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 June 30, 2009 OR**

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

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 August 5, 2009
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

United States Postal Service
Statements of Operations

(Dollars in millions)	Three Months Ended June 30, 2009 (unaudited)	Three Months Ended June 30, 2008 (unaudited)	Nine Months Ended June 30, 2009 (unaudited)	Nine Months Ended June 30, 2008 (unaudited)
Operating revenue	$ 16,339	$ 17,910	$ 52,372	$ 57,195
Operating expenses:				
Compensation and benefits	13,213	13,014	40,073	40,289
Retiree health benefits	1,863	1,855	5,523	5,546
Transportation	1,378	1,722	4,601	5,272
Other	2,267	2,424	6,839	7,213
Total operating expenses	18,721	19,015	57,036	58,320
Loss from operations	**(2,382)**	**(1,105)**	**(4,664)**	**(1,125)**
Interest and investment income	6	10	19	25
Interest expense	(25)	(3)	(45)	(33)
Net loss	**$ (2,401)**	**$ (1,098)**	**$ (4,690)**	**$ (1,133)**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	June 30, 2009 (unaudited)	September 30, 2008
Assets		
Current Assets		
Cash and cash equivalents	$ 981	$ 1,432
Receivables:		
Foreign countries	516	450
U.S. government	131	133
Other	172	187
Receivables before allowances	819	770
Less allowances	38	41
Total receivables, net	781	729
Supplies, advances and prepayments	130	193
Total Current Assets	**1,892**	**2,354**
Property and Equipment, at Cost:		
Buildings	22,831	22,269
Equipment	21,302	21,544
Land	3,002	2,971
Leasehold improvements	875	914
	48,010	47,698
Less allowances for depreciation and amortization	26,811	25,886
	21,199	21,812
Construction in progress	1,655	1,381
Total Property and Equipment, Net	**22,854**	**23,193**
Other Assets - Principally Revenue Forgone Receivable	**410**	**439**
Total Assets	**$ 25,156**	**$ 25,986**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	June 30, 2009 (unaudited)	September 30, 2008
Liabilities and Net Deficiency		
Current Liabilities:		
Compensation and benefits	$ 2,400	$ 3,466
Retiree health benefits	4,050	-
Payables and accrued expenses:		
Trade payables and accrued expenses	1,027	1,246
Foreign countries	544	435
U.S. government	164	85
Total payables and accrued expenses	1,735	1,766
Deferred revenue - prepaid postage	1,943	1,689
Customer deposit accounts	1,344	1,449
Outstanding postal money orders	654	698
Prepaid box rent and other deferred revenue	468	461
Current portion of debt	1,867	7,200
Total Current Liabilities	**14,461**	**16,729**
Noncurrent Liabilities:		
Workers' compensation costs	8,670	7,003
Employees' accumulated leave	2,294	2,208
Long-term debt	4,500	-
Long-term portion capital lease obligations	564	587
Deferred appropriation and other revenue	474	525
Deferred gains on sales of property	305	312
Contingent liabilities and other	249	294
Total Noncurrent Liabilities	**17,056**	**10,929**
Total Liabilities	**31,517**	**27,658**
Net Deficiency		
Capital contributions of the U.S. government	3,035	3,034
Deficit since 1971 reorganization	**(9,396)**	**(4,706)**
Total Net Deficiency	**(6,361)**	**(1,672)**
Total Liabilities and Net Deficiency	**$ 25,156**	**$ 25,986**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Changes in Net Deficiency

(Dollars in millions)		Capital Contributions of U.S. Government	Deficit Since 1971 Reorganization	Total Net Deficiency
Balance, September 30, 2008		$ 3,034	$ (4,706)	$ (1,672)
Additional Capital Contributions		1	-	1
Net Loss - Nine months Ended June 30, 2009	(unaudited)	-	(4,690)	(4,690)
Balance, June 30, 2009	(unaudited)	$ 3,035	$ (9,396)	$ (6,361)

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Statements of Cash Flows

(Dollars in millions)	Nine Months Ended June 30, 2009 (unaudited)	Nine Months Ended June 30, 2008 (unaudited)
Cash flows from operating activities:		
Net loss	$ (4,690)	$ (1,133)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,697	1,731
Loss on impairments, disposals of property and equipment, net	38	29
Decrease (increase) in other assets, principally revenue forgone receivable	29	(8)
Increase in workers' compensation liability	1,667	868
Increase in employees accumulated leave	86	99
Increase (decrease) in noncurrent deferred appropriations and other revenue	5	(2)
Decrease in other noncurrent liabilities	(45)	(179)
Changes in current assets and liabilities:		
Receivables, net	(52)	(35)
Supplies, advances and prepayments	63	66
Compensation and benefits	(1,066)	(1,336)
Retiree health benefits	4,050	4,200
Payables and accrued expenses	(33)	(202)
Customer deposit accounts	(105)	(77)
Deferred revenue-prepaid postage	254	448
Outstanding postal money orders	(44)	(74)
Prepaid box rent and other deferred revenue	(4)	39
Net cash provided by operating activities	1,850	4,434
Cash flows from investing activities:		
Purchases of property and equipment	(1,389)	(1,474)
Proceeds from deferred building sale	7	-
Proceeds from sales of property and equipment	7	22
Net cash used in investing activities	(1,375)	(1,452)
Cash flows from financing activities:		
Issuance of notes payable	4,500	-
Payments on notes payable	(4,500)	(1,000)
Net change in revolving credit line	(833)	(1,739)
Payments on capital lease obligations	(46)	(52)
U.S. government appropriations - expensed	(47)	(45)
Net cash used in financing activities	(926)	(2,836)
Net (decrease) increase in cash and cash equivalents	(451)	146
Cash and cash equivalents at beginning of year	1,432	899
Cash and cash equivalents at end of period	$ 981	$ 1,045

See accompanying notes to the financial statements (unaudited)

Item 1 – Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

These interim financial statements reflect the unaudited results of operations of the United States Postal Service for the nine months ended June 30, 2009 and 2008, and our financial position as of June 30, 2009 (unaudited), and September 30, 2008. The interim financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and should be read in conjunction with the significant accounting policies and other disclosures in our 2008 Annual Report on Form 10-K. As in the Annual Report on Form 10-K, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2009 and 2008.

Certain comparative prior year amounts in the interim financial statements related to deferred gains that we have determined are immaterial to the financial statements and accompanying notes have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported operating income and net income for the period.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present our financial position as of June 30, 2009, the results of our operations for the nine months ended June 30, 2009 and 2008, and cash flows for the nine months ended June 30, 2009 and 2008. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. We have evaluated all subsequent events through August 5, 2009, the date the financial statements were issued.

Liquidity Matters

The Postal Service incurred a net loss for the year ended September 30, 2008, of $2,806 million. We had a net loss of $4,690 million for the nine months ended June 30, 2009, compared to a net loss for the same period last year of $1,133 million. A significant portion of the loss in the current year is attributed to an unprecedented decline in mail volume, which fell by 20 billion pieces, resulting in a $4,823 million or 8.4% decrease in revenue, compared to the same period in 2008. Also contributing to these losses were significantly higher retiree health benefit costs since the passage of Postal Accountability and Enhancement Act, Public Law, 109-435 (P.L. 109-435) and the creation of the PSRHBF, Cost of Living Adjustments (COLAs), and record fuel prices for a substantial period in 2008. The decline in mail volume is primarily attributable to the widespread economic recession, although the long-term trend of hard copy correspondence and transactions being diverted to electronic media continues. Continued downward pressure on mail volume is expected throughout the current fiscal year and, even with substantial cost reductions, our 2009 net loss is projected to be over $7 billion. Looking ahead to 2010, mail volume could decline another 10-15 billion pieces and the net loss is expected to be on the same order of magnitude as the projected net loss in 2009, despite a broad range of actions by the Postal Service to reduce costs in response to these unprecedented reductions in volume.

We experienced negative cash flow from operations in the previous two years. Through the nine months ended June 30, 2009, cash generated from operations was $1.9 billion; however, we have an obligation to pay $5.4 billion into the Postal Service Retiree Health Benefit Fund (PSRHBF), as required by P.L. 109-435 (see Note 7) by September 30, 2009. We do not expect to generate sufficient cash flow from operations in the last quarter of 2009 to enable us to fully fund this obligation. We are also required to pay approximately $1.1 billion to the Department of Labor (DOL) for Workers' Compensation by October 15, 2009.

We can fund some of these obligations through increased debt. However, our annual net increase in debt is limited by statute to $3 billion. The statute limits our total outstanding debt to $15 billion. We currently project increasing net debt outstanding this year by $3 billion, but do not expect this to be sufficient to fund all our obligations. The organization is working to mitigate a possible September 30 cash shortfall of up to $700 million. Continuing significant losses in 2010 and future years will also result in cash shortfalls that will ultimately cause the $3 billion annual borrowing limitation and overall $15 billion debt limitation to become insufficient.

To meet this financial challenge, the Postal Service has, and continues to, undertake a number of actions to increase efficiency, reduce costs and generate new revenue. These actions include freezing executive salaries, reducing workhours and headcount, maximizing operational efficiencies, renegotiating contracts with major suppliers, halting construction of new facilities, and initiating revenue generation efforts utilizing the increased pricing flexibility available under P.L. 109-435. Although each of these efforts is expected to positively impact cash flow in 2009, they will not, either individually, or in the aggregate, be sufficient to offset the expected September 30, 2009 cash shortfall.

We have also requested Congress to restructure our payments for retiree health benefits and for the flexibility to suspend the six day a week delivery requirement. Our request is that retiree health benefit payments be restructured to allow the PSRHBF to pay current retiree health benefit premiums from the existing fund balance of nearly $34 billion, consisting of amounts previously contributed by the Postal Service and earnings, rather than being paid separately from the Postal Service's operating cash. This would provide a significant additional level of financial flexibility and, if applied retroactively to the beginning of 2009, could reduce the 2009 net loss by approximately $2 billion and increase cash flow by the same amount. A bill to provide this additional financial flexibility, H.R.22, has been approved by the House Oversight and Government Reform Committee and is awaiting action by the full House. Legislation to restructure Postal Service retiree health benefits, S. 1507, was introduced in the Senate on July 23, 2009. The Senate bill, which is cost-neutral over a 10 year period, would generate significant savings to the Postal Service over the next several years, by lowering the fixed payment obligations and adding an additional dynamic funding payment obligation for the normal cost of retirees, as computed by OPM. The Senate bill would also allow the health benefit premium payments for current retirees to be paid from the PSRHBF. The current year payment would include a fixed portion of $1.7 billion and a dynamic portion estimated at $3.3 billion for a total of $5.0 billion. This would be a savings of $2.4 billion in 2009 compared to the current law. Both the fixed and normal cost payments are expected to grow over time The Senate bill would also give the Postal Service more annual borrowing authority for 2009 and 2010 to meet our financial obligations this year and next, but does not change the overall debt limit of $15 billion.

We do not anticipate any savings in 2009 or 2010 from the ability to adjust the six day delivery requirement, if granted. Once granted, there are many operational, contractual, and customer issues that would need to be resolved before actual implementation. However, the flexibility would provide additional cost savings beginning in 2011.

Our ability to generate sufficient cash flows to meet obligations is substantially dependent on our ability to execute strategies to increase efficiency, reduce costs and generate revenue. Combined with the potential increased flexibility requested from Congress as discussed above, this would allow us to reduce our costs and our projected 2009 net loss and improve our cash position without significantly diminishing service to our customers. However, no assurance can be given that our efforts will be successful, or that Congress will concur with our suggested changes and enact legislation, in time to impact the current fiscal year, or at all. We have informed Congress, the Office of Personnel Management (OPM), the Office of Management and Budget (OMB), and the Treasury Department that if the legislative change in some form is not enacted prior to September 30, 2009, we may not fully fund our PSRHBF obligation in September 2009. However, we do plan to, otherwise, continue all operations with no disruption of mail service. We do not know what impact, if any, would occur as the result of not fully funding the PSHRBF.

Note 2 – Recent Accounting Pronouncements

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

Financial Accounting Standards No.157, "Fair Value Measurements" ("FAS No.157")

We adopted FAS No. 157, "Fair Value Measurement", which provides a common definition of fair value, establishes a uniform framework for measuring fair value and requires expanded disclosures about fair value measurements in the third quarter of 2009. See Note 10 for details. The adoption of FAS No.157 did not have a material impact on our financial statements.

Financial Accounting Standards No.165, "Subsequent Events" ("FAS No.165")
We adopted FAS No.165 in the third quarter of 2009. FAS No.165 establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. See Note 1, "Basis of Presentation" for the related disclosures. The adoption of FAS No.165 did not have a material impact on our financial statements.

Financial Accounting Standards No.168, "FASB Accounting Standards Codification" ("FAS No.168")
In June 2009, the Financial Accounting Standards Board ("FASB") issued FAS No.168, The "FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles. This standard replaces FAS No.162, "The Hierarchy of Generally Accepted Accounting Principles", and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC), which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in our 10K Report for fiscal 2009. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on our consolidated financial statements.

Note 3 – Debt and Related Interest

As of June 30, 2009, debt payable to the Federal Financing Bank (FFB) consisted of $6,367 million outstanding compared to $7,200 million at September 30, 2008.

Debt Consists of the Following: (Dollars in millions)			June 30, 2009	September 30, 2008
NOTES PAYABLE TO THE FEDERAL FINANCING BANK (FFB) [1]:				
Interest Rate %	Debt Type	Maturity Date		
2.035%	Fixed rate note-Payable at Maturity	January 31, 2014	$ 300	$ -
2.844%	Fixed rate note-Payable at Maturity	May 2, 2016	300	-
3.048%	Fixed rate note-Payable at Maturity	November 15, 2018	500	-
3.296%	Fixed rate note-Payable at Maturity	February 15, 2019	700	-
3.704%	Fixed rate note-Payable at Maturity	May 15, 2019	1,000	-
3.770%	Fixed rate note-Payable at Maturity	May 17, 2038	200	-
3.790%	Fixed rate note-Payable at Maturity	February 15, 2039	1,000	-
0.324%	Floating Rate Note[2]	Jun 15, 2043	500	-
0.186%	Short-term revolving credit line [3]	[4]	1,586	2,700
0.297%	Overnight revolving credit note	[5]	281	-
0.905%	Fixed rate note-Payable at Maturity	December 11, 2008	-	2,500
0.485%	Fixed rate note-Payable at Maturity	December 18, 2008	-	2,000
			$ 6,367	$ 7,200
Less Current Portion			1,867	7,200
			$ 4,500	$ -

[1] *All debt is repurchasable at any time at a price determined by the Secretary of the Treasury, based on rates prevailing in the Treasury Security market at the time of repricing.*
[2] *Floating Rate Note-Payable June 15, 2043; repurchasable at par September 15, 2009 and every December 15, March 15, June 15 and September 15 thereafter.*
[3] *Weighted Average interest rate; as of September 30th, 2008 was 0.271%.*
[4] *Funds are typically borrowed overnight. Our lines of credit extend through April 29, 2011 and May 1, 2009, respectively, for these notes.*
[5] *Final Maturity Date May 3, 2010.*

We continue to maintain two credit lines with the FFB. One, a short-term credit line, enables us to draw up to $3,400 million with two days notice. Borrowings against this credit line carry a maximum maturity of one year. The second, an overnight credit line, enables us to draw up to $600 million on the same business day that funds are requested. In addition, we can also use a series of other notes with varying provisions to draw upon with two days notice. These other notes are generally used for issuance of long-term debt.

We are statutorily limited to net annual increases of $3 billion in our debt, and our total debt cannot exceed $15 billion. For 2009, we are subject to an absolute debt ceiling of $10.2 billion, a $3 billion increase from the September 30, 2008 debt balance of $7.2 billion.

Interest expense was $25 million for Quarter III, 2009, compared to $3 million for the same period last year. For the nine months ended June 30, 2009, interest expense was $45 million, compared to $33 million for the same period in 2008. Our interest expense principally consists of interest on borrowings.

Scheduled annual principal maturities of debt, exclusive of capital leases, subsequent to June 30, 2009 are as follows:

Debt Maturity (Dollars in millions)		As of June 30, 2009
2009	$	1,867
2010		-
2011		-
2012		-
2013		-
After 2013		4,500
Total Debt	$	6,367

Cash paid for interest was $12 million in Quarter III, compared to $3 million for Quarter III, 2008. For the nine months ended June 30, cash paid for interest was $25 million, compared to $34 million for the same period in 2008.

Note 4 – Property and Equipment

We record property and equipment at cost, including the interest on the money we borrow to pay for the construction of major capital additions. Capitalized interest was immaterial during Quarter III and for the nine months ended June 30, 2009; no interest was capitalized during the nine months ended 2008.

There were no material impairments in 2009 or 2008.

We account for asset retirement obligations (AROs) in accordance with Financial Accounting Standards Board Interpretation 47, *Accounting for Conditional Asset Removal* (FIN 47). Accruals are recorded under “Contingent liabilities, and other” on our balance sheets. No adjustments have been made to the asset retirement obligation accrued in 2009 or 2008.

Note 5 – Leases and Other Commitments

Each year we incur new capital commitments and expense commitments. Capital commitments consist of capital lease obligations for buildings and contracts for capital items such as equipment, building construction and improvements, and vehicles. Expense commitments consist of operating leases for buildings, contracts for normal operational expense items, inventory, and research and development contracts.

Since prior year capital and expense commitments are not normally fully expended within one year, we track total resources on order for capital and expense commitments. The total resources on order being reported in a given period would equal outstanding commitments from prior years, plus new commitments, less expenditures.

CAPITAL COMMITMENTS, EXPENDITURES, RESOURCES ON ORDER

In Quarter III of this year we added new capital commitments of $231 million, compared to $646 million for the same quarter in the prior year. These largely consisted of commitments for construction, repair, and building improvements of $96 million and postal support equipment of $93 million. Due to financial constraints, the Postal Service has limited new capital commitments.

At June 30, 2009, the balance of resources on order for capital items was $1,874 million. The following schedules reflect capital resources on order and future minimum lease payments for all non-cancelable capital leases.

Capital Resources on Order (Dollars in millons)		June 30, 2009
Mail Processing Equipment	$	1,196
Building Improvements		280
Construction and Building Purchase		150
Postal Support Equipment		209
Retail Equipment		34
Vehicles		5
Total	$	1,874

Capital Lease Obligations (Dollars in millions)		June 30, 2009
2009	$	26
2010		100
2011		98
2012		100
2013		94
After 2013		536
Total Lease Obligations	$	954
Less: Interest		342
Total Capital Lease Obligations	$	612
Less: Short-term portion of capital lease		48
Long-term Portion of Capital Lease	$	564

EXPENSE COMMITMENTS, RESOURCES ON ORDER

At June 30, 2009, we estimate our commitments for expense resources on order to be $5,087 million. As of June 30, 2009, our future minimum lease payments for all non-cancelable operating leases and our annual payment requirements for retiree health benefits are shown below.

Expense Resources on Order (Dollars in millons)		June 30, 2009
Operational Contracts	$	5,001
Inventory Contracts		44
Research and Development Contracts		42
Total	$	5,087

Operating Leases (Dollars in millions)		June 30, 2009
2009	$	206
2010		794
2011		761
2012		700
2013		639
After 2013		5,139
Total Lease Obligations	$	8,239

Postal Service Retiree Health Benefit Fund Commitment (Dollars in millions)		P.L 109-435 Requirement
2009	$	5,400
2010		5,500
2011		5,500
2012		5,600
2013		5,600
After 2013		17,200
Total Postal Retirees Health Benefits Fund Commitment	$	44,800

Rental expense on operating leases is shown in the following table:

Rental Expense (Dollars in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
Non-cancelable real estate leases including related taxes	$ 251	$ 235	$ 748	$ 728
Facilities leased from GSA subject to 120-day cancellation	11	11	32	32
Equipment and other short-term rentals	69	58	206	208
Total Rental Expense	$ 331	$ 304	$ 986	$ 968

Note 6 – Contingent Liabilities

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

Contingent Liabilities (Dollars in millions)	June 30, 2009	September 30, 2008
Labor Cases	$ 242	$ 318
Equal Employment Opportunity Cases	56	45
Environmental Cases (AROs)	40	40
Tort Cases	31	32
Contractual Cases	-	1
Total Contingent Liabilities	$ 369	$ 436

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

We believe that adequate provision has been made for probable liabilities from claims and suits. The current portion of this liability at June 30, 2009 was $192 million and $198 million at September 30, 2008, and is included on the balance sheets under the heading "Trade payables and accrued expenses". The long-term portion of this liability at June 30, 2009, was $177 million. At September 30, 2008, the long-term liability was $238 million. These amounts are accrued under the heading "Contingent liabilities and other" on our balance sheets.

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

Note 7 – Health Benefits Programs

CURRENT EMPLOYEES

Substantially all career employees are covered by the Federal Employees' Health Benefits Program (FEHBP). OPM administers the program and allocates the cost of the program to the various participating government agency employers. Our portion of the cost is based upon the weighted average premium cost of the various employee coverage choices and the specific coverage choices made by current employees. Employees paid approximately 19% of the premium costs in Quarter III, 2009 and 18% in Quarter III in 2008. We paid the remaining employee health care expense, which was $1,318 million in Quarter III, 2009, compared to $1,333 million in Quarter III, 2008. For the nine months ended June 30, 2009, current employee health costs were $3,979 million, compared to $4,039 million in the same period last year.

RETIREES

Employees who participate in the FEHBP for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. We are 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 retired on or after July 1, 1971. However, we do not include the costs attributable to federal civil service before that date. Since we cannot direct the costs, benefits, or funding requirements for the federally-sponsored plan, we account for these retiree costs using multiemployer plan accounting rules.

With passage of P.L.109-435, we continue to make monthly payments to OPM for our share of premiums for retirees due to FEHBP. P.L.109-435 also established the PSRHBF. Under current law, the PSRHBF, which is held by the U.S. Treasury and controlled by OPM, will be used, commencing in 2017, to pay our share of the health insurance premiums for current and future Postal Service retirees. The payment schedule, which began in 2007, requires us to pay, on average, $5,600 million per year into the fund for ten years. This is in addition to our regularly allocated cost of premiums for current retirees, which will continue to be payable through 2016. After these payments are completed in 2016, OPM will make an actuarial valuation and determine whether any further payments into the PSRHBF are required. If further payments are required, OPM will design an amortization schedule to fully fund our liability by September 30, 2056.

For 2009, the required contribution to the PSRHBF is $5,400 million, which is expensed at the rate of $1,350 million per quarter. During Quarter III, we expensed $1,863 million for retiree health benefits; $513 million was for retiree health benefit invoices from OPM for current retirees and $1,350 million for the PSRHBF. For the same period last year, we expensed $1,855 million for retiree health benefits; $455 million for retiree benefits invoices and $1,400 million for the PSRHBF. Year-to-date total expense for retiree benefits was $5,523 million; $1,473 million for retiree benefits invoiced by OPM for current retirees and $4,050 for the PSRHBF. For the nine months ended June 30, 2008, retiree health benefits were $5,546 million; $1,346 million for retiree benefits invoiced by OPM for current retirees and $4,200 million for the PSRHBF.

As discussed in Note 1, the Postal Service has requested a change in legislation from Congress in the form of restructuring its payments for retiree health benefits premiums. Under H.R. 22, currently pending in Congress, payments for current retiree health benefit premiums would be restructured to accelerate the date at which the PSRHBF will start making payments from the nearly $34 billion currently in the PSRHBF, rather than having the Postal Service make the payments directly. The Postal Service would continue to make the legislatively required payments into the PSRHBF. Like H.R. 22, the Senate bill S. 1507, would restructure the Postal Service's obligation to pay its retiree health benefit payments. The Senate bill, which is cost-neutral over a 10 year period, would generate significant savings to the Postal Service over the next several years, by lowering the fixed payment obligations and adding an additional dynamic funding payment obligation for the normal cost of retirees as computed by OPM. The Senate bill would also allow the health benefit premium payments for current retirees to be paid from the PSRHBF. The current year payment would include a fixed portion of $1.7 billion and a dynamic portion estimated at $3.3 billion for a total of $5.0 billion. This would be a savings of $2.4 billion in 2009 compared to the current law. Both the fixed and normal cost payments are expected to grow over time. As of the date of this report, Congress has not passed any legislation, and retiree health benefits are being expensed in the financial statements under the original terms of P.L. 109-435.

Note 8 – Retirement Programs

PENSION PROGRAMS

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

P.L.109-435 suspends until 2017 our employer contribution to CSRS that would otherwise have been required under Title 5, Section 8334(a) (1), of the United States Code. At that time OPM will determine whether additional funding is required for the benefits of postal retirees. We continue to make employer contributions of 11.2% of base salary for current FERS employees. Retirement expense for Quarter III, 2009, was $1,458 million, compared to $1,456 million for the same period last year, and is recorded in compensation and benefits expense. Year-to-date, retirement expense was $4,447 million, compared to $4,414 million in the same period last year.

Note 9 – Workers' Compensation

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

Our liability at June 30, 2009, represents the estimated present value of the future medical and compensation payments for postal workers injured as of the end of Quarter III, 2009. The estimated total cost of a claim is based upon the date of injury, pattern of historical payments, frequency and severity of the injuries and the expected trend in future costs.

Our expense for workers' compensation, including the $807 million discount and inflation rate adjustments discussed below, was $1,086 million for Quarter III, 2009, compared to $364 million for the same period last year. Year-to-date, workers' compensation expense was $1,815 million, compared to $932 million for the same period in 2008.

During Quarter III we conducted a review of the inflation and discount rates used to determine the present value of estimated future workers' compensation payments. Separate analyses of the appropriate inflation rates for the medical and for the compensation portions of the liability were performed, utilizing forecasts of medical inflation and inflation in the general economy. Due to the differences between medical and compensation claims in the average length of time that claimants stay on the rolls appropriate discount rates were determined using Global Insights forecasted rates of return on baskets of Treasury securities of varying durations.

The results of our review are presented in the following table:

Workers' Compensation Liability Inflation and Discount Rates	Current rates	Previous rates
Compensation Claims Liability		
Discount Rate	4.7%	5.6%
Wage inflation	3.1%	3.0%
Medical Claims Liability		
Discount Rate	4.1%	5.4%
Medical inflation	3.8%	5.0%

The results of the new inflation and discount rates on the model are as follows:

Workers' Compensation Liability (Dollars in millions)	Current rates	Previous rates	Difference
Compensation Claims Liability	$6,505	$6,014	$491
Medical Claims Liability	$3,151	$2,835	$316
Total Workers' Compensation Liability	$9,656	$8,849	$807

The $807 million increase in the estimated workers compensation liability due to the updating of the current inflation and discount rates is accounted for as a change in estimate and included in compensation and benefits expense in Quarter III 2009.

Note 10 – Fair Value Measurements

FAS No.157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. FAS No. 157 details the disclosures that are required for items measured at fair value.

We have financial instruments such as certain Treasury securities, debt and long-term receivables (Revenue Forgone) that we must measure for disclosure purposes on a recurring basis under FAS No. 157. We also apply the provisions of FAS No. 157 to various non-recurring measurements for our financial and non-financial assets and liabilities such as the impairment of fixed assets. We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

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

The following sections describe the valuation methodologies we use to measure different instruments at fair value. There has been no impact to the statements of operations or the statements of cash flows related to the adoption of SFAS No. 157.

We believe that the fair values of our current assets and current liabilities approximate their reported carrying amounts. The carrying values and the fair values of non-current financial assets and liabilities, that qualify as financial instruments per FAS No. 107, "Disclosures about Fair Value of Financial Instruments," are shown in the following table.

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

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

Fair Value of Long-Term Financial Assets (Dollars in millions)	June 30, 2009 Carrying Amount	June 30, 2009 Fair Value	September 30, 2008 Carrying Amount	September 30, 2008 Fair Value
Revenue Forgone	$ 345	$ 457	$ 349	$ 458
Total Long-Term Financial Assets	$ 345	$ 457	$ 349	$ 458
Debt	$ 4,500	$ 4,371	$ -	$ -
Total Long-Term Financial Liabilities	$ 4,500	$ 4,371	$ -	$ -

The reconciliation of level 3 inputs is shown below:

Reconciliation of Fair Value of Level 3 Instruments (Dollars in millions)		June 30 2009
Debt		
Balance at March 31	$	2,500
Unrecognized gain		(129)
Additions		2,000
Balance at June 30	$	4,371

Non-financial Items Measured at Fair Value on a Nonrecurring Basis — Non-financial assets such as property, plant, and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. We performed impairment analyses in the first, second and third quarters of fiscal year 2009. Based on the results of the impairment tests, we determined no material impairment of property, plant, and equipment existed as of June 30, 2009.

Note 11 – Revenue Forgone

Revenue forgone is an appropriation which covers the statutorily required cost of providing free and reduced rate mailing service to groups designated by Congress. During Quarter III, 2009, we recognized $23 million including $6 million of imputed interest in revenue from these appropriations, compared to $22 million, including $6 million of imputed interest during the same period last year. For the nine months of the year, revenue forgone was $68 million including $18 million of imputed interest, compared to $67 million including $18 million of imputed interest for the same period in 2008.

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

Cautionary Statements

The *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report include statements representing our expectations about our business and financial results. These may be affected by risks and uncertainties we discuss here and in our Annual 10-K Report, such as economic conditions, regulatory and legislative changes, changes in actuarial assumptions, trends we know about, trends we anticipate and trends we believe are relevant to future operations. Some of these factors may cause our actual results to differ materially from those contemplated. Operating results for the nine-month period ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. This report should be read in conjunction with our 2008 Annual Report. As in the Annual Report, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal years 2009 and 2008.

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 is composed of nine Governors appointed by the President of the United States with the advice and consent of the Senate, the Postmaster General and the Deputy 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 our price does not unreasonably vary by customer for the levels of service we provide.

We have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 3% of operating revenue. The financial services sector, which includes real estate, represents approximately 10% of operating revenue.

P.L. 109-435 divides postal services into two broad categories: market-dominant and competitive. Market-dominant services include, but are not limited to, First-Class Mail, Standard Mail, Periodicals, and Package Services. Price increases for these services are subject to a price cap based on the Consumer Price Index – All Urban Consumers (CPI-U). Competitive services, such as Priority Mail, Express Mail, Bulk Parcel Post, and Bulk International Mail, have greater pricing flexibility. Throughout this document and in the day-to-day operation of the organization, we refer to market-dominant services as "Mailing Services" and competitive services as "Shipping Services".

We serve individual and commercial customers throughout the nation and worldwide. Our services compete for business in the communications, distribution and delivery, advertising and retail markets. The prices and fees for our services are subject to a regulatory review process by the independent Postal Regulatory Commission (PRC).

Our mailing and shipping services are sold through almost 36,500 post offices, stations, branches, contract postal units, a large network of consignees and on-line at *www.usps.com*. We deliver mail to nearly 150 million city, rural, Post Office box and highway contract delivery points. We conduct operations primarily in the domestic market, with international mail representing approximately 3% of operating revenue.

We operate and manage a very extensive and integrated retail, distribution, transportation and delivery network. As such, our physical infrastructure and labor force are not dedicated to individual business lines, with limited exceptions. 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 comports with the management and structure of expense incurrence within the organization.

The labor force is primarily represented by the American Postal Workers Union, National Association of Letter Carriers, National Postal Mail Handlers Union and National Rural Letter Carriers Association. More than 85% of career employees are covered by collective bargaining agreements.

By law, we consult with management organizations representing most of the employees not covered by collective bargaining agreements. We participate in federal employee benefit programs as required by statute for retirement, health, and workers' compensation benefits.

We are not a reporting company under the Securities Exchange Act of 1934, as amended, and we are not subject to regulation by the Securities and Exchange Commission (SEC). However, effective for reporting periods ending after September 30, 2007, we are required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under section 13 of the Securities Exchange Act of 1934. These reports include annual reports on Form 10-K, and quarterly reports on Form 10-Q, which are available on our website at *www.usps.com*, and current reports on Form 8-K.

Additional disclosures on our organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, *Vision 2013* strategic plan and the Comprehensive Statement on Postal Operations may also be found on our website. Information on our website is not incorporated by reference in this document.

Critical Accounting Estimates

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

The three critical accounting policies that we believe are either the most judgmental or involve the selection or application of alternative accounting policies, and are material to our interim financial statements are those relating to workers' compensation costs, deferred revenue for prepaid postage, and contingent liabilities. Management discusses the development and selection of these critical accounting policies and estimates with the Audit and Finance Committee of the Board of Governors. Note 2 to the financial statements in the 2008 Annual Report contains a summary of our significant accounting policies.

Results of Operations

In Quarter III we had an operating loss of $2,382 million compared to an operating loss of $1,105 million for Quarter III of last year. Year-to-date, the operating loss was $4,664 million, compared to a $1,125 million operating loss for the same period in 2008. As discussed more fully in the Liquidity section of this report, we were unable to fully offset an unforeseen, rapid, and dramatic drop in mail volume and revenue despite rapid cost reductions. The resulting losses and net use of cash will likely cause us to be unable to meet all of our current financial obligations for the year ended September 30, 2009 without some form of legislative change.

Key Operating Statistics	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2009	2008	2009	2008
Operating Revenue	$ 16,339	$ 17,910	$ 52,372	$ 57,195
Operating Loss	$ (2,382)	$ (1,105)	$ (4,664)	$ (1,125)
Net Loss	$ (2,401)	$ (1,098)	$ (4,690)	$ (1,133)
Operating Margin	-14.6%	-6.2%	-8.9%	-2.0%
Average Volume per day (pieces in millions)	537	630	599	684

In light of the above liquidity issues, in July 2009, the Government Accountability Office (GAO) listed the Postal Service as one of its "high risk" government agencies. In its report, *Restructuring the U.S. Postal Service to Achieve Financial Viability*, GAO cited our mounting losses, increasing debt levels and inability to cut costs fast enough to offset the accelerated decline in mail volume and revenue. To achieve financial viability, GAO suggests that the Postal Service develop and implement a broad restructuring plan. Congressional support for these actions will be crucial.

As explained more fully later in the revenue and volume section of this report, the recession has had a significant adverse impact on our operating revenue. For the three months ended June 30, 2009, operating revenue was $16,339 million, compared to $17,910 million for the same period last year, a decrease of $1,571 million or 8.8%, in spite of a 3.8% average price increase in May 2009 and a 2.9% average price increase in May 2008. For the nine months ended June 30, 2009, operating revenues were $52,372 million, compared to $57,195 for the first nine months of 2008, a reduction of $4,823 million or 8.4%. All categories of mailing and shipping services experienced volume declines in Quarter III and for the first nine months of 2009 compared to the same periods last year.

Quarter III operating expenses were $18,721 million, compared to $19,015 million in the corresponding quarter of last year, a decrease of $294 million or 1.5%. Excluding an $807 million non-cash adjustment to the workers' compensation liability, operating expenses decreased by $1,101 or 5.8%. During Quarter III, the decrease in operating expenses was driven by transportation which decreased $344 million or 20% as fuel prices declined from a year earlier, utilization decreased, and certain contracts were re-competed and re-priced. Other expenses decreased $157 million, or 6.5%, as the Postal Service placed substantial limits on spending for supplies and services, travel and other discretionary items. Compensation and benefits expenses decreased by $608 million or 4.7%, excluding the non-cash charge for workers' compensation expenses. Workers' compensation expenses increased $722 million due to a non-cash change in the estimated cost of future claim payments, driven by a change in economic assumptions. Those changes are discussed in Note 9 to the Financial Statements and in the "Compensation and Benefits" section of this report. Workhour decreases of 29 million hours resulted in significant savings although they were offset by the contractual wage increases and the non-cash workers' compensation adjustment. As a result, overall, compensation and benefits increased $199 million or 1.5%.

For the first nine months of the year, total operating expenses were $57,036 million, a decrease of $1,284 million or 2.2% from the prior year. Without the impact of the non-cash workers' compensation expense, total operating expenses would have decreased by $2,091 million or 3.6% and compensation and benefits expenses would have been $1,023 million or 2.5% lower than the same period in 2008. Transportation expenses for the nine months ended June 30, 2009, were $671 million or 12.7% lower than the same period in the prior year due to the lower utilization, fuel prices, and the contractual changes mentioned above. Other expenses decreased $374 million or 5.2% due primarily to cost reduction initiatives and lower volumes.

Revenue and Volume

Prices for most mailing services increased by an average of 3.8% on May 11, 2009, and 2.9% on May 12, 2008. Shipping Services prices increased on January 18, 2009 by an average of 5%.

The economic recession continues to adversely affect all classes of mail. Quarter III volumes were lower than Quarter II, which had been the largest single quarterly decline of total mail volume since the Postal Reorganization Act of 1971. Volume declines in Quarter I, Quarter II and Quarter III are also the largest three-quarter declines in total mail volume since the Postal Reorganization Act –substantially lower than any other period.

The decline of both revenue and volume for each class of mail for both the current quarter and year-to-date can largely be attributed to the economy. Competition, electronic diversion and other external factors continue to negatively impact revenue and volume performance, but those factors have become secondary to the overall performance of the economy. No class of mail has prospered in this environment, and no class of mail has been immune from the financial turmoil. First-Class, Standard, Package Services, and Other Mailing Services volumes have all fallen by 10% or more. Total mail volume fell by 14.3% in Quarter III, with an accompanying revenue decline of 8.8%.

While the economy is the major culprit for the current revenue and volume contraction, electronic diversion continues to depress mail volumes. For example, in Quarter II the largest decline in First-Class Mail volume came from the U.S. Treasury, mostly the Internal Revenue Service. Americans are increasingly filing their tax returns electronically, including a 16.7% increase in e-filed tax returns by self-preparers this year, compared to the same period last year.

Many of these filers will also receive refunds electronically. Periodicals are also feeling the effects of electronic diversion as some publishers are completely abandoning print versions of their magazines.

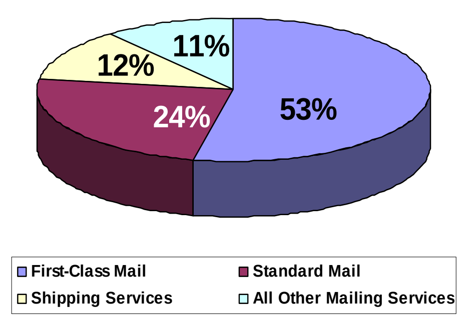
MAILING SERVICES

For the quarter ended June 30, 2009, First-Class Mail and Standard Mail, which make up 94% of our volume, decreased almost 6.6 billion pieces or 14.4% compared to the same period last year, with an associated drop in revenue of $1,517 million or 10.7%. For the nine months ended June 30, 2009, volume decreased 20 billion pieces or 12.6% compared to the same period last year. Revenue for First-Class Mail and Standard Mail decreased $4,408 million or 9.8% in the first nine months of 2009 compared to the same period last year. Most of this decrease can be attributed to the downturn in the economy, particularly the financial and real estate sectors, which are heavy users of the mail.

Revenue [1]		Three Months Ended June 30,			Nine Months Ended June 30,		
(Dollars in millions)		2009		2008		2009		2008
First-Class Mail	$	8,704	$	9,372	$	27,381	$	29,335
Standard Mail		3,960		4,809		13,189		15,643
Periodicals		495		574		1,557		1,740
Package Services		359		414		1,295		1,410
Other Mailing Services*		906		744		2,758		2,628
Total Mailing Services	$	14,424	$	15,913	$	46,180	$	50,756
Total Shipping Services		1,915		1,997		6,192		6,439
Total Operating Revenue	$	16,339	$	17,910	$	52,372	$	57,195

* Special services revenue and other income included in "Other Mailing Services" category

Quarter III 2009 Mail Revenue

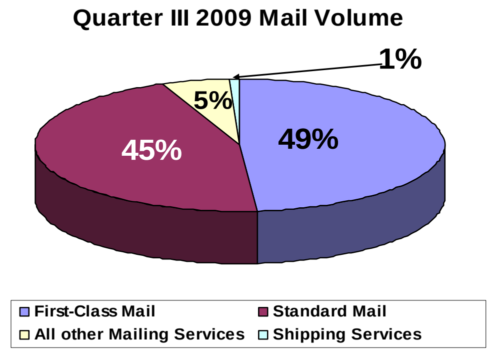


First-Class Mail revenue decreased $668 million or 7.1% in Quarter III, on a volume decline of 2.2 billion pieces or 9.7%, compared to the same period last year. Reflecting the economy, all subgroups of First-Class Mail experienced revenue and volume declines. Single-piece First-Class letters declined $341 million or 9.8% on a decrease of 1,073 million pieces or 13.2% for the quarter compared to Quarter III 2008. This is the worst quarterly decline since Postal Reorganization in 1971, even exceeding Quarter II 2009. Single-piece First-Class Mail volume, including bills, bill payments, statements, confirmations, orders, and rebates, has been in decline for over a decade. While price has some effect on First-Class Mail volume, in this environment the economy is the primary driver behind the volume decline with technology as a secondary driver. We anticipate any positive impacts of an economic recovery on single-piece First-Class Mail may be largely offset by the continuing technology-driven decline in single-piece First-Class Mail. For the nine months ended June 30, 2009, revenue for First-Class Mail was $1,954 million or 6.7% less than the same period last year, as volume decreased 6.3 billion pieces or 8.9%. Revenue for First-Class single-piece letters was $10,267 million compared $11,227 million for the same period last year, a decline of $960 million or 8.5% on a volume decrease of 11.2%

[1] Note: The revenue and volume charts have been reformatted to reflect the new Mailing Services and Shipping Services categories. The following summarizes the major reclassification changes.

- The First-Class Mail category includes First-Class Mail International.
- Package Services includes single-piece Parcel Post, International Inbound Surface Parcel Post, Bound Printed Matter, Media Mail and Library Mail, but now excludes Parcel Select and Parcel Return Service.
- Shipping Services includes Priority Mail, Express Mail, Parcel Select, Parcel Return Service and International Mail, excluding single-piece First-Class Mail International.

Mail Volume [1] (Pieces in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
First-Class Mail	20,220	22,401	64,330	70,634
Standard Mail	18,843	23,217	63,124	75,382
Periodicals	1,990	2,191	6,106	6,552
Package Services	161	192	562	645
Other Mailing Services	42	157	391	760
Total Mailing Services	41,256	48,158	134,513	153,973
Total Shipping Services	324	382	1,059	1,228
Total Mail Volume	41,580	48,540	135,572	155,201



Standard Mail revenue decreased $849 million or 17.7% in Quarter III, as volume decreased 4.4 billion pieces, or 18.8% compared to the same period last year. For the first nine months of the year, revenue decreased $2,454 million or 15.7% from the same period last year as volume declined 12.3 billion pieces or 16.3%. Standard Mail volume has been significantly impacted by the decline in advertising spending as a result of the recession, which has spread throughout the economy. All subgroups of Standard Mail lost both revenue and volume compared to the third quarter of last year. Standard Mail letter volume fell 21.2% or 2.9 billion pieces while revenue dropped $484 million or 19.1% in the third quarter compared to the same period last year. The volume for Standard Mail flats fell 24.7% or 542 million pieces while revenue dropped $195 million or 24.3% in the third quarter compared to the prior year. In addition to the impact of the troubled economy on Standard Mail revenues, advertisers continue to become more sophisticated in the targeting of their mailings, further reducing mail volume. We expect advertising mail to increase when the economy improves.

Revenue from Periodicals decreased $79 million or 13.7% in Quarter III compared to the same period last year. Trends in reading behavior have been depressing this segment for years. Changing reading behavior in conjunction with the recession has pushed revenue and volume declines into double digits. The average weight per piece of Periodicals decreased by 12.0%, reflecting the decline in the number of advertising pages. Volume decreased 201 million pieces, or 9.2%, in the quarter compared to the same period last year. Year-to-date, Periodicals revenue has decreased $183 million or 10.5% versus the same period last year, on volume that is 6.8% or 446 million pieces lower.

Package Services revenue decreased $55 million or 13.3% in Quarter III compared to the third quarter of 2008 while volume decreased 31 million pieces or 16.3% in the same period. The reduction in volume in the package industry reflects the overall state of the economy. As was true in the second quarter, all the major package service providers continued to be affected by the economy during the third quarter. Year-to-date, Package Services volume is 83 million pieces or 12.9% lower than the same period last year while revenue is $116 million or 8.2% lower.

SHIPPING SERVICES

Shipping Services revenue decreased $82 million or 4.1% in Quarter III compared to the same period last year, as volume declined 58 million pieces or 15.1%. Year-to date, Shipping Services revenue decreased $247 million or 3.8% compared to the same period last year. Volume decreased 169 million pieces or 13.7% for the nine months ended June 30, 2009, compared to the same period a year ago. All subgroups within Shipping Services experienced volume declines with the exception of Parcel Return Service Mail.

Overall, the poor revenue performance continues to show the severe effect of the economic recession in the U.S. economy.

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

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

After recording the $807 million non-cash workers' compensation charge, compensation and benefits expense for Quarter III was $13,213 million, $199 million or 1.5% more than the same period last year. Year-to-date compensation and benefits expense of $40,073 million was $216 million or 0.5% lower than the prior year amount. The Quarter III increase reflects an increase in the workers' compensation liability due to a non-cash change in an accounting estimate to reflect the current estimates of future interest and inflation rates. Meanwhile, compensation expenses decreased due to a 29 million hour reduction in workhours, discussed later in this section, despite contractual wage increases.

Compensation expense decreased by $499 million or 5.1% in Quarter III compared to the same period last year. This was due to an 8.7%, or 29 million hour decrease in workhours. Without the impact of the 29 million workhours reduction, compensation expenses would have been approximately $1,015 million higher. This tempered the effect of the March 2008 and September 2008 Cost of Living Adjustments (COLA) which carried over to 2009. COLA payments for Quarter III were $214 million, compared to $126 million for same period last year. For the nine months ending June 30, 2009, the COLA payments were $788 million compared to $254 million in the same period last year. In addition, the Postal Service contributed approximately 1% less per employee for health benefit premiums compared to the prior year.

Compensation and Benefits Expenses (Dollars in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
Compensation	$ 9,265	$ 9,764	$ 29,559	$ 30,591
Retirement	1,458	1,456	4,447	4,414
Health Benefits	1,318	1,333	3,979	4,039
Workers' Compensation	1,086	364	1,815	932
Other	86	97	273	313
Total	$ 13,213	$ 13,014	$ 40,073	$ 40,289

The Postal Service has been authorized by the Office of Personnel Management (OPM) to offer voluntary early retirement (VER) to eligible employees nationwide. The VER, with no severance incentives, has been offered in four phases. The first three phases were completed by the end of Quarter II. Over 13,000 employees accepted the early retirement offer; the impact of these early retirements reduced compensation expenses by approximately $129 million in Quarter III. The fourth phase which was offered to approximately 148,000 employees was accepted by 4,100 employees. Retirements will occur in Quarter IV. Cost savings due to these early retirements are expected to exceed $700 million annually.

The decrease in compensation was offset by an increase in workers' compensation expense which increased $722 million or 198% for Quarter III 2009, compared to Quarter III 2008, due to an $807 million non-cash adjustment. Workers' compensation expense increased $883 million or 95% for the nine months ended June 30, 2009, compared to the prior year. See the discussion on Workers' Compensation that follows for further details regarding this change.

WORKHOURS

With steep mail volume declines in Quarter III, we reduced workhours by over 29 million hours or 8.7% compared to the same period last year. Overtime usage was dramatically reduced by approximately 8 million hours or 39.5%

Workhours Analysis (Hours in Thousands)	Workhours Three Months Ended June 30, 2009	Workhours Three Months Ended June 30, 2008	Workhours Nine Months Ended June 30, 2009	Workhours Nine Months Ended June 30, 2008
City Delivery	104,584	111,851	320,807	342,343
Mail Processing	59,483	69,796	193,655	225,618
Customer Services & Retail	43,638	50,116	136,782	156,037
Rural Delivery	45,183	47,170	136,342	142,942
Other, including Plant, Vehicle Services, Operational Support, Postmasters & Administration	55,479	58,913	167,753	176,239
Total	308,367	337,846	955,339	1,043,179

from Quarter III last year. Even though the number of delivery points increased by 1.0 million from the same period last year, workhours declined from last year's levels, due to initiatives designed to match workhours to the substantially reduced mail volume throughout the network. This was especially pronounced in the mail processing function with a drop of over 10 million workhours or 14.8%. City delivery and customer service & retail functions, which are less volume variable, reduced workhours by almost 14 million hours or 8.5%.

In the first nine months of 2009, total work hour usage declined almost 88 million hours, or 8.4%, from the comparable period last year. We have targeted the elimination of over 100 million workhours this year, doubling last year's success. We are on target to achieve this objective.

EMPLOYEE COMPLEMENT

Employee complement was reduced by approximately 8,300 during Quarter III. The number of career employees at the end of the quarter was 633,046. This represents a reduction of 36,326 employees or 5.4% since June 30, 2008, mainly through attrition and early retirements.

RETIREMENT EXPENSE – CURRENT EMPLOYEES

During Quarter III, retirement expense was $1,458 million compared to $1,456 million for the same period last year, virtually unchanged from prior year. The small change is due to higher average salaries mainly due to COLA granted in 2008 as compared to the prior year, offset by the lower number of employees. For the nine months ended June 30, 2009, retirement expense was $4,447 million compared to $4,414 million in the same period last year, an increase of $33 million or 0.7%.

WORKERS' COMPENSATION

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

With the economic recession that began in December 2007 and the aggressive response of the Federal Reserve to the national credit crisis last fall, interest rates have declined dramatically. Accordingly, the projected rates of return on various maturities of Treasury securities, which we use in discounting our workers' compensation liability, have declined by 0.9% and 1.3% on compensation and medical liabilities respectively from what was previously used in our estimation model. The projected return rates are especially low for 2009 and 2010. While we believe these historically low rates may be temporary, we are required to use discount rates based on the best available objective information at the measurement date.

Workers' compensation expense for Quarter III was $1,086 million, compared to $364 million for the same period last year. For the first nine months of the fiscal year, workers' compensation expense was $1,815 million, compared to $932 million for the same period in 2008. The increase in the Quarter III, 2009 workers' compensation expense, relative to the same period last year, is due to newly estimated inflation and discount rates as discussed above and in detail in Note 9 to the Financial Statements. The $807 million increase in the estimated workers compensation liability due to the change to the current inflation and discount rates is accounted for as a change in accounting estimate and included in compensation and benefits expense in Quarter III 2009.

Other drivers of Workers' Compensation expense are the number of claims receiving payments and the cost per claim. In Quarter III we experienced an increase of 443 or 1.4% in the number of compensation claims receiving payments and an increase of 193 or 0.2% in the number of medical claims receiving payments, compared to the same period last year. The actual claim payments increased $68 million, or 9.5%, over Quarter III, 2008. The compensation claims payments grew by $38 million or 8.8% and medical claims payments grew by $30 million or 10.7% compared to the same period last year.

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 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 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.

RETIREE HEALTH BENEFITS

P.L.109-435 included a 10 year, $55,800 million payment schedule that requires payment of $5,400 million into the PSRHBF in 2009. We are expensing the $5,400 million in equal amounts throughout the year, at a rate of $1,350 million per quarter. In 2008, we expensed $5,600 million at the rate of $1,400 million per quarter. In addition to funding the PSRHBF, OPM charges us for the cost of our retirees currently participating in the Federal Employee Health Benefits Program (FEHBP). See Note 7, *Health Benefits Programs,* and Note 8, *Retirement Programs* in the Financial Information section for further discussion of this accounting treatment.

Retiree Health Benefits	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2009	2008	2009	2008
Retiree Health Benefits	$ 513	$ 455	$ 1,473	$ 1,346
P.L. 109-435 Scheduled Payment to PSRHBF	1,350	1,400	4,050	4,200
Total	$ 1,863	$ 1,855	$ 5,523	$ 5,546

Health benefit expenses for retirees were $1,863 million for Quarter III, compared to $1,855 million in the same period last year. Expenses for current retirees increased $58 million or 13% compared to the same period last year. The major drivers of retiree health benefits expense are the number of current participants on the rolls and premium costs of the plans they select. As of June 30, 2009, there were approximately 461,000, participants on the rolls, an increase of about 10,000 compared to the same period last year. The large number of early retirements explains the substantial increase in current retiree health benefit expense.

Year-to-date, retiree health benefits, including the P.L. 109-435 scheduled payment, were $5,523 million compared to $5,546 million for the same period in 2008. This reduction is due to a $150 million decrease in the 2009 funding schedule requirement for the PSRHBF offset by a $127 million, or 9.4%, increase in premium payments for current retirees.

In January, 2009, the Postmaster General requested that Congress allow the payments for current retiree health benefits premiums be paid from the almost $34 billion already in the PSRHBF. See the Legislation and Liquidity sections later in this report for a full discussion of the request.

In June 2009, the Postal Service Office of Inspector General (OIG) reported on the results of its self-initiated review of the funding of the Postal Service's obligation for retiree health care benefits. The discount rate and the average asset earnings rate used to develop the scheduled funding in P.L. 109-435 were 6.25% and 5.35%, respectively. The OIG's objective was to assess the reasonableness of the assumptions underlying OPM's estimates. The OIG hired an independent consultant to benchmark OPM's assumptions for annual health care cost inflation rates for all future years. According to the OIG, the independent consultant conducted a survey to determine the average health care inflation rate used by organizations when they estimate future retiree health care liabilities. The independent consultant did this for (a) Fortune 100 companies; (b) state and local governments; and (c) publicly owned utilities. The independent consultant found that the private sector, public sector (excluding federal government), and publicly owned utilities all use an average health care inflation rate of 5%, 2 percentage points lower than assumptions used in P.L. 109-435.

The OIG concluded that if the Postal Service continued to fund retiree health benefits according to the current schedule using the average health care inflation rate, it could overfund its retiree health benefits obligation by $13.2 billion by the end of FY 2016. The Postal Service could pay on average $4.0 billion less each year from 2009 to 2016 and still achieve the same level of funding anticipated under P.L. 109-435.

The PRC reviewed both the OPM and the OIG valuations of the Postal Service's obligation for the retirees health benefit fund and issued a report on July 30, 2009. The PRC concluded that under both estimation methods, the funding of the PSRHBF by 2016 will exceed that of most private and public sector funds. The PRC found that the two valuations were developed for different reasons and both were reasonable. The OPM estimate serves to meet an annual financial reporting requirement. In contrast, the OIG estimate is designed to estimate the funded status of the

Retiree Health Benefits Fund as of 2016. The estimates differ by $57 billion in terms of full liability, and support different actuarial payment schedules.

The PRC advanced an alternative set of assumptions, using a graded trend rate of medical inflation rather than the static method used in the other two valuations, in order to better reflect both current and future expectations of health care inflation The PRC also concluded that a declining workforce assumption is appropriate to estimate the Postal Service liability because it reflects current trends and management intentions.

Using the PRC's assumptions results in a lower liability and could lead to lower payments than the OPM valuation. A fixed payment of $3.4 billion annually into the fund would be expected to achieve a 73% funded status by 2016. The PRC however, did not endorse 73% as the correct funding level by 2016, but provided this information only as a basis of comparison to the OIG report.

Postal Service management has not validated OIG's or the PRC's conclusions.

Operating Expenses – Transportation

Transportation costs are largely made up of highway and air transportation. Transportation expenses were $1,378 million, a decrease of $344 million, or 20.0% for Quarter III, 2009 compared to $1,722 million in the same period last year. For the first nine months of the year, our expenses for transportation decreased by $671 million or 12.7% when compared to the same period last year.

Transportation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2009	2008	2009	2008
Highway Transportation	$ 705	$ 857	$ 2,304	$ 2,640
Air Transportation	594	761	2,017	2,324
Other Transportation	79	104	280	308
Total	$ 1,378	$ 1,722	$ 4,601	$ 5,272

Highway transportation expenses of $705 million in Quarter III decreased by $152 million or 17.7% compared to the same quarter last year. Year-to-date, highway transportation expenses decreased $336 million or 12.7% versus the same period last year. Although only a portion of total transportation expenses, the sharp decrease in fuel prices, from last year's record highs resulted in lower highway transportation expenses. Annual contracted miles driven increased 0.8% or 12.9 million miles during Quarter III, 2009 attributed primarily to the startup of the Network Distribution Center (NDC) project. The project will transform existing Bulk Mail Centers into NDCs, which will improve the flow of mail into the network, consolidate package distribution, and improve transportation utilization. Beginning in 2010, the use of the NDCs are expected to result in a decrease in contractual miles driven.

Diesel fuel, which makes up 93% of the fuel purchased for highway contracts, cost an average of $2.34 per gallon during Quarter III, 2009 vs. $4.42 per gallon during Quarter III, 2008, a decrease of 47.1%. Gasoline prices decreased 38.1% compared to the same quarter last year, with a gallon of gas also costing, on average, $2.34 during Quarter III, 2009 vs. $3.78 during Quarter III, 2008.

Air transportation expenses of $594 million in Quarter III, decreased by $167 million or 21.9% from the same quarter last year. Domestic air expense decreased $116 million or 20.7% compared to the same quarter last year. Lower mail volumes reduced expenses by $46 million while lower fuel prices saved $70 million in expenses, compared to the same period last year. For the nine months ended June 30, 2009, air transportation was $307 million or 13.2% less than the same period last year. Domestic air expenses were $213 million or 12.1% lower than the same period last year. As in the current quarter, the year-to-date decrease was due largely to lower volumes and fuel costs which resulted in expense decreases of $125 million and $88 million, respectively.

International air transportation expenses decreased $51 million compared to Quarter III, 2008, mainly due to settlements of foreign postal transactions. For the nine months ended June 30, 2009, international air decreased $95 million, which included a $57 million decrease in foreign postal transactions fees compared to the same period last year.

Operating Expenses – Other Operating Expense

Other operating expenses for Quarter III were $157 million or 6.5% lower than last year's comparable quarter. The decrease is attributable to a reduction of $38 million or 6.1% in supplies and services, due to decreases in purchases of small equipment and lower utilization of professional and advertising services. Vehicle maintenance services decreased $58 million or 23.8% due primarily to lower fuel costs when compared to the previous year. In addition, we reduced travel expenses in Quarter III by $26 million compared to the same period last year.

Other Operating Expenses	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2009	2008	2009	2008
Supplies and Services	$ 586	$ 624	$ 1,727	$ 1,928
Depreciation and Amortization	562	564	1,697	1,731
Rent and Utilities	433	429	1,335	1,313
Vehicle Maintenance Service	186	244	563	678
Information Technology and Communications	168	171	486	475
Rural Carrier Equipment Maintenance Allowance	124	127	388	384
Other	208	265	643	704
Total Other Operating Expenses	$ 2,267	$ 2,424	$ 6,839	$ 7,213

For the nine months ended June 30, 2009, other operating expenses were $374 million or 5.2% lower than the same period last year. This was driven by a decrease in supplies and services of $201 million or 10.4% and a decrease in vehicle maintenance services of $115 million or 17.0% for the reasons noted above. Travel expenses were reduced $55 million or 38.8% due to cost cutting efforts. Depreciation decreased $34 million or 2.0% These decreases were partially offset by an increase of $22 million in rent and utilities expenses, and small increases in information technology and communications expenses, and rural carrier equipment maintenance allowances compared to the same period last year.

Productivity

The Postal Service uses a single indicator called total factor productivity (TFP) to calculate efficiency. TFP measures the change in the relationship between outputs (workload processed) and inputs (resource usage) over a period of time. Workload consists of weighted mail volume, miscellaneous output, and the expanding delivery network. Resources consist of labor, materials (including transportation), and deployed capital assets. Workload minus resources used equals TFP.

In Quarter III, TFP decreased 1.3%, as the 7.9% decline in aggregate resource usage was not enough to offset the 9.3% decline in aggregate workload. The decline in aggregate workload was driven by the steep volume decline. The 0.8% growth over last year in the number of delivery points had little impact to moderate the overall workload decline.

With respect to resource usage, the aggregate 7.9% decline was driven by an 8.2% decrease in dollar-weighted labor inputs, driven by the reduction of 29 million workhours in the quarter. The decline in resource usage can also be attributed to a 9.2% decline in materials usage, due to cost reduction efforts to reduce supplies, services, and other non-personnel related items.

Total Factor Productivity	Three Months Ended June 30,		Nine Months Ended June 30,	
% Change from Prior Year	2009	2008	2009	2008
Workload	-9.3%	-3.7%	-8.6%	-2.5%
Resource Usage	-7.9%	-2.6%	-7.4%	-2.1%
Total Factor Productivity	-1.3%	-1.1%	-1.1%	-0.4%

Year-to-date, TFP decreased 1.1% compared to the first nine months of 2008. Workload decreased 8.6% during this period, driven by a 13.3% decrease in weighted mail volume. This was partially offset by the 0.8% growth in delivery point workload. The decrease in weighted mail volume was due primarily to the significant volume decreases in First-Class single-piece letters.

Total resource usage for the first nine months of 2009 decreased 7.4% compared to the first nine months of 2008. Labor utilization decreased 7.9%, capital usage decreased 1.0%, and materials input decreased by 7.5%.

Liquidity and Capital Resources

Cash
The Postal Service's principal sources of liquidity are cash from operations, cash on hand, and cash from the long-term and short-term financing agreements with the FFB. Cash and cash equivalents on June 30, 2009, were $981 million, $451 million lower than the September 30, 2008, balance of $1,432 million.

Debt
As of June 30, 2009, debt with the FFB consisted of $6,367 million compared to $1,461 million at June 30, 2008, and $7,200 million outstanding at September 30, 2008. See Note 3 to the Financial Statements for a table with detail borrowings. We are statutorily limited to net annual increases of $3 billion in our debt and our total debt cannot exceed $15 billion. For 2009, we are subject to an absolute debt ceiling of $10.2 billion, a $3 billion increase from the September 30, 2008 debt balance of $7.2 billion

Interest expense of $25 million for Quarter III, 2009, was $22 million more than the same period last year. Lower interest rates on short-term debt were offset by the higher rates on long-term notes obtained in Quarter II and III. The long-term borrowings, although carrying higher interest rates than are currently available on short-term debt, are at historically favorable rates and represent a prudent restructuring of our debt portfolio. For the nine months ended June 30, 2009, interest expense was $45 million compared to $33 million for the same period of 2008.

The following table summarizes the Postal Service's long-term debt as of June 30, 2009, and the timing of scheduled interest payments and maturities.

Payments Due on Long-term Debt, by Year

(Dollars in millions)	2009	2010 - 2012	2013 - 2014	After 2014	Total
Long-term debt	$ -	$ -	$ 300	$ 4,200	$ 4,500
Interest on long-term debt	35	411	270	1,498	2,214
	$ 35	$ 411	$ 570	$ 5,698	$ 6,714

Cash Flow Activity
Cash flow from operating activities was $1,850 million; $2,584 million lower than the level through Quarter III last year. Cash flows through Quarter III were negatively impacted by the net loss for the first nine months of the year, driven mostly by the decline in revenues.

Purchases of property and equipment for the nine months ended June 30, 2009, were $1,389 million, a $85 million decrease from the same period last year.

We used the net cash flow from operations, after paying for capital investments, along with cash on hand, to pay down debt. We repaid debt, net of borrowing, of $833 million and $2,739 million through Quarter III of 2009 and 2008, respectively. Typically, debt is relatively lower during the fiscal year but higher at year end due to September's retiree health benefits payments due on September 30.

Liquidity Outlook
CHALLENGES
We have had significant losses in 2007, 2008 and through the nine months ended June 30, 2009. A significant portion of the loss for the nine months ended June 30, 2009, is attributable to sharply declining revenues due to historically rapid rates of decline in mail volume. Also contributing to these losses were significantly higher retiree health benefit costs since the passage of PL 109-435 and the creation of the PSRHBF, Cost of Living Adjustments (COLAs), and record fuel prices for a substantial period in 2008. We have managed our liquidity during this time through a series of cost reduction initiatives and increased borrowings. However, we are statutorily limited to net annual increases of $3

billion in our debt. Our total debt cannot exceed $15 billion. For 2009, we are subject to an absolute debt ceiling of $10.2 billion and for 2010 of 13.2 billion, a $3 billion increase from the prior September 30 debt balance.

According to the National Bureau of Economic Research, we are 19 months into an economic recession. Real GDP declined at a rate of 6.3% in our Quarter I 2009, 6.4% in our Quarter II 2009 and 1.0% in our Quarter III 2009.

The Postal Service and mailing industry have been severely affected by this widespread financial crisis, although mail volumes have also suffered due to a long-term trend of hard copy correspondence and transactions being diverted to electronic media. Since peaking at 213 billion pieces in 2006, mail volume dropped to 203 billion pieces in 2008, and is expected to drop a further 28 billion pieces in 2009 and another 10-15 billion pieces in 2010. Decreases of this magnitude are unprecedented in Postal Service history. It is anticipated that, despite the effects of price increases in 2008 and 2009, revenues will decline in 2009 by more than $6 billion, compared to 2008. In Quarter III, operating revenue was $1,571 million lower than the prior year. Year-to-date operating revenue was $4,823 million below the comparable level of 2008. Revenue is expected to continue to decrease into 2010.

Additionally, beginning in 2007, the Postal Service was required to make annual payments into the PSRHBF of between $5.4 billion and $5.8 billion (See Note 7). Expenses in 2009 are also being pressured by record COLAs, called for by our contracts with postal labor unions.

The impacts of the severe recession, the annual PSRHBF payment, and record COLA are placing unprecedented strains on our cash flow. We anticipate a net loss of over $7 billion in 2009. The 2010 net loss is projected to be of similar magnitude to the projected 2009 net loss. Our projected loss in 2009 of over $7 billion means we will have a cash shortfall at year end.

ACTION PLAN

In response to this challenge, the Postal Service has taken a number of other actions to reduce cash outflows and increase cash inflows.

In 2008, the Postal Service achieved $2.2 billion in annual cost reductions, which included a reduction of 50 million workhours. We have targeted $6.1 billion in total cost reductions in 2009. For the nine months ended June 30, 2009, we had 88 million fewer workhours than the same period last year. We have targeted the elimination of 100 million workhours this year, doubling last year’s success. We are on target to achieve both of these objectives.

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

We reduced the authorized staffing complement at national headquarters by 15%. We are taking similar actions in the field, closing six district offices and reducing authorized complement at our area offices by 19%.

We are also continuing to pursue efforts to consolidate some excess capacity in our mail-processing and transportation networks without adversely impacting service. This will allow us to maximize operational efficiency and capitalize on the economies of scale associated with advances in automated mail processing.

In Quarter II 2009, the Postal Service initiated an effort to reduce the cost of existing contracts. The goal of this initiative is to reduce contract costs by $1.3 billion by the end of 2011. The initiative has targeted over 500 existing contracts for renegotiations that will deliver both short- and long-term cost reductions for the Postal Service in the areas of price, scope and process improvements.

Other cost-containment efforts include freezing the 2009 salaries of all Postal Service officers and executives at 2008 pay levels, reducing travel budgets, and placing a halt on the construction of new facilities. The limited facilities funds that are now available are being directed only to those sites with the most critical needs.

Some cost-reduction efforts require that time-consuming legally or contractually-mandated processes be followed. While we are working to capture as much savings as possible in 2009, many of these efforts may not realize significant savings until 2010.

We have also taken steps to build our business. We realigned our product management organizational structure in 2008, creating a new Mailing and Shipping Services division that will help us bring new products to market more quickly and effectively.

We have created a number of price and volume incentives to promote volume growth from large and medium shippers. These include an incentive program for saturation mailers and a summer sale for Standard Mail that went into effect July 1, 2009. In June, we launched a new national advertising campaign promoting the value of our Priority Mail Flat Rate boxes. Early indications are that the campaign is successfully creating product awareness and stimulating new business. We also created a dedicated sales force that will exclusively promote our expedited shipping services.

SHORTFALL

These actions are intended to conserve cash and generate revenue. However, the full effect of these actions may not be realized until 2010 and beyond. We are committed to exploring all of the initiatives discussed above because there is no assurance that economic conditions will improve by 2010, or that mail volumes will return to previous levels once the economy does improve. Although each of the actions discussed above is expected to positively impact cash flow in 2009 and 2010, they will not, either individually or in the aggregate, be sufficient to offset the expected September 30, 2009 cash shortfall.

In recent years, we have funded some of our obligations through increased debt. Our annual increase in debt is limited by statute to $3 billion and total outstanding debt to $15 billion. Our debt will reach a high point in September, when we are required to make a retiree health benefit payment to the PSRHBF of $5.4 billion. We currently project increasing our net debt outstanding this year by $3 billion, but do not expect this to be sufficient to fund our year-end cash requirements. We also are required to make a workers' compensation payment of approximately $1.1 billion on October 15, 2009.

Because the efforts that can be undertaken by the Postal Service without adversely impacting service to our customers are expected to be insufficient to avoid a cash shortfall on September 30, 2009, we have asked Congress to consider two changes to the laws governing the Postal Service.

As discussed in the Legislation section of this document, the Postal Service has requested that Congress permit payment of health benefit premiums for current retirees from the nearly $34 billion of Postal Service contributions and interest already in the PSRHBF. This would reduce cash outlays for this fiscal year by approximately $2 billion.

We must also better match our network and fixed costs to current and expected volumes to allow us to continue to deliver high quality service at affordable prices to the American public, while regaining our financial stability and positioning for future cost-effective service. Recognizing the public service aspect of our operations, we plan to seek the legislative flexibility to change from six day a week to five day a week delivery. The Postal Service has requested that Congress remove the annual appropriation bill rider, first added in 1983, that effectively requires the Postal Service to deliver mail six days each week. We would not anticipate being able to capture savings before 2011.

Our ability to generate sufficient cash flows to meet obligations is substantially dependent on our ability to execute strategies to increase efficiency, reduce costs and generate revenue. Combined with the potential increased flexibility from Congress discussed above, this would allow us to reduce our costs and our projected 2009 net loss and improve our cash position without significantly diminishing service to our customers. However, no assurance can be given that our efforts will be successful or that Congress will concur with our suggested changes and enact the requested legislation, or other legislation, in time to impact the current fiscal year, or at all. We have informed Congress, OPM, OMB, and Treasury that if the legislative change in some form is not enacted prior to September 30, 2009, we may not fully fund our PSRHBF obligation in September 2009 but plan, otherwise to continue all operations with no disruption of mail service. We do not know what impact, if any, may occur as the result of not fully funding PSHRBF.

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

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

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

Service and Performance

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

CUSTOMER SATISFACTION MEASUREMENT (CSM)

CSM is an independently-administered survey that provides an external, independent measure of customer satisfaction with postal products and services. For Quarter III 2009, 93% of residential household customers rated the overall service they received from the Postal Service as excellent, very good or good, a one percentage point increase over the same period last year. In 2009, for the fifth year in a row, the respected Ponemon Institute rated the Postal Service as the most trusted government agency. The Institute also ranked us as one of the ten most-trusted organizations in the nation - public or private.

Outlook

The Postal Service finds itself operating in one of the most difficult economic environments in decades. The recession that began in December 2007, deepened in 2009 and mail volume reflects this, shedding a total of 20 billion pieces in the first nine months of 2009. The recession is expected to continue through the remainder of 2009 and impact mail volumes through 2010. Volume for 2009 is projected to be approximately 175 billion pieces, a decline of 28 billion pieces from the 2008 level of 203 billion pieces. Based upon current projections, net loss for 2009 is expected to exceed $7 billion. The $10.2 billion debt limit at September 30, 2009 is expected to be insufficient to fund our obligations without legislative change.

The Postal Service has taken steps to cut costs within its current legal constraints, while at the same time maintaining service at a historically high level in this difficult economic environment. However, the Postal Service requires structural changes in order to ensure long-term viability. As discussed in the legislative section, we are requesting changes to the way we fund our retiree health benefit contributions as well as changes to the legislatively-mandated six day a week mail delivery schedule. Management is constantly considering new revenue generating opportunities, but while PL109-435 did give us some flexibility, we continue to be constrained as to what new revenue areas we can legally enter.

Without some form of legislative change, we will not have adequate funding to meet our financial obligations beginning in September 2009.

Revenue Outlook

Based on results from the first three quarters of 2009 and the economic outlook from economic consultant Global Insight, we have revised our projections and now anticipate a volume decline of 28 billion pieces, to a total of approximately 175 billion pieces of mail for 2009. The volume decline and the shift in the mail mix translate into a projected revenue decline of over $6.5 billion for 2009. We anticipate revenue this fiscal year will be lower than in 2008.

We anticipate a small economic rebound in 2010. However, this is not expected to translate into revenue growth, as volume is expected to decline an additional 10-15 billion pieces in 2010. Moreover, even when the economy does rebound, the Postal Service will still face electronic diversion of its First-Class Mail.

Many economists believe the recession to be near the bottom. GDP is expected to be positive, although very slightly, in the final quarter of the year. GDP growth is expected to be positive in 2010, improving further in 2011. The precursors to the recession, housing and oil price shocks appear to have eased; however the recovery in real estate values, a major component of many Americans' net worth, is expected to be extended and gradual.

Those items that have the greatest effect on mail volume growth - employment, consumer spending and capital investment- all appear to be lagging GDP growth by several quarters. According to Global Insight, unemployment is heading to a projected peak of 10.2% in the second quarter of 2010. Global Insight believes that a gradual recovery will begin in consumer markets this summer, but that consumer spending will be relatively sluggish as households reduce debt and build savings. Business investment had its steepest decline on record in the second quarter, with declines expected to continue through at least the second quarter of 2010. Overall business investment is expected to be flat in 2010 with a rebound occurring in 2011. As all three of these factors are lagging GDP growth by several quarters, it is reasonable to assume that mail volume recovery will also lag several quarters behind general economic GDP recovery.

Expense Outlook

The Postal Service has implemented a cost reduction plan in an effort to mitigate the effects of the significant revenue shortfall from declining mail volumes in 2009. Savings initiatives have been implemented across the entire organization, including all operations, administrative and non-personnel expenses. These are discussed in the Liquidity section of this document. We are on target to achieve more than $6 billion of cost reductions.

The potential for greater cost reduction opportunities could be realized in cooperation with our unions and management associations. In addition, further savings could be achieved through public policy changes, such as the restructuring of funding for retiree health care premium payments proposed in H.R. 22 and S. 1057. If applied retroactively to the beginning of our fiscal year, the restructuring would save approximately $2 billion in expenses and cash outflows in 2009.

Legislation

Retiree Health Benefits

On July 10, 2009, the House Oversight and Government Reform Committee unanimously passed an amended version of H.R. 22 that would allow the Postal Service to pay its share of contributions for annuitants' health benefits out of the PSRHBF for three years, covering the period of 2009 through 2011. During fiscal years 2012 through 2016, the Postal Service would be required to directly pay for current retiree health benefit premiums. After September 30, 2016, per current law, the retiree health benefit fund could again be used to pay the retiree health benefit premiums.

More than 339 legislators support the bill, which would allow the PSRHBF to pay current retirees' health benefit premiums from the nearly $34 billion fund balance, which consists of funds previously contributed by the Postal Service plus interest earned on these funds. This would, if applied retroactively from the beginning of 2009, reduce 2009 expenses by approximately $2 billion. The Postal Service is actively supporting this bill.

Legislation to reform Postal Service retiree health benefits funding, "The Postal Service Retiree Health Benefits Funding Reform Act of 2009," was introduced by Senator Carper, chair of the Senate Postal Oversight Subcommittee on July 23, 2009. Like H.R. 22, the Senate bill S. 1507, would restructure the Postal Service's obligation to pay its retiree health benefit payments. The Senate bill, which is cost-neutral over a 10 year period, would generate significant savings to the Postal Service over the next several years, by lowering the fixed payment obligations and adding an additional dynamic funding obligation for the normal cost of retirees, as computed by OPM. The Senate bill would also allow health benefit premium payments for current retirees to be paid from the PSRHBF. The current year payment would include a fixed portion of $1.7 billion and a dynamic portion estimated at $3.3 billion, for a total of $5.0 billion. This would be a savings of $2.4 billion in 2009 compared to the current law. Both the fixed and normal cost payments are expected to grow over time The Senate bill also would give the Postal Service more annual borrowing authority in 2009 and 2010 to meet its financial obligations this current fiscal year and next, but does not change the overall debt limit of $15 billion.

Appropriations
On July 16, 2009 the House passed H.R. 3170, the fiscal year 2010 Financial Services appropriations bill. The $24.1 billion measure would reimburse $118 million to the Postal Service Fund, including $29 million for revenue forgone, $69 million for free mail for the blind and overseas voters, and $20 million in adjustments to free mail for the blind and overseas voters. The annual appropriations rider mandating six-day delivery of mail is also continued in H.R. 3170.

The Senate version of the 2010 spending bill, S. 1432, was approved by the Senate Appropriations Committee on July 9 and is scheduled for floor action in September. Like the House spending bill, the Senate version also would reimburse $118 million to the Postal Service Fund and retain the six-day delivery rider.

Employee Benefit Bills
The President signed PL.111-31, *the Family Smoking Prevention and Tobacco Control Act*, on June 22, 2009. The law did not include House provisions providing Federal Employees with the ability to credit unused sick leave toward retirement, but did permit Roth-IRA options to be set up in Thrift Savings Plans.

As of June 18, 2009, H.R. 958, the FERS sick leave bill, granting that the total service of a FERS employee at retirement or one who dies leaving a survivor entitled to benefits must include the employee's days of unused sick leave in the annuity computation, had a total of 87 cosponsors. Preliminary estimates indicate that this measure, if passed, would cost the Postal Service in the range of $142 million annually.

Fraud Enforcement and Recovery Act of 2009
President Obama signed PL, 111-21, the Fraud Enforcement and Recovery Act of 2009 on May 20, 2009. The bill improves enforcement of mortgage fraud, securities fraud, financial institution fraud and other frauds related to federal assistance and relief programs, for the recovery of funds lost to these frauds and for other purposes. Mail and wire fraud affecting a financial institution will have enhanced penalties. The law authorizes the Postal Inspection Service to seek an appropriation of $30 million for fiscal years 2010 and 2011 for investigations involving federal assistance programs and financial institutions. Such funding was not included in the 2010 Financial Services Appropriations bill.

Fuel Efficient Vehicles
On June 1, 2009, the General Services Administration (GSA) made a $210 million purchase of new fuel efficient vehicles from Chrysler, Ford and General Motors using a portion of the funds provided to GSA in the *American Recovery and Reinvestment Act of 2009* (Public Law 111-5). Part of this GSA purchase benefits the Postal Service by allowing us to replace 6,500 vehicles from our current fleet with more fuel efficient models. Of that number, 1,000 of the new vehicles are E-85 ethanol-capable and 900 are hybrids. The other 4,600 are conventional cars powered by four-cylinder gasoline-powered engines. Each new vehicle will have a higher miles-per-gallon rating than the one it replaces. The new vehicles will be treated as a capital contribution of the U.S. government on our balance sheet. As of June 30, 2009, we have received 30 vehicles with a fair market value of approximately $700,000.

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, such as hedging, 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 2008 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 our 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. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we were required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

Internal Controls

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

Item 1 – Legal Proceedings

None.

Item 1A – Risk Factors

The risk factors in our annual report on Form 10-K are supplemented by the addition of the following risk factor:

Our ability to generate sufficient cash flows is substantially dependent on our ability to execute strategies to increase efficiency, reduce costs and generate revenue. However, even if we are successful, if Congress does not enact proposed legislation, we will suffer a cash shortfall and may have to withhold required payments on certain financial obligations.

The Postal Service incurred a net loss for the year ended September 30, 2008, of $2,806 million. We had a net loss of $4,674 million for the nine months ended June 30, 2009, compared to a net loss for the same period last year of $1,133 million. A significant portion of the loss in the current year is attributed to an unprecedented decline in mail volume, which fell by 20 billion pieces, resulting in a $4,823 million or 8.4% decrease in revenue, compared to the same period in 2008. Also contributing to these losses were significantly higher retiree health benefit costs since the passage of PL 109-435 and the creation of the PSRHBF, Cost of Living Adjustments (COLAs), and record fuel prices for a substantial period in 2008. The decline in mail volume is primarily attributable to the widespread economic recession, although the long-term trend of hard copy correspondence and transactions being diverted to electronic media continues. Continued downward pressure on mail volume is expected throughout the current fiscal year and, even with substantial cost reductions, our 2009 net loss is projected to be over $7 billion. Looking ahead to 2010, mail volume could decline another 10-15 billion pieces and the net loss is expected to be on the same order of magnitude to the projected net loss in 2009, despite a broad range of actions by the Postal Service to reduce costs in response to these unprecedented reductions in volume.

We experienced negative cash flow from operations in the previous two years. Through the nine months ended June 30, 2009, cash generated from operations was $1.8 billion; however, we have an obligation to pay $5.4 billion into the Postal Service Retiree Health Benefit Fund (PSRHBF), as required by the Postal Accountability and Enhancement Act, P.L. 109-435 (see Note 7) by September 30, 2009. We do not expect to generate sufficient cash flow from operations in the last quarter of 2009 to enable us to fully fund this obligation. We are also required to pay approximately $1.1 billion to the Department of Labor (DOL) for Workers' Compensation by October 15, 2009.

We can fund some of these obligations through increased debt. However, our annual net increase in debt is limited by statute to $3 billion. The statute limits our total outstanding debt to $15 billion. We currently project increasing net debt outstanding this year by $3 billion, but do not expect this to be sufficient to fund all our obligations. The organization is working to mitigate a possible September 30 cash shortfall of up to $700 million. Continuing significant losses in 2010 and future years will also result in cash shortfalls that will ultimately cause the $3 billion annual borrowing limitation and overall $15 billion debt limitation to become insufficient.

To meet this financial challenge, the Postal Service has, and continues to, undertake a number of actions to increase efficiency, reduce costs and generate new revenue. These actions include freezing executive salaries, reducing workhours and headcount, maximizing operational efficiencies, renegotiating contracts with major suppliers, halting construction of new facilities, and initiating revenue generation efforts utilizing the increased pricing flexibility available under P.L. 109-435. Although each of these efforts is expected to positively impact cash flow in 2009, they will not, either individually, or in the aggregate, be sufficient to offset the expected September 30, 2009 cash shortfall.

The Postal Service has also requested Congress to restructure our payments for retiree health benefits and for the flexibility to suspend the six day a week delivery requirement. Our request is that retiree health benefit payments be restructured to allow the PSRHBF to pay current retiree health benefit premiums from the existing fund balance of nearly $34 billion, consisting of amounts previously contributed by the Postal Service and earnings, rather than being paid separately from the Postal Service's operating cash. This would provide a significant additional level of financial flexibility and, if applied retroactively to the beginning of 2009, could reduce the 2009 net loss by approximately $2 billion and increase cash flow by the same amount. A bill to provide this additional financial flexibility, H.R.22, has been approved by the House Oversight and Government Reform Committee and is awaiting action by the full House. Legislation to restructure the funding of the PSHBRF benefits was introduced in the Senate on July 23, 2009. Like H.R. 22, the Senate bill S. 1507, would restructure the Postal Service's obligation to pay its retiree health benefit payments. The Senate bill, which is cost-neutral over a 10 year period, would generate significant savings to the Postal Service over the next several years, by lowering the fixed payment obligations and adding an additional dynamic funding payment obligation for the normal cost of retirees as computed by OPM and allowing the health benefit premium payments for current retirees to be paid from the PSRHBF. The current year payment would include a fixed portion of $1.7 billion and a dynamic portion estimated at $3.3 billion for a total of $5.0 billion. This would be a savings of $2.4 billion in 2009 compared to the current law. Both the fixed and normal cost payments are expected to grow over time The Senate bill would also give USPS more borrowing authority to meet its financial obligations this current fiscal year and next, but does not change the overall debt limit of $15 billion.

We do not anticipate any savings in 2009 or 2010 from the ability to adjust the six day delivery requirement, if granted. However, the flexibility would provide additional cost savings beginning in 2011.

Our ability to generate sufficient cash flows to meet obligations is substantially dependent on our ability to execute strategies to increase efficiency, reduce costs and generate revenue. Combined with the potential increased flexibility requested from Congress as discussed above, this would allow us to reduce our costs and our projected 2009 net loss and improve our cash position without significantly diminishing of service to our customers. However, no assurance can be given that our efforts will be successful, or that Congress will concur with our suggested changes and enact legislation, in time to impact the current fiscal year, or at all. We have informed Congress, the Office of Personnel Management (OPM), the Office of Management and Budget (OMB), and the Treasury Department that if the legislative change in some form is not enacted prior to September 30, 2009, we will not fully fund our PSRHBF obligation in September 2009. However, we do plan to, otherwise, continue all operations with no disruption of mail service. We do not know what impact, if any, would occur as the result of not fully funding the PSHRBF.

In light of the above liquidity issues, in July 2009, the Government Accountability Office (GAO) listed the Postal Service as one of its "high risk" government agencies. In its report, *Restructuring the U.S. Postal Service to Achieve Financial Viability*, GAO recognized what we have been reporting in our prior quarterly reports. They cite our mounting losses, increasing debt levels and inability to cut costs fast enough to offset the accelerated decline in mail volume and revenue. To achieve financial viability, GAO suggests that the Postal Service develop and implement a broad restructuring plan.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

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

Item 3 – Defaults Upon Senior Securities

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

Item 4 – Submission of Matters to a Vote of Security Holders

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

Item 5 – Other Information

None.

Item 6 – Exhibits

Exhibit Number	Description of Exhibit
30.1	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.
30.2	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/ John E. Potter

John E. Potter
Postmaster General and Chief Executive Officer

Date: August 5, 2009

/s/Joseph Corbett

Joseph Corbett
Chief Financial Officer
Date: August 5, 2009

Exhibit 30.1

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

I, John E. Potter, certify that:

1. I have reviewed this 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-15e and 15d-15e) for the Postal Service and have:

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

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

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

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

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

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

Date: August 5, 2009

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

Exhibit 30.2

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-15e and 15d-15e) for the Postal Service and have:

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

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

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

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

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

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

Date: August 5, 2009

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer

Exhibit 32.1

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

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

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

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

Dated: August 5, 2009

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

Exhibit 32.2

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

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

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

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

Dated: August 5, 2009

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer