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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013 OR**

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

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
Not Applicable ☑	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares as of May 10, 2013
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

Part I

Part II

Part I

Item 1 – Financial Statements

United States Postal Service
Statements of Operations
(Unaudited)

(Dollars in millions)	Three Months ended March 31, 2013	Three Months ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Operating revenue	$ 16,348	$ 16,227	$ 34,008	$ 33,904
Operating expenses				
Compensation and benefits	11,647	11,698	24,114	24,184
Retiree health benefits	2,109	3,712	4,187	7,392
Workers' compensation	429	24	753	769
Transportation	1,661	1,678	3,500	3,444
Other	2,327	2,252	4,499	4,498
Total operating expenses	18,173	19,364	37,053	40,287
Loss from operations	**(1,825)**	**(3,137)**	**(3,045)**	**(6,383)**
Interest and investment income	6	6	12	12
Interest expense	(47)	(46)	(97)	(93)
Net loss	**$ (1,866)**	**$ (3,177)**	**$ (3,130)**	**$ (6,464)**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)		March 31, 2013		September 30, 2012
		(Unaudited)		(Audited)
Current Assets				
Cash and cash equivalents	$	2,691	$	2,319
Restricted cash		100		-
Receivables:				
Foreign countries		561		509
U.S. Government		80		142
Other		238		308
Receivables before allowances		879		959
Less: Allowances		39		41
Total receivables, net		840		918
Supplies, advances and prepayments		153		126
Total Current Assets		**3,784**		**3,363**
Noncurrent Assets				
Property and equipment, at cost:				
Buildings		24,484		24,452
Equipment		19,929		20,143
Land		2,912		2,919
Leasehold improvements		1,247		1,208
		48,572		48,722
Less: Allowances for depreciation and amortization		30,733		30,187
		17,839		18,535
Construction in progress		316		328
Total property and equipment, net		18,155		18,863
Other assets - principally revenue forgone receivable		386		385
Total Noncurrent Assets		**18,541**		**19,248**
Total Assets	$	**22,325**	$	**22,611**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	March 31, 2013 (Unaudited)	September 30, 2012 (Audited)
Current Liabilities		
Compensation and benefits	$ 2,215	$ 1,856
Retiree health benefits	13,917	11,205
Workers' compensation	1,295	1,337
Payables and accrued expenses:		
Trade payables and accrued expenses	1,123	1,159
Foreign countries	617	583
U.S. Government	92	93
Total payables and accrued expenses	1,832	1,835
Deferred revenue-prepaid postage	4,386	4,014
Customer deposit accounts	1,197	1,210
Outstanding postal money orders	704	677
Prepaid box rent and other deferred revenue	461	475
Short-term portion of debt	9,800	9,500
Total Current Liabilities	**35,807**	**32,109**
Noncurrent Liabilities		
Workers' compensation	15,654	16,230
Employees' accumulated leave	1,807	1,855
Deferred appropriations and other revenue	184	194
Long-term portion of capital lease obligations	383	410
Deferred gains on sales of property	310	313
Contingent liabilities and other	956	846
Long-term portion of debt	5,200	5,500
Total Noncurrent Liabilities	**24,494**	**25,348**
Total Liabilities	**60,301**	**57,457**
Net Deficiency		
Capital contributions of the U.S. Government	3,132	3,132
Deficit since 1971 reorganization	(41,108)	(37,978)
Total Net Deficiency	**(37,976)**	**(34,846)**
Total Liabilities and Net Deficiency	**$ 22,325**	**$ 22,611**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Changes in Net Deficiency
(Unaudited)

(Dollars in millions)	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2011	$ 3,132	$ (22,072)	$ (18,940)
Net loss	-	(6,464)	(6,464)
Balance, March 31, 2012	**$ 3,132**	**$ (28,536)**	**$ (25,404)**
Balance, September 30, 2012	$ 3,132	$ (37,978)	$ (34,846)
Net loss	-	(3,130)	(3,130)
Balance, March 31, 2013	**$ 3,132**	**$ (41,108)**	**$ (37,976)**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Statements of Cash Flows

(Unaudited)

(Dollars in millions)	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Cash flows from operating activities:		
Net loss	$ (3,130)	$ (6,464)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	968	1,070
Gain (loss) on disposals of property and equipment, net	20	(17)
(Decrease) increase in other assets - primarily appropriations receivable	(1)	27
(Decrease) in noncurrent workers' compensation liability	(576)	(568)
(Decrease) in noncurrent employees accumulated leave	(48)	(99)
Increase (decrease) in noncurrent deferred appropriations and other revenue	14	(2)
Increase (decrease) in other noncurrent liabilities	110	(15)
Changes in current assets and liabilities:		
Receivables, net	78	147
Supplies, advances and prepayments	(27)	(34)
Compensation and benefits	359	(638)
Retiree health benefits	2,712	6,142
Workers' compensation	(42)	49
Payables and accrued expenses	(102)	(146)
Customer deposit accounts	(13)	(103)
Deferred revenue-prepaid postage	372	371
Outstanding postal money orders	27	65
Prepaid box rent and other deferred revenue	(17)	(10)
Net cash provided by (used in) operating activities	704	(225)
Cash flows from investing activities:		
Purchases of property and equipment	(309)	(418)
Proceeds from sales of property and equipment	30	81
Net cash used in investing activities	(279)	(337)
Cash flows from financing activities:		
Issuance of notes payable	2,700	2,500
Payments on notes payable	(2,700)	(2,500)
Net change in revolving credit line	-	(54)
Payments on capital lease obligations	(29)	(23)
U.S. government appropriations - expensed	(24)	(31)
Net cash used in financing activities	(53)	(108)
Net increase (decrease) in cash and cash equivalents	372	(670)
Cash and cash equivalents at beginning of year	2,319	1,488
Cash and cash equivalents at end of period	**$ 2,691**	**$ 818**
Supplemental cash flow disclosures:		
Interest paid	$ 96	$ 92
Restricted Cash	$ 100	$ -

See accompanying (unaudited) notes to the financial statements.

Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

The interim financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial statements and, accordingly, do not include all the information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with the significant accounting policies and other disclosures in the Annual Report on Form 10-K for the year ended September 30, 2012. As in the Annual Report on Form 10-K, all references to years are to the fiscal year beginning October 1 and ending September 30, unless otherwise stated. All references to quarters, unless otherwise indicated, are to quarters within fiscal years 2013 and 2012.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present the financial position of the Postal Service as of March 31, 2013; and the results of operations for the three and six months ended March 31, 2013, and 2012; and the cash flows for the six months ended March 31, 2013, and 2012. Operating results for the three and six month periods ended March 31, 2013, are not necessarily indicative of the results that may be expected for all of fiscal year 2013. Subsequent events have been evaluated through May 10, 2013, the date the Postal Service filed its Form 10-Q for the quarter ended March 31, 2013, with the Postal Regulatory Commission (PRC).

The Postal Service held $100 million in restricted cash as of March 31, 2013. The Postal Service received these funds as the result of an investigation by the United States Postal Inspection Service for mail and wire fraud. The funds are expected to be distributed to the fraud victims within the next year. There was no restricted cash at September 30, 2012.

The Postal Service has significant transactions with other U.S. Government agencies, as disclosed throughout this report. In addition to the amounts disclosed elsewhere, deferred revenue of $37 million at March 31, 2013, and $27 million at September 30, 2012, related to government deposits are included in the Balance Sheets in "Customer Deposit Accounts".

Note 2 – Liquidity

LIQUIDITY CONCERNS

The Postal Service continues to suffer from a severe lack of liquidity. The Postal Service held unrestricted cash of $2.7 billion and $2.3 billion as of March 31, 2013, and September 30, 2012, respectively. These cash balances represent approximately 10 days, and 9 days, respectively, of average daily expenses. It had no remaining borrowing capacity on its $15 billion debt facility as of March 31, 2013. (See Note 3- *Debt*, for additional information). Unrestricted cash balances declined $221 million during the quarter, as revenue was not as strong this quarter as compared to Quarter I, 2013. By mid-October 2013, the Postal Service projects it will have a cash balance on hand of approximately 4 days of its average daily expenses. This low level of available cash means that the Postal Service will be unable to make the $5.6 billion legally-mandated prefunding of retiree health benefits due by September 30, 2013. Further, this level of cash could be insufficient to support operations in the event of another significant downturn in mail volume.

The Postal Service has suffered 6 consecutive quarters of net losses and has had net losses in 15 of the last 17 quarters. The net loss of $3.1 billion for the first six months of the year included $2.8 billion of expense accrued for the legally-mandated prefunding payment for retiree health benefits. The requirement of the *Postal Accountability and Enhancement Act,* Public Law 109-435 (P.L. 109-435) to prefund its retiree health benefit obligations, a requirement not imposed upon other federal agencies or private sector businesses, plus the drop in mail volume and changes in the mail mix caused by changes in consumers' use of mail, have been the major factors contributing to Postal Service losses since the recession ended in 2009. Without structural change to the business model, the Postal Service will continue to be negatively impacted by these factors and, absent legislative change, it anticipates continuing quarterly losses into the foreseeable future.

In addition to the requirement to prefund $5.6 billion of retiree health benefits for 2013, the Postal Service continues to pay the employer's share of the insurance premiums for the Postal Service's retirees. This cost was $2.6 billion in 2012, and is projected to increase to $2.8 billion for the full year 2013. In the past six fiscal years, since the enactment of the Congressionally-mandated prefunding, the Postal Service has incurred $41 billion of net losses, including $32 billion of expenses for prefunding retiree health benefits. Through 2012, the Postal Service has paid $21 billion of cash into the Postal Service Retiree Health Benefit Fund (PSRHBF) for prefunding. Since 2006, its debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012.

During 2012, the Postal Service was forced to default on $11.1 billion of required prefunding payments to the PSRHBF for retiree health benefits. The statutory requirement establishing the prefunding payment schedule, P.L. 109-435, contains no provisions addressing a payment default. This $11.1 billion is reflected as a current liability on the Balance Sheets. As of the date of this report, May 10, 2013, the Postal Service has suffered no financial penalties as a result of its inability to make these payments.

The Postal Service was able to make its annual payment of approximately $1.4 billion to reimburse the Department of Labor (DOL) for workers' compensation expenses in October 2012. However, current projections indicate that it will have a continued low level of liquidity in the second half of 2013. It is expected that the Postal Service will be unable to make the required $5.6 billion retiree health benefits prefunding payment due by September 30, 2013, and will continue to have no ability to borrow additional funds at that date. This cash position will continue to worsen in October 2013, when the Postal Service is required to make its annual payment of approximately $1.4 billion to the DOL for workers' compensation. Absent the legislative actions by Congress that have been requested to assist the Postal Service in returning to a financially stable position, this low level of liquidity will continue to exist.

In the short-term, should circumstances leave the Postal Service with insufficient cash, it would be required to implement contingency plans to ensure that mail delivery continues. These measures could require that the Postal Service prioritize payments to our employees and suppliers ahead of those to the Federal Government, as has been done in the past. Additionally, the Postal Service continues to seek a refund of the overfunding of Federal Employees' Retirement System (FERS) as those funds would help alleviate some of the Postal Service's short-term liquidity risks. The Office of Personnel Management (OPM) estimates that the FERS overfunding was $3.0 billion at September 30, 2012. The Office of the Inspector General (OIG) has determined that if Postal Service specific assumptions were used to estimate the FERS obligation, rather than the government-wide averages currently used, the surplus would be even greater than the amount calculated by OPM.

POSTAL ACTIONS TAKEN TO IMPROVE LIQUIDITY

On January 14, 2013, the Postal Service Board of Governors directed management to accelerate the realignment of Postal Service operations to further reduce costs in order to strengthen Postal Service finances, citing the fact that the Postal Service cannot wait indefinitely for legislation.

On February 6, 2013, the Postal Service announced plans to transition to a new delivery schedule beginning in August, 2013, which would include package delivery Monday through Saturday and mail delivery Monday through Friday. The Postal Service expects to generate cost savings of approximately $2 billion annually, when fully implemented. However, after Congress passed a continuing resolution which clearly prohibits such an action, the Board of Governors announced on April 10, 2013, that implementation of the 5-day delivery plan would be delayed until legislation changing the 6-day delivery requirement is enacted. The Postal Service remains hopeful that comprehensive legislation to enable changes to the business model will be enacted this fiscal year to allow a transition to the new delivery schedule by 2014, and it continues to advocate for authority to make the change to a 6-day package delivery and a 5-day mail delivery schedule.

On April 17, 2013, the Postal Service released its comprehensive *2013 Five-Year Business Plan* (Plan) which details the implementation of its targeted program to eliminate nearly $20 billion of annual cost from the business by the year 2016. This plan continues the Postal Service's efforts to aggressively pursue the strategies within its control to increase operational efficiency and to improve its liquidity position. The Plan requires a combination of operational realignment, aggressive cost reductions, and comprehensive legislation to reform the Postal Service's current business model. Several key provisions included in the Plan, as outlined below, must continue in earnest.

- Better alignment of network size and cost with reduced mail volumes
- Revenue management and increased growth
- Implementation of a USPS sponsored healthcare plan for active and retired employees
- Business model changes, including implementation of a new delivery schedule

Alignment of network size and cost with reduced mail volumes

Operational measures include the accelerated consolidation of mail processing, retail, and delivery networks in order to better align them with mail volumes, and a reduction in hours at 13,000 Post Offices, accompanied by an expansion in alternate retail access. These extensive operational changes are being executed while the Postal Service continues to deliver appropriate levels of service to communities throughout America. This realignment of mail processing, retail, and delivery operations is expected to generate nearly $6 billion in annual cost reductions by the year 2016.

In conjunction with the operational realignment, the Postal Service continues to implement efficiency measures, and continues its actions to better align staffing levels with projected mail volume. These staffing level reductions will be achieved largely through attrition, as approximately one-half of career employees are eligible for optional retirement or voluntary early retirement. As a result of a special Incentive and Voluntary Early Retirement (VER) offer, approximately 22,800 eligible employees represented by the American Postal Workers' Union (APWU) retired or separated from the Postal Service in Quarter II, 2013. This followed 4,275 eligible postmasters and 2,925 eligible mail handlers who retired or separated from the Postal Service in Quarter IV, 2012. In addition, recent contractual agreements with major postal unions allow for increased utilization of lower cost non-career employees, which will facilitate the realignment of staffing and workload levels and the reduction of costs.

Revenue Management

The Postal Service also continues to introduce new service offerings to generate new revenue and to slow the migration of existing revenue streams to electronic alternatives. Expanded use of digital technologies to enhance the mail experience, using connectivity to various websites, social media, and points of purchase is a focus in enhancing the mail experience. However, legislative action is also required to give the Postal Service authority to generate new revenue and adapt to changing business conditions as the scope of products and services that the Postal Service can offer is limited by law.

Implementation of a USPS sponsored healthcare plan

A vital component of the Plan is the requirement that the Postal Service sponsor its own health care program, independent of other federal health insurance programs. A Postal Service sponsored health care program could achieve approximately $8 billion of projected annual savings by 2016. The plan would eliminate the need for any additional retiree health benefit prefunding as established in P.L. 109-435, which would save the Postal Service over $5.5 billion annually through 2016. The plan also proposes to transfer current retirees into the Postal Service sponsored health care program, an action that requires legislation.

Business Model Change

As noted above, achieving significant future efficiencies and cost reductions in areas that are under the Postal Service's control will not be enough to return it to a position of financial viability in the long run without comprehensive changes to its business model. The fulfillment of the Plan's complete cost savings and debt reduction objective can only be obtained with the enactment of comprehensive legislative reform of the Postal Service's business model. Business model changes requiring legislation include: Postal Service sponsorship of its own healthcare plan for both employees and retirees, and resolving the prefunding of retiree health benefits; and obtaining a refund of its over-payment to the FERS. Congress must also allow the Postal Service to implement a 6-day package delivery and a 5-day mail delivery operational schedule.

Accordingly, the Postal Service has proposed legislative changes to Congress that are needed to provide it with the legal authority to implement certain measures to increase efficiency and produce additional cost savings. Additionally, the Governors must have authority commensurate with their responsibility to provide reliable and efficient universal service in a financially self-sufficient manner. Given the vital role that the Postal Service plays in the U.S. economy, management is requesting that Congress move swiftly in taking the needed steps to enact legislative changes that will enable the Postal Service to be economically self-sustaining.

MITIGATING CIRCUMSTANCES

The Postal Service's status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With revenues of $65 billion, generated almost entirely through the sale of postage, the Postal Service is at the core of a mailing industry that employs approximately 8 million Americans. The U. S. economy benefits greatly from the Postal Service as well as the many businesses that provide the printing and mailing services that support it. Millions of check payments, letters, and packages upon which people depend are mailed through the Postal Service on a daily basis. Disruption of the mail would cause hardships to the public, and to the business and banking sectors, and could cause some businesses to shut down. Therefore, it is unlikely that in the event of a cash shortfall, the Federal Government would allow the Postal Service to significantly curtail or cease operations.

The Postal Service continues to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues it faces and the legislative changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, it is hopeful that Congress will promptly enact, and the President will sign, legislation which will mitigate the Postal Service's short-term financial challenges and provide it with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2013, or at all.

Note 3 – Debt

Debt payable to the Federal Financing Bank (FFB), a government-owned corporation under the general supervision of the Secretary of the Treasury, consisted of the following at March 31, 2013, and September 30, 2012:

Indebtedness to Federal Financing Bank

(Dollars in millions)

		March 31, 2013		September 30, 2012	
Maturity	**Debt Type**	**Balance**	**Rate %**	**Balance**	**Rate %**
Fixed rate notes - short-term					
May 30, 2013	Fixed rate-payable at maturity	$ 1,200	0.298	$ 1,200	0.298
September 19, 2013	Fixed rate-payable at maturity	500	0.299	500	0.299
November 14, 2013	Fixed rate-payable at maturity	1,300	0.293	1,300	0.227
January 31, 2014	Fixed rate-payable at maturity	300	2.035	-	-
Fixed rate notes - long-term					
January 31, 2014	Fixed rate-payable at maturity	-	-	300	2.035
May 2, 2016	Fixed rate-payable at maturity	300	2.844	300	2.844
November 15, 2018	Fixed rate-payable at maturity	500	3.048	500	3.048
February 15, 2019	Fixed rate-payable at maturity	700	3.296	700	3.296
May 15, 2019	Fixed rate-payable at maturity	1,000	3.704	1,000	3.704
May 15, 2019	Fixed rate-payable at maturity	500	3.513	500	3.513
August 16, 2021	Fixed rate-payable at maturity	1,000	2.066	1,000	2.066
May 17, 2038	Fixed rate-payable at maturity	200	3.770	200	3.770
February 15, 2039	Fixed rate-payable at maturity	1,000	3.790	1,000	3.790
Floating rate notes and revolving credit line - short-term					
June 19, 2013	Floating rate	500	0.218	500	0.236
September 18, 2013	Floating rate[1]	600	0.228	600	0.231
October 17, 2013	Floating rate[2]	700	0.216	700	0.228
December 17, 2013	Floating rate[3]	700	0.227	700	0.227
	Short-term revolving credit line	3,400	0.186	3,400	0.176
	Overnight revolving credit line	600	0.166	600	0.186
Total debt		**$ 15,000**		**$ 15,000**	
Current portion of debt		**$ 9,800**		**$ 9,500**	
Long-term portion of debt		**$ 5,200**		**$ 5,500**	

[1] Floating Rate Note- Repurchasable at par on each interest rate reset date and the interest rate resets on June 18, 2013.

[2] Floating Rate Note- Repurchasable at par on each interest rate reset date and the interest rate resets on April 17, and July 17, 2013.

[3] Floating Rate Note- Repurchasable at par on each interest rate reset date and the interest rate resets on June 17, and September 17, 2013.

The Postal Service has two revolving credit lines with the FFB, both of which are available until April 30, 2014. One, a short-term credit line, enables it to draw up to $3,400 million with two days prior notice. Borrowings under this credit line are typically on an overnight basis, but can have a maximum term of up to one year. The second credit facility, which only allows for borrowings on an overnight basis, enables borrowings of up to $600 million on the same business day that funds are requested. In addition, the Postal Service can use a series of other notes with varying provisions to draw upon with two days prior notice. These credit facilities and note arrangements provide the flexibility to borrow short- or long-term, using fixed- or floating-rate notes. Fixed-rate notes can be either callable or non-callable at the option of the Postal Service. Debt, all of which is unsecured and not subject to sinking fund requirements, can be repaid at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the Treasury Security market at the time of repayment.

The Postal Service is limited by statute to net annual debt increases of $3 billion, and total debt cannot exceed $15 billion. For 2013, the amount of borrowing is constrained by the total debt ceiling limitation of $15 billion, which the Postal Service reached during fiscal year 2012. The total debt as of March 31, 2013, and September 30, 2012, was $15 billion.

Scheduled principal repayments, exclusive of capital leases, as of March 31, 2013, are as follows:

Scheduled Debt Principal Repayments - By Fiscal Year (Dollars in millions)		
2013	**$**	**6,800**
2014		**3,000**
2015		**-**
2016		**300**
2017		**-**
After 2017		**4,900**
Total Debt	**$**	**15,000**

Note 4 – Property and Equipment

Property and equipment are recorded at cost which includes the interest on borrowings used to pay for the construction of major capital additions, less accumulated depreciation. Interest capitalized during the three and six month periods ended March 31, 2013, and 2012, was not significant. Property and equipment are depreciated over estimated useful lives that range from 3 to 40 years, except for buildings with historic status, which are depreciated over 75 years, using the straight-line method.

In September 2011, the Postal Service announced plans to realign its mail processing, delivery, and retail networks. These plans continue to be updated for maximum operating and cost efficiencies. See Note 2- *Liquidity,* for additional details. As a result, an assessment was performed on both the real estate and equipment associated with the proposed realignment efforts to determine if any impairment should be recognized. Any facility lacking utility to the realigned mail processing, distribution, and retail networks will be marked for disposal. Once a facility is marked for disposal, determination of impairments, if any, will be made by management. As of March 31, 2013, these evaluations are ongoing. For the three and six month periods ended March 31, 2013, there were no significant impairment charges related to these plans.

Assets classified as held for sale of $101 million as of March 31, 2013, and $111 million as of September 30, 2012, are included on the Balance Sheets in “Land” and “Buildings”. Impairment charges were $13 million for the three and six month periods ended March 31, 2013, respectively. For the three month period ended March 31, 2012, impairment charges were not material, and for the six month period ended March 31, 2012, impairment charges were $28 million. Impairment charges are included in the Statements of Operations in “Other.”

Deferred gains on sales of property are recognized as income and the sold assets are removed from the accounting records when any lease-backs or other conditions requiring continued Postal Service involvement in the properties have expired. Deferred gains recognized in income were not material for the three and six month periods ended March 31, 2013, and were $3 million, and $46 million, for the three and six month periods ended March 31, 2012, respectively.

Note 5 – Leases and Other Commitments

Leases

At March 31, 2013, the future minimum payments on non-cancelable operating and capital leases were as follows:

Lease Obligations (Dollars in millions)		Operating		Capital
(Unaudited)				
2013	$	**783**	$	**49**
2014		**688**		**93**
2015		**628**		**90**
2016		**560**		**87**
2017		**494**		**78**
After 2017		**3,931**		**214**
Total Lease Obligations	**$**	**7,084**	**$**	**611**
Less: Interest				**171**
Total Capital Lease Obligations				**440**
Less: Current Portion of Capital Lease Obligations				**57**
Long-term portion of Capital Lease Obligations			**$**	**383**

The current portion of the capital lease obligation is included in “Trade payables and accrued expenses” on the Balance Sheets.

Rent expense for the three and six month periods ended March 31, 2013, and 2012, was as follows:

Rental Expense	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)		2013		2012		2013		2012
(Unaudited)								
Non-cancelable real estate leases including related taxes	**$**	**239**	**$**	**249**	**$**	**473**	**$**	**487**
Facilities leased from GSA* subject to 120-day cancellation		**10**		**10**		**19**		**20**
Equipment and other short-term rentals		**41**		**45**		**77**		**90**
Total Rental Expense	**$**	**290**	**$**	**304**	**$**	**569**	**$**	**597**

*General Services Administration

Capital Commitments

At March 31, 2013, commitments to acquire capital assets were $512 million, compared to $644 million at September 30, 2012, as summarized in the following table:

Capital Commitments (Dollars in millions)	As of March 31, 2013	 September 30, 2012
	(Unaudited)	(Audited)
Mail Processing Equipment	$ 264	$ 281
Building Improvements, Construction, and Building Purchase	213	301
Postal Support Equipment	24	56
Vehicles	11	6
Total Capital Commitments	$ 512	$ 644

Note 6 – Contingent Liabilities

Contingent liabilities consist mainly of claims and lawsuits resulting from labor, employment, and environmental matters, property damage claims, injuries on postal properties, issues arising from postal contracts, personal claims, and traffic accidents.

Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Each quarter, any existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates. This evaluation of cases resulted in a net increase of $75 million to the liability for the six months ended March 31, 2013, as compared to the prior year end. The table summarizes contingent liabilities provided for in the Postal Service's financial statements as of the dates indicated.

Contingent Liabilities (Dollars in millions)	As of March 31, 2013	 September 30, 2012
	(Unaudited)	(Audited)
Labor - Employment	$ 801	$ 722
Environmental	48	48
Tort	39	43
Total Contingent Liabilities	$ 888	$ 813

As reported in previous filings, on January 14, 2010, the Equal Employment Opportunity Commission's (EEOC) Office of Federal Operations certified a class action case against the Postal Service in a matter captioned McConnell v. Donahoe (first instituted in 2006). The class currently consists of all permanent rehabilitation employees and limited duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to July 1, 2011. The Postal Service used the NRP to ensure that its records were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities. The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount on behalf of a yet unidentified population of employees. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, then an adverse ruling could have a material adverse impact on the Postal Service. However, the Postal Service disputes the claims asserted in this class action case and is vigorously contesting the matter.

Based on currently available information, adequate provision has been made for probable losses arising from claims and suits. The current portion of this liability of $77 million at March 31, 2013, and $61 million as of September 30, 2012, is included on the Balance Sheets in "Trade payables and accrued expenses".

The long-term portion of this liability was $811 million at March 31, 2013, and $752 million at September 30, 2012, and is included on the Balance Sheets in “Contingent liabilities and other”.

In addition to the amounts accrued in the financial statements, the Postal Service also has claims and lawsuits which it deems reasonably possible of an unfavorable outcome which range from $325 million to $450 million at March 31, 2013. No provisions for these reasonably possible losses are accrued or included in the financial statements.

Note 7 – Retirement Programs

Employees participate in one of three federal government pension programs based on 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 OPM. As government-sponsored benefit plans, the CSRS, Dual CSRS, and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Employees may also participate in the Thrift Savings Plan (TSP), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board.

EMPLOYEE/EMPLOYER CONTRIBUTIONS

P.L. 109-435 suspends the employer contributions to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code until 2017. At that time, OPM will determine whether additional funding is required for the benefit of postal CSRS retirees.

As required by law, the Postal Service contribution rate was 11.9% of base salary for current FERS employees for the three and six month periods ended March 31, 2013, and March 31, 2012. The Postal Service is required to contribute to the TSP a minimum of 1% per year of the basic pay of employees covered by this system, and is also required to match a voluntary employee contribution up to 3% of the employee’s basic pay, and 50% of an employee’s contribution of between 3% and 5% of basic pay.

According to the most recent actuarial estimate received from OPM, the Postal Service had overfunded its FERS obligations by $2.6 billion at September 30, 2011, the latest actual data available. The reduction in the estimated surplus from amounts previously reported resulted primarily from changes to government-wide economic and demographic assumptions made by OPM, as well as actual fiscal year 2011 experience. OPM’s most recent calculation shows that the FERS surplus was projected to grow to approximately $3.0 billion by September 30, 2012. The Office of Inspector General has reported that if Postal Service specific assumptions and demographics are used to calculate the FERS liability, rather than government-wide averages, the overfunding amount would be even greater.

Retirement expense was $1,421 million and $1,453 million for the three months ended March 31, 2013, and 2012, respectively. For the six months ended March 31, 2013, and 2012, retirement expense was $2,902 million and $2,936 million, respectively. Retirement expense is recorded in “Compensation and benefits” in the Statements of Operations, and includes the costs of FERS, TSP, and Social Security.

Note 8 – Health Benefits Programs

CURRENT EMPLOYEES

Substantially all career employees are covered by the Federal Employees’ Health Benefits Program (FEHBP). This plan covers both active and retired employees. Health care benefits are available to all participants who meet certain eligibility requirements. In addition to administering the program, OPM allocates the cost of FEHBP to the various participating government agency employers. The Postal Service cannot direct the costs, benefits, or funding requirements of the plan and, therefore, accounts for program expenses using multiemployer plan accounting rules. Contributions to the plan are recorded as an expense in the period in which the contribution is due. The portion of the premium cost paid by the Postal Service for most active employees is determined through agreements with our unions.

Employees paid approximately 22% of the premium costs in both the three and six month periods ended March 31, 2013, and 2012. The remaining employee health care expense was paid by the Postal Service.

The employer's share of healthcare expense was $1,222 million, and $1,303 million in the three months ended March 31, 2013, and 2012, respectively. For the six months ended March 31, 2013, and 2012, the employer's share of health care expense was $2,508 million, and $2,610 million, respectively. These expenses are included in "Compensation and benefits" in the Statements of Operations.

RETIREES

Employees who participate in the FEHBP for the five years immediately preceding their retirement may participate in the FEHBP during their retirement. The Postal Service is required to pay the employer's share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retire on or after July 1, 1971. The employer's share of premium costs for retirees (and their survivors) is set by law and is not subject to negotiation with the unions. Costs attributable to federal civil service before July 1, 1971, are not paid by the Postal Service. As discussed below, the Postal Service has been required to prefund retiree health benefits since 2007, by depositing funds into the PSRHBF through 2016. No other agency that participates in FEHBP is required to prefund retiree health benefits for their employees.

In 2006, P.L. 109-435 created the PSRHBF, which is held by the U.S. Treasury and controlled by OPM, but funded by the Postal Service. P.L. 109-435 established a ten-year schedule of Postal Service prefunding payments of between $5.4 and $5.8 billion per year. However, the 2009 scheduled prefunding payment was decreased from $5.4 billion to $1.4 billion due to the enactment of P.L. 111-68. In addition, the required PSRHBF payment of $5.5 billion originally scheduled to be due by September 30, 2011, was ultimately rescheduled to be due no later than August 1, 2012. As a result, the total required PSRHBF payments in 2012 were $11.1 billion: $5.5 billion due by August 1, 2012, and $5.6 billion due by September 30, 2012. The Postal Service was forced to default on the combined $11.1 billion due in 2012 because it had insufficient funds to make either of these payments. The full $11.1 billion is recorded as a current liability in "Retiree Health Benefits" on the March 31, 2013, and September 30, 2012 Balance Sheets.

Current law obligates the Postal Service to make additional payments of $5.6 billion in 2013, $5.7 billion in 2014 and 2015, and $5.8 billion in 2016, each due by September 30 of each respective year. Although P.L. 109-435 dictates the annual prefunding requirements through 2016, these amounts and the timing of funding could be changed at any time with enactment of a new law. To date, no law changes have addressed these required payments. However, given its low levels of liquidity, the Postal Service will likely be forced to default on these prepayments in order to ensure that it continues to be able to fulfill its other statutory obligations, including the obligation to provide universal mail service to the nation (as discussed in Note 2- *Liquidity*). P.L. 109-435, the statutory requirement establishing the payment schedule, contains no provisions addressing a payment default.

At March 31, 2013, scheduled prefunding payments to the PSRHBF are:

PSRHBF Commitment (Dollars in millions)	**P.L. 109-435 Requirement**
2013 *	**$ 16,700**
2014	**5,700**
2015	**5,700**
2016	**5,800**
2017	**-**
Total PSRHBF Commitment	**$ 33,900**

* In addition to the $5.6 billion required under P.L. 109-435 due by September 30, 2013, this total includes $5.5 billion which was due by August 1, 2012, as well as, $5.6 billion due by September 30, 2012. They are included here because the Postal Service defaulted on both of the 2012 payments due to insufficient funds. Contributions due in 2012 which totaled $11.1 billion were expensed in 2012.

These annual prefunding payments, which continue to be payable through 2016, are in addition to the regularly allocated cost of premiums for current retirees. The law requires that, not later than 2017, OPM will perform an actuarial valuation to determine if additional payments into the PSRHBF are required. If required, OPM will design an amortization schedule to fully fund any remaining liability by 2056. Starting in 2017, the Postal Service's share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF. Also, beginning in 2017, the Postal Service will fund the actuarially determined normal cost attributable to that year's service for employees who will retire in the future. The Postal Service did not make any prefunding payments in 2012, or 2011, but paid $5.5 billion into the fund in 2010. At September 30, 2012, the balance in the PSRHBF was $45.7 billion. This amount represents 49% of the total OPM calculated accumulated health benefit retirement obligation of $93.6 billion as of September 30, 2012, the latest date for which data is available.

The Postal Service has contributed $38 billion to the PSRHBF since inception. These funds, which are invested by OPM, earn interest at rates between 2% and 5%.

Retire Health Benefits	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2013	2012	2013	2012
(Unaudited)				
Employer Premium Expense	$ 709	$ 662	$ 1,387	$ 1,292
P.L. 109-435 Payment to PSRHBF	1,400	3,050	2,800	6,100
Total Retiree Health Benefit Expense	$ 2,109	$ 3,712	$ 4,187	$ 7,392

Total retiree health benefits expense was $2,109 million, and $3,712 million for the three months ended March 31, 2013, and 2012, respectively. For the six months ended March 31, 2013, and 2012, total retiree health benefits expense was $4,187 million, and $7,392 million, respectively. These costs which are reflected as "Retiree health benefits" in the Statements of Operations, consist of payments to OPM for the Postal Service's share of FEHBP retiree premiums currently being paid, plus required prefunding payments to the PSRHBF.

The employer premium expense for retiree health benefits for the three months ended March 31, 2013, and 2012, was $709 million and $662 million, respectively. For the six months ended March 31, 2013, and 2012, employer premium expense for retiree health benefits expense was $1,387 million, and $1,292 million, respectively.

The Postal Service recognized $1,400 million and $2,800 million of PSRHBF expense for the three and six month periods ended March 31, 2013, respectively. PSRHBF expense for the three and six month periods ended March 31, 2012 was $3,050 million, and $6,100 million, respectively. Because the amounts to be paid into the PSRHBF are set by legislation, the Postal Service retiree health expense may represent more or less than the full cost of the benefits earned by Postal Service employees.

Note 9 – Workers' Compensation

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

An estimation model that combines four generally accepted actuarial valuation techniques is used to project future claim payments based upon currently open claims and past claim payment experience. A liability is recorded for the present value of estimated future payments to postal employees who have been injured through the end of the reporting period, or their qualified survivors. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The Postal Service uses the average rate of medical inflation experienced by its workers' compensation claimants over the past five years as an estimate for future medical inflation. The liability for claims arising more than ten years ago is determined by an independent actuary.

The FECA benefit structure is often superior to benefits available under normal federal retirement, and these more lucrative payments will, in some cases, be for the rest of the lives of the claimants.

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

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the March 31, 2013 liability and Quarter II, 2013 expense by approximately $1.8 billion. A decrease of 1% in the discount rate would increase the March 31, 2013 liability and Quarter II, 2013 expense by approximately $2.3 billion.

The inflation and discount rates used to estimate the workers' compensation liability and related expense are shown in the following table.

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended March 31, 2013	September 30, 2012	March 31, 2012	September 30, 2011
(Unaudited)				
Compensation Claims Liability:				
Discount Rate	2.4%	2.1%	2.6%	2.3%
Wage Inflation	2.9%	2.9%	2.9%	2.9%
Medical Claims Liability:				
Discount Rate	2.4%	2.2%	2.7%	2.4%
Medical Inflation	9.0%	8.9%	8.6%	8.6%

At March 31, 2013, the present value of the liability for future workers' compensation payments was $16,949 million, compared to $17,567 million at September 30, 2012, a decrease of $618 million. The current portion was $1,295 million at March 31, 2013, compared to $1,337 million at September 30, 2012, a decrease of $42 million. These amounts are accrued under "Workers' compensation costs" on the Balance Sheets.

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. Workers' compensation expense, including the impact of changes in the discount rates, for the three and six month periods ended March 31, 2013, and 2012, was as follows:

Workers' Compensation Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2013	2012	2013	2012
(Unaudited)				
Impact of Discount Rate Changes	$ (229)	$ (599)	$ (455)	$ (511)
Actuarial valuation of new cases and revaluation of existing cases	641	607	1,174	1,247
Subtotal	412	8	719	736
Administrative Fee	17	16	34	33
Total Workers' Compensation Expense	$ 429	$ 24	$ 753	$ 769

Note 10 – Fair Value Measurements

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

- Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities as of the balance sheet date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, observable data, other than quoted market prices, for the asset or liability (i.e. interest rates, yield curves, etc.) and inputs that are derived from, or corroborated by, observable market data.
- Level 3 inputs include unobservable data that reflect current assumptions about the judgments and estimates that market participants would use when pricing the asset or liability. These inputs are based on the best information available, including internal data.

Because no active market exists for the debt with the FFB, the fair value of the noncurrent portion of these notes has been estimated using prices provided by the FFB, a Level 3 input. The FFB utilizes the income approach with a discounted cash flow methodology applying an adjusted Treasury Yield Curve to determine market yield and to value the notes.

The fair value of revenue forgone has been estimated using the income approach, applying the discounted cash flow methodology with discount rates based upon market observable Treasury rates, a Level 2 input.

The carrying values and the fair values of noncurrent assets and liabilities that qualify as financial instruments in accordance with the accounting literature are as indicated in the table below. This table is presented for disclosure purposes only. The Postal Service has not recorded a charge or credit to its operations for the differences between carrying and fair values of the assets and liabilities displayed in the table below.

Fair Value of Long-Term Financial Assets and Liabilities	March 31, 2013		September 30, 2012	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Unaudited)		(Audited)	
Revenue Forgone	**$ 386**	**$ 517**	**$ 385**	**$ 533**
Total Long-Term Financial Assets	**$ 386**	**$ 517**	**$ 385**	**$ 533**
Long-Term Portion of Debt	**$ 5,200**	**$ 5,841**	**$ 5,500**	**$ 6,290**
Total Long-Term Financial Liabilities	**$ 5,200**	**$ 5,841**	**$ 5,500**	**$ 6,290**

For the quarter ended March 31, 2013, there were no significant transfers between Level 1 and Level 2 assets or liabilities.

Non-financial assets, such as property and equipment, are measured at fair value when there is an indicator of impairment or when a decision is made to dispose of an asset, and recorded at fair value only when impairment is recognized. Impairment analyses of property and equipment were performed in each quarter of 2013 and 2012. Impairment charges of $13 million were recorded for the three and six month periods ended March 31, 2013, respectively. For the three and six month periods ended March 31, 2012, impairment charges were immaterial and $28 million, respectively. See Note 4– *Property and Equipment* for details on impairments. Independent appraisals, adjusted for estimated selling costs, are used to determine the fair value of non-financial assets deemed impaired or being held for sale. Independent third party appraisals are deemed Level 2 inputs as defined above.

Note 11 – Revenue Forgone

Revenue forgone is an appropriation that is intended to reimburse the Postal Service for the annual cost of statutorily-required free and reduced rate mailing services to specified groups. It also includes amounts authorized in the *Revenue Forgone Reform Act of 1993* for services performed and revenue forgone for the years 1991 through 1998, which is scheduled to be reimbursed at a rate of $29 million each year from 1994 through 2035.

For the three months ended March 31, 2013, the Postal Service recognized revenue of $20 million, including $5 million of imputed interest income from these appropriations, compared to recognized revenue of $13 million, including $6 million of imputed interest, for the three months ended March 31, 2012. For the six months ended March 31, 2013, the Postal Service recognized $29 million of such revenue, including $11 million of imputed interest, compared to recognized revenue of $26 million, including $12 million of imputed interest, for the same six month period in 2012.

The Postal Service has received $12 million of the combined total of $87 million due for the years 2011 through 2013 under the *Revenue Forgone Reform Act of 1993*. The unfunded amounts will be included as part of the 2014 and 2015 appropriations requests. There was no impact to the Statements of Operations as a result of the shortfall in Congressional appropriations for these years because the revenue was previously recognized upon the enactment of the *Revenue Forgone Reform Act of 1993.* The impact of not fully funding these obligations in 2011, 2012, and 2013, only represents a change in the timing of the funding, but not a change to the legal requirement for reimbursement.

The related amount of the receivable was $414 million at March 31, 2013, and $463 million at September 30, 2012. The current portion of this receivable was $28 million at March 31, 2013, and $78 million at September 30, 2012, and is recorded under “Receivables – U.S. Government” on the Balance Sheets while the noncurrent portions are shown as “Other Assets”.

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

Cautionary Statements

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as “may,” “will,” “could,” “expect,” “believe,” “plan,” “estimate,” “project,” 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.

Management’s Discussion and Analysis of Financial Condition and Results of Operations and other parts of this report include statements representing expectations about the United States Postal Service business and financial results. These may be affected by risks and uncertainties discussed here and in the Annual Report on Form 10-K for the year ended September 30, 2012, such as, but not limited to, effectiveness of operating initiatives; rate of electronic diversion; costs and delays associated with changes in laws and regulations; the amount of required prefunding payments to the Postal Service Retiree Health Benefits Fund (PSRHBF); success in advertising and promotional efforts; changes in national and local business and economic conditions, including their impact on consumer and business confidence; fluctuations in currency exchange and interest rates; labor and other operating costs; oil, fuel, and other transportation costs; the effects of war and terrorist activities; competition, including pricing and marketing initiatives and new service offerings by our competitors; consumer preferences or perceptions concerning our service offerings; spending patterns and demographic trends; availability of qualified personnel; severe weather conditions; labor relations, particularly the results of collective bargaining; effects of legal claims; cost and deployment of capital; and changes in applicable accounting policies and practices. The foregoing list of important factors is not all-inclusive. Some of these and other factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Operating results for the three and six month periods ended March 31, 2013, are not necessarily indicative of the results to be expected for the year ending September 30, 2013. This report should be read in conjunction with the United States Postal Service Annual Report on Form 10-K for the year ended September 30, 2012. As in that report, all references to years, unless otherwise stated, refer to the fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal years 2013 and 2012.

Introduction

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.” We are governed by an eleven-member Board of Governors (the Board). Nine independent Governors are appointed by the President of the United States with the advice and consent of the Senate. Currently, there are four Governor vacancies on the Board. The Postmaster General, who is appointed by the independent Board members, also serves on the Board, as does the Deputy Postmaster General, who is appointed by the independent Board members and the Postmaster General. Under the *Postal Reorganization Act*, and its successor, the *Postal Accountability and Enhancement Act*, Public Law 109-435 (P.L. 109-435), we have a legal mandate to offer a “fundamental service” to the American people “at fair and reasonable rates.” We fulfill this legal mandate 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 service, prices do not vary unreasonably by customer for the level of service provided. However, P.L. 109-435 provides greater flexibility in the pricing of Shipping Services, as discussed below.

We serve individual and commercial customers in the communications, distribution and delivery, advertising, and retail markets throughout the nation and internationally. As a result, 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 2% of operating revenue.

Prices and fees are subject to a review process by the Board and by the independent PRC.

P.L. 109-435 classifies postal products and/or services into two broad categories: Market-Dominant and Competitive. Price increases for those services classified as Market-Dominant are subject to a price cap based on the Consumer Price Index — All Urban Consumers (CPI-U). The regulations for Competitive services place no upper limit on price changes but do set a price floor. Throughout this document and in the day-to-day operation of the organization, we refer to our major service categories as the following: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals, and Other. Most services in the First-Class Mail, Standard Mail, and Periodicals, are in the Market-Dominant category. Shipping and Package Services and International Mail, which are predominantly Competitive services, include, but are not limited to, First-Class and Standard Mail Parcels, Priority Mail, Express Mail, Parcel Select and Parcel Return Service, Bulk Standard Post, and Bulk International Mail. An average price increase of 2.6% for Market-Dominant and 9% for Competitive services went into effect January 27, 2013.

Our products and services are sold through a network of nearly 32,000 postal-managed Post Offices, stations, and branches, plus thousands of contract postal units, community post offices, Village Post Offices, retail establishments that sell postage stamps and other services, and our website, *http://www.usps.com*. Mail deliveries are made to over 152 million city, rural, Post Office box, and highway delivery points. Operations are conducted primarily in the domestic market, with international sales representing approximately 5% of total revenue.

We operate and manage a very extensive and integrated retail, distribution, transportation and delivery network. Our physical infrastructure and labor force are not, with limited exceptions, dedicated to individual business lines. Expenses are incurred and managed by functional groupings that align with the integrated network structure. Reporting of expenses on a functional basis in this report conforms to the management and structure of expense incurrence within the organization.

The labor force is primarily represented by the American Postal Workers Union, AFL-CIO (APWU), the National Association of Letter Carriers, AFL-CIO (NALC), the National Postal Mail Handlers Union, AFL-CIO (NPMHU), and the National Rural Letter Carriers Association (NRLCA). More than 85% of career employees are covered by collective bargaining agreements. The current contract with the APWU became effective May 23, 2011, and extends through May 20, 2015. The current NRLCA contract term is November 10, 2010, through May 20, 2015.

The NALC and NPMHU contracts which expired on November 20, 2011 were finalized following interest arbitration awards in Quarter II, 2013. The NALC contract was awarded on January 10, 2013, and the NPMHU contract was awarded on February 15, 2013, both of which are effective through May 20, 2016. These interest arbitration awards included a two-year wage freeze, an increase in the allowable number of non-career employees, a lower wage scale for new career employees, and a decrease in the employer share of health insurance premiums. The NALC and the NPMHU awards also continue limited no-layoff protection for career mail handlers.

We participate in federal employee benefit programs for retirement, health and workers' compensation benefits. Under P.L. 109-435, we are obligated to fully fund the employer's portion of the established health benefits of current retirees and current postal employees who have not yet retired. To accomplish this, the law established the Postal Service Retiree Health Benefits Fund (PSRHBF) and requires that we make prefunding payments of between $5.6 billion and $5.8 billion into the PSRHBF between 2013 and 2016. These amounts are in addition to the $38 billion contributed through 2010 and in addition to the premiums paid monthly for the health benefits of current retirees. No contribution was required or made to the PSRHBF in 2011, and we were forced to default on $11.1 billion of prefunding obligations during 2012. These payments can be rescheduled at any time with the passage of a new law. We have asked Congress to restructure the payment schedule. However, there can be no assurance that Congress will restructure any of the scheduled payments. Further, if no legislation is passed which impacts the $5.6 billion payment due by September 30, 2013; we will also be forced to default on that payment. See Note 8– *Health Benefits Programs* for further discussions regarding the PSRHBF prefunding payments.

The Ponemon Institute ranked the Postal Service as the fifth most trusted company of 709 entries from among 25 industry sectors in its publication, *Most Trusted Companies for Privacy Study*, in February 2013. The Ponemon survey reinforced our belief that customers depend on the security of the mail and trust in the Postal Service to protect their privacy. Ponemon also named the Postal Service the "Most Trusted Government Agency" for the seventh year in a row.

In December 2011, Oxford Strategic Consulting named USPS the most efficient postal service within the world's top 20 largest economies for access to services, resource efficiency, and public trust after their comprehensive review of the performance of universal postal service providers. The report found that the Postal Service delivers nearly double the number of letters per employee as its closest ranking global competitor.

The Postal Service is not a reporting company under the Securities Exchange Act of 1934, as amended, and is not subject to regulation by the Securities and Exchange Commission (SEC). However, it is 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 reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, which are available at *http://about.usps.com/who-we-are/financials/welcome.htm*. The Postal Service is also required by law and regulations to disclose operational and financial information well beyond what the law requires of other government agencies and most private sector companies.

Pursuant to Title 39 of the United States Code and PRC regulations, additional disclosures on the organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, financial and strategic plans, and the *Comprehensive Statement on Postal Operations* are filed with the PRC and may also be found online at *http://about.usps.com.* Information on the website is not incorporated by reference into this document.

Critical Accounting Judgments and Estimates

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

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies and are material to the interim financial statements are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report on Form 10-K for the year ended September 30, 2012. Management discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board.

Recent Accounting Pronouncements

New Accounting Standards

There were no accounting standards issued or adopted during the six months ended March 31, 2013 that had or will have a material impact on our financial statements.

Results of Operations

Our net loss was $1,866 million for the three months ended March 31, 2013, compared to a net loss of $3,177 million for the same period last year, a decrease of $1,311 million. For the six months ended March 31, 2013, our net loss was $3,130 million, compared to a net loss of $6,464 million for the same period last year, a decrease of $3,334.

Key operating statistics are summarized in the following table.

Key Operating Statistics	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars and mail volume in millions)		2013		2012		2013		2012
Operating Revenue	$	16,348	$	16,227	$	34,008	$	33,904
PSRHBF Expense	$	1,400	$	3,050	$	2,800	$	6,100
Net Loss	$	(1,866)	$	(3,177)	$	(3,130)	$	(6,464)
Total Mail Volume		38,799		39,359		82,292		82,920
Average Daily Volume		524		525		552		553

Although significant efforts continue to be made to increase revenues and contain costs under management's control, the Postal Service has not been able to completely offset the impacts of our declining mail volumes. In addition, the accrual of the large PSRHBF prefunding requirement, continuation of six-days-per-week delivery and continued high fuel costs adversely affect our financial results.

Major drivers of operating results include the overall customer demand and mix of postal services; the volume of mail and packages processed through our network; and our ability to manage our cost structure, which includes wages and fuel prices, to match declining volume levels. In addition, the annual legally-mandated PSRHBF prefunding expense and fluctuations in workers' compensation expense due to discount rates also greatly impact our results, although these items are not under our immediate control. Accordingly, PSRHBF prefunding expenses and the impact of discount rates in workers' compensation are usually excluded when evaluating results because they do not reflect management's success or failure to effectively manage the day-to-day operations.

Our net losses include expenses for the legally-mandated prefunding of retiree health benefits, as well as the legally-mandated participation in the federal workers' compensation program that is managed by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) and governed by the Federal Employees' Compensation Act (FECA). Under FECA, workers' compensation claims cannot be settled through lump-sum payments. Rather, compensation frequently must be paid over many years. As the Postal Service does not manage the FECA program, we have little ability to control the significant claims costs. These factors, compounded by the cost of living adjustments (COLA) granted by federal law to those claims and the above market charges for administration of these claims, result in substantially higher costs to the Postal Service than would likely be the case if claims management decisions were made by the Postal Service. In addition to the constraints imposed by the legally-mandated FECA program, actuarial estimations and projected cash payments that will be paid well into the future also have substantial impact on our reported workers' compensation liability. Future cash payments must be converted to present-day dollars, or discounted, by applying the current rates at which the liability could theoretically be settled. Discount rates can fluctuate significantly from period to period with changes in the economic and interest rate environment. Even a very small change in discount rates can have a large impact, as a 1% decrease in rates at March 31, 2013, would have resulted in a $2.3 billion increase of the liability. This can, and does, result in the GAAP workers' compensation expense varying significantly from our cash outlays.

Because the legislative mandates for prefunding of retiree health benefits and the participation in the FECA are not subject to management's control, we believe that analyzing operating results without the impact of certain of these charges provides a more meaningful insight into current operations. In the day-to-day operation of our business, we exclude these items from our internal financial analyses in order to direct focus onto the relevant expenses that management can control and include only those workers' compensation costs representing current year payments on behalf of postal claimants. The table below illustrates the loss from ongoing business activities when these charges are not considered, and reconciles this amount to our GAAP net loss.

Net Loss before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense								
	Three Months Ended March 31,				**Six Months Ended March 31,**			
(Dollars in millions)		**2013**		**2012**		**2013**		**2012**
Net Loss	**$**	**(1,866)**	**$**	**(3,177)**	**$**	**(3,130)**	**$**	**(6,464)**
Impact of:								
Expense Related to the Long-term Portion of Workers' Compensation		**120**		**(277)**		**128**		**113**
PSRHBF expense		**1,400**		**3,050**		**2,800**		**6,100**
Net Loss before Impact of Expense Related to Long-term Portion of Workers' Compensation and PSRHBF Expense	**$**	**(346)**	**$**	**(404)**	**$**	**(202)**	**$**	**(251)**

Without the impact of these non-controllable factors, our net loss would have been $346 million for the quarter ended March 31, 2013, and $202 million for the six months ended March 31, 2013. In 2012, the net loss would have been $404 million, and $251 million, for the three and six month periods ended March 31, respectively.

For the three months ended March 31, 2013, total operating revenue was $16,348 million, an increase of $121 million, or 0.7%, compared to revenues of $16,227 million for the same period last year. For the six months ended March 31, 2013, and 2012, total operating revenue was $34,008 million, and $33,904 million, respectively, an increase of $104 million, or 0.3%. The slight increases in total revenue in the three and six month period were fueled by strong growth of 9.3% and 6.9% in our Shipping and Packages services supplemented by moderate increases of 2.4% and 2.8% in Standard Mail revenue. These increases, however, were almost entirely offset by declines of 2.7% and 2.9% in First-Class Mail revenue, which continues its decline that began in 2008.

Operating expenses fluctuate on a year-over-year basis because the majority of operating expenses are directly impacted by revenue and volume levels, the cost of salaries and benefits, and cost reduction initiatives. Total operating expenses were $18,173 million for the three months ended March 31, 2013, compared to $19,364 million for the same period last year, a decrease of $1,191 million, or 6.2%. For the six months ended March 31, 2013, operating expenses were $37,053 million, compared to $40,287 million in 2012, a decrease of $3,234 million, or 8.0%.

Operating Expenses										
	Three Months Ended March 31,				**Six Months Ended March 31,**				**% Change**	
									Three Months	**Six Months**
(Dollars in millions)		**2013**		**2012**		**2013**		**2012**	**2013 / 2012**	**2013 / 2012**
Compensation and Benefits	**$**	**11,647**	**$**	**11,698**	**$**	**24,114**	**$**	**24,184**	**(0.4%)**	**(0.3%)**
Retiree Health Benefit Premiums		**709**		**662**		**1,387**		**1,292**	**7.1%**	**7.4%**
PSRHBF Prefunding		**1,400**		**3,050**		**2,800**		**6,100**	**(54.1%)**	**(54.1%)**
Workers' Compensation		**429**		**24**		**753**		**769**	**NM***	**(2.1%)**
Transportation		**1,661**		**1,678**		**3,500**		**3,444**	**(1.0%)**	**1.6%**
Other Expenses		**2,327**		**2,252**		**4,499**		**4,498**	**3.3%**	**0.0%**
Total Operating Expenses	**$**	**18,173**	**$**	**19,364**	**$**	**37,053**	**$**	**40,287**	**(6.2%)**	**(8.0%)**

*not meaningful

The large decrease in total operating expenses reflects the fact that in 2013, we are accruing amounts for one legally required PSRHBF prefunding payment of $5.6 billion in contrast to the $11.1 billion of prefunding payments in 2012. As discussed in the sections below, we continue to focus our efforts on those costs within our control as shown by the approximate 7 million decrease in total work hours for the three months ended March 31, 2013.

Revenue and Volume

Summary of Revenue and Volume Results
Businesses and consumers have embraced greater use of the internet, mobile communications and other technological platforms to communicate and facilitate business transactions. This behavioral shift has had a significant negative impact on our traditional sources of revenue. Although some trends, such as an increase in the shipment of goods purchased online were positive for our business, the shift to electronic communication alternatives continues to present significant business challenges for the Postal Service.

The impact of technological change has been especially pronounced on our First-Class Mail revenues which continue to decline even as new services, the growth of e-commerce, and successful marketing campaigns, have helped us grow our Shipping and Packages revenues. However, because Shipping and Packages presently represent approximately 20% of our total revenues and because the profit contribution on these services is much lower than that of our First-Class Mail services, the increases we are currently experiencing in Shipping and Packages cannot offset the declines in First-Class Mail revenue and volume. Revenues from Shipping and Package Services would have to grow at a substantially higher rate in order to replace the contribution of First-Class Mail. We anticipate that the volume of First-Class Mail will never return to former levels experienced in the mid-2000s; in fact, we predict that it will continue to decrease well into the foreseeable future.

Prices for Market-Dominant services, which primarily consist of First-Class Mail, Standard Mail and Periodicals, are capped at the rate of inflation and increased an average of 2.1% in January 2012. Competitive services, the majority of which are Express Mail, Priority Mail, First-Class Package Mail, and Parcel Return Services, increased in price by a weighted average of 4.6% in January 2012. Further price increases took effect in January 2013. The average price increase for Market-Dominant products was 2.6%, and Competitive services products prices increased by an average of 9%.

Revenue growth is constrained by laws and regulations which restrict the types of products and services we can offer, and impose price caps; therefore impacting our ability to implement new products and services, and the speed with which we can bring them to market. Price caps apply to the products that currently account for approximately 80% of our revenue.

Despite trends away from hard copy to electronic media, First-Class Mail and Standard Mail continue to provide the vast majority of our revenues. First-Class Mail represents 43% of our revenues and accounts for 42% of the mail volume while Standard Mail generates 26% of revenues, but 51% of volume. Shipping and Packages generates approximately 20% of our revenues despite representing only 2% of volume.

The following chart presents volumes for the three and six month periods ended March 31, 2013, and 2012, by each service line.

Volume by Service Line *	Three Months Ended March 31,		Six Months Ended March 31,		% Change Three Months	% Change Six Months
(Pieces in millions)	2013	2012	2013	2012	2013 / 2012	2013 / 2012
First-Class Mail[1]	16,732	17,445	34,455	36,003	(4.1%)	(4.3%)
Standard Mail[2]	19,216	19,035	41,837	40,873	1.0%	2.4%
Shipping & Packages[3]	921	867	1,930	1,837	6.2%	5.1%
International	223	224	490	517	(0.4%)	(5.2%)
Periodicals	1,604	1,682	3,245	3,409	(4.6%)	(4.8%)
Other[4]	103	106	335	281	(2.8%)	19.2%
Total Volume by Service Line	38,799	39,359	82,292	82,920	(1.4%)	(0.8%)

*Note: The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year. These reclassifications did not impact total mail volume for the prior year.

[1] Excludes First-Class Mail Parcels.

[2] Excludes Standard Mail Parcels.

[3] Includes Priority Mail, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service, and Express Mail.

[4] Includes the US Postal Service's Mail and Free Mail provided to certain groups.

The following chart presents details of our revenues for the three and six month periods ended March 31, 2013, and 2012, by each service line.

Operating Revenue by Service Line *	Three Months Ended March 31,		Six Months Ended March 31,		% Change Three Months	% Change Six Months
(Dollars in millions)	2013	2012	2013	2012	2013 / 2012	2013 / 2012
First-Class Mail[1]	$ 7,143	$ 7,341	$ 14,650	$ 15,085	(2.7%)	(2.9%)
Standard Mail[2]	4,041	3,945	8,674	8,437	2.4%	2.8%
Shipping & Packages[3]	3,128	2,861	6,528	6,108	9.3%	6.9%
International	748	716	1,557	1,523	4.5%	2.2%
Periodicals	417	431	843	875	(3.2%)	(3.7%)
Other[4]	871	933	1,756	1,876	(6.6%)	(6.4%)
Total Operating Revenue by Service l	$ 16,348	$ 16,227	$ 34,008	$ 33,904	0.7%	0.3%

*Note: The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year. These reclassifications did not impact total operating revenue for the prior year.

[1] Excludes First-Class Mail Parcels.

[2] Excludes Standard Mail Parcels.

[3] Includes Priority Mail, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service, and Express Mail.

[4] Includes PO Box Services, Certified Mail, Return Receipts, Insurance, Other Ancillary Fees, Shipping and Mailing Supplies, and other operating revenue.

FIRST-CLASS AND STANDARD MAIL

First-Class Mail and Standard Mail accounted for nearly 70% of total revenues for the six month periods ended March 31, 2013, and 2012.

First-Class Mail, our most profitable service category, had revenue of $7,143 million in the three months ended March 31, 2013, a decrease of $198 million, or 2.7%, from the same period last year. The corresponding volume decrease was 713 million pieces, or 4.1%. In the six month period ended March 31, 2013, revenues declined $435 million, or 2.9%, from the same period last year. Volumes declined by 1,548 million pieces, or 4.3%, for the same six month period when compared to last year. The most significant factor contributing to this decline continues to be the migration toward electronic communication and transactional alternatives.

While not as strong as Quarter I, 2013, Standard Mail revenue in Quarter II, 2013 continued to increase over the same quarter in the previous year which represents the second consecutive quarter of year-over-year growth after five consecutive quarters of decline. Standard mail revenues of $4,041 million were $96 million, or 2.4%, greater in the three months ended March 31, 2013, on a volume increase of 181 million pieces, or 1.0%, compared to the three months ended March 31, 2012. For the six month period ended March 31, 2013, Standard Mail revenue of $8,674 million increased $237 million, or 2.8%, on a volume increase of 964 million pieces, or 2.4%, compared to the first six month period of 2012. This year-to-date increase is partially attributable to political campaign mail related to the Presidential and Congressional elections mailed during the first quarter of 2013. In Quarter II, 2013, the Postal Service introduced promotional incentives for advertisers designed to promote the integration of mobile technologies into marketers' direct mail pieces; enticing them to keep mail as an essential part of their marketing mix. We expect the positive results of these offers to have a greater impact in the months ahead.

SHIPPING AND PACKAGES

The following two tables present detail volumes and revenues for Shipping and Packages for the three and six month periods ended March 31, 2013, and 2012, by each service line.

Shipping & Packages Volume *	Three Months Ended March 31,		Six Months Ended March 31,		% Change Three Months	% Change Six Months
(Pieces in millions)	2013	2012	2013	2012	2013 / 2012	2013 / 2012
Priority Mail & Standard Post	237	220	492	475	7.7%	3.6%
Parcel Select, Parcel Return & Standard Parcels	339	313	731	674	8.3%	8.5%
Package Services	137	149	285	304	(8.1%)	(6.3%)
First-Class Packages[1]	199	175	403	364	13.7%	10.7%
Express Mail	9	10	19	20	(10.0%)	(5.0%)
Total Shipping & Packages Volume	921	867	1,930	1,837	6.2%	5.1%

*Note: The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year. These reclassifications did not impact total Shipping & Packages volume for the prior year.

[1] Includes First-Class Mail Parcels and First-Class Package Services.

Shipping & Packages Revenue *										
		Three Months Ended March 31,				Six Months Ended March 31,			% Change	
									Three Months	Six Months
(Dollars in millions)		2013		2012		2013		2012	2013 / 2012	2013 / 2012
Priority Mail & Standard Post	**$**	**1,789**	**$**	**1,627**	**$**	**3,752**	**$**	**3,574**	**10.0%**	**5.0%**
Parcel Select, Parcel Return, & Standard Parcels		**500**		**430**		**1,076**		**913**	**16.3%**	**17.9%**
Package Services		**209**		**222**		**416**		**441**	**(5.9%)**	**(5.7%)**
First-Class Packages[1]		**445**		**380**		**892**		**775**	**17.1%**	**15.1%**
Express Mail		**185**		**202**		**392**		**405**	**(8.4%)**	**(3.2%)**
Total Shipping & Packages Revenue	**$**	**3,128**	**$**	**2,861**	**$**	**6,528**	**$**	**6,108**	**9.3%**	**6.9%**

*Note: The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year. These reclassifications did not impact total Shipping and Packages revenue for the prior year.

[1] Includes First-Class Mail Parcels and First-Class Package Services.

Total Shipping and Packages revenue of $3,128 million for the three month period ended March 31, 2013, increased $267 million, or 9.3%, as compared to $2,861 million in the three month period ended March 31, 2012. Shipping and Packages revenue has continued to show solid growth in the six months ended March 31, 2013, compared with the same period one year ago, increasing $420 million, or 6.9%, from $6,108 million in the first six months of 2012, to $6,528 million in the six months ended March 31, 2013. The increases are reflective of our successful efforts to take advantage of the growing area of shipping and packages and compete in the ground shipping services and "last-mile" e-commerce fulfillment markets. Additionally, the 2012 holiday season provided a surge in package volume in the first quarter as we took advantage of consumers' growing fondness for shopping online.

INTERNATIONAL MAIL

For the three month period ended March 31, 2013, and 2012, International Mail revenues were $748 million and $716 million, respectively, an increase of $32 million, or 4.5%. This increase was driven by rate increases for International services. Year-to-date International Mail revenues were $1,557 million, an increase of $34 million, or 2.2%, over the six months ended March 31, 2012.

PERIODICALS AND OTHER

We continue to see the impact that electronic devices have on written media and expect that the popularity of these devices will continue to have a detrimental impact on our results from Periodicals into the foreseeable future. Periodicals revenue decreased $14 million, or 3.2%, from $431 million in the three month period ended March 31, 2012, to $417 million for the three months ended March 31, 2013; as volume decreased 78 million pieces, or 4.6%, to 1,604 million pieces. During the six month period ended March 31, 2013, Periodicals volume declined 164 million pieces, or 4.8%, as reflected in declining revenues of $32 million, or 3.7%, when compared to the same period last year.

Other revenue includes ancillary services such as Certified Mail, P.O. Box services, return receipts, and delivery confirmation. In addition, other revenue generated from items such as the sales of money orders, passport services, and gains from the sales of real estate are also included in this category. Other revenue represents less than 6% of total operating revenues for the three and six month periods ended March 31, 2013, and 2012.

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

Compensation and benefits expense for the three months ended March 31, 2013, was $11,647 million, a $51 million, or 0.4%, decrease compared to the three months ended March 31, 2012. For the six months ended March 31, 2013, compensation and benefits was $24,114 million, a decrease of $70 million, or 0.3%. Included in the expense is $351 million of separation incentive expenses of which $92 million and $259 million was recorded in Quarter I, 2013, and Quarter II, 2013, respectively, for employees who voluntarily separated from the Postal Service during January and February of 2013. Excluding the impact of the separation incentive expense, total compensation and benefits expense for the three and six months ended March 31, 2013, would have decreased by $310 million, or 2.7%, and $421 million, or 1.7%, respectively, compared to the same periods in 2012.

Compensation and Benefits Expense		Three Months Ended March 31,				Six Months Ended March 31,		
(Dollars in millions)		2013		2012		2013		2012
Compensation	$	8,919	$	8,846	$	18,518	$	18,434
Retirement		1,421		1,453		2,902		2,936
Health Benefits		1,222		1,303		2,508		2,610
Other		85		96		186		204
Total Compensation & Benefits	$	11,647	$	11,698	$	24,114	$	24,184

COMPENSATION

Compensation expense of $8,919 million for the three months ended March 31, 2013, was $73 million, or 0.8%, greater than for the three months ended March 31, 2012. However, when excluding the impact related to incentive expenses for employees who voluntarily separated from the Postal Service in Quarter II, 2013, compensation expense was $186 million, or 2.1%, less than the same period last year.

For the six months ended March 31, 2013, compensation expense was $84 million, or 0.5%, greater than for the six months ended March 31, 2012. Excluding the impact of the amounts related to separation incentives, compensation expense decreased by $267 million, or 1.4%, for the six months ended March 31, 2013, compared to the same period last year.

Voluntary separations and early retirements of employees allow us to better manage our staffing, and we are able to decrease ongoing compensation and benefits expenses. Total compensation expense decreased after we successfully reduced total work hours by approximately 7 million, and approximately 8 million, for the three and six month periods ended March 31, 2013, respectively. The increased utilization of non-career employees facilitated the realignment of staffing and workload levels contributed to the reduction of costs. These reductions were achieved despite a 1% pay increase which was effective November 17, 2012, for approximately 50% of our employees represented by the APWU and NRLCA. Offsetting these reductions were increases in overtime for the three and six month periods ended March 31, 2013, as we continue to optimize the mail processing facility and route network.

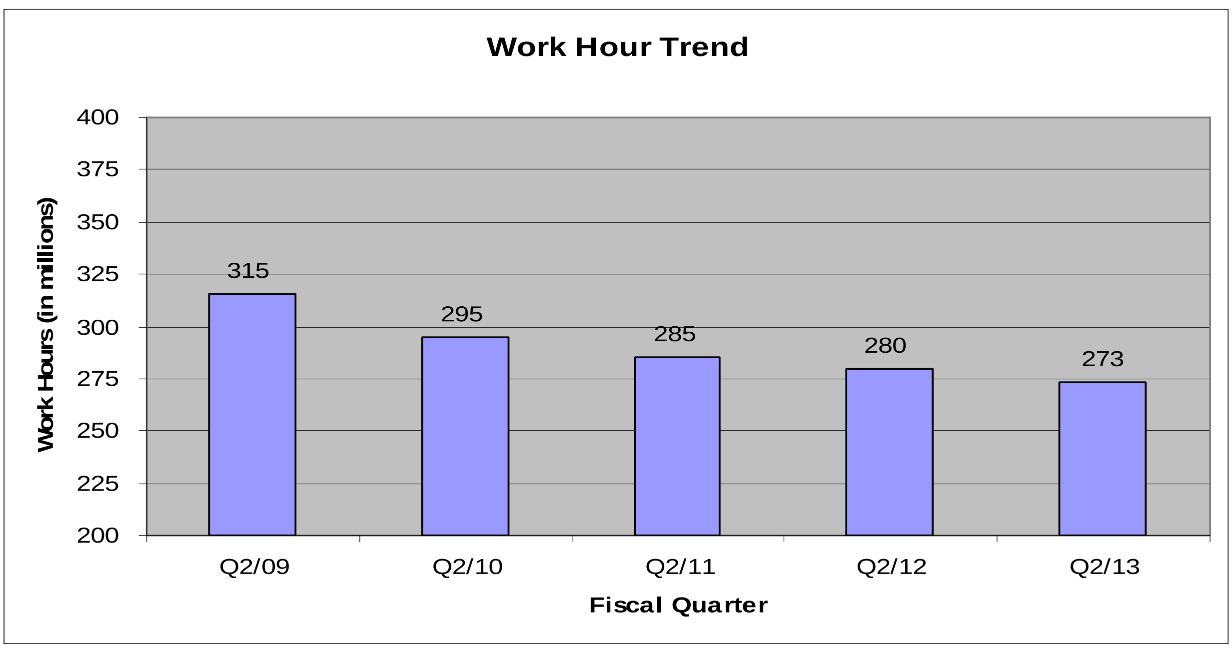
WORK HOURS

The Postal Service reduced work hours in the quarter ended March 31, 2013, by approximately 7 million hours, or 2.4%, compared to the same three month period last year. This decrease was achieved despite a comparable increase of 6.2% in volume for Shipping and Packages – our services with the highest levels of workload.

Work Hours	Three Months Ended March 31,		Six Months Ended March 31,	
(Hours in Thousands)	2013	2012	2013	2012
City Delivery	96,294	96,727	196,901	196,526
Mail Processing	50,438	52,631	106,330	109,567
Customer Services Operations	34,539	36,311	71,052	73,837
Rural Delivery	43,069	43,750	87,469	88,495
Postmasters	13,948	14,465	28,495	28,743
Other, including Retail, Plant, Vehicle Services, Operational Support, & Administration	34,767	35,906	70,514	71,316
Total	273,055	279,790	560,761	568,484

In the three months ended March 31, 2013, Customer Service Operations decreased 1.8 million work hours as modified window hours took effect in many post office locations. Mail processing operations also experienced a 2.2 million work hour reduction due to the network consolidation efforts. Conversely, year-to-date work hours increased due to the increased package volume created by the holiday mailing season. Work hour reductions have been the single largest contributor to the ongoing achievement of savings targets. Since 2000, we have increased our efficiency and removed a cumulative total of 505 million work hours from our cost base. At our current average hourly compensation and benefit rate, this equates to annual savings of approximately $22 billion.

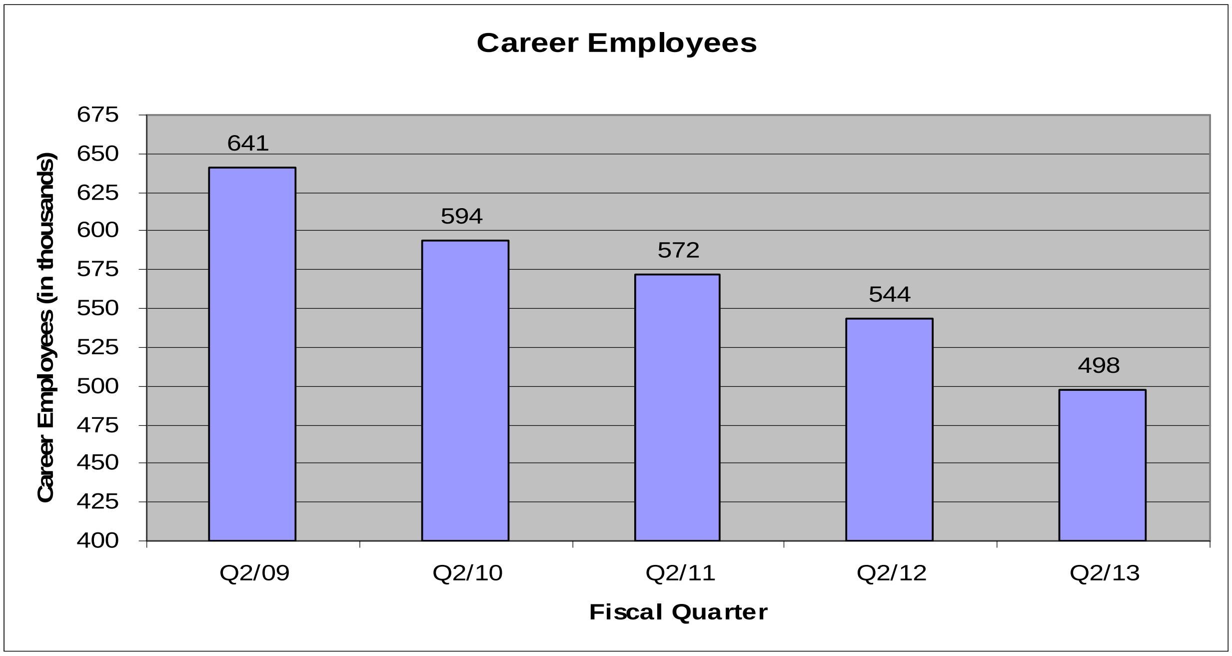
The following chart illustrates our work hour usage in the second quarter of each year since 2009 which shows that year over year work hours have steadily declined.



EMPLOYEE WORKFORCE

The total number of employees at March 31, 2013, was approximately 616,400, of which approximately 498,000 were career employees. The number of career employees has decreased by approximately 25,000, during the three months ended March 31, 2013, and has declined by approximately 46,000 since March 31, 2012. There has been a cumulative reduction of approximately 290,000, or one third, of our career employees since September 30, 2000. These reductions have been accomplished primarily through attrition and separation incentives to retire or resign. The Postal Service has now returned to its lowest employee complement since 1966.

The following graph depicts the number of Postal Service career employees as of the second quarter each year since 2009.



In addition to improvements in service, the Postal Service continues to aggressively pursue strategies within its control to increase efficiency and achieve significant cost savings as described most recently in its 2013 Five-Year Business Plan (Plan) which is discussed in Note 2 – *Liquidity.*

To help manage our employment levels, voluntary separation incentives are periodically offered. In Quarter I, 2013, the USPS offered a voluntary early retirement (VER) and special incentive opportunity to approximately 187,000 employees represented by the American Postal Workers Union (APWU). The total incentive amount was $15,000 which is to be paid in two installments: $10,000 on May 24, 2013, and $5,000 on May 23, 2014 for employees who voluntarily separated from the Postal Service by February 28, 2013. Although the cash payments will occur in future periods, the expense related to this offer was recorded in compliance with GAAP in Quarter I, and Quarter II, 2013, depending on the employee’s ability to revoke their decision prior to the selected separation date. For the three and six month periods ended March 31, 2013, we recognized expense of $259 million, and $351 million, respectively, related to approximately 22,800 employees who voluntarily departed.

During 2012, two voluntary incentives were offered: one incentive of $20,000 was accepted by approximately 4,275 postmasters and one incentive of $15,000 was accepted by approximately 2,925 mail handlers represented by the NPMHU. These employees voluntarily separated from Postal Service in 2012. The full amount of these 2012 incentive offerings, approximately $135 million, was recorded as an expense in Quarter IV, 2012, although at that time the cash payments were to be paid in Quarter I, 2013, and Quarter I, 2014.

RETIREMENT AND HEALTH BENEFITS EXPENSE– CURRENT EMPLOYEES

Retirement expense was $1,421 million for the three months ended March 31, 2013, compared to $1,453 million for the same period last year, a decrease of $32 million, or 2.2%. Year-to-date retirement expense was $2,902 million, compared to $2,936 million for the same period last year, a decrease of $34 million, or 1.2%.

The Postal Service's share of the health care premiums for our employees has remained 78% of the total premium cost for the three and six month periods ended March 31, 2013, and 2012. Total employer's health care premium cost was $1,222 million, and $1,303 million, for the three month periods ended March 31, 2013, and 2012, respectively, a decrease of $81 million, or 6.2%, over the same period last year. For the six month periods ended March 31, 2013, and 2012, the Postal Service's contribution to health care premiums was $2,508 million and $2,610 million, respectively, a decrease of $102 million, or 3.9%, over the same period last year. The decrease in health benefits expense was driven by a reduction of approximately 46,000, or 8.5%, in number of career employees, as compared to the same period last year. Additionally, the increased number of retirements caused a shift of health benefit expenses related to these employees to now be incurred by the retiree health benefit plan. The savings which resulted from the reduction in the number of employees was offset by a 3.4% increase in the average health care cost per employee due to rising health care premiums.

On October 16, 2012, and subsequently updated on December 4, 2012, the OIG published its report, *Causes of the Postal Service FERS Surplus*. Based on information provided by the Hay Group, an independent actuarial firm with Postal Service expertise, the OIG found that, if Postal Service-specific experience and demographic characteristics are used to estimate the FERS pension liability, the OPM-estimated projected surplus of $3.0 billion as of September 30, 2012, would increase considerably.

The OIG report explains that the Postal Service is paying more than its fair share into the Federal Employees' Retirement System mainly because OPM utilizes government-wide salary increase assumptions to estimate the Postal Service's obligation. Like other agencies, the Postal Service and its employees currently contribute a total of 12.7% of payroll into FERS. But from 2001 through 2010, OPM assumed average government-wide salary growth of 4.11% per year, yet the actual increases received by the Postal Service's unionized workforce was considerably lower, ranging from 2.77% to 3.41% annually. In addition, more than 70% of those employees had already reached the top of their pay scales, increasing the likelihood that current assumptions "overstate future salary growth" according to the OIG.

We believe that OPM should calculate FERS liabilities using Postal Service-specific assumptions and demographics as these assumptions would more accurately reflect the lower cost of our future pension obligations. This would, in turn, increase the overfunded amount, as well as decrease the biweekly prefunding payment we must make into FERS. We continue to seek Congressional legislation facilitating a refund of the overfunded balance and an adjustment of the FERS prefunding schedule.

Operating Expenses – Retiree Health Benefits

P.L. 109-435 required the Postal Service to pay into the PSRHBF, $55.8 billion in 10 annual installments through 2016. While P.L. 109-435 dictates the amounts and timing of payments, the amounts to be paid and the timing of the payments can be rescheduled at any time with the passage of a new law.

As previously reported in our Annual Report on Form 10-K for the year ended September 30, 2012, we defaulted on the legally required $11.1 billion of PSRHBF payments due in 2012. The full $11.1 billion is recorded as a current liability in "Retiree health benefits" on the March 31, 2013 Balance Sheets. In accordance with GAAP, we are also accruing the $5.6 billion payment due by September 30, 2013, in equal amounts throughout the year. Absent legislative change, we see no current means to satisfy the future payment of $5.6 billion due by September 30, 2013, and we will be forced to default when that payment becomes due.

Current law also obligates us to make additional payments of $5.7 billion in 2014 and 2015, and $5.8 billion in 2016, each due by September 30 of each respective year. Although the 2009 scheduled payment amount was changed by law and the 2011 scheduled payment was rescheduled, subsequent to the passage of P.L. 109-435, no law changes have addressed the original prefunding requirements for the remaining years, 2013 to 2016. However, given the low levels of our cash resources, we may be forced to default on these prefunding payments and prioritize payments to our employees and our suppliers, in order to ensure that we will continue to be able to fulfill our other statutory obligations, including our obligation to provide universal mail service to the nation (as discussed in Note 2- *Liquidity,* in the Notes to the Financial Statements). The statutory requirement establishing the payment schedule (P.L. 109-435) contains no provisions addressing a payment default. As of May 10, 2013, no penalties or adverse consequences have resulted from our inability to make the payments due in 2012.

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

Under P.L. 109-435, we pay the premiums for postal retirees participating in FEHBP, and we continue to expense these payments as they become due, at a cost of $709 million, and $1,387 million, for the three and six month period ended March 31, 2013, respectively. The major drivers of retiree health benefits premium costs are the number of retirees and survivors on the rolls, the mix of plans selected by retirees, the premium costs of those plans, and the apportionment of premium costs to the federal government for retiree service prior to 1971.

The components of retiree health benefits expense for the three and six month periods ended March 31, 2013, and 2012, are as follows:

Retiree Health Benefits	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)		2013		2012		2013		2012
Employer Premium Expense	$	709	$	662	$	1,387	$	1,292
P.L. 109-435 Payment to PSRHBF		1,400		3,050		2,800		6,100
Total Retiree Health Benefits Expense	$	2,109	$	3,712	$	4,187	$	7,392

Note that, while no PSRHBF prepayments were made during the first six months of the year, the expense has been accrued. Expenses for the three months ended March 31, 2013, for retiree health benefits employer premiums increased $47 million, or 7.1%, from the same period last year. For the six months ended March 31, 2013, retiree health benefits employer premiums increased $95 million, or 7.4%, from the same period last year. As of March 31, 2013, there were approximately 477,000 participants, a net increase of approximately 7,000 since March 31, 2012, when there were approximately 470,000 participants. In addition to the growth in the number of plan participants, retiree health benefit premium expense also increased due to an increase in the cost of premiums.

Operating Expenses – Workers' Compensation

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

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

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

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

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the March 31, 2013 liability and Quarter II, 2013 expense by approximately $1.8 billion. A decrease of 1% in the discount rate would increase the March 31, 2013 liability and Quarter II, 2013 expense by $2.3 billion.

At March 31, 2013, the present value of the liability for future workers' compensation payments was $16,949 million, compared to $17,567 million at September 30, 2012, a decrease of $618 million. The current portion was $1,295 million at March 31, 2013, compared to September 30, 2012, when the current portion was $1,337 million, a decrease of $42 million.

The inflation and discount rates used to estimate the workers' compensation liability and related expense are shown in the following table.

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended March 31, 2013	September 30, 2012	March 31, 2012	September 30, 2011
Compensation Claims Liability:				
Discount Rate	**2.4%**	**2.1%**	**2.6%**	**2.3%**
Wage Inflation	**2.9%**	**2.9%**	**2.9%**	**2.9%**
Medical Claims Liability:				
Discount Rate	**2.4%**	**2.2%**	**2.7%**	**2.4%**
Medical Inflation	**9.0%**	**8.9%**	**8.6%**	**8.6%**

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. Workers' compensation expense, including the impact of changes in the discount rates, for the three and six month periods ended March 31, 2013, and 2012, was as follows:

Workers' Compensation Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2013	2012	2013	2012
Impact of Discount Rate Changes	**$ (229)**	**$ (599)**	**$ (455)**	**$ (511)**
Actuarial valuation of new cases and revaluation of existing cases	**641**	**607**	**1,174**	**1,247**
Subtotal	**412**	**8**	**719**	**736**
Administrative Fee	**17**	**16**	**34**	**33**
Total Workers' Compensation Expense	**$ 429**	**$ 24**	**$ 753**	**$ 769**

On a quarterly basis, changes in the number of claims and amounts paid are highly volatile and depend on a number of factors including, but not limited to, the following: the number, timing and severity of injuries; the number of new claims and closed claims within the period; and the amount and timing of payments made by the OWCP on our behalf. Medical and compensation claims payments fluctuate significantly from quarter to quarter so the change in the number of paid medical and compensation claims for any quarter compared to the same period last year may not necessarily be representative of the results to be expected for the full year. The following variance calculations are based upon the latest actual data available at December 31, 2012. In the three month period ended March 31, 2013, we experienced a $3 million, or 1.5%, increase in compensation claim payments over the same period last year; and in the six month period ended March 31, 2013, we have experienced a $43 million, or 10.1%, decrease in compensation claim payments. For the three and six month periods ended March 31, 2013, there was an increase of $6 million, or 5.0%, and an increase of $14 million, or 6.2%, in medical claims, respectively. The decreases are primarily attributable to 2012 having an additional payment period compared with 2013.

As noted above, we are legally-mandated to participate in the federal workers' compensation program. Under FECA, workers' compensation claims cannot be settled through lump-sum payments. Rather, compensation must frequently be paid over many years. As the Postal Service does not manage the FECA program, we have little ability to control the significant claims costs. These factors, compounded by the cost of living adjustments (COLA) granted by federal law to those claims and the above market charges for administration of these claims, result in substantially higher costs to the Postal Service than would likely be the case if claims management decisions were made by the Postal Service. In addition to the constraints imposed due to the legally-mandated FECA program, actuarial estimations and projected cash payments that will be paid well into the future also have substantial impact on our reported workers' compensation liability. Future cash payments must be converted to present-day dollars, or discounted, by applying the current rates at which the liability could theoretically be settled. Discount rates can fluctuate significantly from period to period with changes in the economic and interest rate environment.

For the quarters shown, the table below highlights the potentially large differences between actual claims paid on behalf of Postal Service workers' compensation obligations compared to the total recognized workers' compensation expense that includes fluctuations in discount rates, inflation rate increases, and amounts that may not be paid until well into the future.

Workers' Compensation Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2013	2012	2013	2012
Total Workers' Compensation Expense	$ 429	$ 24	$ 753	$ 769
Claims Paid on Behalf of Postal Service's Workers' Compensation Obligations	(309)	(301)	(625)	(656)
Expense Related to the Long-Term Portion of Workers' Compensation	$ 120	$ (277)	$ 128	$ 113

Operating Expenses – Transportation

Transportation expenses are primarily comprised of highway, air, and international transportation costs. For the three months ended March 31, 2013, transportation expenses were $1,661 million, a decrease of $17 million, or 1.0%, compared to $1,678 million for the same period last year. For the six months ended March 31, 2013, transportation expenses were $3,500 million, a $56 million, or 1.6%, increase from $3,444 million expense incurred during the first six months of 2012.

Transportation Expense (Dollars in millions)	Three Months Ended March 31, 2013	 2012	Six Months Ended March 31, 2013	 2012
Highway Transportation	$ 831	$ 846	$ 1,739	$ 1,740
Air Transportation	594	560	1,235	1,159
International Transportation	227	257	506	519
Other Transportation	9	15	20	26
Total Transportation Expense	$ 1,661	$ 1,678	$ 3,500	$ 3,444

In Quarter II, 2013, highway transportation expenses were $831 million, a decrease of $15 million, or 1.8%, compared to expenses of $846 million in Quarter II, 2012. For the first six months of 2013, highway transportation expenses were $1,739 million, a decrease of $1 million, or less than 0.1%, over expenses of $1,740 million for the same period last year. The decrease in highway transportation expenses is due to a decline in contract highway mileage as a result of more efficient load and contract management. Diesel fuel, which makes up approximately 93% of fuel purchased for highway contracts, had an average cost of $4.03 per gallon during Quarter II, 2013, compared to $3.97 per gallon in Quarter II, 2012, an increase of 1.5%.

Air transportation expenses of $594 million for the quarter ended March 31, 2013, increased by $34 million, or 6.1%, from $560 million for the same quarter last year. For the six months ended March 31, 2013, air transportation expenses of $1,235 million were $76 million, or 6.6%, greater than the first six months of 2012. Air transportation expenses were highly influenced by rising fuel prices. At the same time, however, declining volume has allowed us to partially offset some of these increases.

International transportation expenses of $227 million and $506 million for the three and six month periods ended March 31, 2013, decreased $30 million, or 11.7%, and $13 million, or 2.5%, respectively, when compared to last year. Historically, the largest component of international transportation expense is the fee that we pay to foreign postal administrations for transportation and delivery of mail within their country. These foreign postal transaction fees represented 72% and 71% of the total international transportation expense for the six months ended March 31, 2013, and 2012, respectively.

Operating Expenses – Other Operating Expense

Other operating expenses of $2,327 million for the three months ended March 31, 2013, were $75 million, or 3.3%, more than the $2,252 million of other operating expenses for the same period last year. For the six months ended March 31, 2013, other operating expenses of $4,499 million were $1 million more than the first six months of 2012.

Other Operating Expense (Dollars in millions)	Three Months Ended March 31, 2013	 2012	Six Months Ended March 31, 2013	 2012
Supplies and Services	$ 593	$ 545	$ 1,140	$ 1,081
Depreciation and Amortization	485	525	968	1,070
Rent and Utilities	418	426	807	831
Vehicle Maintenance Service	268	255	521	500
Information Technology and Communications	190	172	317	310
Rural Carrier Equipment Maintenance Allowance	134	139	275	287
Other	239	190	471	419
Total Other Operating Expense	$ 2,327	$ 2,252	$ 4,499	$ 4,498

For the three and six months ended March 31, 2013, depreciation and amortization expense experienced decreases of $40 million, or 7.6%, and $102 million, or 9.5%, respectively. Rent expense decreased $8 million, or 1.9%, and $24 million, or 2.9%, for the three and six months ended March 31, 2013, respectively. These expense reductions were driven by a freeze in non-essential capital spending and our overall efforts to reduce square footage of postal facilities. Rural carrier equipment maintenance decreased $5 million, or 3.6%, and $12 million, or 4.2%, for the three and six months ended March 31, 2013, respectively. These decreases reflect management's continued efforts to control such costs.

Offsetting these decreases were increases in supplies and services which increased $48 million, or 8.8%, and $59 million, or 5.5%, for the three and six month periods ended March 31, 2013, largely caused by the need to replace mail transporting equipment. In addition, the other expense category experienced an increase of $49 million, or 25.8%, and $52 million, or 12.4%, for the three and six month periods ended March 31, 2013, respectively, primarily due to legal expenses resulting from the contingent liability evaluation process.

Liquidity and Capital Resources

CASH FLOW ACTIVITY

Cash and cash equivalents totaled $2,691 million at March 31, 2013, compared to $2,319 million and $818 million at September 30, 2012, and March 31, 2012, respectively. The following table provides a summary of our cash flows for the six month periods ended March 31, 2013, and 2012:

Cash Flow Statement	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2013	2012	2013	2012
Operating activities:				
Net loss	$ (1,866)	$ (3,177)	$ (3,130)	$ (6,464)
Noncash depreciation and gains on sales	502	524	988	1,053
Changes in assets and liabilities	1,311	2,588	2,846	5,186
Cash (used by) provided by operating activities	(53)	(65)	704	(225)
Investing activities:				
Capital expenditures, net of proceeds	(142)	(133)	(279)	(337)
Cash used by investing activities	(142)	(133)	(279)	(337)
Financing activities:				
Net change in revolving credit line	-	43	-	(54)
Other	(26)	(29)	(53)	(54)
Cash (used by) provided by financing activities	(26)	14	(53)	(108)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (221)	$ (184)	$ 372	$ (670)

Operating Activities: Cash used by operating activities was $53 million and $65 million in the three month periods ended March 31, 2013 and 2012, respectively. Operating activities generated $704 million of cash during the six months ended March 31, 2013, compared to $225 million of cash used by operating activities for the six months ended March 31, 2012, an increase of $929 million. During the six months ended March 31, 2012, a significant use of cash was the deferred payment of $911 million of FERS employer contributions that were withheld from June 2011 through September 2011. Had we not made the catch-up FERS contributions in Quarter I, 2012, to compensate for the funds not paid in 2011, operating cash flow for the six months ended March 31, 2012, would have generated $686 million. For the six month period ended March 31, 2013, cash flow generated by stamp sales in excess of current usage accounted for an increase in cash flow from operating activities of $372 million.

Investing Activities: Investing activities used $142 million and $279 million of cash during the three and six month periods ended March 31, 2013, respectively. Purchases of property and equipment were $309 million for the six months ended March 31, 2013, compared to $418 million in the same period last year, a decrease of $109 million, or 26.1%, as capital spending continued to decrease in order to conserve cash. Proceeds from the sale of property and equipment were $30 million, and $81 million, for the six months ended March 31, 2013, and 2012, respectively. Restricted cash held by the Postal Service at March 31, 2013, was $100 million. There was no restricted cash at March 31, 2012. See Note 1- *Basis of Presentation* for more information on restricted cash.

Financing Activities: In the three and six month periods ended March 31, 2013, $26 million and $53 million of cash, respectively, were used by financing activities. In addition to the cash generated by operations, we use credit lines and notes payable to the Federal Financing Bank to help fund operations. During the six months ended March 31, 2013, we issued and repaid $2,700 million in notes payable for a zero net issuance. For the same period last year, we issued and repaid $2,500 million in notes payable. The revolving credit line did not change from its September 30, 2012, balance of $4,000 million. For the six months ended March 31, 2012, the revolving credit line had decreased $54 million from the prior year end.

LIQUIDITY CHALLENGES

LIQUIDITY CONCERNS

The Postal Service continues to suffer from a severe lack of liquidity. We held unrestricted cash of $2.7 billion and $2.3 billion as of March 31, 2013, and September 30, 2012, respectively. These cash balances represent approximately 10 days, and 9 days, respectively, of average daily expenses. We had no remaining borrowing capacity on our $15 billion debt facility as of March 31, 2013. (See Note 3- *Debt*, for additional information). Unrestricted cash balances declined $221 million during the quarter, as revenue was not as strong this quarter as compared to Quarter I, 2013. By mid-October, 2013, we project that we will have a cash balance on hand of approximately 4 days of our average daily expenses. This low level of available cash means that we will be unable to make the $5.6 billion legally-mandated prefunding of retiree health benefits due by September 30, 2013. Further, this level of cash could be insufficient to support operations in the event of another significant downturn in mail volume.

We have suffered 6 consecutive quarters of net losses and have had net losses in 15 of the last 17 quarters. The net loss of $3.1 billion for the first six months of the year included $2.8 billion of expense accrued for the legally-mandated prefunding payment for retiree health benefits. The requirement of the *Postal Accountability and Enhancement Act,* Public Law 109-435 (P.L. 109-435) to prefund our retiree health benefit obligations, a requirement not imposed upon other federal agencies or private sector businesses, plus the drop in mail volume and changes in the mail mix caused by changes in consumers' use of mail, have been the major factors contributing to our losses since the recession ended in 2009. Without structural change to the business model, we will continue to be negatively impacted by these factors and, absent legislative change, we anticipate continuing quarterly losses into the foreseeable future.

In addition to the requirement to prefund $5.6 billion of retiree health benefits for 2013, we continue to pay the employer's share of the insurance premiums for our retirees. This cost was $2.6 billion in 2012, and is projected to increase to $2.8 billion for the full year 2013. In the past six fiscal years, since the enactment of the Congressionally-mandated prefunding, we have incurred $41 billion of net losses, including $32 billion of expenses for prefunding retiree health benefits. Through 2012, we have paid $21 billion of cash into the Postal Service Retiree Health Benefit Fund (PSRHBF) for prefunding. Since 2006, our debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012.

During 2012, we were forced to default on $11.1 billion of required prefunding payments to the PSRHBF for retiree health benefits. The statutory requirement establishing the prefunding payment schedule, P.L. 109-435, contains no provisions addressing a payment default. This $11.1 billion is reflected as a current liability on our Balance Sheets. As of the date of this report, May 10, 2013, we have suffered no financial penalties as a result of our inability to make these payments.

We were able to make our annual payment of approximately $1.4 billion to reimburse the DOL for workers' compensation expenses in October 2012. However, current projections indicate that we will have a continued low level of liquidity in the second half of 2013. It is expected that we will be unable to make the required $5.6 billion retiree health benefits prefunding payment due by September 30, 2013, and will continue to have no ability to borrow additional funds at that date. This cash position will continue to worsen in October 2013, when we are required to make our annual payment of approximately $1.4 billion to the DOL for workers' compensation. Absent the legislative actions by Congress that have been requested to assist us in returning to a financially stable position, this low level of liquidity will continue to exist.

In the short-term, should circumstances leave us with insufficient cash, we would be required to implement contingency plans to ensure that mail delivery continues. These measures could require that we prioritize payments to our employees and suppliers ahead of those to the Federal Government, as has been done in the past. Additionally, we continue to seek a refund of the overfunding of FERS as those funds would help alleviate some of our short-term liquidity risks. OPM estimates that the FERS overfunding was $3.0 billion at September 30, 2012. OIG has determined that if our specific assumptions were used to estimate the FERS obligation, rather than the government-wide averages currently used, the surplus would be even greater than the amount calculated by OPM.

POSTAL ACTIONS TAKEN TO IMPROVE LIQUIDITY

On January 14, 2013, our Board of Governors directed management to accelerate the realignment of our operations to further reduce costs in order to strengthen our finances, citing the fact that we cannot wait indefinitely for legislation.

On February 6, 2013, we announced plans to transition to a new delivery schedule beginning in August, 2013, which would include package delivery Monday through Saturday and mail delivery Monday through Friday. We expect to generate cost savings of approximately $2 billion annually, when fully implemented. However, after Congress passed a continuing resolution which clearly prohibits such an action, the Board of Governors announced on April 10, 2013, that implementation of the 5-day delivery plan would be delayed until legislation changing the 6-day delivery requirement is enacted. We remain hopeful that comprehensive legislation to enable changes to the business model will be enacted this fiscal year to allow a transition to the new delivery schedule by 2014, and we continue to advocate for authority to make the change to a 6-day package delivery and a 5-day mail delivery schedule.

On April 17, 2013, we released our comprehensive *2013 Five-Year Business Plan* (Plan) which details the implementation of our targeted program to eliminate nearly $20 billion of annual cost from the business by the year 2016. This plan continues our efforts to aggressively pursue the strategies within our control to increase operational efficiency and to improve our liquidity position. The Plan requires a combination of operational realignment, aggressive cost reductions, and comprehensive legislation to reform our current business model. Several key provisions included in the Plan, as outlined below, must continue in earnest.

- Better alignment of network size and cost with reduced mail volumes
- Revenue management and increased growth
- Implementation of a USPS sponsored healthcare plan for active and retired employees
- Business model changes, including implementation of a new delivery schedule

Alignment of network size and cost with reduced mail volume

Operational measures include the accelerated consolidation of mail processing, retail, and delivery networks in order to better align them with mail volumes, and a reduction in hours at 13,000 Post Offices, accompanied by an expansion in alternate retail access. These extensive operational changes are being executed while we continue to deliver appropriate levels of service to communities throughout America. This realignment of mail processing, retail, and delivery operations is expected to generate nearly $6 billion in annual cost reductions by the year 2016.

In conjunction with the operational realignment, we continue to implement efficiency measures, and continue our actions to better align staffing levels with projected mail volume. These staffing level reductions will be achieved largely through attrition, as approximately one-half of career employees are eligible for optional retirement or voluntary early retirement. As a result of a special Incentive and Voluntary Early Retirement (VER) offer, approximately 22,800 eligible employees represented by the American Postal Workers' Union (APWU) retired or separated from the Postal Service in Quarter II, 2013. This followed 4,275 eligible postmasters and 2,925 eligible mail handlers who retired or separated from the Postal Service in Quarter IV, 2012. In addition, recent contractual agreements with major postal unions allow for increased utilization of lower cost non-career employees, which will facilitate the realignment of staffing and workload levels and the reduction of costs.

Revenue Management

We also continue to introduce new service offerings to generate new revenue and to slow the migration of existing revenue streams to electronic alternatives. Expanded use of digital technologies to enhance the mail experience, using connectivity to various websites, social media, and points of purchase is a focus in enhancing the mail experience. However, legislative action is also required to give us the authority to generate new revenue and adapt to changing business conditions as the scope of products and services that we can offer is limited by law.

Implementation of a USPS sponsored healthcare plan

A vital component of the Plan is the requirement that we sponsor our own health care program, independent of the federal health insurance programs. Our health care program could achieve approximately $8 billion of projected annual savings by 2016. The plan would eliminate the need for any additional retiree health benefit prefunding as established in P.L. 109-435, which would save us over $5.5 billion annually through 2016. The plan also proposes to transfer current retirees into the Postal Service sponsored health care program, an action that requires legislation.

Business Model Change

As noted above, achieving significant future efficiencies and cost reductions in areas that are under our control will not be enough to return us to a position of financial viability in the long run without comprehensive changes to our business model. The fulfillment of the Plan's complete cost savings and debt reduction objective can only be obtained with the enactment of comprehensive legislative reform of our business model. Business model changes requiring legislation include: our sponsorship of our own healthcare plan for both employees and retirees, and resolving the prefunding of retiree health benefits; and obtaining a refund of our over-payment to FERS. Congress must also allow us to implement a 6-day package delivery and 5-day mail delivery operational schedule.

Accordingly, the Postal Service has proposed legislative changes to Congress that are needed to provide us with the legal authority to implement certain measures to increase efficiency and produce additional cost savings. Additionally, the Governors must have authority commensurate with their responsibility to provide reliable and efficient universal service in a financially self-sufficient manner. Given the vital role that we play in the U.S. economy, management is requesting that Congress move swiftly in taking the needed steps to enact legislative changes that will enable us to be economically self-sustaining.

MITIGATING CIRCUMSTANCES

Our status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With revenues of $65 billion, generated almost entirely through the sale of postage, we are at the core of a mailing industry that employs approximately 8 million Americans. The U. S. economy benefits greatly from our services as well as the many businesses that provide the printing and mailing services that support it. Millions of check payments, letters, and packages, upon which people depend, are mailed through our network on a daily basis. Disruption of the mail would cause hardships to the public, and to the business and banking sectors, and could cause some businesses to shut down. Therefore, it is unlikely that in the event of a cash shortfall, the Federal Government would allow us to significantly curtail or cease operations.

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues we face and the legislative changes that would help provide financial stability. Given the vital role we play in the U.S. economy, it is hopeful that Congress will promptly enact, and the President will sign, legislation which will mitigate our short-term financial challenges and provide us with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2013, or at all.

Contractual Obligations

Our cash flow obligations as of March 31, 2013, for 2013, and future years are scheduled in the following table.

Contractual Obligations (Dollars in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
	Payments Due by Period Ending March 31,				
Debt[1]	$ 15,000	$ 9,800	$ -	$ 300	$ 4,900
Interest on debt[1]	1,987	181	340	322	1,144
PSHRBF	33,900	16,700	11,400	5,800	-
Capital lease obligations	611	95	180	153	183
Operating leases	7,084	1,127	1,252	995	3,710
Capital commitments[2]	512	216	224	48	24
Purchase obligations[2]	939	845	90	4	-
Workers' compensation[3]	23,284	1,295	4,645	3,516	13,828
Employees' leave[4]	2,154	347	244	194	1,369
Total Contractual Obligations	**$ 85,471**	**$ 30,606**	**$ 18,375**	**$ 11,332**	**$ 25,158**

(1) For overnight and short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.
(2) Legally binding obligations to purchase goods or services. Capital commitments pertain to purchases of equipment, building improvements and vehicles. Purchase obligations generally pertain to items that are expensed when received or amortized over a short period of time. Capital commitments and purchase obligations are not reflected on the Balance Sheet.
(3) Assuming no new cases in future years. This amount represents the undiscounted expected workers' compensation payments. The discounted amount of $16,949 million is reflected in our Balance Sheet at March 31, 2013.
(4) Employees' leave includes annual and holiday leave.

Legal Matters and Contingent Liabilities

An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Assessing contingencies is highly subjective and requires judgments about future events. We regularly review loss contingencies to determine the adequacy of our accruals and related disclosures. The amount of the actual loss may differ significantly from these estimates. As of March 31, 2013, the material claims increased to $888 million from $813 million at September 30, 2012.

McConnell v. Donahoe: On January 14, 2010, the Equal Employment Opportunity Commission's (EEOC) Office of Federal Operations certified a class action case against the Postal Service in a matter captioned McConnell v. Donahoe. The class currently consists of all permanent rehabilitation employees and limited-duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to July 1, 2011. We used the NRP to ensure that our records were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities. The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount on behalf of a yet-unidentified population of employees. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, then an adverse ruling could have a material adverse impact on us. However, we dispute the claims asserted in this class action case and are vigorously contesting the matter. See Note 6- *Contingent Liabilities*, in Notes to the Financial Statements for additional information.

Fair Value Measurements

As required by authoritative accounting literature, certain fair value disclosures as of the three months ended March 31, 2013, are contained in the Notes to the Financial Statements. We did not recognize gains as a result of valuation measurements during Quarter II, 2013. All recognized losses have been incorporated into our financial statements as of March 31, 2013. See Note 10- *Fair Value Measurements.*

Legislative Update

Our legislative update section provides ongoing insights into the legislative and policy processes that may affect the Postal Service and its operations. Please also refer to the Legislative Update contained in our Annual Report on Form 10-K for the period ending September 30, 2012.

As the 113th Congress prepares to take up postal legislation once again, below are reforms that are urgently needed. Our key legislative goals include:

- Require USPS Health Care Plan (resolves RHB Prefunding Issue)
- Refund FERS overpayment and adjust the FERS payment schedule
- Adjust delivery frequency (six-day package/five-day mail delivery)
- Streamline governance model
- Authority to expand products and services
- Require defined contribution retirement system for future postal employees
- Instructions to arbitrators
- Reform Workers' Compensation
- Right to appeal EEOC class action decisions to Federal Court

Appropriations and Continuing Resolutions

On March 26, 2013, the President signed into law H.R. 933 (P.L. 113-6), the *Consolidated and Further Continuing Appropriations Act of 2013,* which makes consolidated appropriations and further continuing appropriations for the fiscal year ending September 30, 2013. The continuing resolution (CR) contains language regarding advanced appropriations for the Postal Service. The Postal Service received an appropriation of $78 million, for reimbursement of 2012 costs related to free mail for the blind and overseas voters. No funding was provided for the $29 million payment owed to the Postal Service under the *Revenue Forgone Reform Act of 1993.* This continuing resolution requires the Postal Service to maintain 6-day mail delivery through the remainder of 2013.

President's Fiscal Year 2014 Budget Proposal

On April 10, 2013, the President released his Fiscal Year 2014 Budget Proposal, which included several recommendations related to the Postal Service. The President's proposal is one component of the budgeting process. The House and Senate have already passed their own versions of the 2014 budget, and now must work to pass a compromise bill. The President proposed a comprehensive postal reform package that would:

- Require OPM to calculate FERS costs using factors specific to the demographics of the Postal Service workforce.
- Return the FERS surplus to the Postal Service.
- Restructure retiree health benefits payments on an accruing cost basis rather than a fixed cost basis.
- Reduce mail delivery from six days to five days per week starting June 2013.
- Increase collaboration with State and Local Governments.
- Permit the Postal Service Board of Governors to enact a modest one-time increase in postage among Market-Dominant Products.

The President's Budget reflects $78 million for payments to the Postal Service in 2014 for an advanced appropriation for the 2013 costs and the 2010 reconciliation adjustment for free mail for the blind and overseas voting. The President's budget proposal did not include funding for provisions of the Revenue Forgone Reform Act of 1993, which authorizes the Postal Service to receive $29 million annually through 2035 to reimburse the Postal Service for services provided from fiscal year 1991 through fiscal year 1998.

Major Congressional Postal Reform Proposals

Postal Service Stabilization Act of 2013
On March 5, 2013, H.R. 961, the *United States Postal Service Stabilization Act of 2013,* was introduced in the House. The bill amends Title 5, United States Code, to provide for the computation of normal-cost percentage for postal employees covered under the Federal Employees' Retirement System (FERS) as a separate and distinct class. It also provides direction for the disposition of excess FERS retirement contributions made by the Postal Service. Specifically, Section 8423(a)(1) of Title 5 is amended to specify that the normal cost for employees of the Postal Service and the Postal Regulatory Commission (PRC) used in the determination of agency contributions, be calculated separately from the normal cost of Federal employees generally. H.R. 961 also directs that if, for any fiscal year it is determined that there is a surplus in FERS, the amount of the surplus in the first fiscal year be used to pay down the Postal Service's debt to the U.S. Treasury. Any surplus found in subsequent fiscal years is to be used to fulfill CSRS obligations. The measure was referred to the House Oversight and Government Reform Committee.

Postal Service Protection Act of 2013
On February 13, 2013, S. 316, the *Postal Service Protection Act of 2013*, was introduced in the Senate. The bill would recalculate and restore retirement annuity obligations of the United States Postal Service under CSRS, eliminate the requirement that the Postal Service prefund the Postal Service Retiree Health Benefits Fund, place restrictions on the closure of postal facilities, create incentives for innovation at the Postal Service, and maintain current levels of postal service. Specific provisions of S. 316 include: modifying the methodology for calculating the pension liability and providing a means for the Postal Service to recover pension overpayments and eliminating the requirement to prefund Retiree Health Benefits (RHB). The bill would put in place extensive restrictions on consolidation or closure of a postal facility by modifying existing procedures, including requiring a Postal Regulatory Commission (PRC) de novo review of all consolidations or closures of postal facilities. S. 316 would also amend Title 39, United States Code, to expand the current definition of a postal facility. In order to encourage innovation, the bill gives the Postal Service authority to offer non-postal products and services and permits the mailing of beer and wine. It also requires the appointment of a Chief Innovation Officer and directs the establishment of a Postal Innovation Advisory Commission. S. 316 would prohibit the Postal Service from reducing the frequency of the delivery of mail to fewer than six days each week and restricts the Postal Service's authority to adjust service standards for market dominant products from the level in place as of March 2, 2010. The bill was referred to the Senate Homeland Security and Governmental Affairs Committee.

Postal Service Protection Act of 2013
On February 13, 2013, H.R. 630, the *Postal Service Protection Act of 2013*, was introduced in the House. The bill is a companion measure to S. 316, and also contains a provision that would remove the current cap on rates set by the Postal Regulatory Commission that is equal to the Consumer Price Index for All Urban consumers (CPI-U) for market-dominant products and services. The bill was referred to the House Oversight and Government Reform Committee.

Additional Significant Postal Reform Proposals

Biennial Budgeting and Appropriations Act
On March 13, 2013, S. 554, the *Biennial Budgeting and Appropriations Act*, was introduced in the Senate. The bill would modify Sections 2802 and 2803(a) of Title 39, U.S. Code to require that the Postal Service submit strategic plans every four years, instead of every three years, and that such plans should look forward six years instead of the current five years, and requires the submission of performance plans be made every two years instead of annually. The bill was referred to the Senate Budget Committee.

Biennial Budgeting and Appropriations Act
On February 28, 2013, H.R. 879, the *Biennial Budgeting and Appropriations Act*, was introduced in the House. The bill is a companion measure to S. 554. The bill was referred to the House Oversight and Government Reform Committee.

Six Day Delivery House Resolution

On January 15, 2013, H. Res. 30, a resolution expressing the sense of the House of Representatives that the United States Postal Service should take all appropriate measures to ensure the continuation of its current six-day mail delivery service, was introduced in the House. H. Res. 30 was referred to the House Oversight and Government Reform Committee.

Board of Governors Nomination

On March 13, 2013, President Obama announced his nomination of Stephen Crawford, of Maryland, to serve on the Board of Governors of the United States Postal Service for a term expiring December 8, 2015.

On April 23, 2013, President Obama announced his nomination of D. Michael Bennett, of North Carolina, to serve on the Board of Governors of the United States Postal Service for a term expiring December 8, 2018.

Postal Regulatory Commission Nomination

On April 25, 2013, President Obama announced his nomination of Nanci E. Langley, of Hawaii, to be a Commissioner of the Postal Regulatory Commission for a term expiring November 22, 2018.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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

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

See our 2012 Annual Report on Form 10-K, Financial Section Part II, Item 7A-*Quantitative and Qualitative Disclosures about Market Risk*.

Item 4 – Controls and Procedures

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

Disclosure Controls

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

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of March 31, 2013. Based upon, and as of the date of, the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Internal Controls

There have been no changes in the Postal Service's internal controls over financial reporting during the quarter ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

Part II

Item 1 – Legal Proceedings

For a discussion of legal proceedings affecting us, please also see the information under the caption "*Legal Matters and Contingent Liabilities*" within Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this report.

Item 1A – Risk Factors

There have been no material changes in risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2012.

Item 4 – Mine Safety Disclosures

Not applicable to the United States Postal Service.

Item 6 – Exhibits

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

Signatures

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

United States Postal Service

/s/Patrick R. Donahoe
Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Date: May 10, 2013

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

Date: May 10, 2013

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, Patrick R. Donahoe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (“Postal Service”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the Postal Service’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the Postal Service’s internal control over financial reporting that occurred during the Postal Service’s most recent fiscal quarter (the Postal Service’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service’s internal control over financial reporting; and
5. The Postal Service’s other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service’s auditors and the audit committee of the Postal Service’s Board of Governors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have significant role in the Postal Service’s internal control over financial reporting.

Date: May 10, 2013

<u>/s/Patrick R. Donahoe</u>
Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Exhibit 31.2

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

I, Joseph Corbett, certify that:

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

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

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

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

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

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 10, 2013

<u>/s/Joseph Corbett</u>
Joseph Corbett
Chief Financial Officer and Executive Vice President

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended March 31, 2013, (the "Report"), I, Patrick R. Donahoe, 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: May 10, 2013

/s/Patrick R. Donahoe
Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended March 31, 2013 (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: May 10, 2013

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