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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011 OR**

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

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Not Applicable ☑

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

Common Stock	Outstanding Shares as of May 10, 2011
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

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Part I

Item 1 – Financial Statements

United States Postal Service
Statements of Operations
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	**2011**	**2010**	**2011**	**2010**
Operating revenue	$ 16,234	$ 16,697	$ 34,111	$ 35,052
Operating expenses				
Compensation and benefits	11,896	12,221	24,612	25,013
Retiree health benefits	1,996	1,929	3,948	3,826
Workers' compensation	630	390	198	576
Transportation	1,552	1,438	3,213	2,951
Other	2,352	2,272	4,622	4,502
Total operating expenses	18,426	18,250	36,593	36,868
Loss from operations	**(2,192)**	**(1,553)**	**(2,482)**	**(1,816)**
Interest and investment income	7	7	13	13
Interest expense	(43)	(38)	(88)	(78)
Net loss	**$ (2,228)**	**$ (1,584)**	**$ (2,557)**	**$ (1,881)**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	March 31, 2011	September 30, 2010
	(unaudited)	
Current Assets		
Cash and cash equivalents	$ 911	$ 1,161
Receivables:		
Foreign countries	847	714
U.S. government	154	173
Other	203	224
Receivables before allowances	1,204	1,111
Less: Allowances	35	32
Total receivables, net	1,169	1,079
Supplies, advances and prepayments	136	114
Total Current Assets	**2,216**	**2,354**
Noncurrent Assets		
Property and equipment, at cost:		
Buildings	24,080	23,822
Equipment	20,430	20,646
Land	2,960	2,974
Leasehold improvements	1,052	1,026
	48,522	48,468
Less: Allowances for depreciation and amortization	28,470	28,333
	20,052	20,135
Construction in progress	932	1,460
Total property and equipment, net	20,984	21,595
Other assets - principally revenue forgone receivable	**356**	**377**
Total Noncurrent Assets	**21,340**	**21,972**
Total Assets	**$ 23,556**	**$ 24,326**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	March 31, 2011 (unaudited)	September 30, 2010
Current Liabilities		
Compensation and benefits	$ 2,926	$ 2,924
Retiree health benefits	2,750	-
Workers' compensation	1,215	1,115
Payables and accrued expenses:		
Trade payables and accrued expenses	950	1,311
Foreign countries	717	586
U.S. government	139	136
Total payables and accrued expenses	1,806	2,033
Deferred revenue - prepaid postage	3,214	2,584
Customer deposit accounts	1,339	1,429
Outstanding postal money orders	683	639
Prepaid box rent and other deferred revenue	452	452
Current portion of debt	7,156	7,500
Total Current Liabilities	**21,541**	**18,676**
Noncurrent Liabilities		
Workers' compensation costs	10,469	11,474
Employees' accumulated leave	2,030	2,088
Deferred appropriation and other revenue	359	392
Long-term portion capital lease obligations	485	512
Deferred gains on sales of property	307	309
Contingent liabilities and other	295	248
Long-term debt	4,500	4,500
Total Noncurrent Liabilities	**18,445**	**19,523**
Total Liabilities	**39,986**	**38,199**
Net Deficiency		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	**(19,562)**	**(17,005)**
Total Net Deficiency	**(16,430)**	**(13,873)**
Total Liabilities and Net Deficiency	$ **23,556**	$ **24,326**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Changes in Net Deficiency
(Unaudited)

(Dollars in millions)		Capital Contributions of U.S. Government		Deficit Since Reorganization		Total Net Deficiency
Balance, September 30, 2009	$	3,087	$	(8,500)	$	(5,413)
Additional Capital Contribution		45		-		45
Net Loss		-		(1,881)		(1,881)
Balance, March 31, 2010	$	3,132	$	(10,381)	$	(7,249)
Balance, September 30, 2010	$	3,132	$	(17,005)	$	(13,873)
Net Loss		-		(2,557)		(2,557)
Balance, March 31, 2011	$	3,132	$	(19,562)	$	(16,430)

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Statements of Cash Flows
(Unaudited)

(Dollars in millions)	Six Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net loss	$ (2,557)	$ (1,881)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	1,150	1,224
Gain on disposals of property and equipment and impairments, net	(30)	(21)
Decrease in appropriations receivable revenue forgone	21	31
Decrease in noncurrent workers' compensation liability	(1,005)	(522)
Decrease in noncurrent employees accumulated leave	(58)	(119)
Decrease in noncurrent deferred appropriations and other revenue	(1)	-
Increase in other noncurrent liabilities	46	13
Changes in current assets and liabilities:		
Receivables, net	(90)	(71)
Supplies, advances and prepayments	(22)	3
Compensation and benefits	2	180
Retiree health benefits	2,750	2,750
Workers' Compensation	100	3
Payables and accrued expenses	(188)	(186)
Customer deposit accounts	(90)	(14)
Deferred revenue-prepaid postage	630	(116)
Outstanding postal money orders	44	33
Prepaid box rent and other deferred revenue	(10)	5
Net cash provided by operating activities	692	1,312
Cash flows from investing activities:		
Purchases of property and equipment	(589)	(683)
Proceeds from sales of property and equipment	49	38
Net cash used in investing activities	(540)	(645)
Cash flows from financing activities:		
Issuance of notes payable	2,500	-
Payments on notes payable	(2,400)	(2,500)
Net change in revolving credit line	(444)	(1,170)
Payments on capital lease obligations	(26)	(25)
U.S. government appropriations - expensed	(32)	(32)
Net cash used in financing activities	(402)	(3,727)
Net decrease in cash and cash equivalents	(250)	(3,060)
Cash and cash equivalents at beginning of year	1,161	4,089
Cash and cash equivalents at end of period	$ 911	$ 1,029
Supplemental cash flow disclosure:		
Interest paid	$ 90	$ 73

See accompanying notes to the financial statements. (unaudited)

Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

The interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial statements and, accordingly, do not include all the information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with the significant accounting policies and other disclosures in the Annual Report on Form 10-K for the year ended September 30, 2010. As in the Annual Report on Form 10-K, all references to years are to the fiscal year beginning October 1 and ending September 30, unless otherwise stated. All references to quarters, unless otherwise indicated, are to quarters within fiscal years 2011 and 2010.

In Quarter I, 2011, the Postal Service improved the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. During the quarter, certain usage data indicated that a refinement of the estimation process for Forever Stamp usage was necessary. As a result of this enhancement, deferred revenue-prepaid postage was increased by $170 million. The change is accounted for as a change in accounting estimate, and is therefore reflected in operating results as a decrease to revenue in Quarter I, 2011.

Certain prior year balances have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported operating or net losses.

The Postal Service has significant transactions with other U.S. government agencies, as disclosed throughout this report. In addition to the amounts disclosed, deferred revenue of $42 million at March 31, 2011, and $71 million at September 30, 2010, related to government deposits are included in the Balance Sheets in "Customer Deposits".

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present the financial position of the Postal Service as of March 31, 2011, and the results of operations for the three and six month periods then ended, and the cash flows for the six months then ended March 31, 2011 and 2010. Operating results ended March 31, 2011, are not necessarily indicative of the results that may be expected for 2011. Subsequent events have been evaluated through May 10, 2011, the date the Postal Service filed its Form 10-Q for the quarter ended March 31, 2011, with the Postal Regulatory Commission (PRC).

Note 2 – Liquidity

The Postal Service's current financial projections indicate that it will have a substantial cash shortfall on September 30, 2011, and will not be able to make the required $5.5 billion pre-funding payment for retiree health benefits that is due on that date. Additionally, it will have a critically low level of cash and liquidity by the middle of October 2011, when it is required to make a $1.2 billion payment for workers' compensation to the Department of Labor. In addition to the numerous cost reduction steps already taken, the Postal Service may need to take further action before September 30, 2011 in order to conserve cash.

Mail volume has declined by almost 20% since its peak of 213 billion pieces in 2006. The current Postal Service projection indicates that total 2011 mail volume will decrease slightly from the 2010 volume of 170.6 billion pieces. The volume of First-Class Mail, the Postal Service's most profitable product, is expected to decline by approximately 5%-7%, in 2011 compared to 2010. First-Class Mail volume decreased by 2.7 billion pieces, or 6.6%, in the first six months of 2011 compared to the same period in 2010.

The Postal Service had net losses of $2,557 million and $1,881 million for the six months ended March 31, 2011 and 2010, respectively. Annual losses were $8,505 million, $3,794 million, and $2,806 million for the years ended September 30, 2010, 2009 and 2008, respectively. The Postal Service had negative cash flow from operations for fiscal years 2010 and 2008. Operating cash flow would have been negative in fiscal year 2009 as well had Public Law 111-68, *Making appropriations for the Legislative Branch for the fiscal year-ending September 30, 2010, and for other purposes* (P.L.111-68), which reduced the required payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) by $4 billion, not been enacted. P.L. 111-68 did not, however, address future payments to the PSRHBF, including the $5.5 billion pre-funding payment required in September 2011. Without legislative adjustments to its obligations as discussed below, the Postal Service will likely have a negative cash flow from operations in 2011. Even with a continuing mild economic recovery, steps to generate revenue, and stringent cost control efforts, the Postal Service projects it will not generate sufficient funds during 2011 to meet all of its projected financial obligations. It will pay its employees, suppliers and contract partners to ensure continued delivery of the mail. Absent legislative change, the Postal Service will be forced to default on payments to the federal government.

By statute, the Postal Service is limited to an annual net increase in debt of $3 billion, and total outstanding debt of $15 billion. The Postal Service has two substantial cash payments scheduled for September and October 2011: $5.5 billion due to the PSRHBF on September 30, 2011; and approximately $1.2 billion due in October 2011 to the Department of Labor (DOL) for the Postal Service's annual payment on its workers' compensation liability. Based on the cash balance and the remaining borrowing capacity of approximately $3.3 billion at March 31, 2011, along with the projected cash that will be generated by operations in the remainder of 2011, there will be insufficient cash available to fund all the Postal Service's obligations to the federal government, absent regulatory and legislative adjustments to some, or all, of these obligations. The legal and/or regulatory consequences to the Postal Service if the Postal Service defaults on payments to the U.S. government are unknown.

In January 2011, the Postal Service filed new Mailing Services prices with the PRC. Price increases are limited to the Consumer Price Index cap, consistent with the *2006 Postal Accountability and Enhancement Act, Public Law 109-435* (P.L. 109-435) and PRC regulations. The increase, which averages 1.7%, became effective in April 2011, and is the first increase in Mailing Services prices in almost two years. The price changes, which do not impact the cost of a one ounce First-Class stamp, are expected to generate approximately $340 million of revenue in the current fiscal year. In addition, prices for Shipping Services increased by an average of 3.6% in January 2011. If the economy is weaker than anticipated, the rate of diversion from traditional postal services to electronic media accelerates, or other adverse factors impact customers' usage of postal services and products, mail volume and revenues could be less than currently projected.

Personnel costs, including compensation and benefits, retiree health benefits (including the PSRHBF requirement), and workers' compensation costs represent approximately 79% of total operating costs. As a result of management initiatives, work hours during the first half of 2011 were reduced by 16 million hours. This is in addition to reductions of 75 million, 115 million, and 50 million work hours in fiscal years 2010, 2009, and 2008, respectively. Although significant actions have been implemented to decrease personnel costs, many are fixed by statute, regulation, or contract and, therefore, beyond the sole control of management. Wage rates and work rules affecting bargaining employees are contractually negotiated and are fixed for the duration of the labor contract; retirement benefits are determined by law, rather than by management; and health care premium costs continue to rise well above the rate of inflation.

To further reduce costs, in January 2011 the Postal Service announced plans to significantly redesign administrative functions within the organization by reducing headquarters management positions, reducing the number of Area and District Offices, and decreasing the number of administrative, supervisory, and Postmaster positions by approximately 7,500. In addition, the Postal Service will review for possible closure a significant number of post office locations. The redesign, which is being implemented through March 2012, is anticipated to capture annualized savings of over $750 million, beginning in 2012.

On March 11, 2011, the Postal Service reached a tentative contract agreement with the American Postal Workers Union (APWU) which affects approximately 205,000 APWU members. The proposed labor contract which, if approved, would extend to May 20, 2015, establishes pay levels for new career employees that are approximately 10% lower than the existing pay schedule, provides significant workforce flexibility and will allow for increased use of non-career employees. The Postal Service's contribution to employees health insurance premiums will also decrease. The tentative contract includes a 3.5% pay increase over the term of the proposed contract, with the first increase effective in fiscal year 2013. These pay increases are in addition to periodic cost-of-living-adjustments (COLAs), which are eliminated in 2011 and otherwise deferred until 2013. The APWU members will vote to accept or reject the tentative agreement through May 10, 2011, with the voting results disclosed shortly thereafter.

Despite these efforts, the ability of the Postal Service to execute strategies to increase efficiency and reduce costs, by adjusting its network, infrastructure, and workforce, and to retain and grow revenue, is constrained by contractual, statutory, regulatory, and political restrictions. Given these restrictions, Postal Service efforts to positively impact cash flow will likely not be, either individually or in the aggregate, sufficient to avoid a cash shortfall in 2011. Absent significant changes in the economy and legislative environment, the $15 billion debt ceiling will be reached in September 2011, thereby exhausting the Postal Service's external funding ability. No assurance can be given that Postal Service efforts to secure legislative changes will be successful, or that Congress will enact legislation in time to favorably impact 2011, or at all.

Even if legislation is enacted to address shorter-term liquidity matters such as the PSRHBF pre-funding payment schedule, the Postal Service still faces longer-term financial stability concerns. To begin the process of addressing these issues, in March 2010 the Postal Service issued its action plan for the next decade, *Ensuring a Viable Postal Service for America*. In this plan, the Postal Service estimated that during the next decade, there could be cumulative financial losses of approximately $238 billion, absent significant operational and legislative changes. The Postal Service further estimated that approximately $123 billion of the projected losses could be addressed and resolved by aggressive management actions within the existing statutory and regulatory structure, assuming the full cooperation of all Postal Service stakeholders. As noted above, the Postal Service has taken, and continues to take, specific actions which help address the elements under management control. A refresh of the March 2010 action plan continues to show the near-term financial necessity of legislative changes in the following areas: reduction of retiree health benefits funding; reassessment of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) obligations; six-day delivery frequency; modernized access to postal services; workforce flexibility; pricing flexibility; expansion of products and services; and oversight.

As noted in previous filings, the Postal Service filed a request with the PRC on March 30, 2010, seeking an advisory opinion regarding the elimination of Saturday mail delivery to street addresses and associated changes. This is projected to save $3 billion annually and remains a crucial component in the Postal Service's efforts to restructure its operations. The PRC responded to this request on March 24, 2011. The PRC report indicated, among other things, that the Postal Service would save $1.7 billion from the elimination of Saturday delivery according to their calculations. The Postal Service is confident in its savings projections and, since the PRC opinion is advisory, will pursue this matter with the Congress.

At approximately the same time, the Government Accountability Office (GAO) issued its own report, *Ending Saturday Delivery Would Reduce Costs, But Comprehensive Restructuring is Also Needed,* on March 29, 2011. The GAO's position was that "when fully implemented, 5-day delivery would provide USPS with needed cost savings, although the extent of those savings is uncertain" and that "USPS's 5-day proposal should be considered in the context of other restructuring strategies both within and outside the delivery network" – a viewpoint the Postal Service expressed in *Ensuring a Viable Postal Service for America.*

The Postal Service's status as a self-supporting entity within the federal government presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. Despite falling mail volume, the Postal Service is still widely recognized as providing an essential service to the American economy and there are a wide variety of potential legislative remedies that could resolve the short-term liquidity concerns. Therefore, it is unlikely that, in the event of a cash shortfall, the federal government would cause or allow the Postal Service to significantly curtail or cease operations.

The Postal Service continues to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues the Postal Service faces and the legislative changes that would help ensure the availability of sufficient liquidity on September 30, 2011, and beyond. There can be no assurance that the requested adjustments to the PSRHBF payment schedule, or any other legislative changes, will be made in time to impact 2011, or at all.

Note 3 – Debt

Debt payable to the Federal Financing Bank (FFB), a government-owned corporation under the general supervision of the Secretary of the Treasury, consisted of the following at March 31, 2011, and September 30, 2010:

Debt to Federal Financing Bank					
(Dollars in millions)		March 31, 2011		September 30, 2010	
Maturity	Debt Type	Balance	Rate	Balance	Rate
		(Unaudited)		(Audited)	
December 30, 2010	Fixed rate-payable at maturity	$ -	- %	$ 1,900	0.282 %
October 20, 2011	Fixed rate-payable at maturity	1,300	0.338	-	-
January 31, 2014	Fixed rate-payable at maturity	300	2.035	300	2.035
May 2, 2016	Fixed rate-payable at maturity	300	2.844	300	2.844
November 15, 2018	Fixed rate-payable at maturity	500	3.048	500	3.048
February 15, 2019	Fixed rate-payable at maturity	700	3.296	700	3.296
May 15, 2019	Fixed rate-payable at maturity	1,000	3.704	1,000	3.704
May 15, 2019	Fixed rate-payable at maturity	500	3.513	500	3.513
May 17, 2038	Fixed rate-payable at maturity	200	3.770	200	3.770
February 15, 2039	Fixed rate-payable at maturity	1,000	3.790	1,000	3.790
July 15, 2011	Floating rate [1]	1,000	0.277	1,000	0.206
July 15, 2011	Floating rate [1]	700	0.277	700	0.206
July 15, 2011	Floating rate [1]	500	0.277	500	0.206
December 15, 2011	Floating rate [2]	700	0.210	-	-
Revolving	Overnight revolving credit line	256	0.176	-	-
Revolving	Short-term revolving credit line	2,700	0.186	3,400	0.206
Total debt		$ 11,656		$ 12,000	
Less: Current portion of debt		7,156		7,500	
Long-term portion of debt		$ 4,500		$ 4,500	

[1] Floating Rate Note — Repurchasable at par and the interest rate reset on April 15, 2011, to 0.187%.

[2] Floating Rate Note — Repurchasable at par and the interest rate resets on June 15 and September 15, 2011.

Debt, all of which is unsecured and not subject to sinking fund requirements, can be repaid at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the Treasury Security market at the time of repayment.

The Postal Service has two credit lines with the FFB, both of which were renewed to May 2012 after expiring on May 3, 2011. One, a short-term credit line, enables it to draw up to $3,400 million with two days prior notice. Borrowings under this credit line are typically on an overnight basis, but can have a maximum term of up to one year. The second credit facility, which only allows for borrowings on an overnight basis, enables borrowings of up to $600 million on the same business day that funds are requested. In addition, the Postal Service can use a series of other notes with varying provisions to draw upon with two days prior notice. These credit facilities and note arrangements provide the flexibility to borrow short- or long-term, using fixed- or floating-rate notes. Fixed-rate notes can be either callable or non-callable.

The Postal Service is limited by statute to net annual debt increases of $3 billion. Total debt cannot exceed $15 billion. For 2011, the amount of any additional borrowing is constrained by both the annual increase and total debt ceiling limitations to $3 billion. It is likely that the Postal Service will exhaust its borrowing capabilities with the FFB in September 2011.

Scheduled principal repayments, exclusive of capital leases, subsequent to March 31, 2011, are as follows:

Scheduled Principal Repayments Payments due by fiscal year (Dollars in millions)		March 31, 2011
2011	$	5,156
2012		2,000
2013		-
2014		300
2015		-
After 2015		4,200
Total Debt	$	11,656

Note 4 – Property and Equipment

Property and equipment are recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions. Interest capitalized during the three and six month periods ended March 31, 2011 and 2010 was not significant. Impairment charges were not significant in the three and six month periods ended March 31, 2011 and 2010.

Under the provisions of the American Reinvestment and Recovery Act of 2009 (P.L. 111-5), during the first six months of 2010, the Postal Service received from the General Services Administration (GSA) approximately 3,100 new fuel-efficient vehicles in exchange for approximately the same number of vehicles then in its fleet. The $45 million excess of the fair value of the vehicles received over the vehicles traded-in was recorded as an additional non-cash capital contribution by the U.S. government. There was no comparable capital contribution in the first six months of 2011.

Note 5 – Leases and Capital Commitments

Leases

At March 31, 2011, the future minimum payments on non-cancelable operating and capital leases were as follows:

Lease Obligations Payments due by fiscal years (Dollars in millions)	Operating	Capital
2011	$ 395	$ 50
2012	740	102
2013	691	96
2014	632	91
2015	574	88
After 2015	4,550	370
Total Lease Obligations	$ 7,582	$ 797
Less: Interest		256
Total Capital Lease Obligations		$ 541
Less: Current Portion of Capital Lease Obligations		56
Long-term Portion of Capital Lease Obligations		$ 485

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

Rent expense for the quarter and six months ended March 31, 2011 and 2010 was as follows:

Rental Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2011	2010	2011	2010
Non-cancelable real estate leases including related taxes	$ 245	$ 251	$ 496	$ 491
Facilities leased from GSA* subject to 120-day cancellation	11	11	21	22
Equipment and other short-term rentals	83	68	153	122
Total Rental Expense	$ 339	$ 330	$ 670	$ 635

*General Services Administration

Capital Commitments

At March 31, 2011, commitments to acquire capital items were $1,021 million, compared to $1,315 million at September 30, 2010. The following summarizes capital commitments at the indicated dates:

Capital Commitments (Dollars in millions)	March 31, 2011	September 30, 2010
	(Unaudited)	**(Audited)**
Mail Processing Equipment	$ 605	$ 772
Building Improvements	322	397
Postal Support Equipment	46	73
Construction and Building Purchase	12	33
Retail Equipment	31	33
Vehicles	5	7
Total Capital Commitments	$ 1,021	$ 1,315

Note 6 – Contingent Liabilities

Contingent Liabilities (Dollars in millions)		March 31, 2011		September 30, 2010
		(Unaudited)		(Audited)
Labor Cases	$	217	$	189
Equal Employment Opportunity		49		49
Environmental		40		40
Tort		40		35
Contractual		13		1
Total Accrued Contingent Liabilities	$	359	$	314

Contingent liabilities consist mainly of claims and lawsuits resulting from labor and equal employment opportunity disputes, environmental matters, property damage claims, injuries on postal properties, issues arising from postal contracts, personal claims, and traffic accidents. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of potential resolution is estimable, a liability for the loss is recorded. Each quarter, any prior claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates. No individual claim currently assessed as probable of an unfavorable outcome is material to the interim financial statements taken as a whole. The table summarizes contingent liabilities provided for in the interim financial statements.

Based on currently available information, adequate provision has been made for probable losses arising from claims and suits. The current portion of this liability of $114 million at March 31, 2011, and September 30, 2010, is included on the Balance Sheets in "Trade payables and accrued expenses". The long-term portion of this liability at March 31, 2011, was $245 million and $200 million at September 30, 2010. These amounts are accrued in "Contingent liabilities and other" on the Balance Sheets.

The Postal Service also has other claims and lawsuits which it deems reasonably possible of an unfavorable outcome which range from $800 million to $1,000 million at March 31, 2011. No provisions for these possible losses are accrued or included in the financial statements.

Note 7 – Health Benefits Programs

CURRENT EMPLOYEES

Substantially all career employees are covered by the Federal Employees Health Benefits Program (FEHBP). The Office of Personnel Management (OPM) administers the program and allocates the cost of the program to the participating government agency employers. The Postal Service portion of the cost is based on the weighted-average premium cost of the various employee coverage choices and the specific coverage choices made by current employees. Employees paid approximately 22% of the premium costs in Quarter II, 2011, compared to 21% in Quarter II, 2010. For the six months ended March 31, 2011 and 2010, employees paid approximately 21% and 20% of premium costs, respectively. The Postal Service paid the remaining employee health care expense which was $1,296 million and $1,286 million in Quarter II, 2011 and 2010, respectively, and $2,595 million and $2,570 million for the six months ended March 31, 2011 and 2010, respectively. These expenses are included in "Compensation and benefits" in the Statements of Operations.

RETIREES

Employees who participate in the FEHBP for at least the five years immediately before retirement may participate in the FEHBP during retirement. The Postal Service is required to pay the employer's share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retired on or after July 1, 1971. Because the Postal Service cannot direct the costs, benefits or funding requirements for the federally-sponsored plan, it accounts for these retiree costs using multiemployer plan accounting rules and records expense when payments are due to OPM. Employer premium expense for retiree health benefits expense for the three months ended March 31, 2011 and 2010 was $621 million and $554 million, respectively. Employer premium expense for the six months ended March 31, 2011 and 2010 was $1,198 million and $1,076 million, respectively.

In addition to payments to OPM for the Postal Service share of FEHBP retiree premiums, P.L. 109-435 established the PSRHBF, which requires pre-funding of retiree premiums. The schedule of these pre-funding payments is as follows:

Postal Service Retiree Health Benefit Fund Commitment (Dollars in millions by fiscal year)	P.L. 109-435 Requirement
2011	$ 5,500
2012	5,600
2013	5,600
2014	5,700
2015	5,700
After 2015	5,800
Total Retiree Health Benefit Fund Commitment	$ 33,900

The Postal Service recognized $1,375 million of PSRHBF expense in Quarter II, 2011 and 2010. Expense for the six months ended March 31, 2011 and 2010, was $2,750 million.

P.L. 109-435 specifies PSRHBF funding requirements through 2016. The timing of and amounts to be funded can be changed, however, with the passage of a new law or amendment of the existing law. The Postal Service has asked Congress to restructure the payment schedule for 2011 and future years. There can be no assurance that Congress will restructure any of the scheduled payments.

Commencing in 2017, the PSRHBF will be used to pay the Postal Service share of health insurance premiums for current and future Postal Service retirees. Also in 2017, the Postal Service will be required to fund the actuarially determined normal cost.

The law also requires that, not later than 2017, OPM perform an actuarial valuation to determine if additional payments to the PSRHBF are required. If OPM determines that additional payments are required, it will design an amortization schedule to fully fund any remaining liability by September 30, 2056.

The PSRHBF balance at March 31, 2011, as reported in the Monthly Statement of Public Debt of the United States, was $42.9 billion.

Note 8 – Retirement Programs

Employees participate in one of three defined benefit 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 the employer contributions 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 benefit of postal retirees. The Postal Service contribution rate was 11.7% of base salary for current FERS employees for the three and six months ended March 31, 2011, and 11.2% of base salary for FERS employees for the three and six months ended March 31, 2010.

Retirement expense for Quarter II, 2011 was $1,461 million compared to $1,445 million for the same period last year. Year-to-date retirement expense in 2011 was $2,954 million compared to $2,914 million in the same period last year. Retirement expense is recorded in “Compensation and benefits” in the Statements of Operations.

Note 9 – Workers' Compensation

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

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

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the reporting period. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The liability for claims arising more than 10 years ago is determined by an independent actuary. Because the FECA benefit structure is often superior to benefits available under normal federal retirement, payments will, in some cases, be for the rest of the lives of the claimants.

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

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

Workers' Compensation Liability Inflation and Discount Rates	March 31, 2011	September 30, 2010	March 31, 2010
Compensation Claims Liability:			
Discount rate	3.7%	2.9%	5.1%
Wage inflation	2.9%	2.9%	2.9%
Medical Claims Liability:			
Discount rate	3.8%	3.0%	4.5%
Medical inflation	7.9%	7.4%	4.4%

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the March 31, 2011 liability and Quarter II, 2011 expense by approximately $1,100 million. A decrease of 1% in the discount rate would increase the March 31, 2011 liability and Quarter II, 2011 expense by approximately $1,300 million.

At March 31, 2011, the present value of the liability for future workers' compensation payments was $11,684 million, compared to $12,589 million at September 30, 2010, a decrease of $905 million. The decrease is due in part to the annual payment to the DOL of $1,115 million, which was made in October 2010, as well as a decrease in fair value expense of $1,029 million due to rising interest rates. These decreases were partially offset by an increase of $1,239 million primarily in caseload expense driven by increased compensation claims payments. The current portion of the liability was $1,215 million at March 31, 2011, compared to $1,115 million at September 30, 2010.

Including the expense reductions attributable to changes in the discount and inflation rates, workers' compensation expenses for the three- and six-month periods ended March 31, 2011, and 2010 are as follows:

Workers' Compensation Expense	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)		2011		2010		2011		2010
Impact of Discount and Inflation Rate Changes	$	(209)	$	(59)	$	(1,029)	$	(252)
New Cases & Actuarial Revaluation of Existing Cases		824		435		1,196		800
Administrative Fee		15		14		31		28
Total Workers' Compensation Expense	$	630	$	390	$	198	$	576

Note 10 – Fair Value Measurements

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

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

Because no active market exists for the debt with the FFB, the fair value of the long-term portion of these notes has been estimated using prices provided by the FFB, a Level 3 input.

The fair value of revenue forgone has been estimated using the income method and discount rates on similar assets, such as long-term U.S. Treasury securities that have a similar maturity, a Level 2 input.

The carrying values and the fair values of non-current assets and liabilities that qualify as financial instruments in accordance with the accounting literature are as indicated in the table below:

Fair Value of Long-Term Financial Assets and Liabilities	March 31, 2011				September 30, 2010			
(Dollars in millions)		Carrying Amount		Fair Value		Carrying Amount		Fair Value
	(Unaudited)				(Audited)			
Revenue Forgone	$	342	$	429	$	360	$	490
Total Long-Term Financial Assets		342		429		360		490
Long-Term Portion of Debt		4,500		4,438		4,500		4,815
Total Long-Term Financial Liabilities	$	4,500	$	4,438	$	4,500	$	4,815

The preceding table is presented for disclosure purposes only. The Postal Service has not recorded a charge or credit to its operations for the differences between carrying and fair values of the above assets and liabilities.

Reconciliation of Fair Value of Level 3 Instruments (Dollars in millions)		
Debt		
Balance at September 30, 2010	$	4,815
Repayment of Debt		-
Unrecognized Gain		(377)
Balance at March 31, 2011	$	4,438

Non-financial assets, such as property and equipment, are measured at fair value when there is an indicator of impairment or when a decision is made to dispose of an asset, and recorded at fair value only when impairment is recognized. Independent appraisals, adjusted for estimated selling costs, are used to determine the fair value of non-financial assets deemed impaired or being held for sale. Independent third party appraisals are deemed Level 2 inputs as defined above.

Note 11 – Revenue Forgone

Revenue forgone is an appropriation which reimburses the Postal Service for the cost of statutorily-required free and reduced rate mailing services to specified groups. During Quarter II, 2011, the Postal Service recognized revenue of $24 million, including $6 million of imputed interest income from these appropriations, compared to $22 million, including $6 million of imputed interest, during Quarter II, 2010. For the first half of 2011, the Postal Service recognized $50 million of such revenue, including $12 million of imputed interest, compared to revenue of $43 million, including $12 million of imputed interest, for the same period in 2010.

As the result of the passage of the *Department of Defense and Full-Year Continuing Appropriations Act, 2011* on April 15, 2011, the Postal Service will receive only $12 million of the scheduled $29 million of the 2011 amount due under the *Revenue Forgone Reform Act of 1993.* There is no impact to the current year earnings as the unpaid amount will be included as part of the 2013 appropriations request.

The related amount of the receivable was $395 million at March 31, 2011, and $449 million at September 30, 2010. The current portion of this receivable was $53 million at March 31, 2011, and $89 million at September 30, 2010, and is recorded under “Receivables – U.S. government” on the Balance Sheets.

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

Cautionary Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this report include statements representing expectations about the United States Postal Service business and financial results. These may be affected by risks and uncertainties discussed here and in the Annual Report on Form 10-K for the year ended September 30, 2010, such as, but not limited to, economic conditions and slower than anticipated economic recovery, acceleration of the rate of diversion from traditional postal services to electronic media, regulatory and legislative changes, changes in actuarial assumptions, and known and anticipated trends believed relevant to future operations. Some of these and other factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated. Operating results for the three and six month periods ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ending September 30, 2011. This report should be read in conjunction with the United States Postal Service Annual Report on Form 10-K for the year ended September 30, 2010. As in that report, all references to years, unless otherwise stated, refer to the fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal years 2011 and 2010.

Introduction

The United States Postal Service (we) commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States." We are governed by an eleven-member Board of Governors (the Board). Nine independent Governors are appointed by the President of the United States with the advice and consent of the Senate. The Postmaster General, who is appointed by the independent Board members, also serves on the Board, as does the Deputy Postmaster General, who is appointed by the independent Board members and the Postmaster General. In March 2011, Ronald A. Stroman was named the 20th 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 service, prices do not unreasonably vary by customer for the level of service provided. However, P.L. 109-435 does provide flexibility in the pricing of Shipping Services, as discussed below.

We serve individual and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the nation and, as a result, 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 4% of operating revenue; however, advertising mail in general accounts for more than half of our volume.

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 certain 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. Prices and fees are subject to a review process by the Presidentially-appointed Board of Governors and then again with the independent Postal Regulatory Commission (PRC). Throughout this document, and in the day-to-day operation of the organization, market-dominant services are referred to as "Mailing Services" and competitive services as "Shipping Services".

Mailing and Shipping Services are sold through a network of approximately 32,000 postal-managed Post Offices, stations, and branches, plus thousands of contract postal units and community post offices, retail establishments that sell postal products as a convenience for their customers, and on-line at *www.usps.com*. Mail deliveries are made to over 150 million city, rural, Post Office box, and highway delivery points. Operations are conducted primarily in the domestic market, with international sales representing approximately 4% of total revenue.

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

The labor force is primarily represented by the American Postal Workers Union (APWU), National Association of Letter Carriers (NALC), National Postal Mail Handlers Union (NPMHU), and National Rural Letter Carriers Association (NRLCA). More than 85% of career employees are covered by collective bargaining agreements. The APWU and the NRLCA contracts expired on November 20, 2010, and the NPMHU and NALC contracts expire in November 2011. If agreements are not reached during negotiations, a federal mediator is appointed. Impasses in collective bargaining negotiations may ultimately be resolved through arbitration. As of the date of this report, the Postal Service has reached a tentative contract agreement with the APWU, which is subject to a ratification vote by its membership, and is continuing the negotiation process with the NRLCA.

Our tentative contract agreement with the APWU affects approximately 205,000 APWU members. The proposed labor contract which, if approved, would be through May 20, 2015, establishes pay levels for new career employees that are approximately 10% lower than the existing pay schedule, provides significant workforce flexibility and will allow for increased use of non-career employees. The Postal Service's contribution to member's health insurance premiums will also decrease. In addition, the tentative contract includes a 3.5% pay increase over the term of the proposed contract, with the first increase effective in fiscal year 2013. These pay increases are in addition to periodic cost-of-living-adjustments (COLAs), which are eliminated in 2011 and otherwise deferred until 2013. The APWU members will vote to accept or reject the tentative agreement through May 10, 2011, with the voting results disclosed shortly thereafter.

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 for retirement, health and workers' compensation benefits.

The United States Postal Service is not a reporting company under the Securities Exchange Act of 1934, as amended, and is not subject to regulation by the Securities and Exchange Commission (SEC). However, it is required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under section 13 of the Securities Exchange Act of 1934. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, which are available at *www.usps.com*.

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

Critical Accounting Judgments and Estimates

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

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report on Form 10-K for the year ended September 30, 2010. Management discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board of Governors.

In Quarter I, 2011, we improved the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. During the quarter, certain usage data indicated that a refinement of the estimation process for Forever Stamp usage was necessary. As a result of this enhancement, deferred revenue-prepaid postage was increased by $170 million. The change is accounted for as a change in accounting estimate, and is therefore reflected in operating results as a decrease to revenue for the six months ended March 31, 2011.

Results of Operations

Losses in First-Class Mail volume resulting from the weak economy and electronic diversion of mail continue to significantly impact our operating revenue. Although significant efforts continue to be made to contain controllable costs to offset the declining volume over the past few quarters, the impact of the large Postal Service Retiree Health Benefit Fund (PSRHBF) expenses has greatly affected our ability to become profitable.

Our net loss was $2,228 million for the three months ended March 31, 2011, compared to a net loss of $1,584 million for the same period last year. For the six months ended March 31, 2011, our net loss was $2,557 million, compared to a net loss of $1,881 million for the six months ended March 31, 2010.

For the three months ended March 31, 2011, operating revenue was $16,234 million, compared to $16,697 million for the three months ended March 31, 2010, a decrease of $463 million, or 2.8%. For the six months ended March 31, 2011 and 2010, operating revenue was $34,111 million and $35,052 million, respectively, a reduction of $941 million, or 2.7%.

Key Operating Statistics	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars and volume per day in millions)	2011	2010	2011	2010
Operating Revenue	$ 16,234	$ 16,697	$ 34,111	$ 35,052
Operating Loss	$ (2,192)	$ (1,553)	$ (2,482)	$ (1,816)
Net Loss	$ (2,228)	$ (1,584)	$ (2,557)	$ (1,881)
Average Volume per day	554	572	586	591

The public's continuing shift away from First-Class Mail, our most profitable service, continues to negatively impact revenue. In addition, unlike last quarter when a 7.1% increase in Standard Mail revenue helped to offset some of the First-Class Mail losses, in Quarter II, Standard Mail increased less than 1% compared the same period last year. As a result, Mailing Services revenue decreased $568 million, or 3.9%, for the three months ended March 31, 2011, compared to the same period in 2010. For the six months ended March 31, 2011, Mailing Services revenue decreased by $1,088 million, or 3.6%, from the comparable period of 2010.

Shipping Services revenue of $2,187 million increased $105 million, or 5.0%, for the three months ended March 31, 2011, compared to the same period last year. For the six months ended March 31, 2011, Shipping Services revenue was $4,762 million, an increase of 3.2% over the comparable period of 2010.

Operating expenses were $18,426 million for the three months ended March 31, 2011, compared to $18,250 million for the same period last year, an increase of $176 million, or 1.0%. Compensation and benefits expense decreased by $325 million, or 2.7%. Although our required pre-funding for retiree health benefits did not change from the prior year, retiree health benefits premiums expense increased $67 million, or 12.1%, reflecting both a larger number of retirees and higher insurance premiums. Workers' compensation expenses increased $240 million, or 61.5%, driven mainly by the actuarial revaluation of existing cases. Transportation expenses increased by $114 million, or 7.9%, while other expenses increased by $80 million, or 3.5%.

For the six months ended March 31, 2011, operating expenses were $36,593 million, compared to $36,868 million for the six months ended March 31, 2010, a decrease of $275 million, or 0.7%. Compensation and benefits expense decreased by $401 million, or 1.6%, primarily due to a work hour reduction of 16 million hours, or 2.7%. Retiree health benefits premiums expense increased $122 million, or 11.3% while the required pre-funding remained constant. Workers' compensation expenses decreased $378 million, or 65.6%, reflecting the impact changing interest rates. Transportation expenses increased by $262 million, or 8.9%, and other expenses increased by $120 million, or 2.7%.

Included in our total expenses and net losses are items related to discount and inflation rate changes and legislative mandates for the PSRHBF. Discount and inflation rates are updated quarterly, based on prevailing market rates for a basket of Treasury securities with maturities corresponding to the expected duration of the future cash payments for workers' compensation. Although these rate changes affect the workers' compensation expenses or reduction of expenses, they do not impact actual cash outflows.

Further, we have incurred expenses for retiree health benefits of $1,375 million for the quarters ended March 31, 2011 and 2010, and $2,750 million for the six months ended March 31, 2011 and 2010, for the legally-mandated pre-funding payments to the PSRHBF at each year-end.

Because these factors are not subject to management's control, we believe that analyzing operating results without the impact of these factors provides a more meaningful insight into operations. The table below illustrates the net income from business activities when these factors are not considered, and reconciles this amount to our GAAP net loss.

	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2011	2010	2011	2010
Net Loss	$ (2,228)	$ (1,584)	$ (2,557)	$ (1,881)
Impact of:				
Discount & Inflation Rate Changes on Workers' Compensation	(209)	(59)	(1,029)	(252)
PSRHBF Expense	1,375	1,375	2,750	2,750
(Loss) Income before Impact of Discount and Inflation Rate Changes and PSRHBF Expense	$ (1,062)	$ (268)	$ (836)	$ 617

Net losses for the three months ended March 31, 2011 and 2010 include a reduction to expenses due to discount and inflation rate changes that decreased the workers' compensation expense by $209 million and $59 million, respectively. Net losses for the six months ended March 31, 2011 and 2010 include a reduction to expenses due to discount and inflation rate changes that decreased the workers' compensation expense by $1,029 million and $252 million, respectively.

Without the impact of these non-controllable factors, the net loss would have been $1,062 million for the quarter ended March 31, 2011, compared to a net loss of $268 million for the quarter ended March 31, 2010 and for the six months ended March 31, 2011, the net loss would have been $836 million compared to net income of $617 million for the six months ended March 31, 2010.

Revenue and Volume

Following no price increases for Mailing Services in almost two years, in January 2011 we filed new Mailing Services prices with the Postal Regulatory Commission. These new prices, which became effective in April 2011, do not impact reported results for the three or six months ended March 31, 2011. Our Shipping Services prices increased an average of 3.6% and 3.3% in January 2011 and January 2010, respectively.

Although the economic recession has ended, its lingering impact, including the sluggish economic growth following its end, continues to affect the Postal Service. In addition, and possibly more importantly, there have been fundamental changes in the way businesses and consumers use the mail. As a result, total mail volume decreased 1,283 million pieces, or 3.0%, for Quarter II, 2011, and 576 million pieces, or 0.7%, for the six months ended March 31, 2011 as compared to the same periods in 2010; mail volume levels remain well below the 2006 peaks. In addition, the only significant volume growth is being generated by Standard Mail, which has approximately half the revenue and one-third the profit margin of First-Class Mail.

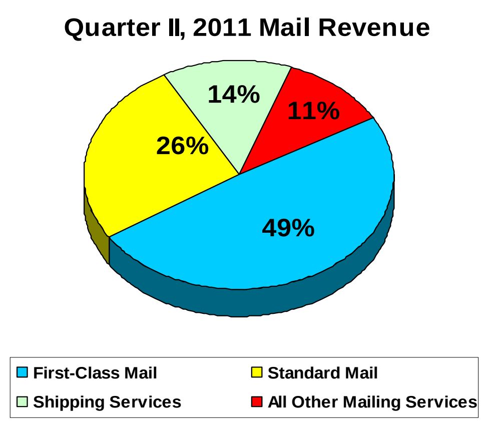
Mailing Services revenue decreased by $568 million, or 3.9%, in Quarter II, 2011, compared to Quarter II, 2010, on a volume decrease of 1,295 million pieces, or 3.1%. For the six months ended March 31, 2011, Mailing Services revenue decreased by $1,088 million, or 3.6%, compared to the first six months of 2010, on a volume decrease of 598 million pieces, or 0.7%. The larger percentage decline in revenue than the percentage decrease in volume is due to the fact that Standard Mail, which generates approximately half the revenue per piece as a piece of First-Class Mail, grew while First-Class volume continued to decline. In addition, a $170 million reduction of revenue as a result of refining the estimation methodology for deferred revenue-prepaid postage related to Forever Stamps recognized in Quarter I negatively impacted revenue for the six months ended March 31, 2011.

For Quarter II, 2011, Shipping Services revenue of $2,187 million increased $105 million, or 5.0%, on a volume increase of 12 million pieces. For the six months ended March 31, 2011, Shipping Services revenue of $4,762 million was $147 million, or 3.2%, greater than the six months ended March 31, 2010, on a volume increase of 22 million pieces.

Revenue	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2011	2010	2011	2010
First-Class Mail	$ 8,008	$ 8,612	$ 16,774	$ 17,922
Standard Mail	4,232	4,195	9,227	8,857
Periodicals	443	468	923	960
Package Services	394	394	825	806
Other Mailing Services*	970	946	1,600	1,892
Total Mailing Services	14,047	14,615	29,349	30,437
Total Shipping Services	2,187	2,082	4,762	4,615
Total Operating Revenue	$ 16,234	$ 16,697	$ 34,111	$ 35,052

*Includes Certified Mail, Return Receipts, PO Boxes, Insurance, and Other Ancillary Fees.

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



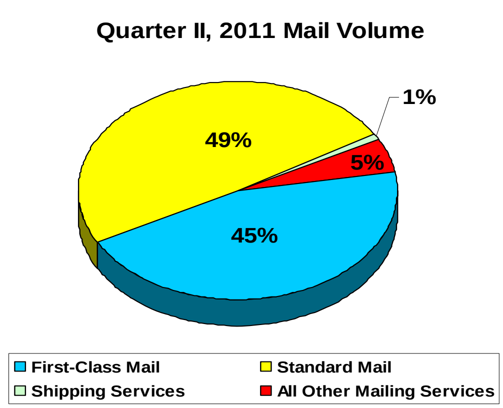
MAILING SERVICES

For the quarter ended March 31, 2011, combined First-Class Mail and Standard Mail, which were 94% of our total mail volume, decreased 1,198 million pieces, or 3.0%, compared to the same period last year, with an associated drop in revenue of $567 million, or 4.4%. For the six month period ended March 31, 2011, combined First-Class Mail and Standard Mail volume decreased by 505 million pieces, or 0.6%, from the comparable 2010 period, resulting in a decrease in revenue of $778 million, or 2.9%.

Mail Volume by Type	Three Months Ended March 31,		Six Months Ended March 31,	
(Pieces in millions)	2011	2010	2011	2010
First-Class Mail	18,476	19,987	38,465	41,173
Standard Mail	20,161	19,848	43,918	41,715
Periodicals	1,747	1,830	3,593	3,701
Package Services	167	172	354	350
Other Mailing Services*	104	113	260	249
Total Mailing Services	40,655	41,950	86,590	87,188
Total Shipping Services	352	340	774	752
Total Mail Volume	41,007	42,290	87,364	87,940

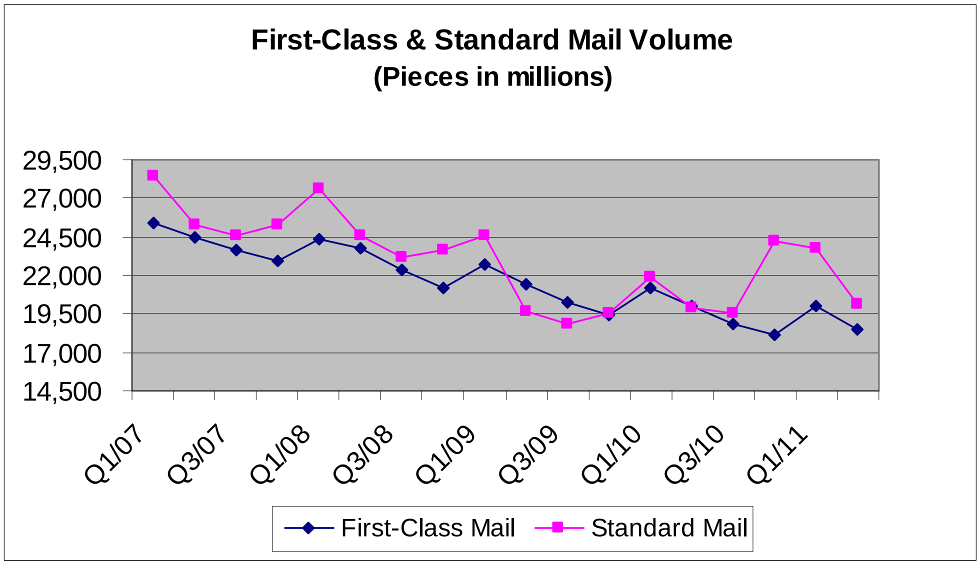
* Includes internal US Postal Service Mail and Free Matter for the Blind

Note: Prior year balances have been restated to conform to the current year's presentation.



Compared to the same quarter last year, First-Class Mail revenue of $8,008 million decreased $604 million, or 7.0%, in Quarter II, 2011 on a volume decline of 1,511 million pieces, or 7.6%. Single-piece First-Class letter revenue declined $282 million, or 9.2%, for the quarter compared to Quarter II, 2010. For the six months ended March 31, 2011, First-Class Mail revenue of $16,774 million was $1,148 million, or 6.4%, less than the comparable period of 2010 as volume decreased by 2,708 million pieces during that period. Year-to-date single-piece First-Class letter revenue declined $629 million, or 9.2%, on a volume decline of 9.5%. First-Class Mail continues to be negatively impacted by the shift from the use of traditional postal hard copy to electronic services and by the fundamental changes in the way businesses and consumers use the mail.

Standard Mail revenue of $4,232 million increased $37 million, or 0.9%, in Quarter II, 2011, as volume increased 313 million pieces, or 1.6%, compared to Quarter II, 2010. For the six month period ended March 31, 2011, Standard Mail revenue of $9,227 million increased $370 million, or 4.2%, compared to the first six months of 2010. Standard Mail volumes had been significantly impacted by the decline in advertising spending resulting from the recent recession but have rebounded slightly in recent quarters. However, advertisers continue to become more sophisticated in the targeting of their mailings, offsetting some of the recent volume growth. We expect advertising mail to slightly increase if the economy improves; however, any migration of advertising to the internet or other media would adversely impact volumes. The following depicts First-Class and Standard Mail Volume since 2007:



Revenue from Periodicals decreased $25 million, or 5.3%, in the second quarter of 2011 and year-to-date revenue decreased $37 million, or 3.9%, compared to the same period last year. Trends in hard copy reading behavior and shifts of advertising away from print have been depressing this segment for years and are not expected to rebound as e-readers and electronic content continues to grow. For Quarter II, 2011, the average per piece weights for Periodicals increased by a modest 0.6%. Volume for Quarter II, 2011 and the first half of 2011 decreased 83 million and 108 million pieces, or 4.5% and 2.9%, respectively, compared to the same period last year.

Package Services revenue remained the same, at $394 million in Quarter II compared to the second quarter of 2010, as volume decreased 5 million pieces, or 2.9%. Year-to-date 2011 Package Services revenue increased $19 million, or 2.4%, as volume increased 4 million pieces, or 1.1%, compared to the same period last year. Shifts to the more profitable Priority Mail Flat Rate Box in the Shipping Services category adversely impacted Package Services in the Mailing Services category.

SHIPPING SERVICES

Shipping Services revenue increased $105 million, or 5.0%, in Quarter II compared to the same period of 2010, as volume increased 12 million pieces, or 3.5%. Year-to-date volume increased 22 million pieces, or 2.9%, resulting in a revenue increase of $147 million, or 3.2%, from the first six months of 2010. The small volume increases in Shipping Services are indicative of the early signs of economic recovery and the continuation of our advertising campaigns.

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

Compensation and benefits expense in Quarter II, 2011, was $11,896 million, which is a $325 million, or 2.7%, reduction from Quarter II, 2010. Decreases in compensation and health benefits expenses were the result of fewer employees and work hours used. Compensation expense decreased by $309 million, or 3.3%, in Quarter II, 2011, compared to the same period last year. This was primarily due to a decrease in work hours of 9.6 million, a 3.2%

decrease. In addition, the Postal Service contributed approximately 1% less per employee for health benefit premiums compared to the prior year, which resulted in a decrease to quarterly health benefit expense. For the six months ended March 31, 2011, compensation and benefits expense decreased by $401 million, or 1.6%, compared to the first six months of 2010.

Compensation and Benefits Expenses (Dollars in millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Compensation	$ 9,058	$ 9,367	$ 18,854	$ 19,260
Retirement	1,461	1,445	2,954	2,914
Health Benefits	1,296	1,286	2,595	2,570
Other	81	123	209	269
Total	$ 11,896	$ 12,221	$ 24,612	$ 25,013

Year-to-date compensation expense through March 31, 2011, decreased by $406 million, or 2.1%, from the same period of 2010, primarily as a result of a 16 million, or 2.7%, reduction in work hours used. The reduction in compensation expense also reflected $112 million of 2010 incentive expense for approximately 7,400 APWU and NPMHU employees, who elected to retire or resign from the Postal Service. There was no similar incentive expense in the first six months of 2011. The incentives offered in late March 2011 did not have a material impact upon our financial results for the three and six month period ended March 31, 2011; however, as discussed below, they will affect our future results.

WORK HOURS

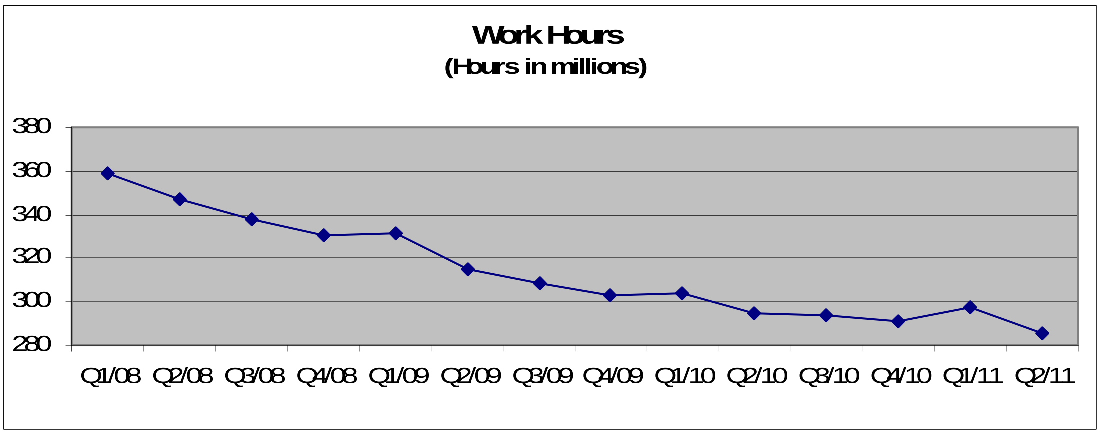
The Postal Service reduced work hours in the quarter ended March 31, 2011, by 9.6 million hours, or 3.2%, compared to the same period of last year, which represents a reduction of approximately 5,400 full time equivalent employees. The decrease in hours was especially pronounced in the city delivery, mail processing and customer services and retail functions which had reductions of 2.7 million, 2.8 million and 2.7 million work hours, or 2.7%, 5.0% and 6.6%, respectively.

Work Hours (Hours in thousands)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
City Delivery	98,724	101,440	201,487	205,784
Mail Processing	53,499	56,341	111,862	117,182
Customer Services & Retail	37,636	40,309	77,206	82,367
Rural Delivery	43,286	43,818	87,779	87,353
Postmasters	14,627	14,795	29,292	29,379
Other, including Plant, Vehicle Services, Operational Support, and Administration	37,450	38,092	74,722	76,252
Total Work Hours	285,222	294,795	582,348	598,317

Work hours used during the first six months of 2011 were 16 million hours, or 2.7%, less than the first six months of 2010. The largest decreases were in the city delivery, mail processing and customer service functions, with only the rural delivery function having a slight increase in work hours. For the quarter ended March 31, 2011 and 2010, overtime hours were 6.7% and 6.2% of total work hours, respectively. For the first six months of 2011 and 2010, overtime work hours were 7.4% and 6.6% of total work hours, respectively.

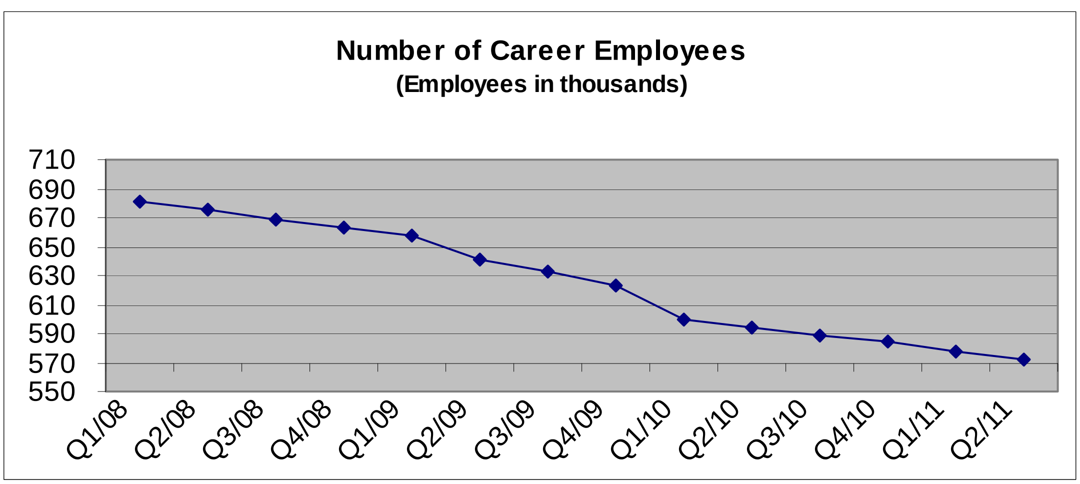
We continue to target the elimination of further work hours this year in addition to reductions of 240 million hours achieved in the prior three years.

The following illustrates our quarterly work hour usage since 2008:



EMPLOYEE WORKFORCE

The number of career employees at March 31, 2011, was 571,566, a reduction of 6,726 employees during Quarter II, 2011, and 22,284 employees since March 31, 2010. Since 2007, the number of career employees has been reduced by 124,572. This reduction has been accomplished primarily through attrition and retirement incentives. The following graph depicts the number of career employees in the Postal Service since 2008:



RETIREMENT EXPENSE AND HEALTH BENEFITS EXPENSE– CURRENT EMPLOYEE

Despite a decrease in the number of employees in the three and six month periods ended March 31, 2011, and an increase in the employee contribution rate from the prior year, during Quarter II, 2011, retirement expense was $1,461 million, compared to $1,445 million for the same period last year, an increase of $16 million, or 1.1%. For the six month period, retirement expense was $2,954 million, an increase of $40 million, or 1.4%, over the $2,914 million expense in the first six months of 2010. These expense increases are attributable to an OPM-mandated increase in the employer contribution rate for the FERS employees to 11.7% of eligible payroll in 2011, up from 11.2% in 2010, which more than offset the savings achieved through work hour reductions. We filed an appeal with the Board of Actuaries of the Civil Service Retirement System on December 21, 2010, requesting a change in the rate being charged to fund our FERS obligation. We requested the change because our FERS obligation, as determined by the Office of Personnel Management (OPM), was overfunded by $6.9 billion as of September 30, 2009, the most recent valuation date. (See our Form 10-K Report dated September 30, 2010, for further details regarding the analysis of the funding of the FERS obligation). On March 16, 2011, we were informed that the appeal has been denied. In its letter, OPM noted that the disposal of any FERS surplus is a matter requiring Congressional action.

In January 2010, the U.S. Postal Service Office of Inspector General (OIG) released its report *The Postal Service's Share of CSRS Pension Responsibility.* According to this report which was based on the work of an independent actuary, the Postal Service has, over many years, overfunded its portion of the obligation of the CSRS fund by approximately $75 billion. At our request, the PRC also reviewed this issue. The PRC, also based on the work of an independent actuary, determined that the Postal Service had overfunded its CSRS pension obligation by $50 billion - $55 billion. See "Legislative Update" later in this report.

The Postal Service's share of the health care premiums was 78% or $1,296 million for the three months ended March 31, 2011, compared to 79% or $1,286 million for the three months ended March 31, 2010. For the six months ended March 31, 2011 the Postal Service's contribution to health care premiums was $2,595 million compared to $2,570 million for the same period last year.

Operating Expenses – Retiree Health Benefits

P.L. 109-435 included a 10 year, $55,800 million payment pre-funding schedule that requires payment of $5,500 million into the PSRHBF in 2011. The Postal Service is recognizing the $5,500 million in equal amounts throughout the year, at a rate of $1,375 million per quarter, the same quarterly amount recognized in 2010. Although P.L. 109-435 dictates the funding requirements through 2016, the amounts to be funded and the timing of funding can be changed at any time with the passage of a new law, or amendment of an existing law. In 2011, the Postal Service is continuing its efforts to seek restructuring of the $5,500 million 2011 payment and the future years' payments due to the PSRHBF. There can be no assurance that the restructuring of any of these payments will occur. As a result and as discussed in *Note 2 – Liquidity*, we will pay our employees, our suppliers and our contract partners to ensure continued delivery of the mail, but we will be forced to default on payments to the federal government unless legislative solutions can be achieved in the second half of 2011.

The components of retiree health benefits expense for the three months and six months ended March 31, 2011 and 2010 are as follows:

Retiree Health Benefits	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2011	2010	2011	2010
Retiree Health Benefits Premiums	$ 621	$ 554	$ 1,198	$ 1,076
P.L. 109-435 Scheduled Payment to PSRHBF	1,375	1,375	2,750	2,750
Total Retiree Health Benefit Expenses	$ 1,996	$ 1,929	$ 3,948	$ 3,826

Expenses for Quarter II, 2011 and the six months ended March 31, 2010 for retiree health benefits premiums increased $67 million, or 12.1%, and $122 million, or 11.3%, from the comparable periods of last year. The major drivers of retiree health benefit premium expense are the number of current participants on the rolls and premium costs of the plans they select. As of March 31, 2011, there were approximately 470,000 participants, an increase of 3,000 participants, compared to March 31, 2010.

Operating Expenses – Workers' Compensation

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

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

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the reporting period. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The liability for claims arising more than 10 years ago is determined by an independent actuary. Because the FECA benefit structure is often superior to benefits available under normal federal retirement, the payments will, in some cases, be for the rest of the lives of the claimants.

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

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

Workers' Compensation Liability Inflation and Discount Rates	March 31, 2011	September 30, 2010	March 31, 2010
Compensation Claims Liability:			
Discount rate	3.7%	2.9%	5.1%
Wage inflation	2.9%	2.9%	2.9%
Medical Claims Liability:			
Discount rate	3.8%	3.0%	4.5%
Medical inflation	7.9%	7.4%	4.4%

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the March 31, 2011 liability and Quarter II, 2011 expense by approximately $1,100 million. A decrease of 1% in the discount rate would increase the March 31, 2011 liability and Quarter II, 2011 expense by $1,300 million.

At March 31, 2011, the present value of the liability for future workers' compensation payments was $11,684 million, compared to $12,589 million at September 30, 2010, a decrease of $905 million. The decrease is due in part to the annual payment to the DOL of $1,115 million, which was made in October 2010, as well as a decrease in fair value expense of $1,029 million due to rising interest rates. These decreases were partially offset by an increase of $1,239 million primarily in caseload expense driven by increased compensation claims payments. The current portion of the liability was $1,215 million at March 31, 2011, compared to $1,115 million at September 30, 2010.

Including the expense reduction attributable to changes in the discount and inflation rates, workers' compensation expenses for the three- and six-month periods ended March 31, 2011, and 2010 are as follows:

Workers' Compensation Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2011	2010	2011	2010
Impact of Discount and Inflation Rate Changes	$ (209)	$ (59)	$ (1,029)	$ (252)
New Cases & Actuarial Revaluation of Existing Cases	824	435	1,196	800
Administrative Fee	15	14	31	28
Total Workers' Compensation Expense	$ 630	$ 390	$ 198	$ 576

In the three months ended March 31, 2011, the Postal Service experienced a $6 million, or 4.8%, decrease in medical claims payments, and a $32 million, or 21.0%, increase in compensation claim payments compared to the three months ended March 31, 2010. The increase in compensation payments for the three months ended March 31, 2011, was especially pronounced after a reassessment of employees on light or limited duty status resulted in an increase in benefits payments to some beneficiaries. 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 payments fluctuate significantly from quarter to quarter, so the change in the number of paid medical and compensation claims for any quarter compared to the same period last year may not necessarily be representative of the results to be expected for the full year.

Operating Expenses – Transportation

Transportation expenses are primarily made up of highway and air transportation costs. Transportation expenses for Quarter II, 2011 were $1,552 million, an increase of $114 million, or 7.9%, compared to $1,438 million in the same period last year. For the six months ended March 31, 2011, transportation expenses were $3,213 million, a $262 million, or 8.9%, increase from the first six months of 2010.

Transportation Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2011	2010	2011	2010
Highway Transportation	$ 834	$ 803	$ 1,696	$ 1,624
Air Transportation	637	597	1,350	1,232
Other Transportation	81	38	167	95
Total	$ 1,552	$ 1,438	$ 3,213	$ 2,951

In Quarter II, 2011, highway transportation expenses were $834 million, an increase of $31 million, or 3.9%, compared to Quarter II, 2010. For the first six months of 2011, highway transportation expenses were $1,696 million, an increase of $72 million, or 4.4%, over expenses of $1,624 million in the same period of the prior year. These increases in highway transportation expenses are primarily attributable to increases in the cost of diesel fuel. Diesel fuel, which makes up approximately 93% of fuel purchased for highway contracts, cost an average of $3.61 per gallon during Quarter II, 2011, compared to $2.85 per gallon in Quarter II, 2010, an increase of 26.7%. For the first six months of 2011, the price of diesel fuel averaged $3.38 per gallon compared to $2.80 per gallon during the first six months of 2010, an increase of 20.7%.

Partially offsetting the increases in fuel costs during the first six months of 2011 was a 56.1 million mile, or 3.4%, decrease in highway miles driven compared to the first six months of 2010, as a result of the implementation of our National Distribution Centers (NDCs). The NDCs improves the flow of mail into the network, consolidates package distribution and improves utilization of our transportation resources.

Air transportation expenses of $637 million for the quarter ended March 31, 2011, increased by $40 million, or 6.7%, from the same quarter last year. For the six months ended March 31, 2011, air transportation expenses of $1,350 million were $118 million, or 9.6%, greater than the first six months of 2010. Similar to highway transportation, air transportation expenses were highly influenced by rising fuel prices.

Other transportation expenses of $81 million in Quarter II, 2011, increased $43 million, or 113.2%, from the comparable quarter of the prior year, and $72 million, or 75.8%, for the first six months of 2011 compared to the first six months of 2010, due primarily to increased international expenses, largely attributable to higher settlement costs for foreign transportation and delivery expense for surface mail.

In the second quarter of 2010, both international air transportation and other transportation expenses benefited from a one time recapture of foreign postal payments required under the Universal Postal Union regulations, there was no similar recapture in 2011.

Operating Expenses – Other Operating Expense

Other operating expenses of $2,352 million for the second quarter of 2011, were $80 million, or 3.5%, greater than last year's comparable quarter. For the six months ended March 31, 2011, other operating expenses of $4,622 million were $120 million, or 2.7%, greater than the first six months of 2010.

Increased fuel costs represented approximately 67% and 60% of the three and six month increases, respectively, in vehicle maintenance service expenses with the balance of the increases attributable primarily to parts and supplies expense incurred as a result of our aging vehicle fleet.

Other Operating Expenses	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2011	2010	2011	2010
Supplies and Services	$ 564	$ 557	$ 1,137	$ 1,106
Depreciation and Amortization	578	597	1,150	1,224
Rent and Utilities	442	448	866	862
Vehicle Maintenance Service	250	209	472	408
Information Technology and Communications	173	161	310	288
Rural Carrier Equipment Maintenance Allowance	117	129	263	261
Other	228	171	424	353
Total Other Operating Expenses	$ 2,352	$ 2,272	$ 4,622	$ 4,502

Other expense increased by $57 million, or 33.3%, for the three months ended March 31, 2011 and $71 million, or 20.1% for the six months ended March 31, 2011, as compared to the same periods in the prior year. The increases were driven primarily by losses due to equipment disposals as well as building repair expenses.

Cash Flows and Liquidity

CASH FLOW ACTIVITY

Cash and cash equivalents totaled $911 million at March 31, 2011, compared to $1,161 million and $1,029 million at September 30, 2010 and March 31, 2010, respectively. The following table provides a summary of our cash flows for the six-month periods ended March 31, 2011 and 2010:

(Dollars in millions)	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Operating activities:		
Net loss	$ (2,557)	$ (1,881)
Noncash depreciation and gains on sales	1,150	1,224
Changes in assets and liabilities	2,099	1,969
Cash provided by operating activities	692	1,312
Investing activities:		
Capital expenditures, net of proceeds	(540)	(645)
Cash used in investing activities	(540)	(645)
Financing activities:		
Net change in notes payable	100	(2,500)
Net change in revolving credit line	(444)	(1,170)
Other	(58)	(57)
Cash used in financing activities	(402)	(3,727)
Net Decrease in Cash and Cash Equivalents	$ (250)	$ (3,060)

Operating Activities: Operating activities provided $692 million of cash during the six months ended March 31, 2011, compared to $1,312 million provided by operating activities for the six months ended March 31, 2010, a decrease of $620 million. The decrease is primarily due to a $941 million decrease in revenue as compared to the same period last year.

Investing Activities: Purchases of property and equipment were $589 million in 2011 compared to $683 million in 2010, a decrease of $94 million, or 13.8%, as capital spending continued to decrease due to efforts to conserve cash. Proceeds from the sale of property and equipment increased by $11 million, or 28.9%, from $38 million in the first six months of 2010 to $49 million in the first six months of 2011.

Financing Activities: In addition to the cash generated by operations, we use credit lines and notes payable to the Federal Financing Bank to help fund operations. During the six months ended March 31, 2011, we reduced the drawings on our credit lines by $444 million and issued $2,500 million of new notes payable to repay $2,400 million of debt during the period. In contrast, during the first six months of 2010, we repaid $2,500 million of floating rate notes and reduced draw downs of the revolving credit line by $1,170 million. We were able to repay more debt in the first six months of 2010, compared to the same period in 2011, because we started 2010 with $4.1 billion of cash and cash equivalents, substantially more than the $1.2 billion this year. This difference is due to the fact that only $1.4 billion was paid for pre-funding PSRHBF in September 2009, compared to $5.5 billion paid in September 2010.

Liquidity Challenges

The Postal Service's current financial projections indicate that we will have a substantial cash shortfall on September 30, 2011, and will not be able to make the required $5.5 billion pre-funding payment for retiree health benefits that is due on that date. Additionally, we will have a critically low level of cash and liquidity by the middle of October 2011, when we are required to make a $1.2 billion payment for workers compensation to the Department of Labor. In addition to the numerous cost reduction steps already taken, the Postal Service may need to take further action before September 30, 2011 in order to conserve cash.

Mail volume has declined by almost 20% since its peak of 213 billion pieces in 2006. Our current projection indicates that total 2011 mail volume will decrease slightly from the 2010 volume of 170.6 billion pieces. The volume of First-Class Mail, our most profitable product, is expected to decline by approximately 5%-7%, in 2011 compared to 2010. First-Class Mail volume decreased by 2.7 billion pieces, or 6.6%, in the first six months of 2011 compared to the same period in 2010.

We had net losses of $2,557 million and $1,881 million for the six months ended March 31, 2011 and 2010, respectively. Annual losses were $8,505 million, $3,794 million, and $2,806 million for the years ended September 30, 2010, 2009 and 2008, respectively. We had negative cash flow from operations for fiscal years 2010 and 2008. Operating cash flow would have been negative in fiscal year 2009 as well had Public Law 111-68, *Making appropriations for the Legislative Branch for the fiscal year-ending September 30, 2010, and for other purposes* (P.L.111-68), which reduced the required payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) by $4 billion, not been enacted. P.L. 111-68 did not, however, address future payments to the PSRHBF, including the $5.5 billion pre-funding payment required in September 2011. Without legislative adjustments to our obligations as discussed below, we will likely have a negative cash flow from operations in 2011. Even with a continuing mild economic recovery, steps to generate revenue, and stringent cost control efforts, we project that we will not generate sufficient funds during 2011 to meet all of our projected financial obligations. We will pay our employees, suppliers and contract partners to ensure continued delivery of the mail. Absent legislative change, we will be forced to default on payments to the federal government.

By statute, we are limited to an annual net increase in debt of $3 billion, and total outstanding debt of $15 billion. We have two substantial cash payments scheduled for September and October 2011: $5.5 billion due to the PSRHBF on September 30, 2011; and approximately $1.2 billion due in October 2011 to the Department of Labor (DOL) for the Postal Service's annual payment on its workers' compensation liability. Based on the cash balance and the remaining borrowing capacity of approximately $3.3 billion at March 31, 2011, along with the projected cash that will be generated by operations in the remainder of 2011, there will be insufficient cash available to fund all our obligations to the federal government, absent regulatory and legislative adjustments to some, or all, of these obligations. The legal and/or regulatory consequences to the Postal Service if we default on payments to the U.S. government are unknown.

In January 2011, we filed new Mailing Services prices with the PRC. Price increases are limited to the Consumer Price Index cap, consistent with the *2006 Postal Accountability and Enhancement Act, Public Law 109-435* (P.L. 109-435) and PRC regulations. The increase, which averages 1.7%, became effective in April 2011, and is the first increase in Mailing Services prices in almost two years. The price changes, which do not impact the cost of a one ounce First-Class stamp, are expected to generate approximately $340 million of revenue in the current fiscal year. In addition, prices for Shipping Services increased by an average of 3.6% in January 2011. If the economy is weaker than anticipated, the rate of diversion from traditional postal services to electronic media accelerates, or other adverse factors impact customers' usage of postal services and products, mail volume and revenues could be less than currently projected.

Personnel costs, including compensation and benefits, retiree health benefits (including the PSRHBF requirement), and workers' compensation costs represent approximately 79% of total operating costs. As a result of management initiatives, work hours during the first half of 2011 were reduced by 16 million hours. This is in addition to reductions of 75 million, 115 million, and 50 million work hours in fiscal years 2010, 2009, and 2008, respectively. Although significant actions have been implemented to decrease personnel costs, many are fixed by statute, regulation, or contract and, therefore, beyond the sole control of management. Wage rates and work rules affecting bargaining employees are contractually negotiated and are fixed for the duration of the labor contract; retirement benefits are determined by law, rather than by management; and health care premium costs continue to rise well above the rate of inflation.

To further reduce costs, in January 2011 we announced plans to significantly redesign administrative functions within the organization by reducing headquarters management positions, reducing the number of Area and District Offices, and decreasing the number of administrative, supervisory, and Postmaster positions by approximately 7,500. In addition, we will review for possible closure a significant number of post office locations. The redesign, which is being implemented through March 2012, is anticipated to capture annualized savings of over $750 million, beginning in 2012.

As part of this organizational redesign effort, in March 2011 we offered special incentive payments to a targeted group of employees who meet certain eligibility requirements, to retire or resign by May 31, 2011. The special incentive payment of $20,000 per full-time employee who elects to participate in the program will be paid in two installments: the first installment payment will be paid on November 11, 2011, and the second on November 9, 2012. As of the date of the issuance of this report, the amount that will be paid related to those employees who have made an irrevocable commitment to leave was not material to our financial statements. In addition, we may incur certain additional severance and other redesign-related costs, which are not expected to be significant.

On March 11, 2011, the Postal Service reached a tentative contract agreement with the APWU which affects approximately 205,000 APWU members. The proposed labor contract which, if approved, would extend to May 20, 2015, establishes pay levels for new career employees that are approximately 10% lower than the existing pay schedule, provides significant workforce flexibility and will allow for increased use of non-career employees. The Postal Service's contribution to employees' health insurance premiums will also decrease. The tentative contract includes a 3.5% pay increase over the term of the proposed contract, with the first increase effective in fiscal year 2013. These pay increases are in addition to periodic cost-of-living-adjustments (COLAs), which are eliminated in 2011 and otherwise deferred until 2013. The APWU members will vote to accept or reject the tentative agreement through May 10, 2011, with the voting results disclosed shortly thereafter.

Despite these efforts, our ability to execute strategies to increase efficiency and reduce costs, by adjusting our network, infrastructure, and workforce, and to retain and grow revenue, is constrained by contractual, statutory, regulatory, and political restrictions. Given these restrictions, our efforts to positively impact cash flow will likely not be, either individually or in the aggregate, sufficient to avoid a cash shortfall in 2011. Absent significant changes in the economy and regulatory environment, the $15 billion debt ceiling will be reached in September 2011, thereby exhausting our external funding ability. No assurance can be given that our efforts to secure legislative changes will be successful, or that Congress will enact legislation in time to favorably impact 2011, or at all.

Even if legislation is enacted to address shorter-term liquidity matters such as the PSRHBF pre-funding payment schedule, we still face longer-term financial stability concerns. To begin the process of addressing these issues, in March 2010 we issued our action plan for the next decade, *Ensuring a Viable Postal Service for America*. In this plan, we estimated that during the next decade, there could be cumulative financial losses of approximately $238 billion, absent significant operational and legislative changes. We further estimated that approximately $123 billion of the projected losses could be addressed and resolved by aggressive management actions within the existing statutory and regulatory structure, assuming the full cooperation of all our stakeholders. As noted above, we have taken, and continue to take, specific actions which help address the elements under management control. A refresh of the March 2010 action plan continues to show the near-term financial necessity of legislative changes in the following areas: reduction of retiree health benefits funding; reassessment of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) obligations; six-day delivery frequency; modernized access to postal services; workforce flexibility; pricing flexibility; expansion of products and services; and oversight.

As noted in previous filings, we filed a request with the PRC on March 30, 2010, seeking an advisory opinion regarding the elimination of Saturday mail delivery to street addresses and associated changes. This is projected to save $3 billion and remains a crucial component in our efforts to restructure its operations, conformed to existing statutory requirements. The PRC responded to this request on March 24, 2011. The PRC report indicated, among other things, that we would save $1.7 billion from the elimination of Saturday delivery according to their calculations. We are confident in its savings projections and, since the PRC opinion is advisory, will pursue this matter with the Congress.

At approximately the same time, the Government Accountability Office (GAO) issued its own report, *Ending Saturday Delivery Would Reduce Costs, But Comprehensive Restructuring is Also Needed,* on March 29, 2011. The GAO's position was that "when fully implemented, 5-day delivery would provide USPS with needed cost savings, although the extent of those savings is uncertain" and that "USPS's 5-day proposal should be considered in the context of other restructuring strategies both within and outside the delivery network" – a viewpoint we expressed in *Ensuring a Viable Postal Service for America.*

Our status as a self-supporting entity within the federal government presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. Despite falling mail volume, we are still widely recognized as providing an essential service to the American economy and there are a wide variety of potential legislative remedies that could resolve the short-term liquidity concerns. Therefore, it is unlikely that, in the event of a cash shortfall, the federal government would cause or allow the Postal Service to significantly curtail or cease operations.

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues the Postal Service faces and the legislative changes that would help ensure the availability of sufficient liquidity on September 30, 2011, and beyond. There can be no assurance that the requested adjustments to the PSRHBF payment schedule, or any other legislative changes, will be made in time to impact 2011, or at all.

Contractual Obligations

The following table illustrates our scheduled cash flow obligations in 2011 and future years.

Contractual Obligations	Payments Due by Calendar Year				
(Dollars in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt (1)	$ 11,656	$ 7,156	$ 300	$ 0	$ 4,200
Interest on debt (1)	2,114	158	307	296	1,353
PSHRBF	33,900	5,500	11,200	11,400	5,800
Capital lease obligations	797	102	193	176	326
Operating leases	7,582	765	1,377	1,141	4,299
Capital commitment (2)	1,021	393	443	101	84
Purchase obligations (2)	3,002	1,468	1,530	4	0
Workers' compensation (3)	19,270	1,215	2,361	2,518	13,176
Employees' leave	2,327	161	367	232	1,567
	$ 81,669	$ 16,918	$ 18,078	$ 15,868	$ 30,805

(1) For overnight and short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.

(2) Legally binding obligations to purchase goods or services. Capital commitments pertain to purchases of equipment, building improvements and vehicles. Purchase obligations generally pertain to items that are expensed when received or amortized over a short period of time. Capital commitments and purchase obligations are not reflected on the Balance Sheet.

(3) Assuming no new cases in future years. This amount represents the undiscounted expected workers' compensation payments.The discounted amount of $11,684 million is reflected in our Balance Sheet at March 31, 2011.

Fair Value Measurements

As required by authoritative accounting literature, certain fair value disclosures for the six months ended March 31, 2011 are contained in the Notes to the Financial Statements. We did not recognize gains as a result of valuation measurements during Quarter II, 2011, or the six month period ended March 31, 2011. All recognized losses have been incorporated into our financial statements as of March 31, 2011, and for the three and six month periods then ended. See Note 10, *Fair Value Measurements.*

Legislative Update

APPROPRIATIONS

As a result of the passage of *the Department of Defense and Full-Year Continuing Appropriations Act, 2011* on April 15, 2011, the Postal Service will receive only $12 million of the scheduled $29 million of the 2011 amount due under the *Revenue Forgone Reform Act of 1993.* There is no impact to the current year earnings, as a request for the unpaid amount will be requested as part of future year appropriations. This represents a reduction from the amounts previously appropriated. The measure also carries forward language used since 1983 requiring the Postal Service to provide mail delivery six days a week. The bill also provided no additional funding to the Department of Health and Human Services (HHS) for payment to the Postal Service for delivery of medical countermeasures under the Cities Readiness Initiative (CRI).

On March 3, 2011, S. 475, the *Enacting President Obama's Recommendations for Program Termination Act* was introduced. The measure provides for the repeal of authorization and funding for a total of 85 programs; specifically, programs identified in the President's Budget Request for FY 2012. S. 475 includes a provision stating that no Federal funds be expended for the revenue forgone from reduced rate mail program of the Postal Service. It directs that any funds appropriated to or unobligated by the program be rescinded and returned to the Treasury. The bill was referred to the Senate Appropriations Committee.

PRESIDENT'S BUDGET REQUEST FOR FY 2012

On February 14, 2011, the President submitted his FY 2012 Budget Request to Congress. It contained several proposals that would affect the Postal Service. It would reduce the Postal Service Retiree Health Benefit (PSRHBF) payment, due on September 30, 2011, by $4 billion, but require larger payments in future years. In 2022, the Postal Service would begin payment on a 40 year amortization of the unfunded liability balance. Additionally, current law would be amended to allow the Office of Personnel Management (OPM) to return the 2009 estimated $6.9 billion surplus in the Postal Service's Federal Employees' Retirement System (FERS) account, over 30 years, with approximately $550 million transferred annually to the Postal Service beginning in FY 2011. The President's budget proposal would delete provisions of the Revenue Forgone Reform Act of 1993, which authorizes the Postal Service to receive $29 million annually through 2035 to reimburse the Postal Service for services provided from FY 1991 through FY 1998. The President's budget proposal outlined three key principles to help secure the Postal Service's future, including: a realignment of the Postal Service's infrastructure, facilities, processing and delivery systems to continuously improve efficiency; promoting an adaptive 21st century workforce; accelerating value creation and enhancing service to the public while respecting fair competition in the marketplace.

HOUSE BUDGET RESOLUTION FOR FY 2012

On April 15, 2011, the House of Representatives passed H. Con. Res. 34, the *Fiscal 2012 House Budget Resolution*, a concurrent resolution establishing the budget for the United States government for fiscal year 2012 and setting forth appropriate budgetary levels for fiscal years 2012 through 2021. Section 406 of the measure, titled *Budgetary Treatment of Certain Transactions* says that the joint explanatory statement accompanying the conference report on any concurrent resolution on the budget shall include in its allocation amounts for the discretionary administrative expenses of the Social Security Administration (SSA) and Postal Service. Additionally, the House Report (112-58) of the continuing resolution says that the President's Fiscal Commission recommendation to reduce the federal fleet by twenty percent, excluding the Department of Defense (DOD) and the Postal Service, was adopted. The report further identified the Postal Service Fund as an account for advance appropriations in FY 2013. The measure moves to the Senate for consideration.

CLOSURE/CONSOLIDATION OF POST OFFICES

On January 7, 2011, H.Con.Res. 7, was introduced, regarding the need to prevent the closure or consolidation of Post Offices. A similar version has been introduced in past Congresses. The resolution states that the Postal Service is to provide a maximum degree of postal services to all communities, including rural areas and small towns where Post Offices may not be self-sustaining; and that the Postal Service should take all necessary steps to ensure that Post Offices are not closed or consolidated. The measure, which provides no funding to keep these post offices open, was referred to the House Oversight and Government Reform Committee.

FEDERAL EMPLOYEES' COMPENSATION REFORM ACT OF 2011

On February 2, 2011, S.261, the *Federal Employees' Compensation Reform Act of 2011,* was introduced. The bill would apply to all Federal employees, including Postal employees, currently covered by the Federal Employees' Compensation Act (FECA). S. 261 would require employees receiving FECA benefits to transition to the applicable retirement system when the recipient reaches retirement age. The bill was referred to the Homeland Security and Governmental Affairs Committee.

U.S. POSTAL SERVICE IMPROVEMENTS ACT OF 2011

On February 15, 2011, S. 353, the *U.S. Postal Service Improvements Act of 2011* was introduced. The measure directs the OPM to modify its methodology for calculating the Postal Service's payments into both the CSRS and the FERS funds, and allows the Postal Service to transfer any surplus from those funds into the PSRHBF or to apply existing surpluses to workers' compensation liability payments or to pay down its existing debt. The bill also requires an arbitrator to consider the Postal Service's financial health when rendering decisions about collective bargaining agreements; as well as various other business rules. Finally, it would also convert federal and postal employees on workers' compensation to retirement upon the employee's reaching retirement age, if workers' compensation benefits would exceed retirement benefits. The bill was referred to the Senate Homeland Security and Governmental Affairs committee.

U.S. POSTAL SERVICE PENSION OBLIGATION RECALCULATION AND RESTORATION ACT OF 2011

On April 4, 2011, H.R. 1351, the *United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011* was introduced. The bill would amend the provisions of Title 5, United States Code, relating to the methodology for calculating the amount of any Postal surplus or supplemental liability under the Civil Service Retirement System (CSRS). H.R. 1351 orders the Office of Personnel Management (OPM) to, within six months of the date of enactment, recalculate the Postal Service's past, present and future CSRS pension obligation for those employees that served as both federal workers prior to 1971 and postal employees post-1971, using an updated methodology. Any resulting surplus from the recalculation is to be transferred to the Postal Service's Retiree Health Benefits Fund. The bill also calls for the immediate repayment of the Postal Service's Federal Employees' Retirement System (FERS) 2009 surplus of $6.9 billion, by applying $5.5 billion toward the FY 2011 Retiree Health Benefits payment, $1.2 billion toward the Postal Service's upcoming workers' compensation payment, and any remaining amount applied to reducing the Postal Service's existing debt. The measure was referred to the House Committee on Oversight and Government Reform.

REFORM THE POSTAL SERVICE FOR THE 21ST CENTURY ACT

On March 30, 2011, H.R. 1262, the *Reform the Postal Service for the 21st Century Act*, was introduced. The measure states that the Postal Service should: implement a plan to replace or convert 2,000 gasoline powered delivery vehicles with electric vehicles by 2017 by borrowing an additional $6 billion; use the postal fleet for certain purposes besides mail delivery; create a "Forever Box" (similar to the Forever Stamp) for customers to mail parcels; submit a plan to Congress, in consultation with the PRC, on the co-location of post offices at retail facilities and requires that postal employees staff any co-located site. The Postal Service would be allowed to deliver wine or malt beverages mailed by a licensed winery or brewery. The Postal Service is directed to consider establishing packages of postal services and products that can be marketed to small businesses and other potential customers; create an electronic Post Office Box service pilot program, in partnership with a private sector provider of electronic mail services and within twelve months of enactment, report to Congress on the benefit of creating a not-for-profit venture capital program to assist with identifying and developing electronic communication products. H.R. 1262 was referred to the House Judiciary and House Oversight and Government Reform Committees.

It should be noted that effective April 17, 2011 a prepaid Forever Flat Rate Box is available for purchase.

DELIVERY FREQUENCY

On March 2, 2011, H. Res. 137 was introduced, which expresses the sense of the House of Representatives that the Postal Service should take all appropriate measures to ensure the continuation of its six-day mail delivery service. A version of this resolution has been introduced in previous Congresses. The bill was referred to the House Committee on Oversight and Government Reform.

Outlook

The Postal Service's financial outlook remains closely linked to the national economy that was battered by the recession of 2007-2009.

To combat falling revenues while improving customer service, in January 2011 we announced plans to streamline postal management and redesign operations. This continues our efforts to increase service levels, improve Postal Service flexibility and speed, control costs, and meet ever-changing customer needs in the communications marketplace. In addition, we continue to introduce new revenue generating initiatives. Our organizational redesign will eliminate approximately 7,500 employee positions, close one of eight area offices and will close seven of seventy-four district offices. In addition, we continue to analyze the closure of Post Office locations in situations where there are multiple facilities in close proximity.

In spite of these efforts, however, our financial outlook remains clouded by continuing uncertainty of congressional action regarding the $5.5 billion PSRHBF pre-funding contribution required in 2011, and the continuing need for structural reform which will require, in many cases, legislative approval.

REVENUE OUTLOOK

Based on the results of the past three months, revenue is now projected to be slightly below 2010 levels despite the increases in Shipping Services prices in January 2011 and Mailing Services prices in April 2011. Revenue increases in Standard Mail and Shipping Services during 2011 are expected to be more than offset by declines in First-Class Mail revenue. For the first six months of 2011, Standard Mail and Shipping Services revenue increased $517 million, or 3.8%, and First-Class Mail revenue decreased $1,148 million, or 6.4%, compared to the comparable period of 2010.

Since 2005, when First-Class Mail volume peaked at 98.6 billion pieces, this category has steadily trended downward and is expected to continue its decline in 2011, and beyond.

The outlook for Standard Mail is more positive; we expect revenue and volume growth for 2011. The profit contribution rate for this mail category is approximately one-third the contribution rate of First-Class Mail which contributes greatly to the long-term financial problems of the Postal Service as volume shifts away from its most profitable product.

Shipping Services volume, which represents approximately 1% of total volume, is expected to increase in 2011, as is revenue growth in this category. This entire group faces fierce competition from competitors, which have the ability to include fuel surcharges in their prices.

EXPENSE OUTLOOK

We continue to aggressively reduce controllable expenses throughout the organization. We are currently trending toward annualized savings of $1.2 billion to $1.6 billion in 2011. These savings will be mostly accomplished through work hour reductions achieved by continuing improvements in mail processing operations, plant consolidations and delivery route optimizations.

Also, as part of our organizational redesign effort, in March 2011 we offered special incentive payments to a targeted group of employees who meet certain eligibility requirements, and leave the Postal Service by May 31, 2011. By the date of this report, fewer than 600 eligible employees had made an irrevocable commitment to participate in this program.

The benefits obtained from these cost-reduction initiatives, however, may be partially offset by rising fuel prices. Prices have increased more than expected since the beginning of the fiscal year and are difficult to predict for the remainder of the year. As noted previously, the average year-to-date cost of diesel fuel has risen by 20.7% from the comparable period of 2010.

We have reached a tentative labor agreement with the APWU and continue to negotiate with the NRLCA, as our labor agreement with them also expired on November 20, 2010. Any ratified agreement could impact our expenses. The tentative labor agreement with the APWU is not expected to significantly reduce our 2011 projected APWU labor costs. The financial impact of any new NRLCA labor contract cannot be determined at this time as we are still in negotiations.

The outlook for the non-cash portion of workers' compensation expenses, which do not impact our operational abilities, cannot be predicted because these changes are largely dependent on the level of interest rates. A 1% increase or decrease in interest rates could decrease or increase workers' compensation expense by approximately $1.1 billion to $1.3 billion.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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

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

See our 2010 10-K, Financial Section Part II, Item 7A-*Quantitative and Qualitative Disclosures about Market Risk*.

Item 4 – Controls and Procedures

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

Disclosure Controls

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized, and reported within the time frames specified by P.L. 109-435, and that this information is accumulated and communicated to our management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of March 31, 2011. Based upon, and as of the date of, the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Internal Controls

There have been no changes in the Postal Service's internal controls over financial reporting during the quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

Part II

Item 1 – Legal Proceedings

None.

Item 1A – Risk Factors

There were no changes in risk factors from those disclosed in our Annual Report on Form 10-K for the year ended September 30, 2010.

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 – (Removed and Reserved)

Item 5 – Other Information

None.

Item 6 – Exhibits

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

Signatures

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

United States Postal Service

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

Date: May 10, 2011

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

Date: May 10, 2011

Exhibit 31.1

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

I, Patrick R. Donahoe, certify that:

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

Date: May 10, 2011

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

Exhibit 31.2

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

I, Joseph Corbett, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2011

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

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended March 31, 2011, (the “Report”), I, Patrick R. Donahoe, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: May 10, 2011

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

Exhibit 32.2

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended March 31, 2011 (the “Report”),I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: May 10, 2011

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