health Benefits Fund (PSRHBF) and required that we make annual payments of between $1.4 billion and $5.8 billion into the PSRHBF through 2016.

P.L.109-435 also replaced the Postal Rate Commission with the Postal Regulatory Commission (PRC), endowing it with regulatory and rule-making powers as well as oversight obligations.

We are not a reporting company under the Securities Exchange Act of 1934, as amended, and are not subject to regulation by the Securities and Exchange Commission (SEC). However, effective for reporting periods ending after September 30, 2007, we are required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under section 13 of the Securities Exchange Act of 1934. These include quarterly reports containing information required by the SEC to be filed on Form 10-Q within 40 days after the end of each fiscal quarter; an annual report containing information required by the SEC to be filed on Form 10-K within 60 days after the end of each fiscal year; and, current reports containing information required by the SEC to be filed on Form 8-K within the prescribed time frame. Further, P.L.109-435 requires the Postal Service to comply with the rules prescribed by the SEC for implementing Section 404 of the Sarbanes-Oxley Act of 2002, which pertain to reporting on the effectiveness of our financial internal controls. The requirement to comply with Section 404 is effective beginning with the 2010 fiscal year.

All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters within 2009.

Additional disclosures on our organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, Vision 2013 strategic plan and the Comprehensive Statement on Postal Operations may be found on our website at www.usps.com. Information on our website is not incorporated by reference into this report.

STRATEGY

The Government Performance and Results Act (GPRA) requires federal agencies to develop and publish a five-year strategic plan every three years. The Postal Service updates its plan annually to accommodate ongoing business environment changes. This annual planning process incorporates an assessment of recent performance, refinement of strategies, and prioritization of objectives and programs.

In October 2008, we published *Vision 2013*, our five-year strategic plan, covering the period 2009–2013. *Vision 2013* was designed to build upon the successes of the Postal Service's Strategic Transformation Plan, which helped guide multiple improvements in service, efficiency, and workplace conditions. With *Vision 2013*, the Postal Service commits to continuing this progress. It acknowledges that continued service improvements and cost reductions are crucial. The Postal Service will seek to continue to strengthen its core operations and services, balancing an immediate and urgent need to reduce costs with a continued commitment to strategies such as Intelligent Mail®, that are essential to the future of mail service to the country. However, in the long term, the Postal Service cannot survive on cost cutting alone; and service improvements will not, by themselves, halt revenue diversion or attract new customers. Growth is crucial to the future of affordable universal mail service.

Vision 2013 also offers a broad perspective of what it will take to continue to provide affordable, universal service and sustain a strong, viable Postal Service for future generations. It describes strategies to grow the business by adapting to changing customer needs; to create new customer value by the Postal Service leveraging its strengths; and to embrace change — incorporating new technology and approaches to respond more quickly to a rapidly evolving business environment.

SEGMENTS

Although the law divides our services into market-dominant and competitive categories, and we track revenues by category and mail class, we operate one fully-integrated network. We operate in one segment throughout the United States, its possessions and territories.

SERVICES

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

MAILING SERVICES

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

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

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

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

Special Services — Offered for a variety of enhancements that add value to mail services. Many provide added security, proof of delivery, or loss recovery. Examples of these services include: Certified Mail, Registered Mail, Delivery Confirmation, Signature Confirmation, and insurance up to $1,000.

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

SHIPPING SERVICES

Priority Mail — Offered as a delivery service both within the United States and to numerous destinations abroad. The domestic offering is a 1–3 day nonguaranteed delivery service and is typically used to send documents, gifts, and merchandise. Priority Mail International provides customers with a reliable and economical means of sending similar items weighing up to 70 pounds to over 190 countries and territories worldwide.

Express Mail — Includes domestic and international offerings. Express Mail is the domestic offering. This overnight, money-back guaranteed service includes tracking, proof of delivery, and basic insurance up to $100. Delivery is offered to most domestic U.S. destinations and is available 365 days a year. A surcharge is added for Sunday and holiday delivery. Commercial prices and volume rebates are available to customers meeting certain volume thresholds. Express Mail International offers fast delivery service to over 190 countries with guaranteed service to select destinations.

Parcels — Parcel Select and Parcel Return Service provide commercial customers with an economical means of shipping packages. By taking advantage of the "first mile and last mile" strengths of the Postal Service, Parcel Select saves customers money by entering packages into the postal network closer to their ultimate destination while Parcel Return Service provides workshare discounts to commercial customers who go to selected sites to retrieve packages sent back to them by their customers. Parcel Select and Parcel Return Service allow us to partner with other privately owned delivery services to serve our respective customers' needs.

Details on revenue by Mailing and Shipping Services are found in the Operating Statistics section.

PRICING AND CLASSIFICATION ACTIVITY

Postal Service prices are set by the Board of Governors and reviewed by the PRC for compliance with the requirements of the law. We generally adjust prices for Mailing Services annually in May, with increases averaging no higher than the rate of inflation. We have provided, and plan to continue to provide, at least 90 days notice of the new prices for Mailing Services.

On May 11, 2009, we increased prices for Mailing Services by an average of 3.8%. The average increase was at or below the rate of inflation (calculated using the CPI-U for the past twelve months using an averaging method established by the PRC) for First-Class Mail, Standard Mail and Package Services. Periodicals and Special Services each increased slightly more than inflation, in both cases by drawing on previously accrued but unused pricing authority. The First-Class Mail stamp price increased from 42 cents to 44 cents. As with 2008's change, customers could use previously purchased Forever Stamps after the price change, without adding additional postage.

On October 15, 2009, the Postmaster General announced that there will be no increase in Mailing Services — First-Class Mail, Standard Mail, Periodicals, single-piece Parcel Post, and Special Services —– prices in 2010. On November 4, 2009, we announced that prices for Shipping Service products – including Priority Mail, Express Mail, Global Express Guaranteed, Express Mail International, Priority Mail International, Parcel Select and Parcel Return Service – will increase an average of 3.3% effective January 4, 2010.

Prices for Shipping Services must cover each product's attributable costs, as well as an appropriate share of the institutional costs of the Postal Service. The institutional cost allocation, determined by the PRC, is 5.5% of total attributable costs. We offer contract prices, rebates, online price reductions, and other incentives to encourage growth. By law, prices must be announced at least 30 days prior to the implementation date.

Prices for Shipping Services increased an average of 5% in January 2009. This was the first time the Postal Service adjusted prices for Shipping Services on a different schedule than for Mailing Services. As part of this change, Commercial Plus pricing was introduced, providing reduced prices for high-volume Express Mail and Priority Mail users. New Commercial Plus prices are, on average, 14.5% less than retail for Express Mail and 7% less for Priority Mail.

INTELLECTUAL PROPERTY

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

SEASONAL OPERATIONS

Our operations are seasonal. Mail volume and revenue tend to be greatest in the first fiscal quarter, which includes the fall holiday mailing season, and lowest during the summer, our fourth quarter.

CUSTOMERS

We have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 3% of operating revenue, but advertising mail in general accounts for more than half of our volume. The financial services sector, which includes real estate, represents approximately 10% of operating revenues.

GOVERNMENT CONTRACTS

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

COMPETITION

Our Shipping Services compete on the basis of the breadth of our network, and the reliability and economy of our services. Shipping Services have benefited from the growth of the Internet. Despite the exit of DHL from the American market, package and express businesses are likely to be intensely competitive in the future. The primary competitors of our Shipping Services are Federal Express and United Parcel Service.

RESEARCH AND DEVELOPMENT

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

ENVIRONMENTAL MATTERS

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

EMPLOYEES

At September 30, 2009, we had 623,128 career employees and 88,954 non-career employees, substantially all of whom reside in the U.S.

The labor force is primarily represented by the American Postal Workers Union (APWU), National Association of Letter Carriers (NALC), National Postal Mail Handlers Union (NPMHU), and National Rural Letter Carriers' Association (NRLCA). The APWU and the NRLCA contracts expire in November 2010, while the NPMHU and NALC contracts expire in November 2011. More than 85% of career employees are covered by collective bargaining agreements. By law, we consult with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide nonbargaining unit employees in the field an opportunity to participate directly in the planning, development, and implementation of programs and policies that affect them. Management organizations include the National Association of Postal Supervisors, the National League of Postmasters, and the National Association of Postmasters of the United States. We participate in federal employee benefit programs as required by statute, for retirement, health, and workers' compensation benefits.

AVAILABLE INFORMATION

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

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

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

Part I

ITEM 1A — RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations, and cash flows. Here, we provide a broad overview of the chief external factors that influence, and in some cases govern, operations and financial results, briefly discussing their specific impacts in 2009 as well as their anticipated near-term effects. The remainder of this report, notably the sections entitled “Business” and “Management's discussion and analysis of financial condition and results of operations,” provides a further understanding of the risks and uncertainties we confront.

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

The demand for postal services is heavily influenced by the economy. We are now in the early stages of a recovery, though most economists believe that it will be slow and prolonged. However the nature of the recovery is not universal. U.S. national unemployment, on the increase since January 2008, reached 9.8% by the close of our fiscal year on September 30, 2009 and 10.2% in October, the highest level since 1983. Unemployment may continue to rise for the next several quarters in spite of the anticipated growth in gross domestic product (GDP). The lingering effects of turmoil in the financial markets have resulted in a crisis of confidence among consumers, which raises economic risk significantly. Uncertain market conditions are expected to have an adverse impact on retail sales, investment, consumer spending, and consumer confidence. Negative trends in these areas are likely to depress the demand for postal services.

Our ability to generate sufficient cash flows is substantially dependent on our ability to execute strategies to increase efficiency, reduce costs and generate revenue.

The Postal Service incurred a net loss of $3,794 million for the year ended September 30, 2009. This followed a net loss of $2,806 million for the year ended September 30, 2008. A significant portion of the 2009 loss is attributed to the unprecedented decline in mail volume, which fell by 25.6 billion pieces, resulting in a $6,842 million or 9.1% decrease in revenue, compared to 2008. The decline in mail volume is primarily attributable to the breadth and depth of the economic recession, which has affected all sectors of the economy and all classes of mail. In fact, while electronic diversion of mail is a long-established trend that is expected to continue to depress annual mail volumes, there is some evidence that the recession has accelerated the diversion of First-Class Mail, overnight documents and direct mail advertising. Looking ahead to 2010, we expect mail volume to further decline. While forecasting in this recession has become extremely difficult, our operational plan in 2010 predicts a mail volume decline by another 10-15 billion pieces from 2009 levels, and we foresee a net loss of over $7 billion. It is possible that mail volumes could decrease at a rate greater than this projection.

We experienced negative cash flow from operations in two of the past three years. In 2009, we were able to fund obligations, through increased debt and a $4 billion reduction to our PSRHBF payment that passed Congress on September 30, 2009, and was signed into Law by the President on October 1. Our annual net increase in debt is limited by statute to $3 billion, and total outstanding debt is capped at $15 billion. Our debt at September 30, 2009 was $10.2 billion. We currently project net debt outstanding at the end of 2010 to increase by $3 billion, but this may not be sufficient to fund all obligations. If significant losses continue in 2011, the overall $15 billion debt limitation will likely become insufficient.

We believe that, while there are sufficient cash flows for ongoing operations, there is considerable uncertainty as to whether we will have sufficient cash on September 30, 2010 to fund our required $5.5 billion PSRHBF payment. If we cannot fund this payment on September 30, 2010, we will experience a cash shortfall. There is also uncertainty as to what the legal and/or regulatory consequences would be to the Postal Service if we cannot fund this PSRHBF payment. We will continue to inform the Congress on our financial outlook and on legislative changes that would help ensure the availability of cash at year-end. However, there can be no assurance that adjustments to the PSRHBF payment schedule will be granted by September 30, 2010, or at all.

In light of these liquidity issues, in July 2009, the Government Accountability Office (GAO) listed the Postal Service as one of its “high risk” government agencies. In its report, *Restructuring the U.S. Postal Service to Achieve Financial Viability*, GAO recognized what we have been reporting. GAO cited our mounting losses, increasing debt levels and inability to cut costs fast enough to offset the accelerated declines in mail volume and revenue. To achieve financial viability, GAO suggested that the Postal Service develop and implement a broad restructuring plan, noting that many initiatives would require Congressional support.

The Postal Service in 2010 will continue actions to increase efficiency, reduce costs and generate new revenue. These activities will include reducing additional workhours and headcount, maximizing operational efficiencies, renegotiating contracts with major suppliers, continuing the freeze on construction of most new facilities, and initiating revenue generation efforts using the increased pricing flexibility available under P.L.109-435.

Seeking to avert a potential cash shortfall, early in 2009 we requested that Congress restructure our payments for retiree health benefits and grant the flexibility to suspend the legislative requirement that we deliver mail six days a week. Specifically, we requested that Congress restructure the retiree health benefit payments it mandated in the 2006 Postal Reform Act. Public Law 111-68, *Making appropriations for the Legislative Branch for the fiscal year ending September 30, 2010, and for other purposes (P.L. 111-68)*, addressed the 2009 payment to the PSRHBF. While Congress did provide us with a necessary $4 billion reduction of the PSRHBF payment scheduled for 2009, P.L. 111-68 did not restructure PSRHBF payments beyond 2009. Neither did it act to relax Congress' current requirement that we adhere to a six-day delivery schedule. We will continue to provide information and updates to Congress on these outstanding issues.

Lifting the six-day delivery requirement and allowing the Postal Service to adjust delivery days to match the requirements of actual mail volumes would provide us with critical cost savings opportunities. However, should this proposal become law in fiscal 2010, no savings would likely be realized from the delivery schedule change until 2011 since multiple operational, contractual, and customer issues would need to be resolved before actual implementation of a five-day delivery schedule.

Our ability to generate sufficient cash flows to meet obligations is substantially dependent on the strength and speed of the economic recovery and on our ability to execute strategies to increase efficiency, reduce costs, and generate incremental revenue. Although each cost reduction and revenue generation initiative is expected to positively impact cash flow in the future, in the aggregate, they may be insufficient to offset a potential September 30, 2010 cash shortfall if the economy worsens or we are unable to meet expectations. Further, there can be no assurance that Congress will enact additional legislation that impacts 2010, or at all.

Expanding use of electronic communications methods and other commercial services competes with some of our principal services. Our business and results of operations will be adversely affected by electronic diversion. If we do not compete effectively with these services, or grow marketing mail, package services, or revenues from other sources, this adverse impact will be substantial over time.

The Postal Service product mix is shifting away from transactions, correspondence, and periodicals mail toward advertising and shipping services which are highly correlated with economic expansions and contractions. This year's revenue and volume clearly show the effect of that changing product mix. Over the past fifteen years transaction mail, such as bill payment, has been eroded by competition from electronic media, primarily the Internet. It is expected that over time bills and statements will continue to follow payments online, and there is evidence that the recent recession has accelerated that movement. Factors underlying this trend include growing Internet access in homes, increased availability of broadband service, falling personal computer prices, expansion of mobile Internet access, increasing familiarity and comfort with the Internet, and the growing trend by businesses to incent or require their customers to use alternatives to mail for payments and statement receipt.

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

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

The recession of 2007–2009 hit the advertising industry exceptionally hard, especially in 2009. Even Internet advertising was adversely affected. Direct mail advertising fared better than some media -- national television newspapers, magazines and print advertising in particular. Trends in advertising appear to be favoring media that can be measured and targeted, two traits that have long set direct mail advertising apart. In the future it is expected that media that share these characteristics will prosper. It is possible that as the Internet continues to become part of daily life, it will make inroads on advertising by mail.

While the Postal Act of 2006 limited 90% of our price increases to the rate of inflation, our costs are not similarly limited. Accordingly, we may not be able to increase prices sufficiently to offset increased costs, which would adversely affect our results of operations.

Postal costs are heavily concentrated in wages, employee and retiree benefits, and transportation. They are significantly impacted by wage inflation, health benefit premium increases, retirement and workers' compensation program, cost of living allowances (COLAs), and the continuous expansion of our delivery network. We believe that recovery in volume and associated revenue growth, along with continuing productivity improvements, will be required to address the challenge presented by our current financial situation and the regulatory price cap.

The contracts with our four largest unions currently include provisions granting COLAs, which are linked to the Consumer Price Index — Urban Wage Earners and Clerical Workers (CPI-W). The COLA effective in September 2008 conferred an annual pay increase of nearly $1,500 on each career employee covered by collective bargaining agreements. The combined impact of that COLA and the carry-over from the March 2008 COLA represented an additional $1.1 billion in expenses for the Postal Service in 2009. Although the CPI-W has thus far stayed below its July 2008 high point, a resurgence of consumer inflation could have a significant adverse impact on our financial position. We estimate that each 1% increase in the CPI-W results in more than $200 million increase in annual Postal Service expenses. In addition, the valuation of our workers' compensation liability is highly influenced by expectations of inflation and interest rates. A 1% change in the interest rates assumptions produces an approximately $900 million change in the liability. While these interest rate assumptions do not effect our annual cash payment, the CPI-W does affect the COLA payments received by claimants with compensation claims.

Current labor agreements with the two largest unions expire in November 2010 and November 2011.The ability to negotiate fair contracts that reflect the state of the economy and current and future mail revenues is essential to maintaining our financial stability. Failure to do so, or an adverse decision by an arbitrator should we not be able to agree to terms with the unions, could have significant adverse consequences on our ability to meet our obligations.

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

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

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

We are exposed to changes in commodity prices primarily for diesel fuel, unleaded gasoline, and aircraft fuel for transportation of the mail, and natural gas for heating facilities. A 1% increase in fuel costs would result in a $22 million increase in expense. We did not use derivative commodity instruments to manage the risk of changes in energy prices during the periods covered by this report.

We are subject to Congressional oversight, regulation by other government agencies, and also oversight by various other organizations and the public. If we cannot successfully address the various, and sometimes conflicting, concerns of regulators, we may be subject to greater regulation, which could increase costs or otherwise place additional burdens on our operations.

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

Our customers are potentially subject to various state legislative proposals which could reduce our revenues, increase costs, or otherwise place additional burdens on our operations.

Do Not Mail bills are designed to limit or stop advertising mail from being mailed to households. In the past few years, several states have introduced Do Not Mail legislation. While no state bills have passed, there continues to be activity. In 2009, three states introduced Do Not Mail bills — Connecticut, Florida, and New York. The Connecticut and Florida bills expired at the end of the 2009 legislative session. However, the New York bills are still active and will carry over into the 2010 legislative session. Similar proposals also have surfaced in city governments.

The Postal Service opposes legislation that would limit mailing or that would interfere with the availability of an affordable, universal postal system. The Postal Service will continue to communicate the value of the mail by building upon its strong environmental record and its work with mailers to offer consumers choices on how to manage their mail. By working aggressively with mailers, marketers, and advertisers, the Postal Service can continue to improve the quality and relevancy of advertising mail.

The Postal Service continues to work closely with the mailing industry to promote and implement best practices for address management and anticipates that the implementation of the Intelligent Mail® Barcode will be an additional tool to ensure that mail is deliverable as addressed. In addition, through its environmental stewardship, the Postal Service continues to promote programs such as recycling mail in postal lobbies to make it even easier for customers to make environmentally friendly choices.

Should a state pass Do Not Mail legislation, it would result in lost revenue for the Postal Service. A Postal Service financial analysis estimated that a national implementation of Do Not Mail legislation would place approximately $6 billion of revenue at risk annually.

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

We rely extensively on technology to operate systems for processing and delivering mail. Our intranet is one of the largest maintained by any organization in the world. Any significant failure of these systems could cause delays in the processing and delivering of mail, which could damage our reputation, result in loss of business, and increase costs of operation.

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

We receive a variety of private information from customers, such as address change data. We have implemented a number of safeguards intended to protect the confidentiality of data that we obtain.

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

Although we have implemented extensive emergency preparedness measures to keep the mail, employees, and customers safe from harm due to biohazards or other threats that could be introduced into the mailstream, there continues to be a risk of possible biohazard or other threats. If new biohazards or other threats were to arise and measures were not sufficient to contain or mitigate the threat, our services could be disrupted. This could adversely affect revenues, require substantial expenditures to address the threat, and adversely affect our operations and financial condition.

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

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

ITEM 1B – UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 — PROPERTIES

REAL ESTATE

Our facilities range in size from 83 square feet to 46.5 acres under one roof and support retail, delivery, mail processing, maintenance, administrative, and support activities.

Real Estate Inventory	2009	2008
(Actual numbers)		
Leased Facilities	24,516	25,272
Owned Facilities	8,419	8,546
GSA/Other Government Facilities	329	357
Total Real Estate Inventory	**33,264**	**34,175**
Annual Rent Paid to Landlords (Dollars in millions)	**$1,035**	**$1,011**

The majority of our small and medium-sized facilities support the retail and delivery operations located in virtually every community across this country. Our retail and delivery operations are supported by 32,662 leased or owned facilities. We also provide retail services through 3,834 Contract Postal Units and community Post Offices where the facility is owned and maintained by the contractor.

Retail and Delivery Facilities	2009	2008
(Actual numbers)		
Post Offices	27,161	27,232
Classified Branches	1,484	1,493
Classified Stations	3,344	3,358
Carrier Annexes	673	658
Contract Postal Units	3,037	3,148
Community Post Offices	797	834
Total Retail and Delivery Facilities	**36,496**	**36,723**

Larger facilities typically support mail processing operations, which process millions of pieces of mail on a daily basis, and prepare them for transportation across the country.

Processing Facilities	2009	2008
(Actual numbers)		
Processing and Distribution Centers	268	269
Customer Service Facilities	195	195
Network Distribution Centers (previously known as Bulk Mail Centers)	21	21
Logistics and Distribution Centers	14	14
Annexes	61	64
Surface Transfer Centers	20	20
Airmail Processing Centers	12	20
Remote Encoding Centers	3	6
Internal Service Centers	5	5
Total Processing Facilities	**599**	**614**

We also have approximately 1,000 other administrative, vehicle maintenance, and miscellaneous support facilities.

VEHICLES

We have one of the largest vehicle fleets in the United States, including an extensive fleet of alternative fuel vehicles. As part of the American Recovery and Reinvestment Act of 2009 (ARRA), we received 3,424 new fuel efficient vehicles from the General Services Administration in a one-for-one exchange for old Postal Service vehicles.

Vehicle Inventory	2009	2008
(Actual numbers)		
Delivery and Collection Vehicles (1/2 -2 ½ ton)	196,445	197,898
Mail Transport Vehicles (Tractors and Trailers)	6,380	6,455
Administrative Vehicles and Other Vehicles	5,867	5,906
Service Vehicles (Maintenance)	4,959	5,272
Inspection Service and Law Enforcement Vehicles	2,843	3,288
Mail Transport Vehicles (3 – 9 ton)	2,190	2,228
Total Vehicles	**218,684**	**221,047**

In addition, the Postal Service leases vehicles. During 2009, the number of leased vehicles decreased by over 2,500.

ITEM 3 — LEGAL PROCEEDINGS

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

ITEM 4 — SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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

Part II

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

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

ITEM 6 — SELECTED FINANCIAL DATA

See the Financial History Summary and Selected Quarterly Financial Data sections of this report.

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

CAUTIONARY STATEMENTS

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

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

CRITICAL ACCOUNTING POLICIES

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

The three critical accounting policies that we believe are either the most judgmental or involve the selection or application of alternative accounting policies, and are material to financial statements, are those relating to workers' compensation costs, deferred revenue for prepaid postage, and contingent liabilities. Workers' compensation costs are highly sensitive to the estimates of discount and inflation rates and the length of time recipients stay on the compensation rolls, and reported financial results may be volatile. However the annual cash payment is relatively stable and therefore predictable. Workers' compensation costs are also subject to actuarial estimates of future pay-outs, based upon prior claims data. These estimates can change significantly from period to period.

Deferred revenue for prepaid postage represents our estimate of postage that has been sold but has not yet been used by the customers. We track postage sold from our sales records. Postage used is estimated via statistical samples of counts across the country. Changes in consumer hold patterns can significantly impact our estimates.

Contingent liabilities require significant judgment in estimating potential losses for legal claims. Each quarter, we review significant new claims and litigation for the probability of an adverse outcome. Estimates can change as individual claims develop. In addition, retirement and health benefit costs for employees and retirees represent a significant portion of expenses. Any changes in laws or regulations affecting the amounts, timing, or administration of these benefits could have a material effect on our financial position and results of operations. For additional information, see Note 3, *Summary of significant accounting policies*, in the Notes to the Financial Statements.

We recognize revenue when services are rendered. Because we collect payment in advance of services being performed, we defer the revenue as an estimated liability. This liability is classified as deferred revenue–prepaid postage on our balance sheets. In 2008, we improved the model used to estimate the deferred revenue for prepaid postage for stamps. This change was made necessary because the introduction of the Forever Stamp in April 2007, combined with the May 2008 price increase, resulted in a change in consumer behavior regarding the purchase and usage of stamps that was not measurable using prior estimation techniques. This new estimation methodology provides more refined estimates of the trends in stamp usage. We further refined this estimation methodology in Quarter IV of 2009 to reflect changes in customer usage patterns of both Forever and denominated stamps demonstrated during 2009. The 2008 change to a new estimation model and 2009 refinement are both considered changes in accounting estimates under Generally Accepted Accounting Principles (GAAP).

For further information, see Note 3 to the financial statements.

RESULTS OF OPERATIONS

Despite $6.1 billion in cost savings from the reduction in the number of employees, reduction of overtime hours and reduction in transportation and other costs, we were unable to fully offset contractual price increases and an unforeseen, rapid, and dramatic drop in mail volume and revenue. This resulted in a net loss for the year of $3,794 million.

On October 1, 2009, the President signed P.L. 111-68, *Making appropriations for the Legislative Branch for the fiscal year ending September 30, 2010, and for other purposes* (P.L. 111-68*),* which had passed both houses of Congress as of September 30, 2009. This law included a provision retroactively reducing the 2009 required payment into the Postal Service Retiree Health Benefits Fund (PSRHBF) from $5.4 billion to $1.4 billion. Without this legislative change, the resulting losses would have left us with very little operating cash at September 30, 2009.

Operating Statistics	**2009**	**2008**	**2007**
(Dollars in millions)			
Operating Revenue	$68,090	$74,932	$74,778
Operating Loss	$(3,740)	$(2,806)	$(5,327)
Net Loss	$(3,794)	$(2,806)	$(5,142)
Operating Margin	(5.5%)	(3.7%)	(7.1%)
Avg. Volume per Day (Pieces in millions)	584	667	705

As explained more fully later in the “Revenue and Volume” section of this report, the recession has had a significant adverse impact on operating revenue. For the year ended September 30, 2009, operating revenue was $68,090 million, compared to $74,932, million, a decrease of $6,842 million, or 9.1%, in spite of average Mailing Services price increases of 3.8% in May 2009 and 2.9% in May 2008. Volumes of all categories of mailing and shipping services declined compared to last year.

For 2009, operating expenses were $71,830 million, compared to $77,738 million last year, a decrease of $5,908 million or 7.6%. Excluding $718 million of non-cash adjustments to the workers’ compensation liability, operating expenses decreased by $6,626 million or 8.5%. The 2009 decrease in operating expenses was driven by the $4 billion reduction of Retiree Health Benefits as a result of P.L. 111-68 and a reduction of 115 million workhours. The 115 million workhour reduction was, by far, the largest annual decrease in Postal Service history. Transportation expenses also decreased $935 million, or 13.4%, as fuel prices and mail volume declined from a year earlier, utilization decreased, and certain contracts were re-competed and re-priced. Other expenses decreased $525 million, or 5.4%, as substantial limits were place on spending for supplies and services, travel and other discretionary items. All of these expense reductions were accomplished without affecting service to our customers and despite the large percentage of our costs dedicated to serving the still-growing delivery network.

Compensation and benefits expenses decreased by $1,427 million, or 2.7%, excluding workers’ compensation expenses. Workhour decreases of 115 million hours resulted in significant savings, although they were offset by the $1.1 billion impact of the COLA that became effective in September 2008.

Workers’ compensation expenses increased $996 million, primarily due to a non-cash change in the estimated cost of future claim payments, driven largely by a change in economic assumptions. Those changes are discussed in Note 12 to the Financial Statements and in the “Compensation and Benefits” section of this report.

For 2008, we had an operating loss of $2,806 million, as compared to a $5,327 million loss in 2007. Operating revenues of $74,932 million were 0.2%, or $154 million greater than the $74,778 million in 2007. Despite the May 2007 and May 2008 price increases, revenues were negatively impacted by a decline in volume of 9.5 billion pieces.

Our 2008 expenses were impacted by high energy prices, COLAs, and the large percentage of costs dedicated to serving the growing delivery network. These cost pressures partially offset the savings generated by a reduction of 50 million workhours. Operating expenses of $77,738 million were $2,367 million less than the $80,105 million incurred in 2007. Expenses in 2007 also included a one-time charge for the transfer of $2,958 million from escrow into the PSRHBF.

REVENUE AND VOLUME

The annual price increase for most Mailing Services in May 2009 averaged 3.8%. In May 2008, the annual price increase for most Mailing Services averaged 2.9%. Shipping Services prices increased in January 2009 by an average of 5%.

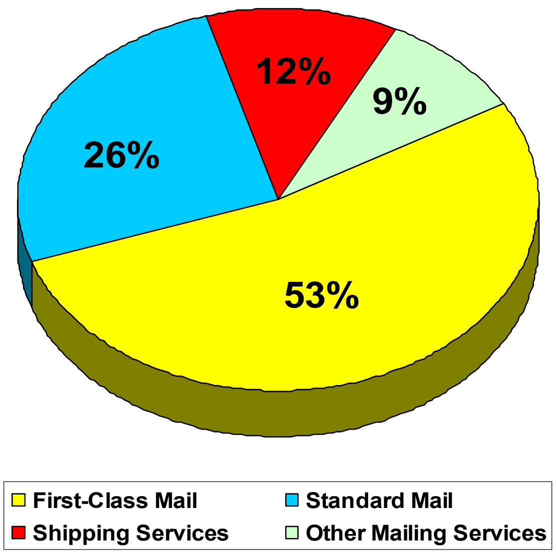
The economic recession adversely affected all classes of mail in 2009, leading to the largest year-over-year revenue and volume decline since the Postal Reorganization Act of 1971. As the recession continued, significant volume declines occurred in each quarter of the year.

Operating Revenue	2009	2008	2007
(Dollars in millions)			
First-Class Mail	$35,873	$38,179	$38,405
Standard Mail	17,364	20,586	20,779
Periodicals	2,038	2,295	2,188
Package Services	1,683	1,845	1,812
Other Mailing Services*	3,000	3,645	3,720
Total Mailing Services	**59,958**	**66,550**	**66,904**
Total Shipping Services	**8,132**	**8,382**	**7,874**
Total Operating Revenue	**$68,090**	**$74,932**	**$74,778**

**Special services and other income included in "Other " category.*

Led by the troubled financial services industry, we first experienced declines in advertising mail, particularly with regard to credit card, mortgage, and home equity loan solicitations. With the recession's spread to all economic sectors, declining volumes followed among catalogue retailers, printing and publishing businesses, and the services sector.

2009 Mail Revenue

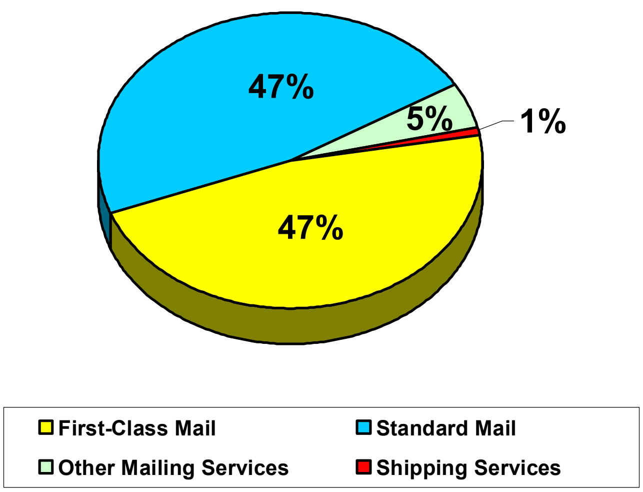


Mail Volume By Type	2009	2008	2007
(Pieces in millions)			
First-Class Mail	83,770	91,697	96,297
Standard Mail	82,706	99,084	103,516
Periodicals	7,954	8,605	8,796
Package Services	730	846	914
Other Mailing Services*	517	896	1,081
Total Mailing Services	**175,677**	**201,128**	**210,604**
Total Shipping Services	**1,381**	**1,575**	**1,630**
Total Mail Volume by Type	**177,058**	**202,703**	**212,234**

**Free mail for the blind included in "Other " category.*

The decline of both revenue and volume for each class of mail for the year can largely be attributed to the economic environment. Competition, electronic diversion and other external factors continue to negatively impact revenue and volume performance, but those factors have become secondary to the overall performance of the economy. No class of mail has been immune to the recent financial turmoil and all categories of mail experienced drops in volume and revenue. Total mail volume fell by 12.7% in 2009, with an accompanying revenue decline of 9.1%.

2009 Mail Volume



Although its relative influence lessened in comparison to economic factors, electronic diversion continued to depress mail volumes in 2009. For example, in Quarter II, the largest decline in First-Class Mail volume came from mailings to and from the U.S. Treasury, primarily the Internal Revenue Service. Americans are increasingly filing tax returns electronically, including a 16.7% increase in e-filed tax returns by self-preparers this year compared to last year. Many of these filers also elect to receive refunds electronically. Periodicals mail volumes also displayed the effects of electronic diversion as some publishers converted to electronic publications.

A product of these negative economic and market forces, operating revenue in 2009 was $68,090 million, a decrease of $6,842 million compared to 2008 operating revenue of $74,932 million. Mail volume of 177.1 billion pieces declined by 25.6 billion pieces, or 12.7%, from the 2008 volume of 202.7 billion pieces, itself a decline from the previous year.

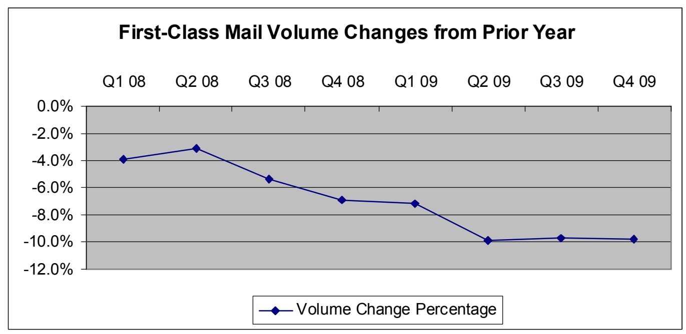
In 2008, the financial sector of the U.S. economy led declines in the mailing arena. Operating revenue for 2008 was $74,932 million, an increase of $154 million over 2007 operating revenue of $74,778 million, while volume of 202.7 billion pieces declined by 9.5 billion pieces, or 4.5%, from the 2007 volume of 212.2 billion. The 2008 volume decline accelerated throughout the year, reaching a peak decline of 3.2 billion pieces in the fourth quarter.

Revenue for the first seven and a half months of 2008 was affected by the May 2007 price increase of 5.4%. The remainder of the year was affected by the May 2008 price increase of 2.9%. Although the volume decrease in 2008 was significant, the price increase held revenue flat compared to 2007.

MAILING SERVICES

In 2009, First-Class Mail and Standard Mail, which make up 94% of volume, decreased approximately 24.3 billion pieces or 12.7% compared to last year, with an associated drop in revenue of $5,528 million, or 9.4%. Total Mailing Services revenue decreased $6,592 million, or 9.9%, with a corresponding volume decrease of 25.5 billion pieces, or 12.7%, compared to last year. Most of this decrease can be attributed to the downturn in the economy, particularly the financial and real estate sectors, which are heavy users of the mail.

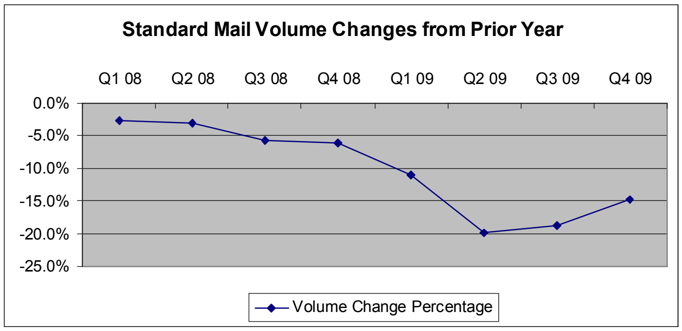
For the year ended September 30, 2009, revenue from First-Class Mail was $35,873 million, or 6.0% less than last year, as volume decreased 7.9 billion pieces, or 8.6%, compared to 2008. Reflecting the economy, all significant subgroups of First-Class Mail experienced revenue and volume declines. Single-piece First-Class letter revenue declined $1,055 million, or 7.3%, on a decrease of 3,493 million pieces, or 10.4%, for the year compared to 2008. Single-piece First-Class Mail volume, including bills, bill payments, statements, confirmations, orders, and rebates, has been in decline for over a decade. While price has some effect on First-Class Mail volume, in this environment the economy is the primary driver behind the volume decline, with technology as a secondary driver.



In 2008, First-Class Mail revenue decreased $226 million, or 0.6%, while volume decreased by 4.6 billion pieces, or 4.8%. The 2008 revenue decrease occurred in spite of a 2008 rate increase and the residual effect of a prior rate increase. The most significant decline was in single-piece First-Class letters, with a decrease of over 3 billion pieces. The long-term continued decline in single-piece volume reflects the impact of electronic diversion as businesses, nonprofit organizations, governments, and households continue to convert to electronic methods of communication.

Standard Mail revenue decreased $3,222 million, or 15.7%, in 2009, as volume decreased 16.4 billion pieces, or 16.5%, compared to last year. Standard Mail volume has been significantly impacted by the decline in advertising spending as a result of the recession, which spread rapidly throughout the economy. All subgroups of Standard Mail lost both revenue and volume in 2009 compared to last year. Standard Mail letter volume fell

18.4%, or 10.5 billion pieces, while revenue dropped $1,782 million, or 16.9%, in 2009 compared to 2008. The volume for Standard Mail flats fell 22.2%, or 2,218 million pieces, while revenue dropped $798 million, or 21.8%, in 2009 compared to last year. In addition to the impact of the troubled economy on Standard Mail revenues, advertisers continue to become more sophisticated in the targeting of their mailings, further reducing mail volume. We expect advertising mail to begin to increase as the economy improves, although many experts do not expect the economic recovery to be rapid or robust.



In 2008, Standard Mail revenue decreased almost $200 million, or 0.9%, compared with 2007, on 4.3% volume decline. The progressively larger quarterly volume declines were a harbinger of 2009. Standard Mail represented 27% of total operating revenues and 49% of total volume in 2008.

Revenue from Periodicals decreased $257 million, or 11.2%, in 2009 compared to last year. Trends in reading behavior have been depressing this segment for years, and, in conjunction with the recession, have pushed revenue and volume declines into double digits. The average weight per piece of Periodicals decreased by 10.8% in 2009, reflecting the decline in the number of advertising pages. Periodicals volume decreased 651 million pieces, or 7.6%, in 2009 compared to last year.

Periodicals volume decreased 191 million pieces, or 2.2%, in 2008 compared to 2007. Price increases resulted in a revenue increase of $107 million, or 4.9%, in 2008. The long-term trend in reading preferences was the significant driver of 2008 volume and revenue declines.

Package Services revenue of $1,683 million decreased $162 million, or 8.8%, in 2009, compared to 2008. Volume decreased 116 million pieces, or 13.7%, in the same period. Volumes fell throughout the package industry in 2009, reflecting the overall state of the economy.

Price increases resulted in a Package Services revenue increase of $33 million, or 1.8%, in 2008 compared to 2007. Volume decreased 68 million pieces, or 7.4%, in 2008. During 2008 each sub-classification of Package Services experienced volume declines and revenue increases, with the exception of Bound Printed Flats, which experienced both volume and revenue declines.

SHIPPING SERVICES

Shipping Services revenue of $8,132 million decreased $250 million, or 3.0%, in 2009 compared to last year, as volume declined to 1,381 million pieces. This was a decrease of 194 million pieces, or 12.3%, compared to 2008. All subgroups within Shipping Services experienced volume declines, with the exception of our Parcel Return Service.

Overall, the poor 2009 revenue performance reflects the severe effect of the economic recession.

In 2008, Shipping Services revenue increased $508 million, or 6.5%, compared with 2007, on 3.4% volume decline. Price increases offset lower volumes. Shipping Services includes our premium products such as Priority Mail and Express Mail, and produced 11% of revenue on 1% of the volume in 2008.

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

OPERATING EXPENSES

Operating expenses are comprised of Compensation and Benefits, Retiree Health Benefits, Transportation, and Other Expenses.

In 2009, total operating expenses of $71,830 million were $5,908 million, or 7.6%, less than 2008, mainly due to the enactment of P.L. 111-68 which decreased Retiree Health Benefits by $4 billion and the reduction of 115 million workhours. Compensation and benefits, along with retiree health benefits, were $56,544 million, or 78.7%, of operating expenses. Transportation expenses decreased $935 million, or 13.4%, and other expense decreased $525 million, or 5.4%.

Operating Expenses	**2009**	**2008**	**2007**
(Dollars in millions)			
Compensation and Benefits	$ 53,154	$ 53,585	$ 54,186
Retiree Health Benefits	3,390	7,407	10,084
Transportation	6,026	6,961	6,502
Other Expenses	9,260	9,785	9,333
Total Operating Expenses	**$ 71,830**	**$ 77,738**	**$ 80,105**

In 2008, total operating expenses of $77,738 million were $2,367 million, or 3.0%, less than 2007. Retiree health benefits decreased by $2,677 million in 2008 compared to an increase of $8,447 million in 2007. The decrease was primarily due to a 2007 one-time charge in addition to the annual amounts required by P.L. 109-435. Despite the decrease, compensation and benefits along with retiree health benefits were $60,992 million, or 78.5%, of operating expenses compared to $64,270 million, or 80.2% in 2007. Transportation expenses increased by $459 million, or 7.1%, while other expenses increased $452 million or 4.8%.

COMPENSATION AND BENEFITS

Compensation and benefits were $431 million, or 0.8%, less than 2008, mainly due to an unprecedented reduction of 115 million workhours. This achievement is discussed in further detail in the "Workhours" section of this report.

We have contracts with our four largest labor unions which include COLA-based raises. There were no COLA increases in 2009, but the carryover effect from the record high COLAs in 2008 was significant. The total impact of COLAs was $1.1 billion in 2009 compared to $562 million in 2008.

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

Compensation and Benefits Expenses (Dollars in millions)	2009	2008	2007
Compensation	$ 39,208	$ 40,633	$ 41,695
Retirement	5,917	5,899	5,737
Health Benefits	5,294	5,376	5,401
Workers' Compensation	2,223	1,227	880
Other	512	450	473
Total Compensation and Benefits Expenses	**$ 53,154**	**$ 53,585**	**$ 54,186**

Compensation costs decreased by $1,425 million, or 3.5%, due to a record decline of 115 million workhours. This was partially offset by a 6.2% increase in the average hourly labor rate, consisting mainly of COLA. Also offsetting a portion of the savings generated by the decrease in workhours was a $197 million accrual for incentive payments for 13,400 APWU and Mail handler employees who elected by September 30, 2009 to retire or resign from the Postal Service. These incentives, included in compensation expense, will be paid in two installments in Quarter I, 2010 and Quarter I, 2011. An additional 6,750 employees elected to retire or resign in October 2009; the expense for their incentives will be expensed in Quarter I, 2010.

Retirement expenses, which consist primarily of employer contributions to the Federal Employees Retirement System (FERS) and Social Security, increased by $18 million, or 0.3%. Other expenses increased by $62 million, or 13.8%, due mainly to rising unemployment expenses driven by extended benefits granted by many states. Additional information on workhours, retirement, health benefits, and workers' compensation expenses are provided on the following pages.

Current employees' health benefits expense decreased $82 million, or 1.5%, primarily due to the reduction in personnel.

Workers' compensation expenses increased $996 million, or 81.2%, mainly due to a non-cash charge of $718 million related to a change in estimated discount and inflation rates used to calculate the liability for future payments. This increase in the estimated liability did not affect our cash outlays for 2009. See Note 12, *Workers' Compensation*, in the Notes to the Financial Statements for more information.

In 2008, total personnel compensation and benefits costs of $53,585 million were $601 million, or 1.1%, less than 2007. The decrease was mainly due to reductions in workhours.

Compensation expenses were $1,062 million, or 2.5%, lower in 2008 compared to 2007, in spite of COLA increases that added $562 million to compensation expenses. These increases were offset somewhat by a decrease of 50 million workhours. In 2008, workers' compensation increased by $347 million.

WORKHOURS

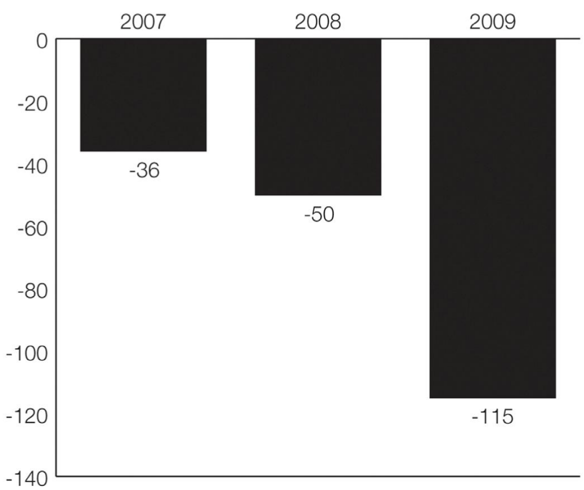
The unprecedented 115 million, or 8.4%, decrease in 2009 workhours resulted in large part from lower mail volumes. Management initiatives, and delivery route adjustments, initiated in response to the decline in workload, contributed further reductions. Workhours decreased in all major functions. The 2009 reductions were in addition to the 50 million hour reduction from the prior year. In 2009, mail processing used 42 million fewer hours than the prior year. City and rural delivery hours were less than 2008 by 28 million and 9 million hours, respectively. Customer service and retail hours were down 26 million workhours from the prior year. The other workhour category decreased by 10 million hours. Contributing to the overall workhour reduction was the continuing close scrutiny of overtime usage which resulted in a reduction of 35.7% or 36 million overtime hours. The overtime ratio to total workhours was 5.1% in 2009, as compared with 7.3% for 2008.

Workhours by Function	2009	2008	2007
(Workhours in thousands)			
City Delivery	424,683	452,288	462,040
Mail Processing	251,200	293,108	315,825
Customer Services & Retail	190,749	217,236	233,791
Rural Delivery	181,090	189,950	189,709
Other, including Plant, Operational Support, and Administrative	210,303	220,772	221,636
Total Workhours	**1,258,025**	**1,373,354**	**1,423,001**

Rural delivery hours decreased in 2009 despite the addition of over 600,000 new rural delivery points. Rural carrier workhour reductions were driven primarily by the mail count evaluations that were implemented in April 2009. These mail counts reduced weekly rural carrier evaluated workhours by 154,000 hours or 4.3% per week. This change directly reflected the reduction in mail volume from the previous year. The total number of new delivery points was also dramatically lower in 2009 and is a direct reflection of the weak economy, with lower housing starts and housing sales.

Workhour Reductions

(Hours in millions)



In 2008, total workhours decreased by 50 million hours compared to 2007, partially offsetting higher labor rates. Mail processing, customer service, and city delivery workhours collectively decreased by 50 million. Rural delivery increased 0.2 million workhours in 2008, driven by the addition of almost 710,000 new rural delivery points.

Workhours have been reduced in nine of the last ten years, with only 2005 showing a slight increase. Since 2002, workhour reductions have been the single biggest contributor to the ongoing achievement of savings targets.

RETIREMENT EXPENSE

Employees participate in one of three retirement programs of the U.S. government, based on the starting date of their employment with the federal government. These programs are the Civil Service Retirement System (CSRS), the Dual CSRS/Social Security System (Dual CSRS), and the Federal Employees Retirement System (FERS). The programs are administered by the Office of Personnel Management (OPM). The funding requirements and timing of employer and employee contributions into the programs can be altered at any time with the passage of a new law or an amendment of existing law by Congress and signed by the President. See Note 11, *Retirement programs*, in the Notes to the Financial Statements for additional information.

All expenses of our retirement programs, except for retiree health benefits, are included in compensation and benefits expense. Retirement expenses represented 8.2% of total operating expenses in 2009, 7.6% in 2008, and 7.2% in 2007. Retirement expense of $5,917 million for current employees was $18 million, or 0.3%, greater than the 2008 expense of $5,899 million. The small change in 2009 is primarily a result of the decreasing size of the workforce which offset the rising cost per employee. The retirement expense increase of $162 million in 2008 relative to 2007 was attributable to the higher employer contributions resulting from higher average wage rates in 2008, largely due to COLAs.

As described in Note 3, *Summary of significant accounting policies*, in the Notes to the Financial Statements, we account for our participation in the retirement programs of the U.S. government under multi-employer plan accounting rules, in accordance with Accounting Standard Codification (ASC) 715 (formerly FAS 87, *Employers' Accounting for Pensions*). Although the Civil Service Retirement and Disability Fund (CSRDF) is a single fund and does not maintain separate accounts for individual agencies, P.L. 109-435 requires us to make certain disclosures regarding obligations and changes in net assets as if the funds were separate. All of the following information is provided by OPM and represents the most recent data available (i.e., actual data as of September 30, 2008) with projections to September 30, 2009.

FUNDING STATUS

The following table provides OPM's estimation of the funding status of the CSRS and FERS programs for Postal Service participants as of September 30, 2008, and 2007, and the projected Postal Service obligation as of September 30, 2009.

Present Value Analysis of Retirement Programs as calculated by OPM (9/30/08 latest actual data available)

(Dollars in billions)

CSRS	Projected 2009	2008	2007
Actuarial Accrued Liability 9/30	$ 207.1	$ 204.1	$ 196.9
Current Fund Balance	197.5	195.1	193.8
(Unfunded)	**$ (9.6)**	**$ (9.0)**	**$ (3.1)**

FERS	Projected 2009	2008	2007
Actuarial Accrued Liability 9/30	$ 69.3	$ 62.8	$ 55.1
Current Fund Balance	76.1	69.3	63.5
Surplus	**$ 6.8**	**$ 6.5**	**$ 8.4**

TOTAL CSRS and FERS	Projected 2009	2008	2007
Actuarial Accrued Liability 9/30	$ 276.4	$ 266.9	$ 252.0
Current Fund Balance	273.6	264.4	257.3
(Unfunded) / Surplus	**$ (2.8)**	**$ (2.5)**	**$ 5.3**

In June 2007, a $17.1 billion surplus attributed to the CSRS plan as of September 30, 2006 was transferred to the newly created PSRHBF.

NET PERIODIC COSTS

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

Components of Net Periodic Costs as calculated by OPM (9/30/08 latest actual data available)

(Dollars in billions)

	CSRS	
	Projected 2009	2008
Actuarial Liability as of October 1	$ 204.1	$ 196.9
+Expected Contributions*	0.5	0.5
-Expected Benefit Disbursements	(10.0)	(9.3)
+Interest Expense	12.5	12.0
+Total Actuarial Loss during FY	-	4.0
Actuarial Liability as of September 30	**$ 207.1**	**$ 204.1**
	FERS	
	Projected 2009	2008
Actuarial Liability as of October 1	$ 62.8	$ 55.1
+Expected Contributions*	3.4	3.1
-Expected Benefit Disbursements	(0.9)	(0.8)
+Interest Expense	4.0	3.6
+Total Actuarial Loss during FY	-	1.8
Actuarial Liability as of September 30	**$ 69.3**	**$ 62.8**
Total Actuarial Liability as of September 30	**$ 276.4**	**$ 266.9**

** Expected contribution for CSRS consists of employee contributions only.*

Expected contribution for FERS includes both employee and employer amounts.

COST METHODS AND ASSUMPTIONS

OPM used the following assumptions in their analysis:

- The actuarial cost method is Entry Age Normal.
- Long-term economic assumptions are as follows:
    - Rate of inflation — 3.5%
    - FERS COLA — 2.8%
    - Annual general salary increases — 4.25%
    - Interest rate — 6.25%
    - The Postal Service is not required to make any agency contributions to CSRS. Employees continue to contribute 7% of basic pay.
    - Postal Service contribution rate to FERS will not change; contributions will continue at the current rate of 11.2% of pay (the employee contribution is 0.8% of pay) until October 1, 2010, when it will change to the new rate of 11.5% of pay.

The OPM Board of Actuaries decided to incorporate an assumption of future mortality improvement into the actuarial valuation as of September 30, 2007. This caused the dynamic normal cost of CSRS to increase from 25.2% of pay to 25.8% and the FERS normal cost to increase from 12.0% to 12.3%. It also caused an increase in the actuarial liabilities. This adjustment to the FERS normal cost indicates that the percentage of base salary contributed by the employer may need to increase further in the future.

COMPONENTS OF NET CHANGE IN PLAN ASSETS

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

Analysis of Change in Pension Net Assets
as calculated by OPM **(9/30/08 latest actual data available)**

(Dollars in billions)	CSRS Actual 2008	CSRS Actual 2007
Net Assets as of October 1*	$ 193.6	$ 207.9
+Contributions	0.5	0.6
-Benefit Disbursements	(9.3)	(8.9)
-Transfer to Health Benefits Fund	-	(17.1)
+Investment Income	10.3	11.3
Net Assets as of September 30	$ 195.1	$ 193.8
	FERS Actual 2008	**FERS Actual 2007**
Net Assets as of October 1	$ 63.5	$ 58.0
+Contributions	3.1	3.0
-Benefit Disbursements	(0.8)	(0.7)
-Transfer to Health Benefits Fund	-	-
+Investment Income	3.5	3.2
Net Assets as of September 30	$ 69.3	$ 63.5
Total CSRS and FERS Net Assets as of September 30	$ 264.4	$ 257.3

**OPM restated September 30, 2007 CSRS net assets from $193.8 to $193.6.*

As stated previously, CSRDF is a single fund and does not maintain separate accounts for individual agencies. The actual securities of the CSRDF are not allocated separately to CSRS or FERS, or to Postal and non-Postal beneficiaries. The assets of the CSRDF are composed entirely of special issue Treasury securities with maturities ranging up to 15 years. The long-term securities bear interest rates ranging from 3.25% to 7.00%, while the short-term securities bear interest rates ranging from 2.88% to 7.25%.

The assumed rates of return on the CSRS fund balance for both 2008 and 2007 were 6.25% while the actual rates of return were 5.45% and 5.63%, respectively. For the FERS fund, the assumed rate of return for both 2008 and 2007 was 6.25%, while the actual rate of return was 5.42% for both years. The projected rates of return on both the CSRS and FERS fund balance for 2009 remains at 6.25%.

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

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

(Dollars in billions)	CSRS Total Contributions	CSRS Total Benefit Payments	FERS Total Contributions	FERS Total Benefit Payments
2009	$ 0.5	$ 10.0	$ 3.4	$ 0.9
2010	0.5	10.7	3.7	1.1
2011	0.4	11.4	4.0	1.3
2012	0.4	12.0	4.4	1.5
2013	0.3	12.7	4.7	1.8

** Assumes total employee population remains constant.*

HEALTH BENEFITS

Postal employees and retirees may participate in the Federal Employees' Health Benefit Program (FEHBP), which is administered by OPM. We account for our employee and retiree health benefit costs as an expense in the period our contribution is due and payable to FEHBP. For retiree health benefits we use multiemployer plan accounting rules in accordance with ASC 715 (formerly FAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*).

The drivers of our active employee health care costs are the number of employees electing coverage and the premium costs of the plans they select. On average, the employees of the Postal Service paid for 19% of the premium cost in 2009 and we paid the remainder. The employee percent contribution was 18% in 2008 and 17% in 2007. Premiums for each plan participating in FEHBP are determined annually by OPM. In September, 2009, OPM announced average premium increases of 8.8% for calendar year 2010. Previous increases were 7% in January 2009, 2% in 2008, and 1.8% in 2007. The low premium increases in 2007 and 2008 were the result of lower plan costs and the application of plan reserves to constrain premium increases.

Despite an average increase of 7% in FEHBP premiums for 2009, employee migration to lower cost plans and a declining workforce combined to lower total health benefit costs. In 2009, health benefit expenses were $5,294 million, which were 7.4% of total operating expenses and a decrease of $82 million from 2008. The 2008 expense of $5,376 million was 6.9% of our total operating expenses and a decrease of $25 million from 2007.

RETIREE HEALTH BENEFITS

Eligible postal employees, those with at least five consecutive years participation in the FEHBP immediately preceding retirement, are entitled to continue to participate in FEHBP after retirement. As outlined in ASC 715, the amount that is due to the PSRHBF in any given year, plus our portion of the current premium expense, is recognized as an expense when due.

P.L. 109-435 made several changes to the way we fund and report our obligations for post-retirement health benefits. The law established the PSRHBF, directed OPM to determine any Postal Service surplus in the CSRDF as of September 30, 2006, and further directed that the surplus be deposited into the PSRHBF by June 30, 2007. OPM attributed to the Postal Service a surplus of $17.1 billion in the CSRS fund as of September 30, 2006 and transferred the funds as required on June 29, 2007.

P.L. 109-435 also required that we begin to fund the OPM-determined obligation for retiree health benefits by paying into the PSRHBF the 2006 escrow resulting from P.L. 108-18 ($2.958 billion) and by making additional annual payments ranging from $1.4 billion to $5.8 billion per year through 2016. On October 1, 2009, P.L. 111-68 became law and decreased our FY 2009 payment required under the provisions of P.L. 109-435 by $4 billion — from $5.4 billion to $1.4 billion.

Although P.L. 109-435 dictates the funding requirements through 2016, the amounts to be funded and the timing of funding can be changed at any time with passage of a new law or upon an amendment of existing law as passed by Congress and signed into law by the President. After these annual payments are complete, OPM will conduct an actuarial valuation and determine whether any further payments into the fund are required. Beginning in 2017, the PSRHBF will begin to pay our portion of the premium payments.

The 2009 payment to the PSRHBF was $1.4 billion while payments in 2008 and 2007 were $5.6 billion and $5.4 billion, respectively. See Note 5, *Subsequent events*, and Note 10, *Health benefit programs,* in Notes to the Financial Statements, for further discussion of the accounting treatment for P.L. 111-68.

Under P.L. 109-435, OPM will continue to charge us for our portion of the premiums for postal retirees currently participating in FEHBP, and we will continue to expense these payments as they become due until 2017. The major drivers of retiree health benefits premium costs are the number of current participants on the rolls, the mix of plans selected by retirees, the premium costs of those plans, and the apportionment of premium costs to the federal government for retiree service prior to 1971. Retiree health benefit premium expense, exclusive of the expense for the PSRHBF, has increased every year. Retiree health benefits premium expense increased 10.1% in 2009, 4.7% in 2008 and 5.4% in 2007. The number of Postal Service annuitants and survivors has grown to approximately 463,000 in 2009, compared to 452,000 in 2008 and 450,000 in 2007. The average monthly apportionment, the percentage of retiree premiums charged to the Postal Service, has increased from 68.1% in 2007 to 69.9% in 2008 and 72.0% in 2009.

The following table shows the retiree health benefits expense for 2009, 2008, and 2007.

Retiree Health Benefits Expense (Dollars in millions)	**2009**	**2008**	**2007**
Employer Premium Expense	$ 1,990	$ 1,807	$ 1,726
Transfer of 2006 Escrow to PSRHBF	-	-	2,958
P.L. 109-435 Scheduled Payment	1,400	5,600	5,400
Total Retiree Health Benefit Expenses	**$ 3,390**	**$ 7,407**	**$ 10,084**

PSRHBF

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

Postal Service Retiree Health Benefit Fund Funded Status and Components of Net Periodic Costs as calculated by OPM * (Dollars in millions)	**2009**	**2008**
Beginning Actuarial Liability at October 1	$ 86,082	$ 80,786
- Actuarial Gain	(4,593)	(1,136)
+ Normal Costs	2,902	3,389
+ Interest @ 6.25%	5,093	4,977
Subtotal Net Periodic Costs	3,402	7,230
- Premium Payments	(2,012)	(1,934)
Actuarial Liability at September 30	87,472	86,082
- Fund Balance at September 30	(35,482)	(32,610)
Unfunded Obligations at September 30	**$ 51,990**	**$ 53,472**

* The 2009 medical inflation assumption was 8% as of the valuation date and grade down to an ultimate value of 5.5%. The 2008 medical inflation assumption was 7%.

The OPM valuation of Post Retirement Health Liabilities and Normal Costs was prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 5. SFFAS 5 requires the use of the aggregate Entry Age Normal actuarial cost method.

Demographic assumptions and an interest rate assumption of 6.25% are consistent with the pension valuation assumptions, and decrements are based upon counts or numbers rather than dollars.

The normal cost, which is on a per-participant basis, is computed to increase annually by a constant medical inflation rate which is assumed to be 8% per annum as of the valuation date and grade down to an ultimate value of 5.5%. Past year medical inflation is assumed to be 7%. Normal costs are derived from the current FEHBP on-roll population with an accrual period from entry into FEHBP to assumed retirement. Entry into the FEHBP is generally later than entry into the retirement systems.

The accrued liability is equal to the total liability less future normal payments. The liabilities and normal costs that appear in the OPM financial statements used in agency reporting are based upon annuitant medical costs (including administration costs) less annuitant premium payments. The values used in these valuations are based upon the same methodology and assumptions as for the financial statements except the average government share of premium payments for annuitants is substituted for annuitant medical costs less annuitant premium payments. This amount is assumed to increase at 8% per annum as of the valuation date and grade down to an ultimate value of 5.5%. For current postal annuitants, this government share of premium payments is adjusted to reflect the pro-rata share of civilian service to total service for which the Postal Service is responsible. Postal annuitant counts include contracts for which the Postal Service makes no payment. The pro-rata adjustment is made by applying calculated factors based upon actual payments that vary by age and Medicare status of the enrollments. For active Postal employees, the pro-rata share in retirement is assumed to be 93% of the total.

The following table shows the net assets of the PSRHBF.

Net Assets of Retiree Health Benefit Fund (as calculated by OPM)	**2009**	**2008**
(Dollars in millions)		
Beginning Balance at October 1	$ 32,610	$ 25,745
Contributions and Transfers	1,400	5,600
Earnings @ 4.5% and 4.8%, respectively	1,472	1,265
Net increase	2,872	6,865
Fund Balance at September 30	**$ 35,482**	**$ 32,610**

The assets of the PSRHBF are comprised entirely of special issue Treasury securities with maturities ranging up to 15 years. The long-term securities bear interest rates ranging from 3.25% to 5.0%, while the short-term securities have interest rates ranging from 3.13% to 5.0%. The expected rate of return was 6.25% for both 2009 and 2008, while the actual rates of return were 4.5% for 2009 and 4.8% for 2008.

Because there are several areas of judgment involved in calculating this obligation, estimates could vary widely depending on the assumptions used. Utilizing the same underlying data that was used in preparing the estimate in the table above, the September 30, 2009, obligation could range from $37 billion to $65 billion, solely by varying the inflation rate by plus or minus 1%, while the 2008 unfunded obligation would range from $40 billion to $70 billion.

Projection of PSRHBF Contributions and Benefit Payments		
(Dollars in millions)		
	Contributions	Payments
2010	$ 5,500	$ -
2011	5,500	-
2012	5,600	-
2013	5,600	-
2014	5,700	-

WORKERS' COMPENSATION

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

We record as a liability the present value of all future payments we expect to make for those employees receiving workers' compensation. At the end of 2009, we estimate our total liability for future workers' compensation costs at $10,133 million, an increase of $2,165 million, or 27.2%, from 2008. In 2008, our liability increased $197 million, or 2.5%, from 2007. Our workers' compensation expense was $2,223 million for 2009, $1,227 million for 2008 and $880 million for 2007.

As discussed in Note 12, *Workers' Compensation*, in the Notes to the Financial Statements, $1,051 million of the increase in the liability at September 30, 2009 results from a change in the timing of the annual payment to DOL for claims paid on our behalf. Beginning in 2009, we are making the payment on the statutorily-required deadline of October 15, instead of September 15 as we had done in previous years.

Beginning in Quarter III, 2009, we experienced a significant change in our discount and inflation rates used in our liability estimate on a quarterly basis. The economic recession that began in December 2007 and corresponding response by the Federal Reserve have resulted in interest rates declining significantly. Accordingly, the projected rates of return on various maturities of treasury securities, which we use in discounting our workers' compensation model, have declined by 0.7% and 1.0% on compensation and medical liabilities, respectively, to 4.9% and 4.4% from what was used in our estimation model at September 30, 2008. The projected return rates are especially low for 2009 and

2010. While we believe these historically low rates are only temporary, GAAP requires us to use discount rates based on the best available information at the measurement date.

The impact of the changes in the discount and inflation rates in 2009 increased our 2009 estimated liability and expense by $718 million. The remaining increase in the liability resulted from other routine changes in the annual actuarial update, resulting from new compensation and medical cases and the development of existing cases.

In 2008, we implemented an improved model for estimating our liability for workers' compensation, with the assistance of an independent actuary. The revised model is similar to that used in the independent actuarial valuation, which formed the basis for the recorded liability in 2007. The revised model combines four generally accepted actuarial valuation techniques to project future claim payments based upon currently open claims and past claim payment experience. In addition, we refined our estimation in 2008 by taking a longer period of claim payment experience into consideration. The cumulative impact of the changes in estimate reduced our 2008 liability and expense by $154 million.

In 2009, we experienced a 1.4% decrease in the number of medical claims receiving payments and a 3.2% increase in the number of compensation claims receiving payments. The actual claim payments increased $78 million, or 8.1%, over 2008. Medical claims payments during the year grew by 9.8%

In 2008, we experienced a 1.5% increase in the number of medical claims receiving payments and a 3.8% increase in the number of compensation claims receiving payments. The actual claim payments increased $56 million, or 6.2% over 2007. Medical claims payments during the year grew by 8.9%.

TRANSPORTATION EXPENSES

Transportation expenses for 2009 were $6,026 million, a decrease of $935 million, or 13.4%, compared to 2008. Compared to 2007, 2008 transportation expenses increased $459 million, or 7.1%. Transportation costs are largely made up of air and highway transportation.

Transportation Expense	**2009**	**2008**	**2007**
(Dollars in millions)			
Highway Transportation	$ 3,044	$ 3,499	$ 3,150
Air Transportation	2,626	3,047	2,990
Other Transportation	356	415	362
Total Transportation Expense	**$ 6,026**	**$ 6,961**	**$ 6,502**

HIGHWAY TRANSPORTATION

Highway transportation expenses for 2009 were $3,044 million, a decrease of $455 million, or 13.0% from 2008. The decrease was the result of lower fuel prices, lower volume, and certain reductions in contract pricing. Diesel fuel, which makes up 93% of the fuel purchased for highway contracts, cost an average of $2.52 per gallon during 2009 versus $3.87 per gallon during 2008, a decrease of 34.9%. Gasoline prices decreased 33.4% in 2009 compared to 2008. Although fuel costs are only a portion of total transportation expenses, the sharp decrease in fuel prices from last year's record highs significantly contributed to lower highway transportation expenses.

Mail volume reductions and contract adjustments made during 2009 contributed to an overall reduction in contracted miles driven of 1.3 million miles, or 0.8%. The reduction was realized despite a short-term increase in miles driven since June 2009, primarily due to the startup of the Network Distribution Center (NDC) project. The project will transform existing Bulk Mail Centers into NDCs, which will improve the flow of mail into the network, consolidate package distribution, and improve transportation utilization. In 2010, we expect contracted miles driven to continue to decrease as a result of full implementation of the NDC project.

Highway transportation expenses for 2008 were $3,499 million, an increase of $349 million, or 11.1%, compared to 2007. The 2008 increase was caused by higher fuel prices, contract labor rates, and contract CPI rate increases. In addition, some mail that was previously transported via air was moved to surface transportation during the year. In 2008, the average price of gasoline increased approximately 30.4% compared to 2007. Diesel fuel, cost an average of $3.87 per gallon in 2008, compared to $2.70 per gallon in 2007, an increase of 43.3%.

AIR TRANSPORTATION

Air transportation expenses of $2,626 million in 2009 decreased by $421 million, or 13.8%, from last year. Domestic air expense decreased $322 million, or 13.8%, compared to last year. Lower fuel prices saved $186 million in expenses, while lower mail volumes drove most of the remaining expense reduction.

For 2009, international air expense decreased $99 million, largely due to lower volumes and a decrease in foreign postal transactions fees compared to last year.

Air transportation expenses for 2008 were $3,047 million, an increase of $57 million, or 1.9%, compared to 2007. Domestic air transportation expenses for 2008 were $2,336 million, a decrease of $57 million, or 2.4%, compared to 2007. International air expenses increased $114 million, primarily due to the shift from surface to air delivery resulting from the elimination of the Global Economy service offering.

OTHER TRANSPORTATION

Other transportation costs for 2009 were $356 million, $59 million or 14.2% lower than 2008. The decrease in mail volume reduced rail transportation costs by $30 million compared to 2008. Terminal dues settlements, the fees we pay to foreign postal administrations for the outbound international mail that they deliver for us, decreased $27 million compared to the prior year.

Other transportation expenses for 2008 were $415 million, an increase of $53 million, or 14.6%, mainly driven by an increased number of international terminal dues settlements to foreign postal administrations compared to 2007.

OTHER OPERATING EXPENSES

For 2009, other operating expenses of $9,260 million, decreased $525 million, or 5.4%, compared to 2008. This reduction was driven by a decrease in Supplies and Services of $276 million, or 10.6%, as a result of stringent cost cutting initiatives. Vehicle Maintenance Service expenses fell by $166 million, or 17.9%, mainly as a result of lower fuel costs.

Other Operating Expenses	2009	2008	2007
(Dollars in millions)			
Supplies and Services	$ 2,321	$ 2,597	$ 2,594
Depreciation and Amortization	2,270	2,319	2,152
Rent and Utilities	1,778	1,779	1,700
Vehicle Maintenance Service	760	926	760
Information Technology and Communications	722	658	630
Rural Carrier Equipment Maint. Allowance	510	545	495
Other	899	961	1,002
Total Other Operating Expenses	**$ 9,260**	**$ 9,785**	**$ 9,333**

Depreciation and Amortization expenses were $49 million, or 2.1%, lower based on reductions in the purchase of mail processing, customer service, and postal support equipment. Other expenses, which included travel, were $62 million, or 6.5%, less than last year. Travel expenses were reduced by 40% as a result of stringent cost cutting initiatives.

The only area of increase in this category was Information Technology and Communications at $64 million. The increased expense was mainly for upgrades of IT systems and voice communication services.

In 2008, other operating expenses of $9,785 million increased $452 million, or 4.8%, from the comparable 2007 amount. The increase was primarily driven by Depreciation and Vehicle Maintenance Services. Vehicle Maintenance Services, which includes the fuel used by our carrier fleet increased by $166 million. Depreciation and amortization expense increased $167 million, compared to 2007, as a number of equipment projects were completed during the last half of 2007 and the early part of 2008.

PRODUCTIVITY

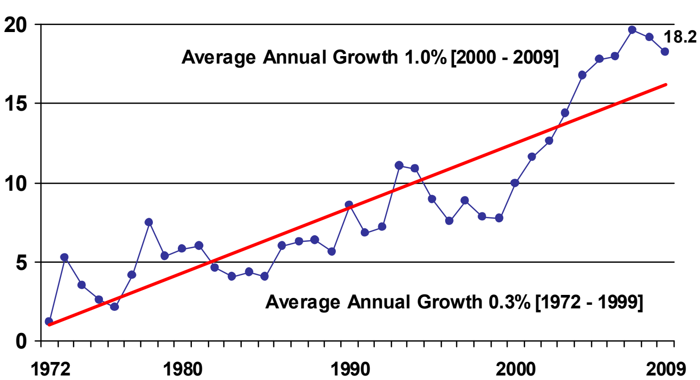
We use a single indicator called total factor productivity (TFP) to measure productivity. TFP measures the change in the relationship between outputs (workload processed) and inputs (resource usage). Workload consists of weighted mail volume, miscellaneous output, and our expanding delivery network. Resources consist of labor, materials (including transportation), and deployed capital assets. Workload minus resources used equals TFP.

During 2009, TFP declined 0.9%. This marks the second consecutive year that the Postal Service registered a decline in annual TFP. Prior to 2008, the Postal Service had eight straight years of TFP growth. In spite of a record reduction of 115 million workhours, efforts to utilize material such as supplies and services efficiently, and efforts to maximize the return on capital investments, mainly automation, we were unable to completely offset the 12.7% drop in mail volume resulting from the poor condition of the economy.

Aggregate workload for 2009 declined 8.3%. This was mainly due to a sharp decline in weighted mail volume, driven by the 10.5% decline in First-Class single-piece mail volume. In response to the workload decrease, we reduced resource usage 7.4% compared to last year. Labor usage, in particular, fell 7.9%.

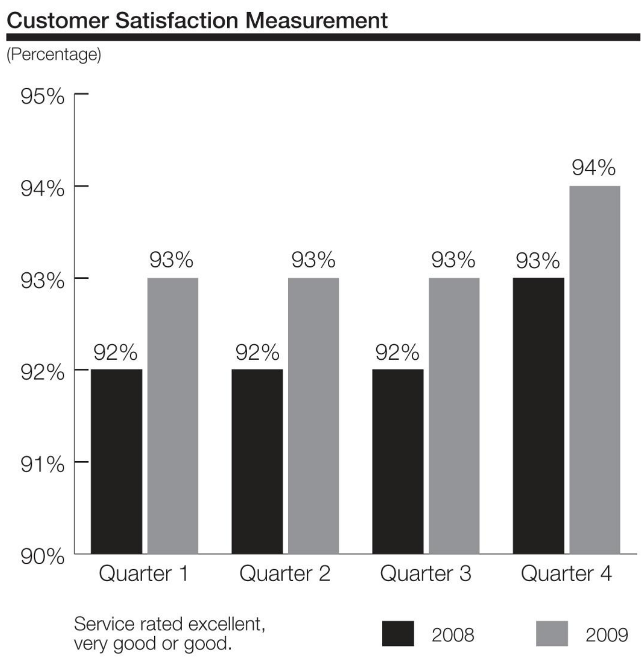
During 2008, TFP declined 0.5%, the first year since 1999 that the Postal Service registered a decline in annual TFP. Despite efforts to manage workforce utilization (reduction of 50 million workhours), utilize material such as supplies and services efficiently, and maximize the return on capital investments (mainly automation), the worsening conditions across most sectors of the U.S. economy during this fiscal year, resulted in a 4.5% decline in mail volume, which we were unable to completely offset.

The following graph shows the cumulative TFP trend from 1972 through 2009.



Service and Performance

The Postal Service has measured service performance from the customer perspective since the early 1990s. This type of measurement sets the stage for continuous improvement through increased focus on performance and the monitoring of transparent results. Through consultation with the Postal Regulatory Commission, we have developed and implemented new service standards and requirements for new or expanded measurement processes for mailing services. The service performance information and results are available at www.usps.com.



CUSTOMER SATISFACTION MEASUREMENT (CSM)

CSM is an independently-administered survey of customer opinions about key areas of service to residential customers. The following table displays the residential satisfaction results for the last eight quarters.

Capital Resources and Liquidity

Capital Investments

At the beginning of 2009, there were 27 major projects in progress (i.e. greater than $25 million), representing $5.9 billion in approved capital funding. During the year, three new projects were approved, which totaled $0.2 billion in additional capital funding. A total of 10 projects representing $1.6 billion in approved capital funding were completed. The year ended with 20 open projects that amount to $4.5 billion in approved capital.

While the funding for a project is authorized in one year, the commitment or contract to purchase or build may take place over several years. By year-end, approximately $3.8 billion had been committed to these 20 open projects. Actual capital cash outlays will occur over several years. Through the end of 2009, approximately $2.8 billion has been paid for the 20 projects.

As of September 30, 2009, all capital commitments (including the 20 projects mentioned above), consisting of building improvements, equipment and vehicle projects, were $1.8 billion. These projects will be funded by borrowings from the Federal Financing Bank. See Note 8, *Leases and other commitments*, in the Notes to the Financial Statements for additional information.

At the beginning of 2008, there were 30 projects in progress, representing $6.8 billion in approved capital funding. During the year, 11 new projects were approved, which totaled $0.9 billion in additional capital funding. A total of 14 projects representing $1.8 billion in approved capital funding were completed. The year ended with 27 open projects that amount to $5.9 billion in approved capital.

LIQUIDITY

Liquidity is the cash we have with the U.S. Treasury and the amount of money we can borrow on short notice if needed. Our note purchase agreement with the Federal Financing Bank (FFB), provides for revolving credit lines of $4.0 billion. These credit lines enable us to draw up to $3.4 billion with two days notice, and up to $600 million on the same business day the funds are needed. Under this agreement, we can also use a series of other notes with varying provisions to draw upon with two days notice. This arrangement provides us the flexibility to borrow short-term or long-term, using fixed- or floating-rate debt that is either callable or noncallable. Under normal circumstances, these arrangements with the FFB provide adequate tools to effectively fund our cash requirements and manage interest expense and risk. See Note 6, *Debt and related interest*, in the Notes to the Financial Statements for additional information about our debt obligations.

The majority of revenue is earned in cash and the majority of cash outflow is to support the biweekly payroll. Historically, cash flow from operations reaches a seasonal peak in the first quarter and a seasonal low in the fourth quarter of our fiscal year. The first quarter includes the fall mailing and holiday seasons. Going forward, the shift in the workers' compensation payment into the first quarter from the fourth quarter will mostly offset the strong incoming cash flow from seasonal revenues. In the fourth quarter we make a significant cash payment for retiree health benefits to fund the PSRHBF, scheduled to be $5.5 billion in 2010. Cash flows for the fourth quarter are projected to remain at seasonal lows as revenue remains lower relative to the other quarters and the retiree health benefit payment is made.

LIQUIDITY CHALLENGES

The Postal Service incurred net losses of $3,794 million, $2,806 million, and $5,142 million for the years ended September 30, 2009, 2008, and 2007, respectively. A significant portion of the loss in 2009 is attributed to an unprecedented third consecutive annual decline in mail volume, which fell by 25.6 billion pieces, resulting in a $6,842 million or 9.1% decrease in revenue, compared to 2008. Also contributing to the losses over these three years were significantly higher retiree health benefit costs pursuant to P.L. 109-435 and its requirement to fund the newly created PSRHBF, COLAs, and record fuel prices for a substantial period in 2008.

We experienced negative cash flow from operations in two of the past three years and would have also had a negative cash flow from operations in 2009 had it not been for the enactment of P.L. 111-68, which decreased our 2009 retiree health benefit payment from $5.4 billion to $1.4 billion. During those three years, cash flow from operations included payments into the PSRHBF of $1.4 billion in 2009, $5.6 billion in 2008, and $5.4 billion in 2007. We have maintained liquidity during these years through a series of cost reduction initiatives and increased borrowing. In addition, in 2009, we shifted our annual workers' compensation payment to October, a payment that in the past was paid in September. Our debt outstanding at September 30, 2009 was $10.2 billion and our annual net increase in debt remains limited by statute to $3 billion, effectively limiting our debt outstanding to $13.2 billion for 2010. Total outstanding debt is limited to $15 billion which we expect to reach in 2011.

The impacts of the severe recession, the annual PSRHBF payment, and record September 2008 COLA have contributed to significant losses in the last three years and have placed unprecedented strains on cash flow. We experienced a net loss of $3.8 billion in 2009. Had P.L. 111-68 not provided a $4 billion decrease in our 2009 payment requirement, we would have come extremely close to a cash shortfall at September 30, 2009. In 2010, revenue is expected to continue to decrease, as declining volumes will not be offset by price increases for most services, and we expect our liquidity challenge to continue.

We believe that our liquidity and cash flows will cover operation through most of 2010, but we remain highly uncertain regarding the availability of cash in an amount that is sufficient to fund our required $5.5 billion PSRHBF payment on September 30, 2010. If sufficient cash is not available, we will not be able to make the full payment. The legal and/or regulatory consequences of failing to make the required PSRHBF payment cannot be known with certainty. We will continue to inform the Congress on our financial outlook and on legislative changes that would help ensure the availability of cash at September 30, 2010. However, there can be no assurance that adjustments to the PSRHBF payment schedule will be granted by September 30, 2010, or at all.

ACTIONS TAKEN

As described in our quarterly reports on Form 10-Q and updated here, the Postal Service has taken a number of actions to reduce cash outflows and increase cash inflows.

In 2009, the Postal Service achieved $6.1 billion in cost savings, including a reduction of 115 million workhours. This is in addition to the $2.2 billion in cost reductions achieved in 2008, when we reduced workhours by 50 million. We have targeted the elimination of approximately 90 million additional workhours in 2010.

Working with the National Association of Letter Carriers, we reached an agreement that established a new process for evaluating and adjusting city delivery routes, resulting in a quickly-implemented procedure to reflect workload reduction. The accelerated route adjustment process covers all city delivery routes and is being implemented during calendar year 2009. Ultimately, it involved two separate evaluations of approximately 150,000 city delivery routes and will help to achieve workhour reduction targets in 2010.

We reduced the authorized staffing complement at national headquarters by 15% and are taking similar actions in the field, having closed six district offices, and one area office. The authorized complement at area offices has been reduced by 19%. In August 2009, we offered incentives to union employees represented by the APWU and NPMHU to retire or resign. As of September 30, we had approximately 13,400 employees accept the offer. By October 31, that number had grown to 20,150. Net savings are expected to be approximately $500 million in 2010. Other cost-containment efforts include freezing the 2009 salaries of all Postal Service officers and executives at 2008 pay levels and reducing travel spending by 40%.

We are also continuing to pursue efforts to consolidate excess capacity in mail-processing and transportation networks without adversely impacting service. This will allow us to maximize operational efficiency and capitalize on the economies of scale associated with advances in automated mail processing. In addition, we have placed a halt on the construction of most new facilities. The limited facilities funds that are now available are being directed only to those sites with the most critical needs.

In Quarter II, 2009, the Postal Service initiated an effort to reduce the cost of existing contracts for supplies and services. The initiative targeted over 500 existing contracts for renegotiations that will deliver both short- and long-term cost reductions in the areas of price, scope and process improvements. Through the end of 2009, we have achieved approximately $475 million in savings from this initiative and we expect another $650 million by the end of 2011.

We have also taken steps to build our business. We realigned our product management organizational structure in 2008, creating a new Mailing and Shipping Services division that will help bring new products to market more quickly and effectively. We also created a dedicated sales force to exclusively promote expedited shipping services.

We have created a number of price and volume incentives to promote volume growth from large and medium shippers. These include an incentive program for saturation mailers and a summer sale for Standard Mail that was in from effect July 1 through September 30, 2009. In May 2009, we launched a new national advertising campaign promoting the value of our Priority Mail Flat Rate boxes. The campaign is successfully creating product awareness and stimulating new business, as indicted by the strong Priority Mail revenues and volumes, relative to our other services.

In 2009, we requested that Congress consider two changes to the laws governing the Postal Service. First, we asked to restructure our payments for retiree health benefits. The result was P.L. 111-68 which reduced our 2009 payment to the PSRHBF by $4 billion, but did not address our longer term PSRHBF payment schedule.

Second, we asked Congress for the flexibility to suspend the six days per week delivery requirement, in order to better match our network and fixed costs to current and expected volumes. This flexibility would allow us to continue to deliver high quality service at affordable prices to the American public, while regaining financial stability, and positioning ourselves for the future. Specifically, we have requested that Congress remove the annual appropriation bill rider, first added in 1983, that effectively requires the Postal Service to deliver mail six days each week. No savings are anticipated for 2010 from the proposed ability to adjust the six-day delivery requirement, if granted. Multiple operational, contractual, and customer issues would need to be resolved before actual implementation of a five-day delivery schedule. However, such important new flexibility would provide significant cost savings opportunities, beginning as early as 2011.

Since P.L. 111-68 did not address the longer term issues of scheduled PSRHBF payments beyond 2009 or the six-day delivery requirement, we will continue to update Congress on these ongoing management and liquidity challenges.

Our ability to generate sufficient cash flows to meet obligations is substantially dependent on the speed and strength of the economic recovery, and our ability to execute strategies to increase efficiency, reduce costs and generate revenue. If granted, the increased flexibility from Congress, discussed above, would allow us to reduce costs beginning in 2011, and improve our cash position without significantly diminishing service to customers. However, no assurance can be given that our efforts will be successful or that Congress will enact additional legislation in time to impact 2010, or at all.

In light of the above issues, in July 2009 GAO listed the Postal Service as one of its “high risk” government agencies. In its report, *Restructuring the U.S. Postal Service to Achieve Financial Viability*, GAO cited our mounting losses, increasing debt levels and inability to cut costs fast enough to offset the accelerated decline in mail volume and revenue. To achieve financial viability, GAO suggests that the Postal Service develop and implement a broad restructuring plan which includes many of the initiatives mentioned above. GAO suggests the following:

- Reduce compensation and benefit costs through retirements and lower benefit costs.
- Consolidate retail and processing networks.
- Consolidate field structure.
- Generate revenue through new or enhanced products.
- Change funding requirements for retiree health benefits.
- Realign delivery services with changing use of mail.

GAO also notes that many of these initiatives require Congressional support.

The following table illustrates our scheduled cash flow obligations in future years, including payments under revolving credit lines.

Schedule of Cash Flow Obligations

	Payments Due				
	2010	2011-2012	2013-2014	After 2014	Total
(Dollars in millions)					
Notes Payable	$ 3,675	$ -	$ 300	$ 6,225	$ 10,200
Interest Payments	153	306	303	1,585	2,347
Capital Lease Obligations	99	196	180	441	916
Operating Lease Obligations	762	1,348	1,097	4,339	7,546
Retiree Health Benefits (PSRHBF)	5,500	11,100	11,300	11,500	39,400
Total	**$ 10,189**	**$ 12,950**	**$ 13,180**	**$ 24,090**	**$ 60,409**

CASH FLOW

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $1.6 billion in 2009, compared to $0.4 billion used in 2008, a year-to-year increase of cash provided by operations of $2.0 billion despite a drop in revenue of $6.8 billion. The 2009 net loss increased $1.0 billion over the prior year. The increased cash was driven mainly by the decrease of $4 billion in retiree health benefits expense and payment resulting from P.L.111-68 and a $2.1 billion increase in workers’ compensation liability ($1.1 billion of which is from deferring the cash payment from September to October).

Net cash used in operating activities was $0.4 billion in 2008 compared to $2.6 billion used by operating activities in 2007. The year-to-year change of $2.2 billion was driven mainly by the reduction in the net loss of $2.3 billion. This, in turn, was largely due to the absence in

2008 of the one-time transfer of $3.0 billion formerly held in escrow to the PSRHBF in 2007.

CASH FLOWS FROM INVESTING ACTIVITIES

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

Net cash used by investing activities was $1.9 billion in 2008, compared to $500 million provided in 2007. Purchases of property and equipment of $2.0 billion decreased $700 million from the $2.7 billion purchased in 2007. Proceeds from building sales and the sale of property and equipment totaled $57 million in 2008, compared to $257 million in 2007. The remainder of the change was due to the absence in 2008 of the one time 2007 transfer of funds from the escrow restricted cash into operating cash. Excluding this one time item, cash used by investing activities would have decreased $520 million in 2008.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided by financing activities was $2.9 billion in 2009, and $2.9 billion, and $2.0 billion for 2008, and 2007 respectively. Borrowings from the Federal Financing Bank increased by $3.0 billion, $3.0 billion and $2.1 billion, respectively, in those years.

Financing Activities

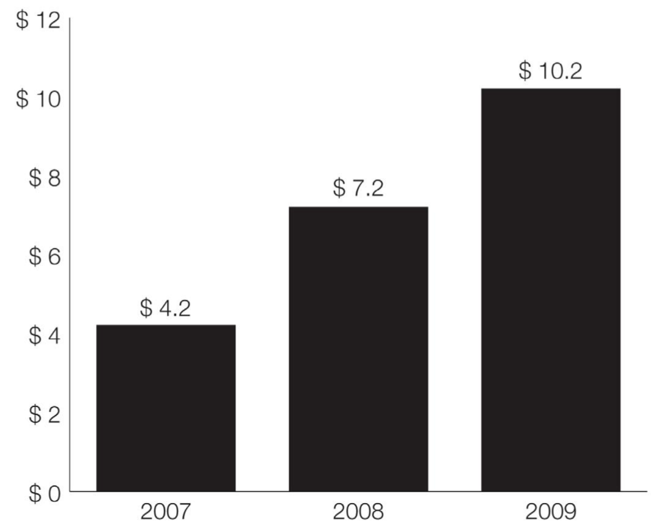
DEBT

As an "independent establishment of the executive branch of the Government of the United States," we receive no tax dollars for ongoing operations. We are self-supporting, and have not received an appropriation for operational costs since 1982. We fund operations chiefly through cash generated from operations and by borrowing from the Federal Financing Bank.

The amount we borrow is largely determined by three major factors: (1) the difference between cash flow from operations (which in 2009 included the end-of-year payout of $1.4 billion to the PSRHBF), (2) capital cash outlays, which consist of funds invested for new facilities, new automation equipment, and new services, and (3) the statutory annual borrowing limit of $3 billion. For 2011 and beyond, an additional determinant will be our total statutory debt ceiling of $15 billion. On September 30, 2009, we had $10.2 billion in debt outstanding, a $3.0 billion increase from last year.

Debt at Year End

(Dollars in billions)



Interest Expense

In 2009, interest expense was $80 million, an increase of $44 million compared to 2008. The net loss of $3,794 million in 2009 led to higher debt balances compared to 2008. This combined with the addition of long-term fixed rate debt for the first time since 2002, produced the increase in interest expense. Although the long-term debt carries higher interest rates than prevailing rates for short-term debt, the long-term obligations were issued at historically favorable rates and they represent a prudent restructuring of our debt portfolio. In 2008 and 2007, with less debt to repay and more cash on hand throughout the year, interest expense totaled $36 million and $10 million respectively.

Interest And Investment Income

When we determine that our available funds exceed our current needs, we invest those funds with the U.S. Treasury's Bureau of Public Debt in overnight securities issued by the U.S. Treasury. In 2009, due to net losses sustained during the year, historically low interest rates and increased levels of debt, investment income was only $1 million.

In 2008 and 2007, with less debt to repay, and higher cash on hand in 2007, we earned investment income of $10 million and $169 million, respectively.

Interest and Investment Income	**2009**	**2008**	**2007**
(Dollars in millions)			
Investment Income	$ 1	$ 10	$ 169
Imputed interest on accounts receivable from the U.S. government	24	25	25
Other Interest	1	1	1
Total	**$ 26**	**$ 36**	**$ 195**

We also recognize imputed interest on the funds owed to us under the Revenue Forgone Reform Act of 1993. Under the Act, Congress agreed to reimburse the Postal Service $29 million annually through 2035 for services performed in prior years. See Note 14, *Revenue forgone*, in the Notes to the Financial Statements for additional information.

FAIR VALUE MEASUREMENTS

As required by ASC 820 (formerly FAS 157, *Fair Value Measurements*), in 2009 we made certain fair value disclosures. We did not have any recognized gains as a result of valuation measurements in 2009. All recognized losses have been incorporated into our 2009 financial statements and the unrecognized gains and losses are not considered to have a significant impact upon our operations. See Note 13, *Fair Value Measurements*, in the Notes to the Financial Statements for additional information.

LEGISLATIVE UPDATE

APPROPRIATIONS

The Postal Service is self-funded and does not receive an appropriation from Congress for its operations. However, the Postal Service has received limited appropriations as reimbursement for unfunded services that are statutorily-mandated. On March 11, 2009, the omnibus appropriations legislation became P.L. 111-8, granting funding for the fiscal year ending September 30, 2009. For the Postal Service, this law provided approximately $112 million, which included $29 million for repayment of revenue forgone that had been unfunded in prior years. The law also stated that $83 million of the appropriation (not made available until October 1, 2009) was given to fund statutorily-required services for free mail for the blind and overseas voters. Also contained in the law was the requirement that the Postal Service continue to maintain six-day delivery service.

RETIREE HEALTH BENEFITS

On October 1, 2009, the President signed P. L. 111-68 which included a continuing resolution provision that reduced the scheduled $5.4 billion retiree health benefit payment due from the Postal Service on September 30, 2009 to $1.4 billion. For more information, see Note 5, *Subsequent events*, in the Notes to the Financial Statements.

FUEL EFFICIENT VEHICLES

On June 1, 2009, the General Services Administration (GSA) made a $210 million purchase of new vehicles from Chrysler, Ford, and General Motors using a portion of the funds provided to GSA in the *American Recovery and Reinvestment Act of 2009* (P.L. 111-5). Part of this GSA purchase benefited the Postal Service by allowing it to replace over 6,500 vehicles from its current fleet with more fuel efficient models. Of that number, 1,000 of the new vehicles were E-85 ethanol-capable and 900 were hybrids. The other 4,600 were conventional cars powered by four-cylinder gasoline-powered engines. Each new vehicle had a higher miles-per-gallon rating than the one it replaced. The excess of the fair value of the new vehicles over the fair value of the vehicles surrendered was treated as a capital contribution of the U.S. government on our balance sheet. The first 3,424 vehicles received in 2009, had a fair market value of approximately $57 million, replacing vehicles with a book value of $4 million.

SICK LEAVE CREDIT FOR FERS EMPLOYEES

Provisions that would give FERS employees credit for unused sick leave when computing their retirement annuity were included in Public Law 111-84, *the Fiscal 2010 Defense Authorization Act*, signed by the President on October 28, 2009. The provision will be phased in over four years. FERS employees who retire between the date of the law's enactment (October 28, 2009) and December 31, 2013 will receive a 50 percent credit for their unused sick leave. FERS employees who retire on or after January 1, 2014 will receive full credit for their unused sick leave. OPM will calculate any change in the Postal Service's unfunded liability or surplus in the CSRDF. The law may necessitate higher retirement contribution rates for FERS employees in the future. There will be no change to the FERS retirement rate contribution in 2010.

OUTLOOK

The financial outlook for the Postal Service is closely linked to the outlook for the U.S. economy. In the past two years, the American economy experienced its worst economic downturn since the Great Depression and mail volumes fell precipitously. Looking ahead, there are expectations for a gradual economic recovery in 2010. Although the Commerce Department recently reported that Quarter IV GDP rose at an annualized rate of 3.5%, compared to Quarter III, year-over-year growth was still negative. IHS Global Insight, an economic and forecasting consulting firm, is forecasting positive year-over-year growth in the economy as measured by real GDP beginning in our second quarter of 2010. This forecast projects very weak GDP growth for all of 2010.

Mail volume, however, is weakly correlated with GDP. Trends in employment, investment expenditures, and retail sales are better indicators of mail volume trends. Weak growth in investment and retail sales is predicted for 2010. Recovery in employment is expected to lag the broader economic recovery, just as it did in the recession of 2001.

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

REVENUE OUTLOOK

Although the economy is primarily responsible for the current revenue and volume decrease, electronic diversion presents an on-going, long-term challenge.

First-Class and Standard Mail comprise 94% of total mail volume. First-Class Mail volume is expected to decline slightly, while Standard Mail is expected to regain only slowly its former volume. Total mail volume is expected to show steady growth beginning in 2011 as the economy continues to recover, but may never return to the peak 2006 levels.

For 2010, we project revenue to decrease between 4% and 6% on a volume decrease of 6% to 9%. It is possible that revenues and volumes could decrease more than projected. Revenue is expected to outperform volume due primarily to recently announced Shipping Services price increases and the residual effect of the 2009 price increases. Mailing Services prices will not increase in 2010.

First-Class Mail volume is expected to decline during 2010. When employment, consumer spending and capital investment recover, growing use of the Internet and other electronic means of communication will continue to suppress mail volume growth rates. First-Class single-piece letters have been in decline for more than a decade and are expected to continue to decline in both the short- and long-term. Presorted First-Class letters are expected to grow as economic growth returns.

We estimate that Standard Mail will have fallen by 25% by the time the effects of the recession have receded. The ten-year outlook post-recession is more positive; however, it may be a full decade before Standard Mail volume again attains 2007 levels (if at all), with the strongest growth rates forecast to occur in 2012 and 2013. For 2010, Standard Mail revenue and volume are expected to decline. The decline in both revenue and volume is expected to continue through the first half of 2010, with marginal growth in the second half of the year.

Periodicals revenue and volume are both projected to decrease modestly in 2010. While the declines in Periodicals are not as dramatic as some other mail categories, they are part of a long-term trend.

Both volume and revenue are expected to be relatively flat in 2010 for Package Services.

Shipping Services revenues and volumes are expected to increase slightly in 2010. An average price increase of 3.3% was announced on November 3, 2009. This entire group is influenced by competitors' prices, which may include fuel surcharges. P.L. 109-435 has provided an opportunity for greater competition by the Postal Service in this market.

EXPENSE OUTLOOK

Total expenses for 2010, excluding retiree health benefits, are expected to decrease approximately 4% as planned cost reductions outweigh the impact of contractual and expected wage and benefit increases.

We plan to aggressively reduce costs wherever possible to counter the effects of declining volume while maintaining high levels of service. We are projecting more than $3.5 billion in cost savings including approximately 90 million in workhour reductions across the organization in 2010. This is expected to result from specific operational initiatives in conjunction with expected cost savings from employee retirement incentives targeted to specific employee groups. We do not anticipate any COLA-based raises in 2010, as inflation is expected to remain below the levels that would trigger such increases.

Bulk Mail Centers are being transformed into Network Distribution Centers (NDC). The core principal of the NDC concept is to fill containers and trucks as early in the network as possible and dispatch them as deep into the network as possible. Plant staffing optimization will continue to contribute to operational savings in 2010 by aligning the plant workforce to meet changing workload levels.

City Delivery operations are expected to generate savings in FY 2010 from route adjustments made in 2009. Route adjustments have resulted in over 11,500 fewer routes.

In 2010, we plan to save an estimated $500 million from the departure of 20,150 employees that accepted the special incentive offered in August 2009.

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

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK DISCLOSURE

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

FUEL COST RISK

We estimate a 1.0% increase in fuel and natural gas costs would result in a $22 million increase in expense. We did not use derivative commodity instruments to manage the risk of changes in energy prices during the periods covered by this report.

FOREIGN EXCHANGE RISK

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

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

INTEREST RATE RISK

We have not used derivative financial instruments to manage risk related to interest rate fluctuations for debt instruments. However, we did issue long-term fixed rate debt in FY 2009 that will mitigate exposure to rising interest rates in future years.

We estimate that a 1.0% increase in interest rates would have an insignificant impact on our financial statements due to the size and structure of our investment and debt portfolios.

LABOR CONTRACTS

As discussed in Item 1A, Risk Factors, the contracts with our four largest unions include provisions granting COLAs linked to changes in the CPI-W.

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited Statements of Operations, Balance Sheets, Statements of Changes in Net (Deficiency) Capital, and Statements of Cash Flows are included in the Financial Statements section of this report.

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

None

ITEM 9A — CONTROLS AND PROCEDURES

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

DISCLOSURE CONTROLS

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

We carried out an evaluation, under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of September 30, 2009. Based on the foregoing, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2009.

INTERNAL CONTROLS

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

ITEM 9B — OTHER INFORMATION

None.

Part III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

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

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

Name, Age and Term of Office	Positions and Experience
Carolyn Lewis Gallagher, Chairman of the Board of Governors, Age 54 Governor since November 2004. Term expiring December 2009.	Chairman of the Board of Governors since February 2009. Vice Chairman of the Board of Governors from January 2008 to January 2009. Member, Compensation and Management Resources Committee. Former President and Chief Executive Officer of Texwood Furniture, Inc. Former Trustee and Board Chair, Texas Employees' Retirement System. Appointed by President Bush in 2003 to serve on the President's Commission on the United States Postal Service.
Louis J. Giuliano, Vice Chairman of the Board of Governors, Age 62 Governor since November 2004. Term expiring December 2014.	Vice Chairman of the Board of Governors since February 2009. Chairman, Compensation and Management Resources Committee; Chairman, Operations Subcommittee; and member, Audit and Finance Committee. Former Chairman of Board of Directors, President and Chief Executive Officer of ITT Corp. from 2001 through 2004. Director of the John Maneely Company and Senior Advisor at the Carlyle Group.
Mickey D. Barnett, Governor, Age 58 Governor since August 2006. Term expiring December 2013.	Co-Chair, Governance and Strategic Planning Committee, and member, Audit and Finance Committee. Attorney in Albuquerque, New Mexico. Former member, New Mexico State Senate. Former member, Appellate Nominating Commission for the New Mexico Supreme Court of Appeals. Former Legislative Assistant to Senator Pete Domenici of New Mexico.
James H. Bilbray, Governor, Age 71 Governor since August 2006. Term expiring December 2015.	Member of Governance and Strategic Planning Committee, and member, Government Relations and Regulatory Committee. Attorney at the law firm of Kaempfen Crowell Renshaw Gronauer & Fiorentino in Las Vegas, Nevada. Former member, U.S. House of Representatives from Nevada. Former member, Nevada State Senate. Former Deputy District Attorney in Clark County, Nevada.

Name, Age and Term of Office	Positions and Experience
Alan C. Kessler, Governor, Age 59 Governor since November 2000. Term expiring December 2009. Re-nominated October 2009.	Past Chairman of the Board of Governors January 2008 to January 2009. Vice Chairman of the Board of Governors from January 2005 to January 2008. Co-Chair, Governance and Strategic Planning Committee. Partner at the law firm of Duane Morris, LLP. Member of the Presidential Transition Team, 1992-93, Former Vice Chair of the Presidential/Congressional Commission on Risk Assessment and Risk Management; Former member of the Electoral College, Pennsylvania. Currently Serves on the Boards of the Greater Philadelphia Chamber of Commerce, the Philadelphia Industrial Development Corporation, and the Central Philadelphia Development Corporation. Former commissioner for Lower Merion Township, Pennsylvania, Member of the Philadelphia City Planning Commission, and member of the Executive Committee of Philadelphia 2000. Chairman, Pennsylvania Supreme Court Continuing Legal Education Board. .
Thurgood Marshall, Jr., Governor, Age 53 Governor since December 2006. Term expiring December 2011.	Chairman, Government Relations and Regulatory Committee. Member, Audit and Finance Committee. Partner since 2006 at the law firm of Bingham McCutchen and principal with Bingham Consulting Group since 2006. Served President Clinton as former Assistant to the President and Cabinet Secretary. Former Director of Legislative Affairs and Deputy Counsel for Vice President Gore. Director, Corrections Corporation of America
James C. Miller III, Governor, Age 67 Governor since April 2003. Term expiring December 2010.	Past Chairman of the Board of Governors, 2005 through 2008. Chairman, Audit and Finance Committee, and a member of the Governance and Strategic Planning Committee. Senior Advisor at the international law firm of Husch Blackwell LLP since 2006. Senior Fellow (by courtesy) of the Hoover Institution at Stanford University since 1988. Emeritus Member of the Boards of the Tax Foundation and the Progress and Freedom Foundation since 2003. Member of Boards of Washington Mutual Investors Fund, America Fund Tax-Exempt Series I, the JP Morgan Value Opportunities Fund and Clean Energy Fuels Corp. Former Director, United States Office of Management and Budget from 1985 to 1988. Former Member of National Security Council from 1985 to 1988. Former Chairman of the United States Federal Trade Commission from 1981 to 1985.
Ellen C. Williams, Governor, Age 52 Governor since August 2006. Term expiring December 2014.	Member of the Compensation and Management Resources Committee and the Government Relations and Regulatory Committee. Owner and CEO of Capital Network, a government affairs and lobbying firm, since its establishment in 2006. Former Vice Chairman of the Kentucky Public Service Commission from 2004 to 2005. Former Commissioner of the Governor’s Office for Local Development in Kentucky from 2005 to 2006. Former Chairman of the Republican Party of Kentucky from 1999 to 2004. Staff assistant to former U.S. Representative Larry Hopkins.

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

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

AT SEPTEMBER 30, 2009, THE POSTAL SERVICE HAD NINE EXECUTIVE OFFICERS. THESE EXECUTIVE OFFICERS ARE:

Name and Age	Positions and Experience
John (Jack) E. Potter, Age 54	72nd Postmaster General, Chief Executive Officer and member of the Board of Governors since June 2001. Chief Operating Officer and Executive Vice President from October 2000 to June 2001 and Senior Vice President, Operations from February 1999 to October 2000.
Patrick R. Donahoe, Age 54	19th Deputy Postmaster General, Chief Operating Officer and a member of the Board of Governors since April 2005. Chief Operating Officer and Executive Vice President during the years 2001 to 2005. Senior Vice President, Operations from February 2001 to September 2001.
Robert F. Bernstock, Age 58	President, Shipping and Mailing Services since June 2008. Chairman and Chief Executive Officer, Securesheet Technologies, a private software company, from September 2006 to June 2008. President and Chief Operating Officer and prior to that Executive Vice President, The Scotts Miracle-Gro Company, a marketer of branded consumer products for lawn and garden care, from 2003 to 2006. Mr. Bernstock serves as a director on the Boards of the following companies: Nutri System Inc., The Pantry, Inc., and KBL Acquisition Corp. IV.
Joseph Corbett, Age 50	Chief Financial Officer and Executive Vice President since 2009. Founder and Managing Director of FinSol, LLC, a finance and accounting CFO services firm from 2005 to 2009. Consultant, Chief Financial Officer and Executive Vice President of BearingPoint, Inc., a U.S. government contracting, consulting and systems integration company, from 2004 to 2005. Executive Vice President and Chief Financial Officer of Intelsat, Ltd., from 1998 to 2004 and Intelsat Controller from 1995 to 1998.
Mary Anne Gibbons, Age 59	Senior Vice President and General Counsel since December 2003. Vice President and General Counsel from 1999 to December 2003.
Stephen M. Kearney, Age 53	Senior Vice President, Customer Relations since July 2008. Vice President, Pricing and Classification from September 2001 to July 2008.
Linda A. Kingsley, Age 47	Senior Vice President, Strategy and Transition since January 2007. Vice President, Strategic Planning from August 2003 to January 2007.
Ross Philo, Age 57	Executive Vice President and Chief Information Officer since February 2008. Director of Global Energy Solutions from December 2006 to February 2008 at Cisco Systems. President and Chief Executive Officer from August 2006 to December 2006 of Visean Inc., a global startup company providing remote data communication services for the oil and gas industry. Senior Vice President and Chief Information Officer at Halliburton from December 2003 to April 2006.
Anthony J. Vegliante, Age 58	Chief Human Resources Officer and Executive Vice President since April 2005. Vice President, Labor Relations from February 1999 to April 2005.

CODE OF ETHICS

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

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

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

ITEM 11 — EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

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

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

Federal law governing the Postal Service, set forth in Title 39 of the United States Code, provides that compensation and benefits for all officers in the Postal Service shall be comparable to the compensation and benefits paid for comparable levels of work in the private sector of the economy. The Postal Service is the second largest civilian employer in the nation, with more than 700,000 career and non-career employees as of the end of 2009. The Postal Service operates more than 200,000 motor vehicles and more than 36,000 post offices. The Postal Service delivers almost half the world's mail and more than 175 billion pieces annually. In 2009, the Postal Service generated $68 billion in revenue. In 2009, the Postal Service ranked 84th in Fortune Magazine's listing of Fortune Global 500 Companies. By way of comparison, two of our largest competitors ranked 143rd and 200th on this list. If the Postal Service were listed on the Fortune 500 annual ranking of America's largest corporations, it would be ranked 26th. The same two of our largest competitors are ranked 43rd and 59th on that list.

Given the Postal Service's size and scope of operations, the comparability requirement in Title 39 would suggest that the Postal Service's executive officer compensation and benefits should be on par with the compensation and benefits of the very largest private sector companies in the United States. Even in these challenging economic times and despite the national concern about excessive executive compensation, comparably sized companies typically provide their top executives with annual salaries well in excess of $1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consist of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites. For example, in a recent SEC filing, one of the Postal Service's competitors reported that, although the company's CEO did not receive a bonus for 2009, the CEO did receive total compensation of $7.2 million. Of this total, salary was $1.43 million and stock options and restricted stock were valued at $5.1 million. Even for companies that received Trouble Asset Relief Program (TARP) funds, compensation is not restricted as it is for the Postal Service. Although these companies may not award bonuses to certain senior officers until the company repays the government for all TARP assistance, they may award significant salaries and other compensation and benefits well in excess of those authorized for top executives in the Postal Service. Further, the compensation for postal executives is significantly less than that earned by executives at another, much smaller, federal entity, where in 2008 the CEO earned a salary of $650,000 and an additional $374,000 in incentive payments.

Although the law governing the Postal Service provides that executives and others should be compensated at a level comparable to the private sector, the law does not afford the Governors the tools to achieve a standard of compensation comparable to the private sector. Postal law imposes three different caps on compensation for postal employees. The first cap provides that no officer or employee may be paid compensation "at a rate in excess of the rate for level I of the Executive Schedule under section 5312 of title 5" of the United States Code. 39 U.S.C. § 1003(a). This compensation cap was set at $186,600 for calendar year 2007, $191,300 for calendar year 2008 and $196,700 for calendar year 2009.

With the approval of the Board, however, the Postal Service may develop a program to award a bonus or other reward in excess of the compensation cap discussed above, as long as this does not cause the total compensation paid to the officer in a year to "exceed the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which the bonus or award is paid." 39 U.S.C. § 3686(a)-(b). This total compensation cap was $215,700 for calendar year 2007, $221,100 for calendar year 2008, and $227,300 for calendar year 2009. In approving any such program, the Board must determine that the bonus or award is based on a performance appraisal system that makes meaningful distinctions based on relative performance.

In addition, the Board may allow up to 12 officers or employees of the Postal Service in critical senior executive or equivalent positions to be paid total annual compensation up to "120 percent of the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which such payment is received." 39 U.S.C. § 3686(c). Based on the Vice President's respective salaries for calendar years 2007, 2008 and 2009 this compensation cap was $258,840 for calendar year 2007, $265,320 for calendar year 2008 and $272,760 for calendar year 2009.

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

Even with the 2006 increase in the compensation cap for top postal executives and the benefits available to them, compensation for postal executive officers is still significantly below that of the private sector. As explained later, an independent consulting firm retained by the Board found that, in 2007, the ratio of the range of Postal Service executive officers' salaries compared to the range of salaries of comparable executive officers in the marketplace was 15%. The difference in the magnitude of the relationship of Postal Service executive officers' salaries to the comparator market eroded to 13% in 2008 and provides continued evidence of the misalignment of the executive pay relationship between USPS and the private sector marketplace.

COMPENSATION PHILOSOPHY AND OBJECTIVES

The Board recognizes that there is a significant disconnect between the comparability requirement and the compensation caps in the law governing the Postal Service and that the various compensation caps do not enable the Board to provide compensation and benefits for executive officers that are fully comparable to the private sector. The Board also recognizes that many of the compensation and benefit tools available in the private sector, such as equity ownership, are not available to the Postal Service, given its status as part of the federal government. These limitations make it difficult for the Postal Service to compete in the marketplace for executive officers and to retain current executive officers. The Postal Accountability and Enhancement Act of 2006 did not allow the Board to overcome these differences or to alleviate internal pay compression. To attempt to achieve some level of comparability within the above confines of the law, the Board has designed a compensation system that balances amounts paid as salary to executives in a given year, with the ability of the executive to earn additional compensation by meeting performance goals and objectives; a portion of this compensation may need to be deferred because of the compensation caps.

Within the confines of their legislative authority, the Board's philosophy is that:

- There should be a strong connection between individual executive compensation and the Postal Service's performance on a number of dimensions, including service, net income and productivity.
- Compensation and benefits should be designed to attract and retain top organizational contributors to ensure that the Postal Service has the caliber of executives that will enable it to operate at the highest levels of performance and productivity.
- Lump sum incentives should be set to motivate executives to improve performance continuously on a long-term basis and to perform above the annual-established goals and objectives. If

individual performance exceeds the goals and objectives set for the year, the employee should receive additional compensation. Likewise, if overall performance falls below the annual goals and objectives, the individual should be paid less.

- A significant amount of the executive's compensation should be at risk and the "at-risk" amount should increase as the executive's level of responsibility increases.
- Innovation, effectiveness as an agent for change, the ability to balance day-to-day priorities and long-term strategies, and organizational value as defined by the achievement of key corporate goals and objectives should be rewarded.
- Executive compensation should be fair and equitable internally, recognizing the width and breadth of the responsibilities of the Postal Service's executives.
- Executive success is defined by a number of factors, including financial returns, the quality of the service the Postal Service provides and managers' actions to enhance the organization's efficiency. For these reasons, lump sum incentives may be appropriate even in years in which the Postal Service sustains financial losses. This is especially true where the Postal Service maintained service levels while significantly reducing costs, yet nevertheless suffered financial losses due to factors beyond its control.

THE COMPENSATION PROGRAM

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

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

For comparative, order of magnitude purposes, referencing professionally tended published compensation survey sources, Watson Wyatt calculated the ratio between the competitive salary marketplace and USPS internal pay relationships as impacted by the statutory compensation caps. The ratio value was applied to statutory compensation caps to anchor executive salary pay range relationships to the comparator market. In 2007, the ratio of the range of Postal Service executive officers' salaries compared to the range of salaries of comparable executive officers in the marketplace was 15%. This ratio again calculated in 2008 fell to 13% representing a worsening in the relative alignment between latitude of internal USPS executive officer pay and that of the private sector. Although market data for equity or other long-term incentives was not a focus of this analysis, inclusion of such data would likely cause USPS executive total compensation to fall even further from the comparator marketplace.

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

After reviewing data provided by the consulting firm and recommendations from the Compensation Committee and the Postmaster General, the Board approved for 2007 salary ranges for the Postmaster General, other executive officers and other high-level Postal Service officers commensurate with their scope of responsibility and within the confines of the statutory compensation caps. The Board determined that the Postmaster General's salary should be set at the legislative salary cap, and that the Deputy Postmaster General and the other executive officer salary bands should be based on salary relationships of comparable executive officers in the comparator marketplace. The Board authorized the Postmaster General to establish actual salaries for the other executive officers, within the confines of the salary ranges established by the Board. After experience with the salaries for 2007, the Board again reviewed recommendations from the Compensation Committee and the Postmaster General and increased salary ranges by 2.5% for calendar year 2008. For calendar year 2009, again after reviewing recommendations from the Postmaster General and the Compensation Committee, the Board increased the maximum of the salary ranges by 2.8% in line with the increase for the Federal Government's executive schedule. However, all executive salaries were frozen at calendar year 2008 levels due to the Postal Service's significant financial challenges.

In 2009, the Postal Service continued to employ a national performance assessment program ("NPA") to set annual performance goals and metrics that vary among executive officers and are weighted to reflect appropriately the degree to which an executive is able to influence the overall performance of the Postal Service. Annual NPA metrics and targets generally take into consideration the Postal Service's performance during the prior year and particular challenges the Postal Service expects to face during the upcoming year. The NPA places emphasis on objective, measurable performance indicators. The Governors also set individual metrics and targets for the Postmaster General and Deputy Postmaster General and authorizes the Postmaster General to establish individual metrics and targets for other officers.

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

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

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

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

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

Overall Performance Rating

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

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

Determinations on salary increases are made after the end of the fiscal year and new salaries become effective for the following calendar year. Despite the many challenges the Postal Service surmounted in 2008, the Postmaster General froze all postal executives' calendar year 2009 salaries at calendar year 2008 levels due to the significant financial challenges facing the Postal Service in 2009. Those same challenges also caused the Postmaster General's salary to be frozen for calendar year 2009, pursuant to an agreement between the Governors and the Postmaster General.

Due to the Postal Service's financial challenges, the Postmaster General, with the approval of the Governors, determined that performance bonuses should not be paid for 2009 for the other named executive officers.

The Board recognizes that, particularly for the Postmaster General, the restraints in governing law make it difficult to provide an overall level of compensation and benefits that comes even close to a level of comparability with similarly-situated individuals in the private sector. Based on a desire to retain the Postmaster General in his current role as well as to attempt to provide him with compensation and benefits that provide comparability to the extent legally possible, the Board entered into an employment agreement with the Postmaster General in 2007. The agreement provided that the Postmaster General's salary is set at the maximum of the compensation cap. In 2008, the Postmaster General and the Governors amended the 2007 agreement to freeze the Postmaster General's salary for calendar year 2009 at the calendar year 2008 level. In addition to salary, the agreement between the Postmaster General and the Governors provides for certain items of compensation and benefits beyond that offered to other executive officers. Among other items, the Postmaster General's agreement allows him to earn deferred performance-based incentives upon achievement of performance objectives set by the Governors, in addition to any pay-for-performance award to which the Postmaster General may be entitled under the Postal Service's pay-for-performance program.

Despite Mr. Potter's extraordinary leadership during the difficult and unprecedented economic challenges of 2009, his implementation of a number of process improvements that maintained service while significantly lowering costs, his significant staff reductions, his success in pursuing important legislative change, the steps he took that strategically positioned the Postal Service to maintain its viability for the future, and his achievement of personal goals set by the Governors for the fiscal year, Mr. Potter requested that he not be awarded the incentive compensation he is entitled to receive according to his contract. The Governors agreed with Mr. Potter's request, in light of the financial challenges facing the Postal Service in 2010.

Other items of additional compensation and benefits for the Postmaster General are identified in the tables that follow. To the extent the statutory compensation cap precludes payment of any amounts earned by the Postmaster General in a particular year, these amounts are deferred for payment at a later date.

For recruitment and retention purposes, the Postal Service also entered into an employment agreement with Mr. Corbett, the Chief Financial Officer in 2009. This agreement provided that Mr. Corbett was to receive a recruitment payment in 2009. In 2008, the Postal Service also concluded an employment agreement with Mr. Bernstock, the President of Mailing and Shipping Services, providing among other things, for a recruitment payment of $85,000 for 2008 and a retention payment of $85,000 for 2009. As a result of the statutory limit on the payment of total compensation in a year, payment of a portion of the 2009 retention amount was deferred.

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

BASE SALARY

Base salaries provide a level of financial security that is appropriate for the executive's position within the Postal Service. Within the confines of law, base salaries are scaled within pay ranges designed to be competitive with the market median. As discussed above, maximum payouts in a given year are set by federal law. Executive officer salaries are reviewed at least annually and adjusted, as appropriate, to reflect factors such as individual performance, range of responsibilities, value and contribution to the organization, and experience. However, as discussed above, all executive salaries, including that of the Postmaster General, were frozen for calendar year 2009 due to the significant financial challenges facing the Postal Service.

ANNUAL INCENTIVE

Annual incentives serve as a mechanism for adjusting total compensation levels commensurate with the attainment of planned results, thereby ensuring affordability and appropriate return to the Postal Service. As discussed above, the Postal Service uses a national performance assessment program to set annual corporate performance goals and metrics. Executive officers' individual performance ratings are determined by the Postmaster General based on the degree to which the individual has achieved previously set individual goals and metrics. As discussed above, the named executive officers will not receive incentive payments this year.

OTHER COMPENSATION INCENTIVES

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

RETIREMENT ANNUITIES

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

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

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

Defined Contribution: The Thrift Savings Plan (TSP) is similar to 401(k) plans. CSRS and FERS employees may contribute up to the indexed IRS maximum ($16,500 in 2009). There is no Postal Service contribution for CSRS employees. For FERS employees, after an initial waiting period of 6 months to a year, the Postal Service makes an automatic contribution of 1 percent of basic pay and a matching contribution of up to 4 percent of basic pay, for a total employer contribution of up to 5 percent of basic pay. Employees who will be at least age 50 in the year of contribution may make a separate catch-up contribution up to the indexed IRS maximum ($5,500 in 2009). TSP investment options are a government securities fund; index funds that track the Lehman Brothers U.S. Aggregate Bond Index, the S&P 500, the Wilshire 4500, and the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) stock index; and lifecycle funds.

SUPPLEMENTAL NON-QUALIFIED DEFERRED COMPENSATION

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

LIFE INSURANCE

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

HEALTH BENEFITS

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

OTHER BENEFITS

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

FISCAL YEAR 2009 EXECUTIVE OFFICER COMPENSATION

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Bonus ($)	Non-equity incentive plan compensation ($)	Change in pension value and Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(g)	(h)	(i)	(j)
John E. Potter	FY09	$265,320	-	-	$393,054	$76,276	$734,650
Postmaster General, CEO	FY08	$263,575	-	$135,041	$381,496	$77,347	$857,459
Joseph Corbett	FY09	$150,385	$75,000	-	$ 11,891	$ 7,121	$244,397
Chief Financial officer & Executive VP	FY08	-	-	-	-	-	-
H. Glen Walker	FY09	$ 93,077	-	-	$ 3,279	$ 8,391	$104,747
Chief Financial Officer & Executive VP	FY08	$218,654	-	$ 11,700	$ 30,352	$18,988	$279,694
Patrick R. Donahoe	FY09	$240,000	-	-	$317,538	$39,591	$597,129
Deputy Postmaster General & COO	FY08	$238,654	-	$ 36,000	$316,805	$ 8,567	$600,026
Anthony J. Vegliante	FY09	$230,000	-	-	$199,763	$10,627	$440,390
Chief Human Resources Officer & Executive VP	FY08	$228,654	-	$ 32,200	$209,273	$12,693	$482,820
Robert F. Bernstock	FY09	$232,500	$85,000	-	$ 31,041	$13,415	$361,956
President, Shipping and Mailing Services	FY08	$ 58,125	$85,000	$ 15,500	$ 7,195	$ 3,041	$168,861

Note: Column (c) Salaries for executive level officers were frozen for calendar year 2009. The salary amounts vary from FY09 and FY08 because USPS salaries are based on the calendar year and not the fiscal year. Therefore, FY08 salary numbers include a portion of 2007 salary figures. In addition, the values in the above table for Mr. Walker are as of February 27, 2009, which was the end of his tenure as CFO. Joseph Corbett assumed the position of Chief Financial Officer as of January 31, 2009, and therefore did not earn FY08 salary. Robert Bernstock assumed the position of President, Shipping and Mailing Services, as of June 30, 2008.

Column (d) The payment amounts listed for Mr. Corbett and Mr. Bernstock reflect lump sum incentive compensation that was required to recruit and/or retain these individuals. Any amounts that could not be paid to these individuals due to the compensation cap have been deferred for future payment. Pursuant to his contract with the Postal Service, Mr. Corbett was awarded a recruitment amount of $75,000; he was paid $50,000 of this award in FY09 and the remainder was deferred. Pursuant to his contract with the Postal Service, Mr. Bernstock was awarded a recruitment amount of $85,000 in FY08 and a retention amount of $85,000 for FY09; he was paid the full amount of his recruitment payment in FY08 and $35,000 of his retention payment in FY09, with the remainder being deferred.

Column (g) Mr. Potter's non-equity incentive plan compensation was deferred for FY08 due to the compensation cap and will be paid in ten annual installments after he leaves postal employment. The $0 amounts in this column reflect that, for FY09, no performance-based incentive compensation was awarded to executive officers.

Column (h) Mr. Potter, Mr. Donahoe, and Mr. Vegliante all participate in the Civil Service Retirement System, which is a defined benefit plan. Mr. Corbett and Mr. Bernstock (and Mr. Walker while he was a postal employee) participate in the Federal Employees Retirement System, a portion of which is a defined benefit plan. The calculation of retirement annuities under CSRS and FERS is explained on page 39 in the Retirement Annuities section of this Compensation Discussion and Analysis. The amounts shown in column (h) for each of these individuals are the amounts by which the value of their annuities has increased since the end of fiscal year 2008. "Nonqualified deferred compensation earnings" is defined as above-market earnings on deferred income. There were no reportable amounts of non-qualified deferred compensation earnings for the named executive officers in 2009, with the exception of Mr. Corbett whose above-market earnings on deferred income is $106.

Column (i) For all executive officers listed, the 'All Other Compensation' category includes: financial planning services, Thrift Savings Plan employer matching contribution for FERS employees, non-cash awards, parking, physical examinations, life insurance premiums paid for by the Postal Service, airline clubs, and spousal travel. Security costs valued at $69,067 are also included for the Postmaster General. A relocation payment valued at $30,335 is also included for the Deputy Postmaster General. The amounts listed in this column for Mr. Corbett, Mr. Walker and Mr. Bernstock include the amounts these individuals received in TSP matching funds in FY09.

GRANTS OF PLAN-BASED AWARDS

The following table presents information regarding non-equity incentive grants to the named executive officers for fiscal year 2010. Whether executive officers receive an award and, if so, the amount for an award for fiscal year 2010 will depend on the Postal Service's and the individual's performance.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
		Threshold ($)	Target ($)	Maximum ($)
(a)	(b)	(c)	(d)	(e)
John E. Potter	October 2009	$ 14,817	$ 33,422	$ 104,445
Joseph Corbett	October 2009	$ 12,608	$ 28,440	$ 88,875
H. Glen Walker	N/A	-	-	-
Patrick P. Donahoe	October 2009	$ 13,406	$ 30,240	$ 94,500
Anthony J. Vegliante	October 2009	$ 12,821	$ 28,920	$ 90,375
Robert F. Bernstock	October 2009	$ 12,874	$ 29,040	$ 90,750

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

PENSION BENEFITS

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

Name	Plan name	Number of years credited service (#)	Present value of accumulated benefit ($)
(a)	(b)	(c)	(d)
John E. Potter	USPS Pension Benefit	n/a	$1,350,318
John E. Potter	CSRS Annuity	31 Years	$2,846,111
Joseph Corbett	FERS Annuity	1 Year	$ 11,785
H. Glen Walker	FERS Annuity	3 Years	$ 63,981
Patrick R. Donahoe	CSRS Annuity	34 Years	$2,840,108
Anthony J. Vegliante	CSRS Annuity	32 Years	$2,371,464
Robert F. Bernstock	FERS Annuity	1 Year	$ 38,236

Note: Column (d) Mr. Potter is the only USPS officer who also has a USPS Pension Benefit pursuant to contractual agreement. The amount in the first line in column (d) above for Mr. Potter is payable for his attainment of required performance objectives over the six-year period from June 2001 – June 2007 and was not based on Mr. Potter's years of service to the Postal Service. Since 2007, the Board has not continued the USPS Pension Benefit and has frozen the amount of that benefit. Instead, since that time, Mr. Potter has been eligible for a performance incentive each year if he meets required performance objectives. The above amount of USPS Pension Benefit will be paid to Mr. Potter in monthly installments during his lifetime after he leaves postal employment, with a survivor annuity equal to 55% of the amount payable to Mr. Potter. All officers, including Mr. Potter, are eligible for CSRS or FERS retirement benefits available to career employees of the Federal Government. These benefits are described in the Retirement Annuities section of this Compensation Discussion and Analysis. The present value of the accumulated CSRS or FERS benefit represents the value of the pension over the actuarial lifetime, as of September 30, 2009. Mr. Corbett, Mr. Walker and Mr. Bernstock participate in FERS and the other named executive officers participate in CSRS. The present value for Mr. Walker is calculated as of February 27, 2009, which was the end of his tenure as CFO. Mr. Potter and Mr. Donahoe are eligible for early retirement, the calculation of which is described in the Retirement Annuities section of the Compensation Discussion and Analysis. The valuations for Mr. Potter and Mr. Donahoe reflect reductions that would apply for early retirement, as neither of these individuals has reached the age required for optional retirement. The valuations for Mr. Corbett, Mr. Walker and Mr. Bernstock assume that they have satisfied vesting requirements for retirement; however, because of their short tenure with the Postal Service, their retirement annuities have not vested.

NONQUALIFIED DEFERRED COMPENSATION

The following table presents information regarding the contributions to and earnings on the named executive officers' deferred compensation balances during the fiscal year ended September 30, 2009, and also shows the total deferred amounts for the named executive officers as of September 30, 2009.

Name	Executive contributions in last FY ($)	Aggregate earnings in last FY ($)	Aggregate balance at September 30, 2009 ($)
(a)	(b)	(c)	(d)
John E. Potter	-	$28,323	$621,972
Joseph Corbett	$25,000	$ 734	$ 25,734
H. Glen Walker	-	-	-
Patrick R. Donahoe	-	$ 1,275	$ 29,495
Anthony J. Vegliante	-	$ 729	$ 15,126
Robert F. Bernstock	$50,000	$ 417	$ 50,417

Notes:
Column (b) The amounts in this column represent amounts deferred due to the compensation cap. The $0 amounts in column (b) reflect that no deferred contributions were made as no performance-based incentives were awarded for 2009. The amounts shown for Mr. Corbett and Mr. Bernstock reflect the amounts that have been deferred as a result of lump sum incentive compensation that was required to recruit and/or retain these individuals. These incentive amounts are contractually required.

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

Column (d) Mr. Potter's balance of $621,972 includes awards and performance incentives he earned in the 1990's before becoming Postmaster General, performance incentives he earned during the period from 2001 to 2008, and interest paid on these amounts. This total amount for Mr. Potter is payable in equal installments over a 10-year period after Mr. Potter's postal employment ends. The Deputy Postmaster General's aggregate balance at September 30, 2009 was increased by $500 due to the difference between the estimated and actual deferred amounts in 2008.

DIRECTOR COMPENSATION

Name	Fees earned or paid in cash ($)	All other compensation ($)	Total ($)
Carolyn Lewis Gallagher	$39,900	-	$39,900
Louis J. Giuliano	$39,900	-	$39,900
Mickey D. Barnett	$39,900	-	$39,900
James H. Bilbray	$40,200	-	$40,200
Alan C. Kessler	$37,800	-	$37,800
Thurgood Marshall, Jr.	$39,300	-	$39,300
James C. Miller III	$40,200	-	$40,200
Katherine C. Tobin	$37,400	-	$37,400
Ellen C. Williams	$37,800	-	$37,800

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

POTENTIAL PAYMENTS UPON TERMINATION

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

DEFERRED COMPENSATION

All federal employees, including Postal Service employees, are subject to annual compensation limits established pursuant to federal statutes and regulations. When amounts earned by federal employees cannot be paid because of these compensation limits, these payments are deferred until a year in which their payment would not cause an employee's total annual compensation to exceed the compensation limit, or the year in which an employee leaves federal service, whichever occurs first. Additionally, as described in the note accompanying the Pension Benefits table in the Compensation section of this report, the Postmaster General's employment agreement provides for performance-based incentive payments; these are also deferred. When the Postmaster General concludes his Postal Service employment, all deferred earnings, plus interest, will be paid to him in ten annual installments, beginning in the tax year after the tax year in which he ends his Postal Service employment. Had the Postmaster General terminated his Postal Service employment on September 30, 2009, his first annual payment derived from his deferred compensation, commencing in 2010 would have been $77,660 this annual installment would vary slightly thereafter, due to accumulated interest. In addition to the Postmaster General, named executive officers appearing in the Nonqualified Deferred Compensation table in the Compensation section of this report have deferred compensation in the amounts indicated therein. These amounts would have been paid to them in lump sums shortly following their departure, had they ended their Postal Service employment on September 30, 2009.

Mr. Corbett's employment agreement provides for deferred incentives linked in part to his performance. Mr. Corbett is eligible to begin accruing deferred compensation at the end of fiscal year 2010. When Mr. Corbett concludes his Postal Service employment, or on October 22, 2019, if that date is later than Mr. Corbett's departure from the Postal Service, his deferred compensation will be paid to him in three approximately equal annual installments.

SUPPLEMENTAL PENSION BENEFIT

As described in the note accompanying the Pension Benefits table in the Compensation section of this report, the Postmaster General's employment agreement provides for a Postal Service pension benefit. The Pension Benefits table reflects the present value of this accumulated benefit. Had the Postmaster General terminated his employment as of September 30, 2009, his annual Postal Service pension benefit would have amounted to $70,142.

SEVERANCE PAYMENT

Pursuant to his employment agreement, the Postmaster General is entitled to a monthly severance payment, which when added to his CSRS benefits and Postal Service pension benefit, will equal 1/12th of his annual salary at the date of the termination of his Postal Service employment. This benefit would continue for one year after the Postmaster General leaves his employment with the Postal Service. Had he terminated his employment as of September 30, 2009, the annual value of this benefit would have been $47,338. Mr. Corbett is entitled to a severance payment of $230,000, in the event the Postal Service terminates his employment for any reason other than for cause or breach of contract.

INSURANCE BENEFITS

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

As a federal retiree, Mr. Potter would be entitled to participate in the Federal Employees Health Benefits (FEHB) Program and the Federal Employees' Group Life Insurance (FEGLI) Program in the manner available to all qualifying federal employees. As of September 30, 2009, the one year severance period value of the Postal Service's contributions to cover the extra cost of retiree premiums for this insurance coverage would be $14,508.

OUTPLACEMENT ASSISTANCE

At the conclusion of his employment, the Postmaster General will be entitled to reasonable outplacement assistance by a provider selected by the Postal Service. This assistance may continue for up to two years from the date of the Postmaster General's separation from service. Had the Postmaster General separated from the Postal Service on September 30, 2009, the cost of this assistance for one year would have been $10,500. In the event a second year's outplacement assistance is necessary, its cost might be slightly higher.

ACCRUED ANNUAL LEAVE

All Postal Service employees are entitled to receive and accrue paid days off, known as annual leave. Upon their separation from the Postal Service, all postal employees, including the named executive officers, are entitled to be paid, in a lump sum, the value of all accrued annual leave. The table below shows the accrued value of the annual leave of the named executive officers, as of September 30, 2009.

Name	Value of accrued annual leave ($)
John E. Potter	$ 238,920
Joseph Corbett	$ 4,423
H. Glen Walker	$ 34,693
Patrick R. Donahoe	$ 143,879
Anthony J. Vegliante	$ 247,699
Robert F. Bernstock	$ 8,048

COMPENSATION COMMITTEE REPORT

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

The Compensation and Management Resources Committee

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation and Management Resources Committee, composed of Chairman Giuliano, Vice Chairman Williams, and Governor Gallagher, was responsible for making recommendations to the Governors with respect to compensation decisions. There are no Compensation Committee interlocks, and no Postal Service employee serves on the Compensation and Management Resources Committee.

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

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

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

We enter into significant transactions with other government agencies, as disclosed throughout these financial statements.

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

ITEM 14 — PRINCIPAL ACCOUNTANT FEES AND SERVICES

In 2002, the Board of Governors selected Ernst & Young LLP as its independent auditor to perform external auditing services. The competitively awarded five-year contract contained a renewal option of up to 3 years. The five-year contract has ended and we are now in the three-year option period. The option period has an estimated value of $26.5 million covering the financial statement audits for fiscal years 2008 - 2010. In October 2009, the contract was extended to February 2014 with 2 option years to February 2016. As with previous contracts for external audit services, Ernst & Young LLP will not perform consulting work for us for the duration of the contract. Fees for audit services totaled approximately $8.2 million in 2009 and approximately $5.9 million in 2008, including fees associated with the annual audit, including the reviews of the Postal Service's quarterly reports on Form 10-Q and preliminary testing of our internal control assessment in accordance with the Sarbanes Oxley Act.

Part IV
Financial Review

ITEM 15 — EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

In 2002, the Board of Governors selected Ernst & Young to audit the Postal Service's financial statements, together with the notes thereto. The report of Ernst & Young LLP dated November 16, 2009 is presented on page 48 of this Form 10-K. The financial statements included are the Statement of Operations, the Balance Sheets, the Statements of Changes in Net Capital (Deficiency), the Statements of Cash Flows and Notes to the Financial Statements.

1. FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm — page 48

Statements of Operations for the Years Ended September 30, 2009, 2008 and 2007 — page 49

Balance Sheets as of September 30, 2009 and 2008 — pages 50-51

Statements of Changes in Net (Deficiency) Capital for the Years Ended September 30, 2009, 2008 and 2007 — page 52

Statements of Cash Flows for the Years Ended September 30, 2009, 2008 and 2007 — page 53

Notes to Financial Statements — pages 54-66

2. FINANCIAL STATEMENT SCHEDULES

Operating Statistics from the Years Ended September 30, 2005 to 2009 — pages 67-70

Financial History Summary from the Year Ended September 30, 2005 to 2009 — page 71

Selected Quarterly Financial Data from The beginning of the year 2007 to 2009 — page 72

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

(A)(3) EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Employment/Compensation Contract of Postmaster General as of August 8, 2007 as amended November 25, 2008 (filed with the PRC on December 1, 2008, as Exhibit No. 10.1 to the Annual Report on Form 10-K for the year ended September 30, 2008).
10.2	Employment/Compensation Contract with President of Shipping and Mailing Services (filed with the PRC on August 11, 2008, as Exhibit No. 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
10.3	Employment/Compensation Contract with Chief Information Officer (filed with the PRC on May 8, 2008, as Exhibit No. 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
10.4	Employment/Compensation Contract with Chief Financial Officer (filed with the PRC on January 29, 2009, as Exhibit No. 10.1 to the Current Report on Form 8-K).
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.

Ernst & Young LLP
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McLean, VA 22102
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Report of Independent Registered Public Accounting Firm

The Board of Governors of the United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2009 and 2008, and the related statements of operations, changes in net (deficiency) capital, and cash flows for each of the three years in the period ended September 30, 2009. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the United States Postal Service's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the United States Postal Service's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2009, in conformity with US generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the United States Postal Service is required to make a $5.5 billion payment on September 30, 2010 pursuant to the 2006 Postal Accountability and Enhancement Act, Public Law 109-435. There is significant uncertainty as to whether the United States Postal Service will have sufficient liquidity to make this payment on September 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2009 on our consideration of the United States Postal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst & Young LLP

November 16, 2009

STATEMENTS OF OPERATIONS

(Dollars in millions)	Years Ended September 30, 2009	2008	2007
Operating revenue	$ 68,090	$ 74,932	$ 74,778
Operating expenses:			
Compensation and benefits	53,154	53,585	54,186
Retiree health benefits	3,390	7,407	10,084
Transportation	6,026	6,961	6,502
Other	9,260	9,785	9,333
Total operating expenses	71,830	77,738	80,105
Loss from operations	**(3,740)**	**(2,806)**	**(5,327)**
Interest and investment income	26	36	195
Interest expense	(80)	(36)	(10)
Net Loss	**$ (3,794)**	**$ (2,806)**	**$ (5,142)**

See accompanying notes to the financial statements

BALANCE SHEETS — ASSETS

	September 30, 2009	September 30, 2008
(Dollars in millions)		
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,089	$ 1,432
Receivables:		
Foreign countries	526	450
U.S. government	150	133
Other	177	187
Receivables before allowances	853	770
Less allowances	29	41
Total receivables, net	824	729
Supplies, advances and prepayments	138	193
Total Current Assets	**5,051**	**2,354**
Property and Equipment, at Cost:		
Buildings	22,859	21,907
Equipment	20,970	21,544
Land	2,995	2,968
Leasehold improvements	1,298	1,279
	48,122	47,698
Less allowances for depreciation and amortization	26,889	25,886
	21,233	21,812
Construction in progress	1,447	1,381
Total Property and Equipment, Net	**22,680**	**23,193**
Other Assets - Principally Revenue Forgone Receivable	**387**	**439**
Total Assets	**$ 28,118**	**$ 25,986**

See accompanying notes to the financial statements

BALANCE SHEETS — LIABILITIES AND NET (DEFICIENCY) CAPITAL

		September 30,		
		2009		2008
(Dollars in millions)				
Liabilities and Net (Deficiency) Capital				
Current Liabilities:				
Compensation and benefits	$	3,673	$	3,466
Payables and accrued expenses:				
Trade payables and accrued expenses		1,203		1,246
Foreign countries		470		435
U.S. government		207		85
Total payables and accrued expenses		1,880		1,766
Customer deposit accounts		1,347		1,449
Deferred revenue-prepaid postage		2,445		1,689
Outstanding postal money orders		640		698
Prepaid box rent and other deferred revenue		461		461
Debt		3,675		7,200
Total Current Liabilities		**14,121**		**16,729**
Noncurrent Liabilities:				
Workers' compensation costs		9,064		7,003
Employees' accumulated leave		2,225		2,208
Deferred appropriation and other revenue		457		525
Long-term portion capital lease obligations		544		587
Deferred gains on sales of property		305		312
Contingent liabilities and other		290		294
Long-term portion notes payable		6,525		-
Total Noncurrent Liabilities		**19,410**		**10,929**
Total Liabilities		**33,531**		**27,658**
Net (Deficiency) Capital				
Capital contributions of the U.S. government		3,087		3,034
Deficit since 1971 reorganization		(8,500)		(4,706)
Total Net (Deficiency) Capital		**(5,413)**		**(1,672)**
Total Liabilities and Net (Deficiency) Capital	$	**28,118**	$	**25,986**

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN NET (DEFICIENCY) CAPITAL

(Dollars in millions)	Capital Contributions of U.S. Government	Retained (Deficit) Earnings Since Reorganization	Total Net (Deficiency) Capital
Balance, September 30, 2006	$ 3,034	$ 3,242	$ 6,276
Net loss	-	(5,142)	(5,142)
Balance, September 30, 2007	3,034	(1,900)	1,134
Net loss	-	(2,806)	(2,806)
Balance, September 30, 2008	3,034	(4,706)	(1,672)
Additional Capital Contributions	53	-	53
Net loss	-	(3,794)	(3,794)
Balance, September 30, 2009	$ 3,087	$ (8,500)	$ (5,413)

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2009	2008	2007
(Dollars in millions)			
Cash flows from operating activities:			
Net Loss	$ (3,794)	$ (2,806)	$ (5,142)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,270	2,319	2,152
Loss (gain) on disposals of property and equipment and impairments, net	109	(16)	23
Decrease (increase) in appropriations receivable revenue forgone	52	(47)	2
Increase (decrease) in noncurrent workers' compensation liability	2,061	203	(69)
Increase in employees' accumulated leave	17	79	13
Decrease in noncurrent deferred appropriations and other revenue	(4)	(5)	(7)
(Decrease) increase in other noncurrent liabilities	(4)	(167)	281
Changes in current assets and liabilities:			
Receivables, net	(95)	30	80
Supplies, advances and prepayments	55	8	4
Compensation and benefits	207	(105)	347
Payables and accrued expenses	113	(302)	(93)
Customer deposit accounts	(102)	(50)	(148)
Deferred revenue-prepaid postage	756	547	(45)
Outstanding postal money orders	(58)	(149)	(38)
Prepaid box rent and other deferred revenue	(10)	22	37
Net cash provided by (used in) operating activities	1,573	(439)	(2,603)
Cash flows from investing activities:			
Decrease in restricted cash	-	-	2,958
Purchase of property and equipment	(1,839)	(1,995)	(2,715)
Proceeds from deferred building sale	6	4	218
Proceeds from sales of property and equipment	27	53	39
Net cash (used in) provided by investing activities	(1,806)	(1,938)	500
Cash flows from financing activities:			
Issuance of notes payable	7,000	4,500	1,000
Payments on notes payable	(4,500)	(1,000)	-
Net change in revolving credit line	500	(500)	1,100
Payments on capital lease obligations, net	(46)	(29)	(19)
U.S. government appropriations - expensed	(64)	(61)	(76)
Net cash provided by financing activities	2,890	2,910	2,005
Net increase (decrease) in cash and cash equivalents	2,657	533	(98)
Cash and cash equivalents at beginning of year	1,432	899	997
Cash and cash equivalents at end of year	$ 4,089	$ 1,432	$ 899
Supplemental cash flow disclosures:			
Interest paid	$ 43	$ 37	$ 9

See accompanying notes to the financial statements

Notes to the Financial Statements

NOTE 1 — DESCRIPTION OF BUSINESS

NATURE OF OPERATIONS

The United States Postal Service ("we" or "us") provides a variety of classes of mail service to the public, without undue discrimination among our many customers. This means that within each class of mail our price does not unreasonably vary by customer for the levels of service we provide. This fulfills our legal mandate to offer universal service at a fair price. We conduct our operations primarily in the domestic market, with international mail representing less than 4% of our total revenue.

Our services are divided into two broad categories: mailing services and shipping services, which account for 88% and 12% of our revenue, respectively. First-Class Mail and Standard Mail account for about 94% of our mail volume, while Priority Mail and Express Mail represent significant services we provide in our shipping category. The principal markets for our services are the communications, distribution, delivery, advertising, and retail markets. Our services are sold and distributed through over 36,000 Post Offices, stations, branches, contract postal units, and a large network of consignees.

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

By law, we also consult with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide an opportunity for nonbargaining employees in the field to participate directly in the planning, development, and implementation of programs and policies affecting managerial employees in the field.

POSTAL REORGANIZATION

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

The U.S. government-held equity in the former Post Office Department (POD) became our initial capital, with its assets valued at original cost less accumulated depreciation. The initial transfer of assets, including property, equipment, and cash, totaled $1.7 billion. Subsequent cash contributions and transfers of assets between 1972 and 1982 totaled approximately $1.3 billion. In 2009 we received 3,424 fuel efficient vehicles provided to us under the provisions of the American Reinvestment and Recovery Act. The excess of the fair value of the vehicles received over the vehicles traded-in was recorded as an additional non-cash capital contribution of $53 million. Total capital contributions of the U.S. government are $3.087 billion as of September 30, 2009. Although the U.S. government remains responsible for the liabilities attributable to operations of the Post Office Department (POD), The Balanced Budget Act of 1997 transferred the liability for POD workers' compensation costs to us.

The 2006 Postal Accountability and Enhancement Act, Public Law 109-435 (P.L. 109-435), made further reforms in the governance of the Postal Service. It also significantly altered some of our financial responsibilities, particularly with respect to the funding of Civil Service Retirement System (CSRS) benefits and retiree health benefits. Public Law 111-68, *Making appropriations for the Legislative Branch for the fiscal year ending September 30, 2010, and for other purposes* (P.L. 111-68) amended P.L. 109-435 by changing the required Postal Service payments to the Postal Service Retiree Health Benefits Fund (PSRHBF) for the year ended September 30, 2009 from $5.4 billion to $1.4 billion. This law affected 2009 payments only. See Note 10, Health Benefit Programs and Note 11, Retirement Programs, in the Notes to the Financial Statements for additional information.

We enter into significant transactions with other U.S. government agencies, as disclosed throughout these financial statements.

NOTE 2 — LIQUIDITY MATTERS

The Postal Service incurred net losses of $3,794 million, $2,806 million, and $5,142 million for the years ended September 30, 2009, 2008, and 2007. A significant portion of the loss in 2009 is attributable to an unprecedented decline in mail volume, which fell by 25.6 billion pieces, resulting in a $6,842 million or 9.1% decrease in revenue compared to 2008. Also contributing to the losses over these three years were significantly higher retiree health benefit costs pursuant to P.L. 109-435 and its requirement to fund the newly-created PSRHBF, contractually-mandated Cost of Living

Adjustments (COLAs), and record fuel prices for a substantial period in 2008.

The decline in mail volume is primarily a result of the widespread economic recession, although the long-term trend of hard copy correspondence and transactions being diverted to electronic media continues and has somewhat accelerated during the recession. Since peaking at 213 billion pieces in 2006, mail volume dropped 9.5 billion pieces in 2008 and an additional 25.6 billion pieces to 177 billion pieces in 2009. Volume is expected to drop a further 10-15 billion pieces in 2010 causing a revenue decline between $2.5 billion and $3.5 billion. It is possible that volumes and revenues could decrease at rates greater than these projections. Despite the effects of price increases in 2008 and 2009, revenues declined in 2009 by almost $7 billion compared to 2008. Revenue is expected to continue to decrease into 2010, and even with substantial cost reductions, our 2010 net loss is projected to be over $7 billion.

We experienced negative cash flow from operations for two of the past three years. In 2009, we reduced our PSRHBF payment by $4 billion due to the passage of P.L. 111-68. Had this reduction not been enacted, cash flow from operations would have been negative in 2009 as well. P.L. 111-68 does not affect the required $5.5 billion payment due on September 30, 2010.

We believe that, while there are sufficient cash flows for ongoing operations, there is considerable uncertainty as to whether we will have sufficient cash on September 30, 2010 to fund our required $5.5 billion PSRHBF payment. If we cannot fund this payment on September 30, 2010, we will experience a cash shortfall. There is also uncertainty as to what the legal and/or regulatory consequences would be to the Postal Service if we cannot fund this PSRHBF payment. We will continue to inform the Congress on our financial outlook and on legislative changes that would help ensure the availability of cash at year-end. However, there can be no assurance that adjustments to the PSRHBF payment schedule will be granted by September 30, 2010, or at all.

We can fund some of our obligations through increased debt. However, our annual net increase in debt is limited by statute to $3 billion, and our total outstanding debt is limited to $15 billion. We currently project net debt outstanding in 2010 to increase by $3 billion, but this may not be sufficient to fund our 2010 PSRHBF obligation. Moreover, if significant losses continue in 2011, the overall $15 billion debt limitation will likely be insufficient.

To meet these challenges, the Postal Service has, and continues, to take a number of actions to increase efficiency, reduce costs and generate new revenue. These actions include the 115 million workhour reduction and freeze on executive salaries in 2009, maximizing operational efficiencies, renegotiating contracts with major suppliers, halting construction of most new facilities and initiating revenue generation efforts utilizing the increased pricing flexibility available under P.L. 109-435. Although each of these efforts is expected to positively impact cash flow in 2010, they may not, individually, or in the aggregate, be sufficient to offset a possible September 30, 2010 cash shortfall.

In 2009, we requested Congress to consider two changes to the laws governing the Postal Service. First, we asked to restructure our payments for retiree health benefits. We also requested that Congress remove the annual appropriation bill rider, first added in 1983, that effectively requires the Postal Service to deliver mail six days each week. No savings are anticipated for 2010 from the proposed ability to adjust the six day delivery requirement, even if granted sometime during 2010. Multiple operational, contractual, and customer issues would need to be resolved before actual implementation of a five day delivery schedule. However, such important new flexibility could provide direct cost savings beginning in 2011.

As previously noted, the enactment of P.L. 111-68 did not reduce the $5.5 billion payment required on September 30, 2010 or address our longer term issue with the unsustainably large PSRHBF payment schedule. We continue to regularly update Congress regarding these financial issues.

Our ability to generate sufficient cash flows to meet obligations is substantially dependent on the strength and speed of the economic recovery and on our ability to execute strategies to increase efficiency, reduce costs and retain and grow revenue. In addition, restructuring of the PSRHBF payment schedule may be necessary. However, no assurance can be given that our efforts will be successful or that Congress will enact additional legislation in 2010 in time to impact 2010, or at all.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND USE OF ESTIMATES

We conform to accounting principles generally accepted in the United States (GAAP) and maintain our accounting records and prepare financial statements on the accrual basis of accounting. Following these principles, we make estimates and assumptions that affect the amounts reported in the Financial Statements and Notes. Actual results may differ from estimates.

Basis of Presentation

These financial statements reflect the audited results of operations of the United States Postal Service for the years ended September 30, 2009, 2008 and 2007 and our financial position as of September 30, 2009 and 2008. All references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2009 and 2008. We have evaluated all subsequent events through November 16, 2009, the same date that the financial statements were issued.

Segment Information

Although the law divides our services into market-dominant and competitive categories, and we track revenues by category and mail class, we operate one fully-integrated network. We operate in one segment throughout the United States, its possessions and territories.

Reclassifications

Certain comparative prior year amounts related to fixed assets and payables that are immaterial to the financial statements and accompanying notes have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported operating income and net income.

Cash and Cash Equivalents

We consider securities that mature within 90 days or less from the date that we buy them to be cash equivalents.

Included in Cash and cash equivalents are funds designated to be used for law enforcement purposes and consumer awareness for fraud prevention. The amounts designated at the end of 2009 and 2008 were $126 million and $122 million, respectively.

Allowance for Doubtful Accounts

We provide an allowance for doubtful accounts on outstanding receivables based on our collection history and an estimate of uncollectible accounts.

Allowance for Doubtful Accounts (Dollars in millions)	2009	2008	2007
Beginning Balance	$ 41	$ 44	$ 48
Provision for Doubtful Accounts	6	7	12
Writeoffs	18	10	16
Ending Balance	**$ 29**	**$ 41**	**$ 44**

Supplies and Repair Parts

Supplies and repair parts consist of repair parts for mail processing equipment. We value these at average cost. Total supplies and repair parts were $95 million at the end of 2009 and $112 million at the end of 2008. A majority of our motor vehicle spare parts are supplied through consignment agreements.

Property and Equipment

We record property and equipment at cost, including interest paid on the money we borrow to pay for the construction of major capital additions. See Note 7, Property and equipment, in the Notes to the Financial Statements for additional information.

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

Deferred Gains on Sales of Property

We account for deferred gains on sales of property under the provisions of ASC 360 (formerly FAS 66, *Accounting for Sales of Real Estate*). These gains will be recognized and the assets will be removed from our accounting records once the leases and other continuing involvement in the properties have expired

The total amount of deferred gains recognized in income was $11 million in 2009, $44 million in 2008 and was immaterial in 2007.

Impaired Assets

We record losses on long-lived assets when events or circumstances indicate that the assets might be impaired. To meet our universal service requirement, we maintain real estate and certain other assets that are not fully utilized. As a result, we do not consider assets impaired solely based on volume of activity. Assets are evaluated for impairment when no longer required to provide mailing services. In accordance with ASC 360 (formerly FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*), we write down impaired assets to the lower of cost or fair value. If an asset is deemed impaired, fair value is determined by comparison to appraisals for real property. Due to the absence of a market for most types of equipment, impaired equipment assets are assigned a fair value of zero. See Note 7, Property and equipment, in the Notes to the Financial Statements for additional information.

ASSET RETIREMENT OBLIGATIONS

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

AMORTIZATION OF LEASEHOLD IMPROVEMENTS

We amortize leasehold improvements over the period of the lease or the useful life of the improvement, whichever is shorter.

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

FOREIGN CURRENCY TRANSLATION

We have foreign currency risk related to settlements with foreign postal administrations for international mail. The majority of our international accounts are denominated in special drawing rights (SDRs). The SDR exchange rate fluctuates daily based on a basket of currencies comprised of the euro, Japanese yen, pound sterling, and the U.S. dollar. Changes in the relative value of these currencies will increase or decrease the value of our settlement accounts and result in a gain or loss from revaluation that is reported in the results from operations. The actual currency used to settle accounts varies by country. The impacts on our financial statements from foreign currency fluctuations were insignificant for 2009, 2008, and 2007.

OUTSTANDING POSTAL MONEY ORDERS

We sell money orders to the general public at our retail locations. We charge a fee to the customer at the time of sale. The fee is recognized as revenue at the time of sale. We recognize a liability for money orders we expect to be presented for payment.

REVENUE RECOGNITION/DEFERRED REVENUE-PREPAID POSTAGE

We recognize revenue when services are rendered. Because we collect payment in advance of services being performed, we defer the revenue until the services are performed. This is classified as a liability, *Deferred revenue-prepaid postage*, on our balance sheets. In Quarter III of 2008, we changed our methodology used to estimate the deferred revenue for prepaid postage for stamps. We further refined this methodology in Quarter IV of 2009 to reflect additional information in customer usage patterns of both Forever and denominated stamps demonstrated by newly-available data..

Both updates were made necessary because the introduction of the Forever Stamp in April 2007, combined with the May 2008 price increase, resulted in a change in consumer behavior regarding the purchase and usage of stamps that was not directly measurable using the prior estimation techniques. In 2008, we enhanced our approach that more accurately captured trends in stamp usage. In 2009, based on newly-available data, we refined this estimation model to allow us to better estimate consumer behavior patterns for the purchase and use of stamps. The 2008 change to an enhanced estimation technique and the 2009 refinement are both considered to be changes in accounting estimate under GAAP.

As required by ASC 250 (formerly FAS 154, *Accounting Changes and Error Corrections*), the impacts of the changes were recorded in the Quarter which the estimations were made: Quarter IV of 2009 and Quarter III of 2008.

For the year ended September 30, 2009, we increased the stamp portion of the deferred revenue-prepaid postage liability by $846 million, $655 million of which is considered a change in estimate that is attributable to changes in consumer behavior that were not identifiable based on data available previously.

For the year ended September 30, 2008, we increased the stamp portion of the deferred revenue-prepaid postage liability by $477 million, $230 million of which is considered a cumulative change in estimate and $247 million of which is attributable to changes in consumer behavior during the last two quarters of the year.

ADVERTISING EXPENSES

Advertising costs are expensed as incurred and are classified in other operating expenses. Advertising expenses were $105 million in 2009, $106 million in 2008, and $121 million in 2007.

COMPENSATION AND BENEFITS PAYABLE

Compensation and benefits payable are the salaries and benefits we owe to current and retired employees, including the amounts employees have earned but have not yet been paid, current workers’ compensation, unemployment costs, and health benefits.

WORKERS’ COMPENSATION

We pay for workers’ compensation costs under a program administered by the Department of Labor (DOL). These costs include employees’ medical expenses, compensation for wages lost, and DOL administrative fees. We record these costs as an operating expense. See Note 12, Workers' compensation, in the Notes to the Financial Statements for additional information.

RETIREE BENEFITS

Our employees are eligible to participate in the federal government retirement programs, including pension and retiree health benefits. We are required to provide funding for those plans as determined by the administrator of the plan, the Office of Personnel Management (OPM). We cannot direct the costs, benefits, or funding requirements of these federally-sponsored plans. In accordance with our parent-subsidiary type relationship with the federal government, we account for our participation in these plans using multiemployer plan accounting rules in accordance with ASC 715 (formerly FAS 87, *Employers' Accounting for Pension Costs* and formerly *FAS 106, Employers' Accounting for Postretirement Benefits Other than Pensions*). We account for the cost of our employees' participation in these programs as an expense in the period our contribution is due and payable. These amounts can fluctuate significantly from year to year if changes in funding requirements are made. As more fully described in Note 5, Subsequent Events, Note 10, Health benefit programs, and Note 11, Retirement programs, in the Notes to the Financial Statements. P.L.109-435 and P.L 111-68 significantly impacted our costs associated with these programs.

REVENUE FORGONE APPROPRIATION

Revenue Forgone is an appropriation from Congress which covers the cost of providing mailing services to statutorily-designated groups at free or reduced rates. The amount of expense estimated by the Postal Service is submitted to Congress annually. Congress subsequently approves or alters the amount and funds the necessary appropriation. See Note 14, Revenue forgone, in the Notes to the Financial Statements for additional information.

EMERGENCY PREPAREDNESS APPROPRIATION

Emergency preparedness appropriations were received from Congress to help pay the costs of keeping the mail, postal employees, and postal customers safe, and are restricted for such use. These funds were accounted for as deferred revenue upon receipt and were largely utilized to procure capital equipment. We recognize revenue for emergency preparedness appropriations at the same time we recognize depreciation expense for capital equipment purchased with these appropriations. The emergency preparedness appropriations revenue recognized during the years ended September 30 was $64 million in 2009, $61 million in 2008, and $76 million in 2007.

Appropriations that have not been recognized as revenue during the years ended September 30 were $486 million in 2009 and $550 million in 2008. The current portion is included in prepaid box rent and other deferred revenue, and the long-term portion is in deferred appropriations and other revenue on our balance sheets.

NOTE 4 — RECENT PRONOUNCEMENTS

New accounting rules and disclosure requirements can impact our results and the comparability of our financial statements. The following new accounting pronouncements are relevant to the readers of our financial statements.

ASC 820 (formerly FAS 157, *Fair Value Measurements)*
We adopted ASC 820 which provides a common definition of fair value, establishes a uniform framework for measuring fair value and requires expanded disclosures about fair value measurements in 2009. See Note 13, Fair Value Measurements, for details. The adoption of ASC 820 did not have a material impact on our financial statements.

ASC 855 (*formerly FAS 165, Subsequent Events*)
We adopted ASC 855 in Quarter III of 2009. ASC 855 establishes the accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, specifically, whether that date represents the date the financial statements were issued or were available to be issued. See Note 1, "Basis of Presentation" for the related disclosures. The adoption of ASC 855 did not have a material impact on our financial statements.

ASC 105 (formerly, FAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*)
ASC 105 establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification", as used in this report "ASC") is the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC), which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification became nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We began using the new guidelines and numbering system prescribed by the

Codification when referring to GAAP in our Form 10-K Report for 2009. As the Codification was not intended to change or alter existing GAAP, it does not have any impact on our consolidated financial statements.

NOTE 5 — SUBSEQUENT EVENTS

On October 1, 2009, the President signed P.L. 111-68. This law, which was made retroactive to December 20, 2006, amended P.L. 109-435 by changing the required Postal Service payments to the PSRHBF for the year ended September 30, 2009 from $5.4 billion to $1.4 billion. Although the legislation was passed by Congress on September 30, 2009, it did not become law until the President signed it on October 1, 2009, one day after our year end. As evidenced by its inclusion in the continuing resolution that was necessary to keep the government operating, both houses of Congress and the President had agreed to the provision prior to our fiscal year end, and had intended for the adjustment to be a 2009 event. The Office of Personnel Management, to whom the PSRHBF payment was owed, had adjusted their expected payment to $1.4 billion at September 30, 2009. Accordingly, we have determined that the adjustment to the September 30, 2009 required payment (and related expense) should be recorded as a subsequent event, in accordance with ASC 855 (formerly FAS 165, *Subsequent Events*). Therefore, the impact of this legislation is reflected as a reduction in expense in our 2009 financial statements and footnotes. The legislation affected only 2009 and is therefore not necessarily indicative of the amount of likely future PSRHBF payments. See Note 10, Health benefit programs, in the Notes to the Financial Statements for additional information.

NOTE 6 — DEBT AND RELATED INTEREST

BORROWING LIMITS AND DEBT

Under the Postal Reorganization Act, as amended by Public Laws 101-227 and 109-435, we can issue and sell debt obligations. However, at year-end we are limited to net annual increases of $3 billion in our debt. Our total debt cannot exceed $15 billion.

The fair value of our debt is what it would cost to pay off the debt if we used the current yield on equivalent U.S. Treasury notes. At year-end, the current estimated value of our debt is $10,194 million. See Note 13, Fair Value Measurement, for more information.

NOTE PURCHASE AGREEMENTS

Our note purchase agreements with the Federal Financing Bank provide for revolving credit lines of $4 billion. These credit lines enable us to draw up to $3.4 billion with two days' notice, and up to $600 million on the same business day the funds are needed. Under these agreements we can also use a series of other notes with varying provisions to draw upon with two days' notice. The notes provide us the flexibility to borrow short-term or long-term, using fixed or floating-rate debt, and can be either callable or non-callable.

All debt is unsecured and is not subject to sinking fund requirements. Aggregate debt maturities at year-end 2009 were: $3,675 million in 2010; zero for 2011, 2012 and 2013; $300 million for 2014 and $6,225 million thereafter.

Debt consists of the following:

Interest Rate %	Debt Type	Maturity Date	September 30, 2009	September 30, 2008
(Dollars in millions)				
NOTES PAYABLE TO THE FEDERAL FINANCING BANK (FFB) [1]:				
2.035%	Fixed rate note-Payable at Maturity	January 31, 2014	$ 300	$ -
2.844%	Fixed rate note-Payable at Maturity	May 2, 2016	300	-
3.048%	Fixed rate note-Payable at Maturity	November 15, 2018	500	-
3.296%	Fixed rate note-Payable at Maturity	February 15, 2019	700	-
3.704%	Fixed rate note-Payable at Maturity	May 15, 2019	1,000	-
3.513%	Fixed rate note-Payable at Maturity	May 15, 2019	500	-
3.770%	Fixed rate note-Payable at Maturity	May 17, 2038	200	-
3.790%	Fixed rate note-Payable at Maturity	February 15, 2039	1,000	-
0.184%	Floating Rate Note[2]	November 15, 2042	500	-
0.271%	Floating Rate Note[3]	June 15, 2043	500	-
0.216%	Floating Rate Note[4]	December 15, 2042	1,025	-
0.155%	Floating Rate Note	October 15, 2009	475	-
0.145%	Short-term revolving credit line [5]	[6]	3,200	2,700
0.905%	Fixed rate note-Payable at Maturity	December 11, 2008	-	2,500
0.485%	Fixed rate note-Payable at Maturity	December 18, 2008	-	2,000
			$ 10,200	$ 7,200
Less Current Portion			3,675	7,200
			$ 6,525	$ -

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

[2] *Floating Rate Note-Payable November 15, 2042; repurchasable at par November 16, 2009 and every February 15, May 15, August 15, and November 15 thereafter.*

[3] *Floating Rate Note-Payable June 15, 2043; repurchasable at par December 15, 2009 and every March 15, June 15, September 15, and December 15 thereafter.*

[4] *Floating Rate Note-Payable December 15, 2042; repurchasable at par December 15, 2009 and every March 15, June 15, September 15, and December 15 thereafter.*

[5] *Weighted Average interest rate; as of September 30th, 2008 was 0.271%.*

[6] *Funds are typically borrowed overnight. Our lines of credit extend through April 30, 2010 and May 8, 2009, respectively, for these notes.*

NOTE 7 — PROPERTY AND EQUIPMENT

SALE OF MAJOR FACILITY

In 2009 and 2008, there were no sales of any major facilities.

On March 30, 2007, we sold the James A. Farley building in New York City to the Empire State Development Corporation (ESDC), for $190 million and additional proceeds of up to $55 million, contingent upon the achievement of certain development and leasing criteria by the developer of the property. The Postal Service continues to conduct retail and carrier operations at this facility under the terms of an interim lease with a 2009 annual rental of $5.5 million. Once the carrier operations are relocated to other facilities, we will continue to conduct retail and some administrative functions in a smaller portion of the building under a 99-year lease, with a rental fee of $1 for the lease term. The Postal Service has an option to require the building owner to change the legal structure of the building ownership into condominium units, with the Postal Service being given the right to purchase the space subject to the 99-year lease.

We accounted for the transaction under the deposit method under the provisions of ASC 360 (formerly FAS 66*, Accounting for Sales of Real Estate*). The gain will not be recognized and the asset will not be removed from our accounting records until the lease and other continuing involvement in the building have expired. In conjunction with this sale, from the funds ESDC paid us, $10 million was set aside for an environmental clean-up fund. Our environmental liability is limited to $10 million and is included on our balance sheet under trade payables and other accrued expenses.

In October 2009, we executed an amendment to our March 2007 lease agreement. The amendment reduces our leased space from 883,150 square feet to 213,930 square feet and reduces our annual rental payment to an average of $1.6 million per year through 2014, at which time we will occupy our permanent space under the 99-year lease referenced above.

IMPAIRED ASSETS

Assets that were written down due to impairment in accordance with ASC 360 (formerly FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) were $71 million in 2009 and was immaterial in 2008 and recorded in our Statement of Operations under the heading "Other". The majority of the impairments in 2009 related to a project under development that was cancelled prior to implementation.

ASSETS HELD FOR SALE

Assets held for sale are classified in accordance with ASC 360 (formerly FAS 144), and are immaterial to the total fixed asset balance in 2009 and 2008.

INTEREST CAPITALIZATION

Capitalized interest was not material in 2009. There was no interest capitalized in 2008 or 2007.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to expense as incurred. This expense amounted to $703 million in 2009, $711 million in 2008, and $665 million in 2007.

NOTE 8 — LEASES AND OTHER COMMITMENTS

LEASES

At September 30, 2009, our future minimum lease payments for all noncancelable leases are as follows.

Lease Obligations	Operating	Capital
(Dollars in millions)		
2010	$ 762	$ 99
2011	709	97
2012	639	99
2013	578	93
2014	519	87
After 2014	4,339	441
Total Lease Obligations	**$ 7,546**	**$ 916**
Less: Interest		325
Total Capital Lease Obligations		**591**
Less: Short-term portion of capital lease obligations		47
Long-term portion of capital lease obligations		**$ 544**

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain non-cancelable real estate leases give us the option to purchase the facilities at prices specified in the leases.

Capital leases included in buildings were $909 million in 2009 and $916 million in 2008. Total accumulated amortization is $474 million in 2009 and $419 million in 2008. Amortization expense for assets recorded under capital leases is classified as depreciation expense, which is included in other operating expenses in the Statements of Operations.

Our total rental expense for the years ended September 30 is summarized as follows.

Rental Expense	2009	2008	2007
(Dollars in millions)			
Non-cancelable real estate leases including related taxes	$ 992	$ 967	$ 927
Facilities leased from GSA subject to 120-day cancellation	43	44	46
Equipment and other short-term rentals	294	294	261
Total Rental Expense	**$ 1,329**	**$ 1,305**	**$ 1,234**

CAPITAL COMMITMENTS

At September 30, 2009, we estimate our financial commitment for approved capital projects in progress (resources on order) to be $1,809 million, detailed in the following table.

Capital Resources on Order	2009
(Dollars in millions)	
Mail Processing Equipment	$ 1,072
Building Improvements	412
Postal Support Equipment	195
Construction and Building Purchase	92
Retail Equipment	33
Vehicles	5
Total Capital Resources on Order	**$ 1,809**

EXPENSE COMMITMENTS

In the normal operating of our business, we enter into commitments for expense contracts. The contracts run for periods from one to ten years. Although these contracts contain clauses for termination by the Postal Service, we normally would have early termination costs. As these arrangements qualify as executory contracts, the obligations are not recognized by us in the financial statements until we receive the related goods and services.

Expense commitments are classified as miscellaneous, inventory, and research and development. Our miscellaneous expense commitments include contracts for supplies, services, communications, repairs, research, printing and advertising. Our inventory contracts are for vehicle repair parts and mechanized equipment spare parts. These are summarized in the following table.

Expense Resources on Order	2009
(Dollars in millions)	
Miscellaneous Contracts	$ 4,879
Inventory Contracts	124
Research and Development Contracts	41
Total Expense Resources on Order	**$ 5,044**

In addition, P.L. 109-435 mandates annual payments, due each September 30, into the PSRHBF. These payments are listed in the following table.

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

As discussed in Note 2– Liquidity Matters, we believe that, while there are sufficient cash flows for ongoing operations, there is considerable uncertainty as to whether we will have sufficient cash on September 30, 2010 to fund our required $5.5 billion PSRHBF payment.

NOTE 9 — CONTINGENT LIABILITIES

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

Each quarter, we review significant new claims and litigation for the probability of an adverse outcome. If a claim is deemed "probable" for an unfavorable outcome and the amount of settlement is estimable, we record a liability. Each quarter, we also review and adjust any prior contingencies for settlements, or revisions to prior estimates. No individual claim is material to our financial statements when taken as a whole. The following table summarizes contingent liabilities provided for in our financial statements.

Contingent Liabilities	2009	2008
(Dollars in millions)		
Labor	$ 174	$ 318
Equal Employment Opportunity	52	45
Environmental	40	40
Tort	35	32
Contractual	-	1
Total Contingent Liabilities	**$ 301**	**$ 436**

We believe that adequate provision has been made for probable liabilities from claims and suits. The current portion of this liability at September 30, 2009, of $86 million is included on the balance sheets under the heading "Trade payables and accrued expenses". On September 30, 2008, this amount was $198 million. The long-term portion at September 30, 2009, of $215 million is accrued under the heading, "Noncurrent Liabilities, Contingent liabilities and other" in our balance sheet. On September 30, 2008, the long-term liability was $238 million.

We also have other claims and lawsuits which we deem reasonably possible of an unfavorable outcome which range from $1.2 billion to $1.4 billion. No provisions for these are included in our financial statements.

NOTE 10 — HEALTH BENEFIT PROGRAMS

CURRENT EMPLOYEES

Substantially all of our career employees are covered by the Federal Employees' Health Benefits Program (FEHBP). OPM administers the program and allocates the cost of the program to the various participating government agency employers. We cannot direct the costs, benefits, or funding requirements of the federally sponsored plan, and therefore account for these costs using multiemployer plan accounting rules.

Our portion of the cost is based upon the weighted average premium cost of the various employee coverage choices and the specific coverage choices made by our employees. Our employees paid approximately 19% of the premium costs in 2009, 18% in 2008 and 17% in 2007. We paid the remainder of employee health care expense, which was $5,294 million in 2009, $5,376 million in 2008, and $5,401 million in 2007.

RETIREES

Employees who participate in the FEHBP for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. The Omnibus Budget Reconciliation Act of 1990 requires us to pay the employer's share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retire on or after July 1, 1971. However, we do not include the costs attributable to federal civil service before that date.

In 2006, P.L. 109-435 created the Postal Service Retiree Health Benefits Fund (PSRHBF), which is held by the U.S. Treasury and controlled by OPM but funded by the Postal Service. P.L.109-435 established a ten-year schedule of Postal Service payments into the fund that averaged $5.6 billion per year. However, for 2009, this payment was decreased from $5.4 billion to $1.4 billion due to the enactment of P.L. 111-68. See Note 5 — Subsequent events for more information. Although P.L. 109-435 dictates the funding requirements through 2016, the amounts to be funded and the timing of funding can be changed at any time with passage of a new law or an amendment of existing law as passed by Congress and signed into law by the President.

These annual payments are additional to our regularly allocated cost of premiums for current retirees, which continue to be payable through 2016. After completion of the scheduled annual payments in 2016, OPM will perform an actuarial valuation and determine whether any further payments into the PSRHBF are required. We paid $1.4 billion into the PSRHBF in 2009 and $5.6 billion in 2008. Beginning in 2017, our share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF.

P.L.109-435 repealed the escrow provisions of P.L.108-18, which required us to place into an escrow account by September 2006, any "savings" from the change in the retirement provisions created by P.L.108-18. OPM calculated the savings at $2,958 million as of September 30, 2006. P.L.109-435 required that we pay the 2006 escrowed "savings" to the PSRHBF. In 2007, we expensed the entire amount payable to the PSRHBF. On April 6, 2007, these "savings" were transferred to the PSRHBF.

Total retiree health benefits expenses were $3,390 million in 2009, $7,407 million in 2008 and $10,084 million in 2007. Because of the subjectivity in the determination of the amounts to be paid into the PSRHBF, our retiree health expense may not represent the full cost of the benefits earned by USPS employees. These costs are reflected as Retiree health benefits in our Statements of Operations.

NOTE 11 — RETIREMENT PROGRAMS

PENSION PROGRAMS

Our employees participate in one of three pension programs based upon the starting date of their employment with the federal government. Employee and employer contributions are made to the Civil Service Retirement System (CSRS), the Dual Civil Service Retirement System/Social Security (Dual CSRS), or the Federal Employees Retirement System (FERS), all of which are administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan (TSP), which is a defined contribution retirement savings and investment plan. Postal Service employees are authorized to participate in the TSP by the Federal Employees Retirement System Act of 1986. The TSP is administered by the Federal Retirement Thrift Investment Board.

CSRS

Under the Postal Reorganization Act, officers and career employees hired prior to January 1, 1984 are covered by the Civil Service Retirement System, which provides a basic annuity toward which we and the employee contribute at rates prescribed by law. Effective October 14, 2006, P.L.109-435 suspends the obligation of making employer contributions for CSRS employees' retirement until 2017. At that time, OPM will perform an actuarial valuation and determine whether additional payments are necessary. We do not match TSP contributions for employees who participate in CSRS.

Dual CSRS

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

FERS

Effective January 1, 1987, officers and career employees hired since December 31, 1983, are covered by the Federal Employees Retirement System Act of 1986, except for those covered by Dual CSRS. Also included are employees formerly covered by

CSRS who elected in 1987, 1988, and 1998 to participate in FERS.

FERS consists of Social Security, a basic annuity plan, and TSP. We and the employee contribute to Social Security and the basic annuity plan at the rate prescribed by law. In addition, we are required to contribute to TSP a minimum of 1% per year of the basic pay of employees covered by this system. We also match a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of a contribution between 3% and 5% of basic pay.

EMPLOYEE / EMPLOYER CONTRIBUTIONS

For the last three years, employer contributions, as a percentage of employee basic pay were 11.2% for FERS and zero for CSRS and Dual CSRS. Employee contributions for the past three years, as a percentage of employee basic pay were 7.0% for CSRS and 0.8% for Dual CSRS and FERS.

The number of employees enrolled in each of the retirement plans at the end of 2009, 2008, and 2007 is as follows.

Retirement Enrollment by Program	2009	2008	2007
(Actual numbers)			
CSRS	**110,024**	**130,126**	**144,034**
Dual CSRS	**5,947**	**7,128**	**7,716**
FERS	**507,157**	**525,984**	**533,012**
Total Enrollment	**623,128**	**663,238**	**684,762**

EXPENSE COMPONENTS

The following table lists the components of our total retirement expenses that are included in compensation and benefits expense in the Statements of Operations for 2009, 2008, and 2007.

Retirement Expense	2009	2008	2007
(Dollars in millions)			
FERS	$ 2,962	$ 2,909	$ 2,771
Social Security	1,882	1,932	1,904
FERS Thrift Savings Plan	1,073	1,058	1,007
CSRS	-	-	52
Total Retirement Expense	**$ 5,917**	**$ 5,899**	**$ 5,734**

Employer cash contributions to retirement plans were $4,024 million in 2009, $3,936 million in 2008, and $3,889 million in 2007. These amounts do not include Social Security contributions.

NOTE 12 — WORKERS' COMPENSATION

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

Our liability at September 30, 2009, represents the estimated present value of the total amount we expect to pay in the future for postal workers injured through the end of 2009. The estimated total cost of a claim is based upon the date of injury, pattern of historical payments, frequency and severity of the injuries and the expected trend in future costs. We update discount and inflation rates assumptions quarterly, starting in Quarter III, 2009.

We estimated our total liability for future workers' compensation payments to be $10,133 million at the end of 2009 and $7,968 million at the end of 2008. The payout period for this liability will, for some claimants currently on the rolls, be for the rest of their lives.

Our liability estimate of $10,133 million at September 30, 2009 reflects an increase of $1,051 million compared to 2008 due solely to a change in the timing of the annual payment to Department of Labor (DOL) for claims paid on our behalf. Beginning in 2009, we are making the payment on the statutorily-required deadline of October 15, instead of September 15 as we had done in previous years.

The liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease our estimate of the liability by approximately $818 million. A decrease of 1% would increase our estimate of the liability by approximately $981 million.

We implemented a revised actuarial model to calculate our workers' compensation liability at September 30, 2008. The revised model explicitly projects the estimated cost to resolve the most recent 10 injury years. We continue to rely on an independent actuarial consulting firm to perform an actuarial valuation on injuries occurring more than 10 years in the past.

Our model estimates the liability for the most recent 10 years using the paid loss development method, two frequency/severity methods, and an expected unpaid method. The paid loss development method estimates the liability based on the historical pattern of payments observed over many years. The frequency/severity methods estimate the liability by considering not only the cost, but the number of claims payments over many years. The frequency/severity methods require that we make explicit assumptions about the future changes in the average payment amounts due to inflation or other cost increases. The expected unpaid method estimates the liability by giving weight to both the expected development from the paid loss development method and the estimated ultimate value from the frequency/severity method. For injuries occurring more than 10 years in the past, an estimate of the ultimate liability is prepared by an independent actuary and incorporated into our model. All of the methods used in calculating the 2009 and 2008 workers' compensation liability are generally accepted actuarial techniques and are valid for estimating a liability such as ours.

We review the inflation and discount rates used to determine the present value of estimated future workers' compensation payments on a quarterly basis. Separate analyses of the appropriate inflation rates for the medical and compensation portions of the liability are performed, utilizing forecasts of medical inflation and inflation in the general economy, and forecasted rates of return on baskets of Treasury securities of varying durations. The assumptions used to calculate the compensation claims liability in 2009 are a discount rate of 4.9% and wage inflation of 3.2%. For medical claims, we used a 4.4% discount rate and 3.8% for medical inflation. In 2008, we used a discount rate of 5.6% for compensation claims and wage inflation of 3.0%. For medical claims, we used 5.4% for the discount rate and 5.0% for medical inflation.

The results of annual actuarial update and discount and inflation rates on the model are as follows:

Workers' Compensation Liability	Current rates	Previous rates	Difference
(Dollars in millions)			
Compensation Claims Liability	$ 6,792	$ 6,322	$ 470
Medical Claims Liability	3,233	2,985	248
Total Workers' Compensation Liability	**$ 10,025**	**$ 9,307**	**$ 718**

The $718 million increase in the estimated workers' compensation liability is primarily the combined result of changes in the discount and inflation rates in 2009.

In 2008, the independent actuary changed their model calculating our liability related to injuries occurring more than 10 years in the past by increasing the length of the period of our past claim payment experience used as a basis to project future claim payments. This change decreased our liability for 2008 by approximately $154 million.

In 2009, we recorded $2,223 million in workers' compensation expense, compared to $1,227 million recorded in 2008 and $880 million recorded in 2007. The effects of the changes in assumptions are accounted for as changes in accounting estimate in the period of the related change, as defined by GAAP.

In addition to the cost of workers' compensation claims, DOL charges us an administrative fee for processing claims. In 2009, the administrative fee, which is included in the expense above, was $55 million, compared to $52 million in 2008, and $49 million in 2007.

NOTE 13 — FAIR VALUE MEASUREMENT

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

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

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

The following sections describe the valuation methodologies we use to measure different instruments at fair value. There has been no impact to the statements of operations or the statements of cash flows related to the adoption of ASC 820.

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

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

No active market exists for FFB debt. Therefore, we estimate the fair value of our long-term debt, using prices given to us by FFB, a level 3 input.

Fair Value of Long-Term Financial Assets
(Dollars in millions)

	September 30, 2009		September 30, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue Forgone	$ 344	$ 462	$ 349	$ 458
Total Long-Term Financial Assets	$ 344	$ 462	$ 349	$ 458
Debt	$ 6,525	$ 6,519	$ -	$ -
Total Long-Term Financial Liabilities	$ 6,525	$ 6,519	$ -	$ -

The reconciliation of level 3 inputs is shown below:

Reconciliation of Fair Value of Level 3 Instruments
(Dollars in millions)

Debt	
Balance at September 30, 2008	$ -
Unrecognized gain	(6)
Additions	6,525
Balance at September 30, 2009	$ 6,519

Non-financial Items Measured at Fair Value on a Nonrecurring Basis — Non-financial assets such as property, plant, and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. We performed impairment analyses in each quarter of 2009. In Quarter IV 2009, we identified and recorded an impairment of $71 million of property, plant, and equipment.

NOTE 14 — REVENUE FORGONE

Operating revenue includes accruals for revenue forgone. Revenue is forgone when Congress mandates that we provide mail services for designated mailers at free or reduced rates. Congress then appropriates money to reimburse us for the revenue that we have forgone in providing these services.

We estimate the amount of services that will be provided during a given year and forward a funding request to Congress. At the end of the year we reconcile this request with the actual usage. Depending upon whether actual usage is higher or lower than our estimate, we will request additional funding or return the excess funding via a reduction to our next revenue forgone funding request.

During 2009, we recognized $71 million, including $24 million of imputed interest in revenue from the appropriations, compared to $128 million, including $25 million of imputed interest during 2008. In 2007, we recognized $88 million, including $25 million of imputed interest. We record requested amounts as government receivables until the appropriations are received.

The Revenue Forgone Reform Act of 1993 authorized Congress to make 42 annual payments of $29 million each, beginning in 1994 and continuing through 2035. These payments are reimbursement for services we performed in 1991, 1992, and 1993, for which we have not yet been fully paid, and for shortfalls in the reimbursement of the costs we incurred for processing and delivering certain nonprofit mail entitled to statutorily reduced costs from 1994 through 1998.

The payments authorized by the Revenue Forgone Reform Act of 1993 totaled $1,218 million, for which we calculated the present value, at 7% interest, to be approximately $390 million. We recognized the $390 million as revenue during fiscal years 1991 through 1998. The discounted present value of the remaining future payments as of the years ended September 30 was $344 million in 2009 and $349 million in 2008.

The total receivable for revenue forgone as of the years ended September 30 was $448 million in 2009 and $495 million in 2008.

Operating Statistics

Category of Service	2009	2008	2007	2006	2005
(In millions of units indicated, unaudited)					
Mailing Services					
First-Class Mail					
Revenue	$ 35,872.8	$ 38,179.3	$ 38,404.5	$ 37,604.9	$ 36,802.7
Pieces, Number	83,770.2	91,696.7	96,297.3	98,016.2	98,567.1
Weight, Pounds	3,678.2	4,165.1	4,401.4	4,418.1	4,448.3
Standard Mail					
Revenue	$ 17,364.1	$ 20,586.3	$ 20,778.6	$ 19,876.5	$ 18,953.5
Pieces, Number	82,706.2	99,084.2	103,516.1	102,459.6	100,943.9
Weight, Pounds	9,289.6	11,017.2	11,820.7	11,771.2	11,656.5
Periodicals					
Revenue	$ 2,038.1	$ 2,294.9	$ 2,187.9	$ 2,215.2	$ 2,160.8
Pieces, Number	7,953.7	8,605.2	8,795.8	9,022.5	9,070.0
Weight, Pounds	3,032.4	3,676.9	3,895.6	4,040.7	4,025.6
Package Services					
Revenue	$ 1,682.7	$ 1,845.5	$ 1,812.3	$ 1,751.1	$ 1,646.5
Pieces, Number	730.3	846.2	914.5	918.8	885.0
Weight, Pounds	1,872.1	2,155.3	2,297.5	2,323.2	2,294.4
U.S. Postal Service					
Pieces, Number	454.9	823.7	1,008.4	1,010.1	621.3
Weight, Pounds	126.1	148.9	140.6	128.1	110.7
Free Matter for the Blind					
Pieces, Number	61.9	72.0	72.0	74.2	76.4
Weight, Pounds	30.3	33.3	33.6	35.4	34.4
Total Mailing Services Mail					
Revenue	$ 56,957.7	$ 62,906.0	$ 63,183.3	$ 61,447.7	$ 59,563.5
Pieces, Number	175,677.2	201,128.0	210,604.1	211,501.4	210,163.7
Weight, Pounds	18,028.7	21,196.7	22,589.4	22,716.7	22,569.9
Ancillary & Special Services					
Registered Mail					
Revenue	$ 49.9	$ 56.9	$ 53.3	$ 72.8	$ 77.2
Number of articles	3.2	3.9	4.3	7.1	7.7
Certified Mail					
Revenue	$ 729.8	$ 717.8	$ 698.2	$ 631.6	$ 600.6
Number of articles	266.5	268.9	280.2	265.7	261.1
Insurance					
Revenue	$ 129.1	$ 144.6	$ 156.7	$ 136.7	$ 132.2
Number of articles	43.8	51.6	57.0	52.8	53.6
Delivery Receipt Services					
Revenue	$ 716.8	$ 704.6	$ 639.7	$ 619.9	$ 577.5
Number of articles	1,284.3	1,192.2	1,098.3	1,020.3	954.7
Money Orders					
Revenue	$ 189.7	$ 204.8	$ 210.5	$ 191.2	$ 205.9
Face value of issues (non-add)	$ 23,838.6	$ 25,709.3	$ 27,194.0	$ 28,277.4	$ 28,723.0
Number of articles	135.0	149.1	162.9	176.2	180.4
Box Rent Revenue & Caller Services	$ 911.9	$ 896.7	$ 836.9	$ 813.7	$ 791.5
Stamped Envelope and Card Revenue	$ 17.2	$ 24.4	$ 16.9	$ 25.2	$ 21.0
Other Mailing Services Revenue*	$ 256.0	$ 894.5	$ 1,108.2	$ 1,224.0	$ 823.6
Total Ancillary & Special Services Revenue	$ 3,000.4	$ 3,644.3	$ 3,720.4	$ 3,715.1	$ 3,229.5
Total Mailing Services Revenue	$ 59,958.1	$ 66,550.3	$ 66,903.7	$ 65,162.8	$ 62,793.0

Operating Statistics

Category of Service		2009		2008		2007		2006		2005
(In millions of units indicated, unaudited)										
Shipping Services										
Revenue	$	8,106.8	$	8,355.0	$	7,851.6	$	7,461.1	$	7,085.2
Pieces, Number		1,380.6		1,574.9		1,629.9		1,636.3		1,579.0
Weight, Pounds		2,773.4		3,040.6		3,053.8		3,215.1		3,271.6
Shipping Services										
Ancillary & Special Services Revenue	$	25.6	$	26.7	$	22.8	$	26.5	$	29.2
Total Shipping Services Revenue	$	8,132.4	$	8,381.7	$	7,874.4	$	7,487.6	$	7,114.4
Postal Service Totals										
Revenue	$	65,064.5	$	71,261.0	$	71,034.9	$	68,908.8	$	66,648.7
Pieces, Number		177,057.8		202,702.9		212,234.0		213,137.7		211,742.7
Weight, Pounds		20,802.1		24,237.3		25,643.2		25,931.8		25,841.5
Total Ancillary & Special Services Revenue	$	3,026.0	$	3,671.0	$	3,743.2	$	3,741.6	$	3,258.7
Total Operating Revenue	$	68,090.5	$	74,932.0	$	74,778.1	$	72,650.4	$	69,907.4

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

Operating Statistics

	2009	2008	2007	2006	2005
(Actual numbers, unaudited)					
Career Employees					
Headquarters and HQ Related Employees					
Headquarters	2,811	2,892	2,856	2,761	2,654
Headquarters - Field Support Units	4,455	4,429	4,527	4,402	4,333
Inspection Service - Field	2,617	2,890	2,991	3,130	3,443
Inspector General	1,155	1,159	1,147	1,071	843
Total HQ and HQ Related Employees	11,038	11,370	11,521	11,364	11,273
Field Employees					
Area Offices	1,047	1,316	1,281	1,395	1,420
Postmasters / Installation Heads	23,672	25,250	25,285	25,429	25,322
Supervisors / Managers	28,812	31,787	32,635	33,201	33,234
Professional Administration and Technical Personnel	6,460	8,010	8,058	8,539	8,945
Clerks	177,842	194,773	204,145	213,920	221,644
Nurses	-	134	160	166	167
Mail Handlers	52,954	55,812	57,882	57,158	56,028
City Delivery Carriers	200,658	211,661	222,132	224,400	228,278
Motor Vehicle Operators	8,113	8,558	8,726	8,715	8,689
Rural Delivery Carriers - Full-Time	67,749	68,900	67,584	66,344	64,335
Building and Equipment Maintenance Personnel	39,531	40,248	39,948	39,986	39,893
Vehicle Maintenance Employees	5,252	5,419	5,405	5,521	5,488
Total Field Employees	612,090	651,868	673,241	684,774	693,443
Total Career Employees	623,128	663,238	684,762	696,138	704,716
Noncareer Employees					
Casuals	4,271	12,000	22,078	22,518	19,182
Nonbargaining Temporary	1,659	1,119	1,244	1,135	1,185
Rural Part-Time: Subs / RCA / RCR / AUX	54,529	58,072	60,444	59,087	57,411
Postmaster Relief and Leave Replacements	11,477	12,327	12,169	12,188	12,046
Transitional Employees	17,018	18,332	5,232	5,133	8,460
Total Noncareer Employees	88,954	101,850	101,167	100,061	98,284
Total Employees	712,082	765,088	785,929	796,199	803,000

Operating Statistics

	2009	2008	2007	2006	2005
(In actual units indicated, unaudited)					
Post Offices, Stations and Branches					
Post Offices	27,161	27,232	27,276	27,318	27,385
Classified Stations, Branches					
and Carrier Annexes	5,501	5,509	5,419	5,557	5,622
Contract Postal Units	3,037	3,148	3,131	3,014	3,116
Community Post Offices	797	834	895	937	1,019
Total Offices, Stations and Branches	36,496	36,723	36,721	36,826	37,142
Residential Delivery					
City Delivery Carriers	80,187,505	79,848,415	79,470,894	78,949,153	78,524,242
Rural	38,264,946	37,684,158	37,022,488	36,068,838	34,958,986
PO Box	15,601,883	15,639,031	15,635,480	15,615,744	15,614,801
Highway Contract	2,576,166	2,516,783	2,473,323	2,345,255	2,243,520
Total Residential Delivery	136,630,500	135,688,387	134,602,185	132,978,990	131,341,549
Business Delivery					
City Delivery Carriers	7,483,461	7,436,965	7,411,582	7,343,020	7,280,384
Rural	1,439,266	1,407,942	1,360,478	1,297,022	1,230,645
PO Box	4,489,688	4,587,454	4,548,973	4,490,102	4,412,559
Highway Contract	72,966	71,538	69,304	65,062	61,228
Total Business Delivery	13,485,381	13,503,899	13,390,337	13,195,206	12,984,816
Total Delivery Points	150,115,881	149,192,286	147,992,522	146,174,196	144,326,365
Change in Delivery Points	923,595	1,199,764	1,818,326	1,847,831	2,006,577

Financial History Summary

(Dollars in millions)	2009	2008	2007	2006	2005
Statements of Operations					
Total revenue	$ 68,116	$ 74,968	$ 74,973	$ 72,817	$ 69,993
Total expense **	71,910	77,774	80,115	71,917	68,548
Net (Loss) Income	**$ (3,794)**	**$ (2,806)**	**$ (5,142)**	**$ 900**	**$ 1,445**
Operating revenue	$ 68,043	$ 74,829	$ 74,715	$ 72,551	$ 69,798
Revenue foregone	47	103	63	99	109
Total operating revenue	68,090	74,932	74,778	72,650	69,907
Compensation and benefits**	53,154	53,585	54,186	54,665	52,449
Retiree health benefits **	3,390	7,407	10,084	1,637	1,495
Other expenses	15,286	16,746	15,835	15,379	14,337
Total operating expenses **	71,830	77,738	80,105	71,681	68,281
Income from operations	(3,740)	(2,806)	(5,327)	969	1,626
Interest and investment income	26	36	195	167	86
Interest expense deferred retirement	-	-	-	(231)	(263)
Other interest expense	(80)	(36)	(10)	(5)	(4)
Net (Loss) Income	**$ (3,794)**	**$ (2,806)**	**$ (5,142)**	**$ 900**	**$ 1,445**
Balance Sheets					
Current assets *	$ 5,051	$ 2,354	$ 1,859	$ 2,041	$ 1,933
Property, equipment, and other assets	23,067	23,632	23,988	26,447	23,065
Total assets	**$ 28,118**	**$ 25,986**	**$ 25,847**	**$ 28,488**	**$ 24,998**
Current liabilities *	$ 14,121	$ 16,729	$ 13,804	$ 11,613	$ 9,160
Other liabilities *	19,410	10,929	10,909	10,599	10,462
(Deficit) Equity	(5,413)	(1,672)	1,134	6,276	5,376
Total liabilities and net capital	**$ 28,118**	**$ 25,986**	**$ 25,847**	**$ 28,488**	**$ 24,998**
Changes in Net Capital					
Capital contributions of the U.S. government	$ 3,034	$ 3,034	$ 3,034	$ 3,034	$ 3,034
(Deficit) Equity since 1971 reorganization	(4,706)	(1,900)	3,242	2,342	897
Total beginning balance	(1,672)	1,134	6,276	5,376	3,931
Additional Capital Contributions	53	-	-	-	-
Net (loss) income	(3,794)	(2,806)	(5,142)	900	1,445
Ending balance	**$ (5,413)**	**$ (1,672)**	**$ 1,134**	**$ 6,276**	**$ 5,376**

* Certain reclassifications have been made to previously reported amounts.

** The net impact of P.L.111-68 was $4 billion reduction of expense in 2009.

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

Selected Quarterly Financial Data

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

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

2007	Quarter 1	Quarter 2	Quarter 3	Quarter 4
(Dollars in millions, unaudited)				
Operating revenue	$ 19,637	$ 18,277	$ 18,347	$ 18,517
Total operating expenses	22,656 e	19,577	18,837	19,035
(Loss) from operations	(3,019)	(1,300)	(490)	(518)
Interest income (expense) - net	48	61	37	39
Net (Loss)	**$ (2,971)**	**$ (1,239)**	**$ (453)**	**$ (479)**

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

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

c - Includes the impact of the $4.0 billion reduction in the PSRHBF contribution due to P.L. 111-68.

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

e - Includes the impact of an additional $3.0 billion payment from escrow to the PSRHBF contribution required by P.L. 109-435.

The following are among the many trademarks owned by the United States Postal Service:

United States Postal Service®, U.S. Postal Service®, USPS®, First-Class Mail®, usps.com®, Click-N-Ship®, Automated Postal Center®, APC®, Express Mail®, Priority Mail®, Standard Mail®, Parcel Post®, Media Mail®, Customized MarketMail®, Intelligent Mail®, Parcel Select®, Express Mail International®, Quick, Easy, Convenient®, United States Postal Service Office of Inspector General™, Post Office™, Postal Service™, Signature Confirmation™, Certified Mail™, Delivery Confirmation™, Registered Mail™, ZIP Code™, Carrier Pickup™, Priority Mail International™, First-Class Mail International™, Premium Forwarding Service™, Forever Stamp™ and Postmaster General™.

The Sonic Eagle Logo, Round Top Collection Box design, Letter Carrier Uniform design, and the Mail Truck design are also trademarks belonging to the United States Postal Service.

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

Payable. Money that is owed by the Postal Service.

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

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

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

Prepaid. Payments made in advance of service being provided.

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

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

Receivable. Money that is owed to the Postal Service.

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

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

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

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

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

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

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

Signatures

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

United States Postal Service

/s/ John E. Potter

John E. Potter
Postmaster General and Chief Executive Officer

Date: November 16th, 2009

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, this Report has been signed below by the following persons on behalf of the Postal Service and in the capacities indicated as of November 16, 2009.

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

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

Exhibit 31.1

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

I, John E. Potter, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 16th, 2009

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

Exhibit 31.2

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

I, Joseph Corbett, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 16th, 2009

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

Exhibit 32.1

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

In connection with the Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 2009, (the "Report"), I, John E. Potter, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: November 16th, 2009

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

Exhibit 32.2

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

In connection with the Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 2009 (the “Report”), I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: November 16th, 2009

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