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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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.	41-0760000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
475 L'Enfant Plaza, S.W. Washington, D.C.	20260
(Address of principal executive offices)	(ZIP Code)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐

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

Not Applicable ☑

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

Common Stock	Outstanding Shares as of August 5, 2011
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

Part I

Part II

Part I

Item 1 – Financial Statements

United States Postal Service
Statements of Operations
(Unaudited)

(Dollars in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Operating revenue	$ 15,766	$ 16,045	$ 49,877	$ 51,097
Operating expenses				
Compensation and benefits	11,806	11,832	36,336	36,765
Retiree health benefits	1,995	1,964	5,943	5,790
Workers' compensation	802	1,956	1,000	2,532
Transportation	1,557	1,469	4,770	4,420
Other	2,671	2,289	7,375	6,871
Total operating expenses	18,831	19,510	55,424	56,378
Loss from operations	**(3,065)**	**(3,465)**	**(5,547)**	**(5,281)**
Interest and investment income	6	6	19	19
Interest expense	(41)	(39)	(129)	(117)
Net loss	**$ (3,100)**	**$ (3,498)**	**$ (5,657)**	**$ (5,379)**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	June 30, 2011	September 30, 2010
	(unaudited)	
Current Assets		
Cash and cash equivalents	$ 901	$ 1,161
Receivables:		
Foreign countries	720	714
U.S. government	161	173
Other	218	224
Receivables before allowances	1,099	1,111
Less allowances	35	32
Total receivables, net	1,064	1,079
Supplies, advances and prepayments	120	114
Total Current Assets	**2,085**	**2,354**
Noncurrent Assets		
Property and equipment, at cost:		
Buildings	24,134	23,822
Equipment	20,594	20,646
Land	2,957	2,974
Leasehold improvements	1,079	1,026
	48,764	48,468
Less allowances for depreciation and amortization	28,859	28,333
	19,905	20,135
Construction in progress	739	1,460
Total property and equipment, net	20,644	21,595
Other assets - principally revenue forgone receivable	364	377
Total Noncurrent Assets	**21,008**	**21,972**
Total Assets	**$ 23,093**	**$ 24,326**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	June 30, 2011	September 30, 2010
	(unaudited)	
Current Liabilities		
Compensation and benefits	$ 1,978	$ 2,924
Retiree health benefits	4,125	-
Workers' compensation costs	1,170	1,115
Payables and accrued expenses:		
Trade payables and accrued expenses	937	1,311
Foreign countries	686	586
U.S. government	128	136
Total payables and accrued expenses	1,751	2,033
Deferred revenue - prepaid postage	3,328	2,584
Customer deposit accounts	1,367	1,429
Outstanding postal money orders	646	639
Prepaid box rent and other deferred revenue	460	452
Current portion of debt	8,192	7,500
Total Current Liabilities	**23,017**	**18,676**
Noncurrent Liabilities		
Long-term portion of workers' compensation costs	11,243	11,474
Employees' accumulated leave	2,048	2,088
Deferred appropriation and other revenue	343	392
Long-term portion capital lease obligations	471	512
Deferred gains on sales of property	312	309
Contingent liabilities and other	689	248
Long-term debt	4,500	4,500
Total Noncurrent Liabilities	**19,606**	**19,523**
Total Liabilities	**42,623**	**38,199**
Net Deficiency		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	(22,662)	(17,005)
Total Net Deficiency	**(19,530)**	**(13,873)**
Total Liabilities and Net Deficiency	**$ 23,093**	**$ 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 - Nine Months Ended June 30, 2010	-	(5,379)	(5,379)
Balance, June 30, 2010	$ 3,132	$ (13,879)	$ (10,747)
Balance, September 30, 2010	$ 3,132	$ (17,005)	$ (13,873)
Additional Capital Contribution	-	-	0
Net Loss - Nine Months Ended June 30, 2011	-	(5,657)	(5,657)
Balance, June 30, 2011	$ 3,132	$ (22,662)	$ (19,530)

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Statements of Cash Flows
(Unaudited)

(Dollars in millions)	Nine Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net loss	$ (5,657)	$ (5,379)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	1,738	1,842
Gain on disposals of property and equipment and impairments, net	(5)	(10)
Decrease in appropriations receivable revenue forgone	13	34
(Decrease) Increase in long-term portion workers' compensation liability	(231)	1,410
Decrease in noncurrent employees' accumulated leave	(40)	(76)
Decrease in noncurrent deferred appropriations and other revenue	(2)	(2)
Increase in other noncurrent liabilities	441	20
Changes in current assets and liabilities:		
Receivables, net	15	(179)
Supplies, advances and prepayments	(6)	25
Compensation and benefits	(946)	(872)
Retiree health benefits	4,125	4,125
Workers' compensation costs	55	12
Payables and accrued expenses	(242)	(152)
Customer deposit accounts	(62)	26
Deferred revenue-prepaid postage	744	(46)
Outstanding postal money orders	7	6
Prepaid box rent and other deferred revenue	(1)	11
Net cash (used) provided by operating activities	(54)	795
Cash flows from investing activities:		
Purchases of property and equipment	(893)	(981)
Proceeds from deferred building sale	12	9
Proceeds from sales of property and equipment	68	44
Net cash used in investing activities	(813)	(928)
Cash flows from financing activities:		
Issuance of notes payable	3,700	-
Payments on notes payable	(2,400)	(2,500)
Net change in revolving credit line	(608)	(358)
Payments on capital lease obligations	(38)	(37)
U.S. government appropriations - expensed	(47)	(47)
Net cash provided (used) in financing activities	607	(2,942)
Net decrease in cash and cash equivalents	(260)	(3,075)
Cash and cash equivalents at beginning of year	1,161	4,089
Cash and cash equivalents at end of period	$ 901	$ 1,014
Supplemental cash flow information:		
Interest paid	$ 128	$ 118

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 that 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 was accounted for as a change in accounting estimate, and was 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 $76 million at June 30, 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 June 30, 2011, and the results of operations for the three and nine month periods then ended, and the cash flows for the nine months then ended June 30, 2011 and 2010. Operating results ended June 30, 2011, are not necessarily indicative of the results that may be expected for 2011. Subsequent events have been evaluated through August 5, 2011, the date the Postal Service filed its Form 10-Q for the quarter ended June 30, 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, the Postal Service will have a 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. As discussed in greater detail below, in addition to the numerous cost reduction steps already taken, on June 24, 2011, the Postal Service suspended its employer's contributions to Office of Personnel Management (OPM) for the defined benefit portion of its Federal Employees Retirement System (FERS) funding requirement. This action was necessary in order to provide sufficient liquidity to fund Postal Service operations in light of continued weakness in mail volumes and the significant uncertainty regarding legislative reforms.

Mail volume has declined by almost 20% since its peak of 213 billion pieces in 2006. Projected 2011 total mail volume currently stands at 167.1 billion pieces, which is a 3.5 billion or 2% decrease 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 6.5% in 2011 compared to 2010. First-Class Mail volume decreased by 3.9 billion pieces, or 6.5%, in the first nine months of 2011 compared to the same period in 2010.

The Postal Service had net losses of $5,657 million and $5,379 million for the nine months ended June 30, 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 but for the enactment of 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 2009 payment to the Postal

Service Retiree Health Benefits Fund (PSRHBF) by $4 billion. P.L. 111-68 did not, however, address future payments to the PSRHBF, including the $5.5 billion pre-funding payment required on September 30, 2011. Without legislative adjustments to its obligations as discussed below, the Postal Service will have a negative cash flow from operations in 2011 and 2012. Even with a continuing mild economic recovery, steps to generate revenue, and stringent cost control efforts, the Postal Service will not generate sufficient funds during 2011 and 2012 to meet all of its projected financial obligations.

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 of its workers' compensation liability. Based on the cash balance and the remaining borrowing capacity of approximately $2.3 billion at June 30, 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 these Postal Service obligations to the federal government, absent regulatory and legislative adjustments to some, or all, of these obligations.

As a result of the critically low liquidity level projected for October 2011 and all of 2012, on June 24, 2011, the Postal Service suspended its employer's contributions to OPM for the defined benefit portion of the FERS funding requirement. OPM has determined that the Postal Service had a FERS account surplus valued at $6.9 billion as of September 30, 2009, the most recent actuarial valuation date. Due to the surplus in its FERS account, the Postal Service believes that it has satisfied its current funding obligations. The Postal Service and OPM have agreed to ask the Office of Legal Counsel at the Department of Justice to review the potential impact of the FERS funding suspension. The Postal Service continues to transmit to OPM employees' contributions to FERS and also continues to transmit employer automatic and matching contributions and employee contributions to the Thrift Savings Plan.

The legally-required Postal Service employer contribution to FERS is approximately $114 million per pay period (every two weeks). Suspension of payments, effective June 24, will provide additional liquidity of approximately $900 million through September 30, 2011. This added liquidity will not be sufficient to enable payment of the $5.5 billion obligation to the PSRHBF; however it may allow the Postal Service to fulfill its $1.2 billion payment requirement to the DOL for the workers' compensation program.

The legal and/or regulatory consequences to the Postal Service of the defaults to the FERS program and the required PSRHBF contribution to the U.S. government are unknown.

In addition to the necessary defaults on contributions to FERS and PSRHBF, the Postal Service has taken numerous actions to generate additional revenue and reduce operating expenses. Some of these are discussed below.

The Postal Service increased prices by an average of 1.7% for Mailing Services in April 2011 and by an average of 3.6% in January 2011 for Shipping Services. The Mailing Services price increase was the first increase in almost two years. In January 2012, the Postal Service expects to implement additional moderate price increases for Mailing and Shipping Services. At the same time, effort has been made to increase revenues by implementing initiatives such as the expansion of simplified addressing for businesses, Priority Mail Regional Rate Boxes, Reply Rides Free, and others. However, these new services are not expected to offset the precipitous decline in volume and revenue that is occurring in First-Class Mail.

As a result of management cost-control initiatives, work hours during the first nine months of 2011 were reduced by 25 million hours compared to the first nine months of 2010. This is in addition to reductions of 75 million, 115 million, and 50 million work hours in fiscal years 2010, 2009, and 2008, respectively.

Compensation and benefits costs represent approximately 65% of total operating costs. However, when workers' compensation and retiree health benefits, including the federally mandated prefunding of the retiree health benefits, are added, total personnel cost increases to approximately 80%. 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.

A new labor contract with the American Postal Workers Union (APWU), which affects approximately 205,000 APWU members, became effective May 23, 2011. The labor contract, which expires 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 employee's health insurance premiums will also decrease. The contract includes a 3.5% pay increase over the term of the contract, with no increases in 2011 and 2012 and 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.

To further reduce costs, the Postal Service is currently implementing its January 2011 plan to significantly realign administrative functions 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. The redesign, which is being implemented through March 2012, is anticipated to capture annualized savings of over $750 million, beginning in 2012. The Postal Service has also suspended discretionary awards and frozen officer and executive compensation. The Postal Service continues to reduce the size of its workforce and over the last four fiscal years, the Postal Service has decreased its size by 110,000 career positions and saved $12 billion in costs.

In addition, in July 2011, the Postal Service announced plans to consolidate plants and review a significant number of Post Office locations for possible closure. Studies of approximately 3,700 retail offices will be conducted to determine customer needs, and how affected communities across the nation might be better served by a retail-replacement option known as Village Post Offices.

As previously noted, 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 not be, either individually or in the aggregate, sufficient to avoid a cash shortfall in 2011. Absent significant changes in the legislative environment, occurring in September 2011, 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 and FERS overfunding, the Postal Service will continue to face financial stability concerns. In March 2010 the Postal Service issued its action plan for the next decade, *Ensuring a Viable Postal Service for America*. In this plan and in subsequent updates, the Postal Service estimated that by 2020, there could be losses of $20 billion per year and cumulative financial losses of over $150 billion, absent significant operational and legislative changes. The Postal Service has taken, and continues to take, specific actions which help address the elements under management control. Despite these changes, the outlook continues to show the 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; five-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. 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". The Postal Service is confident in its savings projections and, since the PRC opinion is advisory, continues to pursue this matter with the Congress.

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. However, 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 June 30, 2011, and September 30, 2010:

Debt to Federal Financing Bank
(Dollars in millions)

Maturity	Debt Type	June 30, 2011 Balance	June 30, 2011 Rate	September 30, 2010 Balance	September 30, 2010 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	-	-
November 17, 2011	Fixed rate-payable at maturity	1,200	0.201	-	-
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	1,000	0.187	1,000	0.206
July 15, 2011	Floating rate	700	0.187	700	0.206
July 15, 2011	Floating rate	500	0.187	500	0.206
December 15, 2011	Floating rate [1]	700	0.176	-	-
Revolving	Overnight revolving credit line	336	0.135	-	-
Revolving	Short-term revolving credit line	2,456	0.135	3,400	0.206
Total debt		**$ 12,692**		**$ 12,000**	
Less: Current portion of debt		**8,192**		**7,500**	
Long-term portion of debt		**$ 4,500**		**$ 4,500**	

[1] Floating Rate Note — Repurchasable at par and the interest rate resets on 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 until May 2012. 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, as of June 30, 2011, are as follows:

Scheduled Principal Repayments Payments due by fiscal year (Dollars in millions)		
2011	$	4,992
2012		3,200
2013		-
2014		300
2015		-
After 2015		4,200
Total Debt	**$**	**12,692**

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 nine month periods ended June 30, 2011 and 2010 was not significant. Impairment charges were not significant in the three and nine month periods ended June 30, 2011 and 2010.

Under the provisions of the American Reinvestment and Recovery Act of 2009 (P.L. 111-5), during the first nine 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 nine months of 2011.

Note 5 – Leases and Capital Commitments

Leases

At June 30, 2011, the future minimum payments on non-cancelable operating and capital leases were as follows:

Lease Obligations (Dollars in millions)		Operating		Capital
2011	$	199	$	25
2012		745		102
2013		698		96
2014		639		91
2015		581		88
After 2015		4,582		370
Total Lease Obligations	$	7,444	$	772
Less: Interest				244
Total Capital Lease Obligations			$	528
Less: Short-term portion of capital lease obligations				57
Long-term portion of capital lease obligations			$	471

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

Rent expense for the three and nine months ended June 30, 2011 and 2010 was as follows:

Rental Expense	Three Months Ended June 30,				Nine Months Ended June 30,			
(Dollars in millions)		2011		2010		2011		2010
Non-cancelable real estate leases including related taxes	$	232	$	238	$	727	$	728
Facilities leased from GSA* subject to 120-day cancellation		10		11		31		33
Equipment and other short-term rentals		39		44		113		114
Total Rental Expense	$	281	$	293	$	871	$	875

*General Services Administration

Capital Commitments

At June 30, 2011, commitments to acquire capital items were $962 million, compared to $1,315 million at September 30, 2010. The following summarizes capital commitments at the indicated dates:

Capital Commitments (Dollars in millions)		June 30, 2011		September 30, 2010
Mail Processing Equipment	$	552	$	772
Building Improvements		322		397
Postal Support Equipment		42		73
Construction and Building Purchase		10		33
Retail Equipment		31		33
Vehicles		5		7
Total Capital Commitments	$	962	$	1,315

Note 6 – Contingent Liabilities

Contingent liabilities consist mainly of claims and lawsuits resulting from labor, employment, 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 reasonably 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. This reevaluation of cases resulted in an increase to the liability of $370 million and $415 million for the three and nine months ended June 30, 2011, respectively. 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 $89 million at June 30, 2011, and $114 million as of September 30, 2010, is included on the Balance Sheets in "Trade payables and accrued expenses". The long-term portion of this liability at June 30, 2011, was $640 million and $200 million at September 30, 2010. These amounts are accrued in "Contingent liabilities and other" on the Balance Sheets.

Contingent Liabilities (Dollars in millions)	June 30, 2011	September 30, 2010
	(Unaudited)	(Audited)
Labor - Employment	$ 641	$ 238
Environmental	40	40
Tort	42	35
Contractual	6	1
Total Contingent Liabilities	$ 729	$ 314

In additional to the amounts accrued in the financial statements, the Postal Service also has claims and lawsuits which it deems reasonably possible of an unfavorable outcome which range from $800 million to $1,100 million at June 30, 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 III, 2011, compared to 21% in Quarter III, 2010. For the nine months ended June 30, 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 $1,311 million and $1,284 million in Quarter III, 2011 and 2010, respectively, and $3,906 million and $3,854 million for the nine months ended June 30, 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 June 30, 2011 and 2010 was $620 million and $589 million, respectively. Employer premium expense for the nine months ended June 30, 2011 and 2010 was $1,818 million and $1,665 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 and $1,375 million of PSRHBF expense in Quarter III, 2011 and 2010. Expense for the nine months ended June 30, 2011 and 2010, was $4,125 million and $4,125 million, respectively.

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. As discussed in *Note 2, Liquidity*, unless the payment schedule is restructured prior to September 30, 2011, the Postal Service will be forced to default on the payment due on that date, as sufficient funds will not be available. The Postal Service has asked Congress to restructure the payment schedule for 2011 and future years; however, 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 Postal Service has contributed $37,958 million to the PSRHBF. These funds, which are invested by OPM, earn interest at rates between 2% and 5%. The PSRHBF balance, as calculated by OPM at the last valuation date of September 30, 2010, was $42.5 billion. For further details, see the Annual Report on Form 10-K for the year ended September 30, 2010.

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 nine months ended June 30, 2011, and 11.2% of base salary for FERS employees for the three and nine months ended June 30, 2010.

As discussed further in *Note 2, Liquidity*, effective June 24, 2011, the U.S. Postal Service suspended its employer's contributions for the defined benefit portion of the Federal Employees Retirement System (FERS) to conserve cash and preserve liquidity. OPM has determined that the Postal Service had a FERS account surplus valued at $6.9 billion as of September 30, 2009, the most recent actuarial valuation date. Due to the surplus in its FERS account, the

Postal Service believes that it has satisfied its current funding obligations. The Postal Service and OPM agreed to ask the Office of Legal Counsel at the Department of Justice to review the potential impact of the FERS funding suspension. (See our Form 10-K Report dated September 30, 2010, for further details regarding the analysis of the funding of the FERS obligation).

The U.S. Postal Service will continue to transmit to OPM the employees' contributions to FERS and also will continue to transmit employer automatic and matching contributions and employee contributions to the Thrift Savings Plan.

The legally-required Postal Service employer contribution to FERS is approximately $114 million per pay period (every two weeks). The amount of the unpaid FERS employer contributions was $114 million at June 30, 2011. The expense and liability related to the unpaid FERS contribution are recorded and included in the financial statements as "Compensation and benefits" expense and "Compensation and benefits" liability, respectively.

Retirement expense for Quarter III, 2011 was $1,455 million compared to $1,439 million for the same period last year. Year-to-date retirement expense in 2011 was $4,409 million compared to $4,353 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	Quarter Ended			
	June 30, 2011	September 30, 2010	June 30, 2010	September 30, 2009
Compensation Claims Liability:				
Discount Rate	3.5%	2.9%	3.5%	4.9%
Wage inflation	2.9%	2.9%	3.0%	3.2%
Medical Claims Liability:				
Discount Rate	3.5%	3.0%	3.0%	4.4%
Medical Inflation	8.3%	7.4%	4.4%	3.8%

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 June 30, 2011 liability and Quarter III, 2011 expense by approximately $1,100 million. A decrease of 1% in the discount rate would increase the June 30, 2011 liability and Quarter III, 2011 expense by approximately $1,400 million.

At June 30, 2011, the present value of the liability for future workers' compensation payments was $12,413 million, compared to $12,589 million at September 30, 2010, a decrease of $176 million. The current portion of this liability was $1,170 million at June 30, 2010, and $1,115 million at September 30, 2010 an increase of $55 million. These amounts are accrued under "Workers' compensation costs" on the Balance Sheets.

Workers' compensation expenses, including the impact of changes in the discount rates, for the three and nine month periods ended June 30, 2011, and 2010 are as follows:

Workers' Compensation Expense	Three Months Ended June 30		Nine Months Ended June 30	
(Dollars in millions)	2011	2010	2011	2010
Impact of Discount Rate Changes	$ 280	$ 1,656	$ (749)	$ 1,462
New Cases & Actuarial Revaluation of Existing Cases	507	286	1,703	1,028
Administrative Fee	15	14	46	42
Total Workers' Compensation Expense	$ 802	$ 1,956	$ 1,000	$ 2,532

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 (Dollars in millions)	June 30, 2011 Carrying Amount	June 30, 2011 Fair Value	September 30, 2010 Carrying Amount	September 30, 2010 Fair Value
	(Unaudited)		(Audited)	
Revenue Forgone	$ 354	$ 440	$ 360	$ 490
Total Long-Term Financial Assets	354	440	360	490
Long-Term Portion of Debt	4,500	4,559	4,500	4,815
Total Long-Term Financial Liabilities	$ 4,500	$ 4,559	$ 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	(256)
Balance at June 30, 2011	$ 4,559

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 III, 2011, the Postal Service recognized revenue of $26 million, including $6 million of imputed interest income from these appropriations, compared to $22 million, including $6 million of imputed interest, during Quarter III, 2010. For the first nine months of 2011, the Postal Service recognized $76 million of such revenue, including $18 million of imputed interest, compared to revenue of $65 million, including $18 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 $424 million at June 30, 2011, and $449 million at September 30, 2010. The current portion of this receivable was $70 million at June 30, 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 the 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 nine month periods ended June 30, 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. 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 current contract with the APWU became effective May 23, 2011 and extends through May 20, 2015. The NRLCA contract 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. The Postal Service has reached an impasse in negotiations with the NRLCA. The parties (the Postal Service and the NRCLA) have both expressed an interest to bypass mediation and move directly to interest arbitration. The next step will be for the parties to select an interest arbitrator and then secure dates for interest arbitration.

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 *http://about.usps.com/who-we-are/financials/welcome.htm*.

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 that 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 was accounted for as a change in accounting estimate, and is therefore reflected in operating results as a decrease to revenue for the nine months ended June 30, 2011.

Results of Operations

Losses in First-Class Mail volume resulting from the weak economy and electronic diversion of mail continue to adversely 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, increasing fuel costs, and legally-required continuation of six-days-per-week delivery have greatly affected our ability to become profitable.

Our net loss was $3,100 million for the three months ended June 30, 2011, compared to a net loss of $3,498 million for the same period last year. For the nine months ended June 30, 2011, our net loss was $5,657 million, compared to a net loss of $5,379 million for the nine months ended June 30, 2010.

For the three months ended June 30, 2011, operating revenue was $15,766 million, compared to $16,045 million for the three months ended June 30, 2010, a decrease of $279 million, or 1.7%. For the nine months ended June 30, 2011 and 2010, operating revenue was $49,877 million and $51,097 million, respectively, a reduction of $1,220 million, or 2.4%.

Key Operating Statistics	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars and mail volume per day in millions)	2011	2010	2011	2010
Operating Revenue	$ 15,766	$ 16,045	$ 49,877	$ 51,097
Loss from Operations	$ (3,065)	$ (3,465)	$ (5,547)	$ (5,281)
Net Loss	$ (3,100)	$ (3,498)	$ (5,657)	$ (5,379)
Average Mail Volume per day	517	531	563	570

The public's continuing shift away from First-Class Mail, our most profitable service, continues to negatively impact revenue. In addition, while Standard Mail revenue increased slightly by 1.7% compared to the same period last year, this is the second quarter in a row where Standard Mail volume increased less than 2% as compared to the same quarter in 2010. As a result of the declining First-Class mail compounded by the relatively weak performance of Standard Mail, Mailing Services revenue decreased $429 million, or 3.1%, for the three months ended June 30, 2011, compared to the same period in 2010. For the nine months ended June 30, 2011, Mailing Services revenue decreased by $1,517 million, or 3.4%, from the comparable period of 2010.

Shipping Services revenue of $2,208 million increased $150 million, or 7.3%, for the three months ended June 30, 2011, compared to the same period last year. For the nine months ended June 30, 2011, Shipping Services revenue was $6,970 million, an increase of 4.5% over the comparable period of 2010.

Operating expenses were $18,831 million for the three months ended June 30, 2011, compared to $19,510 million for the same period last year, a decrease of $679 million, or 3.5%. Compensation and benefits expense decreased by $26 million, or 0.2%. Although our required pre-funding for retiree health benefits did not change from the prior year, retiree health benefits expense increased $31 million driven by the retiree health benefits premiums which increased 5.3%, reflecting higher insurance premiums. Workers' compensation expenses decreased $1,154 million, or 59.0%. The decrease from prior year is driven by the unusually large impact of discount rates that occurred in Quarter III of 2010 as compared to 2011. Transportation expenses increased by $88 million, or 6.0% due to rising fuel costs, while other expenses increased by $382 million, or 16.7%.

For the nine months ended June 30, 2011, operating expenses were $55,424 million, compared to $56,378 million for the nine months ended June 30, 2010, a decrease of $954 million, or 1.7%. Compensation and benefits expense decreased by $429 million, or 1.2%, primarily due to a work hour reduction of 25 million hours, or 2.8%. Retiree health benefits premiums expense increased $153 million, or 9.2% while the required pre-funding remained constant. Workers' compensation expenses decreased $1,532 million, or 60.5%, mainly reflecting the impact of changing interest rates offset by increased caseload and actuarial expense. Transportation expenses increased by $350 million, or 7.9%, and other expenses increased by $504 million, or 7.3%.

Included in our total expenses and net losses are items related to discount rate changes and legislative mandates for the PSRHBF. Discount 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 June 30, 2011 and 2010, and $4,125 million for the nine months ended June 30, 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.

(Dollars in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Net Loss	$ (3,100)	$ (3,498)	$ (5,657)	$ (5,379)
Impact of:				
Discount Rate Changes on Workers' Compensation	280	1,656	(749)	1,462
PSRHBF Expense	1,375	1,375	4,125	4,125
(Loss) Income before Impact of Discount Rate Changes and PSRHBF Expense	$ (1,445)	$ (467)	$ (2,281)	$ 208

Net losses for the three months ended June 30, 2011 and 2010 include an increase of expenses due to discount rate changes that increased the workers' compensation expense by $280 million and of $1,656 million, respectively. The net loss for the nine months ended June 30, 2011 includes a reduction to expenses due to discount rate changes that decreased the workers' compensation expense by $749 million. For the nine month period ended June 30, 2010 discount rate changes increased workers' compensation expense by $1,462 million,

Without the impact of these non-controllable factors, the net loss would have been $1,445 million for the quarter ended June 30, 2011, compared to a net loss of $467 million for the quarter ended June 30, 2010. For the nine months ended June 30, 2011, the net loss would have been $2,281 million compared to net income of $208 million for the nine months ended June 30, 2010.

Revenue and Volume

In April 2011, the Postal Service increased prices for Mailing Services by an average of 1.7%. It was the first increase in Mailing Services prices in almost two years. In addition, prices for Shipping Services increased by an average of 3.6% in January 2011 and 3.3% in January 2010.

Although the economic recession has ended, its lingering impact, including the sluggish economic growth following its end, continues. Post-recession growth has not occurred at previously expected levels and unemployment remains over 9%. This economic weakness continues to negatively affect the Postal Service. In addition, and possibly more importantly, there have been fundamental changes in the way businesses and consumers use the mail. Total mail volume decreased 1,064 million pieces, or 2.6%, in Quarter III, 2011, and 1,640 million pieces, or 1.3%, in the nine months ended June 30, 2011, as compared to the same periods in 2010. Mail volumes remain well below the 2006 peaks. The only category showing mild but consistent volume growth in 2011 is Standard Mail, which generates approximately half the revenue and one-third the profit margin of First-Class Mail.

Mailing Services revenue decreased by $429 million, or 3.1%, in Quarter III, 2011, compared to Quarter III, 2010, on a volume decrease of 1,084 million pieces, or 2.7%. For the nine months ended June 30, 2011, Mailing Services revenue decreased by $1,517 million, or 3.4%, compared to the first nine months of 2010, on a volume decrease of 1,683 million pieces, or 1.3%. 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 modestly while First-Class volume continued to decline.

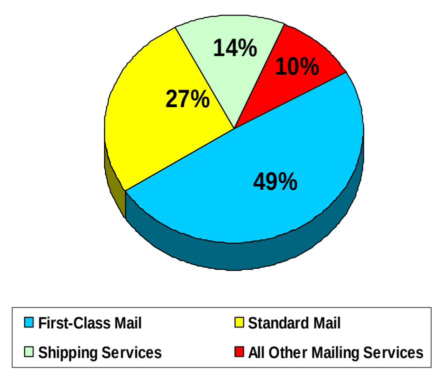
For Quarter III, 2011, Shipping Services revenue of $2,208 million increased $150 million, or 7.3%, on a volume increase of 20 million pieces. For the nine months ended June 30, 2011, Shipping Services revenue of $6,970 million was $297 million, or 4.5%, greater than the nine months ended June 30, 2010, on a volume increase of 43 million pieces. However, the growth and success of our Shipping Services has not been enough to offset the decline in First-Class Mail revenues.

Revenue	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2011	2010	2011	2010
First-Class Mail	$ 7,761	$ 8,246	$ 24,536	$ 26,169
Standard Mail	4,179	4,109	13,406	12,966
Periodicals	454	468	1,377	1,428
Package Services	354	343	1,178	1,148
Other Mailing Services*	810	821	2,410	2,713
Total Mailing Services	13,558	13,987	42,907	44,424
Total Shipping Services	2,208	2,058	6,970	6,673
Total Operating Revenue	$ 15,766	$ 16,045	$ 49,877	$ 51,097

*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.

Quarter III, 2011 Mail Revenue



MAILING SERVICES

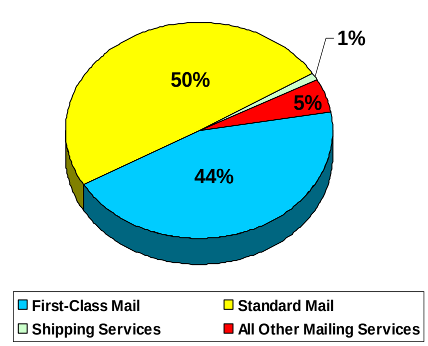
For the quarter ended June 30, 2011, combined First-Class Mail and Standard Mail, which represent 94% of our total mail volume, decreased 1,013 million pieces, or 2.6%, compared to the same period last year, with an associated drop in revenue of $415 million, or 3.4%. For the nine month period ended June 30, 2011, combined First-Class Mail and Standard Mail volume decreased by 1,519 million pieces, or 1.3%, from the comparable 2010 period, resulting in a decrease in revenue of $1,193 million, or 3.1%.

Mail Volume by Type	Three Months Ended June 30,		Nine Months Ended June 30,	
(Pieces in millions)	2011	2010	2011	2010
First-Class Mail	17,695	18,899	56,161	60,074
Standard Mail	19,750	19,559	63,668	61,274
Periodicals	1,786	1,840	5,379	5,540
Package Services	143	146	496	496
Other Mailing Services*	109	123	368	371
Total Mailing Services	39,483	40,567	126,072	127,755
Total Shipping Services	359	339	1,134	1,091
Total Mail Volume	39,842	40,906	127,206	128,846

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

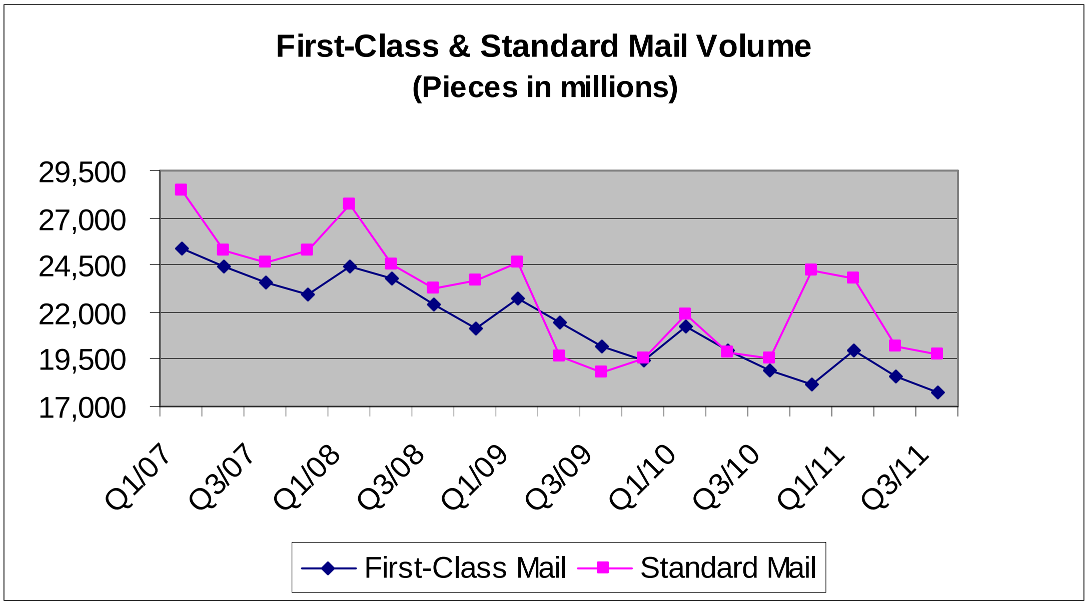
Note: Prior year balances have been restated to conform to the current year's presentation.

Quarter III, 2011 Mail Volume



Compared to the same quarter last year, First-Class Mail revenue of $7,761 million decreased $485 million, or 5.9%, on a volume decline of 1,204 million pieces, or 6.4%. Single-piece First-Class letter revenue declined $259 million, or 8.7%, for the quarter, compared to Quarter III, 2010. For the nine months ended June 30, 2011, First-Class Mail revenue of $24,536 million was $1,633 million, or 6.2%, less than the comparable period of 2010 as volume decreased by 3,913 million pieces during that period. Year-to-date single-piece First-Class letter revenue declined $868 million, or 9.0%, on a volume decline of 9.4%. 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. This trend is expected to continue.

Standard Mail revenue of $4,179 million increased $70 million, or 1.7%, in Quarter III, 2011, as volume increased 191 million pieces, or 1%, compared to Quarter III, 2010. For the nine month period ended June 30, 2011, Standard Mail revenue of $13,406 million increased $440 million, or 3.4%, compared to the first nine months of 2010. Standard Mail volumes had been significantly impacted by the decline in advertising spending resulting from the recent recession but rebounded strongly in Quarter I, 2011. However, the rate of growth in Quarter II and Quarter III has slowed drastically, as the economic recovery has stalled. Advertisers continue to become more sophisticated in the targeting of their mailings, which also offsets some potential volume growth. We expect advertising mail to slightly increase if the economy improves; however, any migration of advertising to the internet or other media, or a continuation of the recent economic slowdown would adversely impact volumes. The following chart depicts First-Class and Standard Mail volumes since 2007:



Revenue from Periodicals decreased $14 million, or 3.0%, in the third quarter of 2011 and year-to-date revenue decreased $51 million, or 3.6%, 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 continue to grow. For Quarter III, 2011, the average per piece weights for Periodicals decreased by a modest 0.4%. Volume for Quarter III, 2011 decreased by 54 million pieces or 2.9% compared to Quarter III, 2010. For the first nine months of 2011, it decreased 161 million pieces and 2.9% compared to the same period last year.

Package Services revenue increased $11 million, or 3.2% in Quarter III compared to the third quarter of 2010, as volume decreased 3 million pieces, or 2.1%. Year-to-date 2011 Package Services revenue increased $30 million, or 2.6%, as volume remained flat, 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 $150 million, or 7.3%, in Quarter III compared to the same period of 2010, as volume increased 20 million pieces, or 5.9%. Year-to-date volume increased 43 million pieces, or 3.9%, resulting in a revenue increase of $297 million, or 4.5%, from the first nine months of 2010.

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 *http://about.usps.com/who-we-are/financials/welcome.htm*.

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

Compensation and benefits expense in Quarter III, 2011, was $11,806 million, a $26 million, or 0.2%, decrease from Quarter III, 2010. Compensation expense decreased by $133 million, or 1.5%, in Quarter III, 2011, compared to the same period last year as the result of fewer employees and work hours used. This was primarily due to a decrease in work hours of 9 million, a 3.1% decrease. Partially offsetting the workhour savings was the impact of a $37 million incentive which was accrued in Quarter III, 2011 for approximately 1,850 administrative employees who elected to voluntarily leave the Postal Service as part of the current restructuring plan which was announced in Quarter II. These incentives will be paid in two lump sum payments: one in Quarter I, 2012 and one in Quarter I, 2013.

The reduction in compensation expense was partially offset by increases in retirement expense of $16 million, or 1.1%, and health benefits expense of $27 million, or 2.1%. Health benefits increased, driven primarily by premium increases and despite the fact that the Postal Service contributed approximately 1.0% less per employee for health benefit premiums compared to the prior year. Other compensation of $93 million in Quarter III 2011 increased $64 million, or 221%.

For the nine months ended June 30, 2011, compensation and benefits expense decreased by $429 million, or 1.2%, compared to the first nine months of 2010. Year-to-date compensation expense decreased by $542 million, or 1.9%, from the same period of 2010, primarily as a result of a 25 million, or 2.8%, reduction in work hours used. Compensation expense for the nine months ended June 30, 2010 included $112 million of incentive expense for approximately 7,400 APWU and NPMHU employees, who elected to retire or resign from the Postal Service. As discussed above, a similar incentive was offered in Quarter III, 2011 to administrative employees who elected to retire on or before May 31, 2011 for which we accrued $37 million.

Compensation and Benefits Expenses (Dollars in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Compensation	$ 8,947	$ 9,080	$ 27,718	$ 28,260
Retirement	1,455	1,439	4,409	4,353
Health Benefits	1,311	1,284	3,906	3,854
Other	93	29	303	298
Total Compensation & Benefits	$ 11,806	$ 11,832	$ 36,336	$ 36,765

WORK HOURS

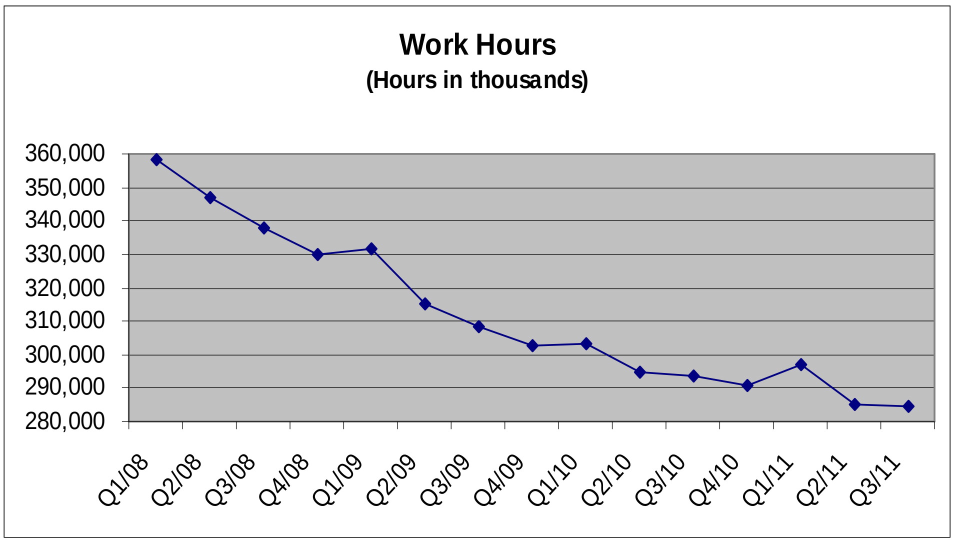
The Postal Service reduced work hours in the quarter ended June 30, 2011, by 9.2 million hours, or 3.1%, compared to the same period of last year. This represents a reduction of approximately 5,200 full time equivalent employees. The decrease in hours was especially pronounced in the city delivery, mail processing and customer services operations functions which had reductions of 2.6 million, 2.3 million and 2.7 million work hours, or 2.6%, 4.3% and 6.8%, respectively.

Work Hours (Hours in Thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
City Delivery	99,025	101,628	300,512	307,412
Mail Processing	51,700	54,048	163,562	171,230
Customer Services Operations	36,934	39,650	114,140	122,017
Rural Delivery	45,034	44,840	132,813	132,193
Postmasters	14,941	15,175	44,233	44,554
Other, including Retail, Plant, Vehicle Services, Operational Support, & Administration	36,836	38,330	111,559	114,583
Total Work Hours	284,470	293,671	866,819	891,989

During the first nine months of 2011, 867 million work hours were used, 2.8% less than the first nine 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 quarters ended June 30, 2011 and 2010, overtime hours were 5.9% and 5.3% of total work hours, respectively. For the first nine months of 2011 and 2010, overtime work hours were 6.9% and 6.2% of total work hours, respectively.

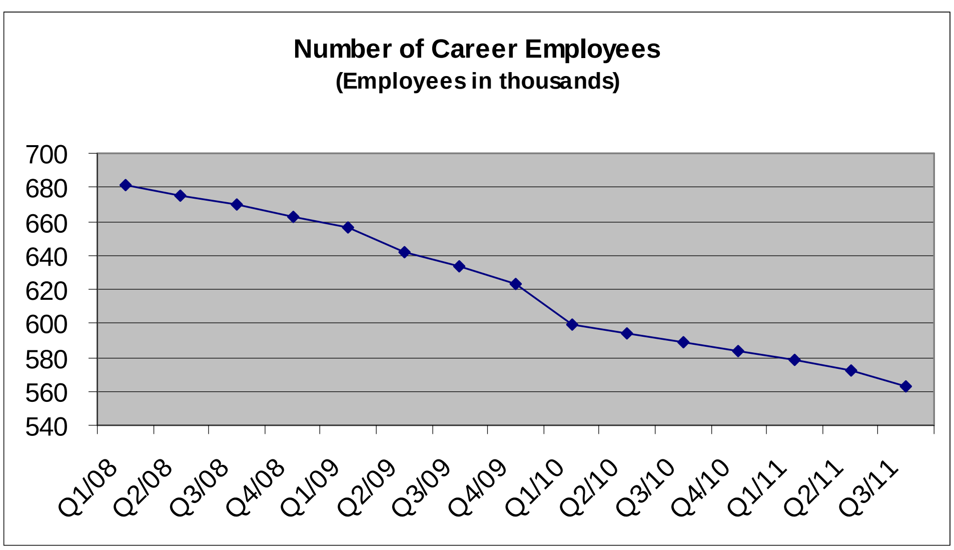
We continue to target the elimination of further work hours this year in addition to the reduction of 240 million hours achieved in the prior three years.

The following chart illustrates our quarterly work hour usage since 2008:



EMPLOYEE WORKFORCE

The number of career employees at June 30, 2011 was 563,402, a reduction of 8,164 employees during Quarter III, 2011. This includes a reduction of 1,850 administrative employees who left the Postal Service in Quarter III as a result of the incentive. There has been a reduction of 25,499 employees since June 30, 2010. In the four fiscal years beginning in 2007, the number of career employees has been reduced by approximately 110,000 plus an additional 20,500 in 2011. This reduction has been accomplished primarily through attrition and 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 nine month periods ended June 30, 2011, during Quarter III, 2011, retirement expense was $1,455 million, compared to $1,439 million for the same period last year, an increase of $16 million, or 1.1%. For the nine month period, retirement expense was $4,409 million, an increase of $56 million, or 1.3%, over the $4,353 million expense in the first nine 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. This rate will increase further to 11.9% starting October 1, 2011.

As a result of the critically low liquidity level projected for October 2011 and the remainder of 2012, on June 24, 2011, the Postal Service suspended its employer's contributions to OPM for the defined benefit portion of the Federal Employees Retirement System (FERS) obligation. According to OPM, the Postal Service had a FERS account surplus valued at $6.9 billion as of September 30, 2009, the most recent actuarial valuation date. Due to the surplus in its FERS account, the Postal Service believes that it has satisfied its current funding obligations. The Postal Service continues to transmit to OPM the employees' contributions to FERS and also continues to transmit employer automatic and matching contributions and employee contributions to the Thrift Savings Plan.

The legally-required Postal Service employer contribution to FERS is approximately $114 million per pay period (every two weeks). Suspension of payments, effective June 24, will provide additional liquidity of approximately $900 million through September 30, 2011.

The amount of the unpaid FERS employer contributions was $114 million at June 30, 2011. The expense and related liability are recorded and included in the financial statements contained in this report.

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, based on the work of another 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 for our employees was 78% or $1,311 million for the three months ended June 30, 2011, compared to 79% or $1,284 million for the three months ended June 30, 2010. For the nine months ended June 30, 2011 the Postal Service's health benefits expense was $3,906 million compared to $3,854 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 accruing 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 payment requirements through 2016, the amounts to be paid and the timing of the payments can be changed at any time with the passage of a new law, or amendment of the 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 the payment into the PSRHBF unless a legislative solution can be achieved by September 30, 2011.

The components of retiree health benefits expense for the three months and nine months ended June 30, 2011 and 2010 are as follows:

Retiree Health Benefits (Dollars in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Retiree Health Benefits Premiums	$ 620	$ 589	$ 1,818	$ 1,665
P.L. 109-435 Scheduled Payment to PSRHBF	1,375	1,375	4,125	4,125
Total Retiree Health Benefits	$ 1,995	$ 1,964	$ 5,943	$ 5,790

Expenses for Quarter III, 2011 and the nine months ended June 30, 2010 for retiree health benefits premiums increased $31 million, or 5.3%, and $153 million, or 9.2%, 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 June 30, 2011, there were approximately 469,000 participants, a decrease of 4,000 participants, compared to June 30, 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	Quarter Ended June 30, 2011	Quarter Ended September 30, 2010	Quarter Ended June 30, 2010	Quarter Ended September 30, 2009
Compensation Claims Liability:				
Discount Rate	3.5%	2.9%	3.5%	4.9%
Wage inflation	2.9%	2.9%	3.0%	3.2%
Medical Claims Liability:				
Discount Rate	3.5%	3.0%	3.0%	4.4%
Medical Inflation	8.3%	7.4%	4.4%	3.8%

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 June 30, 2011 liability and Quarter III, 2011 expense by approximately $1,100 million. A decrease of 1% in the discount rate would increase the June 30, 2011 liability and Quarter III, 2011 expense by $1,400 million.

At June 30, 2011, the present value of the liability for future workers' compensation payments was $12,413 million, compared to $12,589 million at September 30, 2010, a decrease of $176 million. In 2011, we made payments of $1,184 million to the DOL. The current portion of the liability was $1,170 million at June 30, 2011, compared to $1,115 million at September 30, 2010.

Workers' compensation expenses, including the impact of changes in the discount rates, for the three and nine month periods ended June 30, 2011, and 2010 are as follows:

Workers' Compensation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2011	2010	2011	2010
Impact of Discount Rate Changes	$ 280	$ 1,656	$ (749)	$ 1,462
New Cases & Actuarial Revaluation of Existing Cases	507	286	1,703	1,028
Administrative Fee	15	14	46	42
Total Workers' Compensation Expense	$ 802	$ 1,956	$ 1,000	$ 2,532

In the three months ended June 30, 2011, the Postal Service experienced a $30 million, or 20.4%, increase in compensation claim payments and an $8 million, or 7.3%, increase in medical claims payments compared to the three months ended June 30, 2010. For the nine months ended June 30, 2011, compensation payments increased $94 million or 19.6% and medical claim payments increased $18 million, or 5.6%. The increase in compensation payments for the three and nine months ended June 30, 2011, continues to be 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 III, 2011 were $1,557 million, an increase of $88 million, or 6.0%, compared to $1,469 million in the same period last year. For the nine months ended June 30, 2011, transportation expenses were $4,770 million, a $350 million, or 7.9%, increase from the first nine months of 2010.

In Quarter III, 2011, highway transportation expenses were $829 million, an increase of $36 million, or 4.5%, compared to Quarter III, 2010. For the first nine months of 2011, highway transportation expenses were $2,525 million, an increase of $108 million, or 4.5%, over expenses of $2,417 million in the same period of the prior year. These increases are primarily attributable to increases in the cost of diesel fuel. Diesel fuel, which makes up approximately 93% of fuel purchased for highway contracts, costs an average of $3.93 per gallon during Quarter III, 2011, compared to $2.95 per gallon in Quarter III,

Transportation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2011	2010	2011	2010
Highway Transportation	$ 829	$ 793	$ 2,525	$ 2,417
Air Transportation	652	594	2,002	1,826
Other Transportation	76	82	243	177
Total Transportation Expense	$ 1,557	$ 1,469	$ 4,770	$ 4,420

2010, an increase of 33%. For the first nine months of 2011, the price of diesel fuel averaged $3.55 per gallon compared to $2.87 per gallon during the first nine months of 2010, an increase of 24%.

Partially offsetting the increases in fuel costs during the first nine months of 2011 was a 94 million mile, or 5.8%, decrease in highway miles driven compared to the first nine months of 2010, as a result of national and local surface transportation utilization improvement initiatives.

Air transportation expenses of $652 million for the quarter ended June 30, 2011, increased by $58 million, or 9.8%, from the same quarter last year. For the nine months ended June 30, 2011, air transportation expenses of $2,002 million were $176 million, or 9.6%, greater than the first nine months of 2010. Similar to highway transportation, air transportation expenses were highly influenced by rising fuel prices. At the same time, however, some volume previously transported by air is now being delivered by highway transportation.

Other transportation expenses of $76 million in Quarter III, 2011, decreased $6 million, or 7.3%, from the comparable quarter of the prior year, but increased $66 million, or 37.3%, for the first nine months of 2011 compared to the first nine months of 2010.

For the nine months ended June 30, 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 $2,671 million for the third quarter of 2011 were $382 million, or 16.7%, greater than last year's comparable quarter. For the nine months ended June 30, 2011, other operating expenses of $7,375 million were $504 million, or 7.3%, greater than the first nine months of 2010.

Increased fuel costs accounted for approximately 85% of the nine month increase in vehicle maintenance service expenses with the balance being attributable primarily to parts and supplies expense incurred as a result of our aging vehicle fleet.

Other Operating Expenses	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2011	2010	2011	2010
Supplies and Services	$ 519	$ 549	$ 1,656	$ 1,655
Depreciation and Amortization	587	619	1,738	1,842
Rent and Utilities	398	391	1,263	1,253
Vehicle Maintenance Service	253	206	725	614
Information Technology and Communications	174	161	485	449
Rural Carrier Equipment Maintenance Allowance	140	136	403	398
Other	600	227	1,105	660
Total Other Operating Expenses	$ 2,671	$ 2,289	$ 7,375	$ 6,871

Other expense increased by $373 million, or 164.3%, for the three months ended June 30, 2011, compared to the same period in the prior year. The increase was driven by legal expenses associated with the contingent liability reevaluation process of $370 million incurred during Quarter III, 2011. For the nine months ended June 30, 2011, other expense increased by $445 million, or 67.4%, compared to the same periods in the prior year reflecting the Quarter III legal expenses, as well as losses due to equipment disposals and building repair expenses incurred in prior quarters of 2011.

Cash Flows and Liquidity

CASH FLOW ACTIVITY

Cash and cash equivalents totaled $901 million at June 30, 2011, compared to $1,161 million and $1,014 million at September 30, 2010, and June 30, 2010, respectively. The following table provides a summary of our cash flows for the nine-month periods ended June 30, 2011 and 2010:

Summary Cash Flow	Nine Months Ended June 30,	
(Dollars in millions)	2011	2010
Operating activities:		
Net loss	$ (5,657)	$ (5,379)
Noncash depreciation and gains on sales	1,733	1,832
Changes in assets and liabilities	3,870	4,342
Cash (used) provided by operating activities	(54)	795
Investing activities:		
Capital expenditures, net of proceeds	(813)	(928)
Cash used in investing activities	(813)	(928)
Financing activities:		
Net change in notes payable	1,300	(2,500)
Net change in revolving credit line	(608)	(358)
Other	(85)	(84)
Cash provided (used) in financing activities	607	(2,942)
Net Decrease in Cash and Cash Equivalents	$ (260)	$ (3,075)

Operating Activities: Operating activities used $54 million of cash during the nine months ended June 30, 2011, compared to $795 million provided by operating activities for the nine months ended June 30, 2010, a decrease of $849 million driven by the net loss of $5,657 million. The net loss is due largely to a $1,220 million decrease in revenue compared to the same period last year, offset by $744 million cash from sales of postage which has not yet been used. In addition, increased transportation expenses are an important factor in the decrease in cash generated by operating activities.

Investing Activities: Purchases of property and equipment were $893 million in 2011 compared to $981 million in 2010, a decrease of $88 million, or 9.0%, as capital spending continued to decrease due to efforts to conserve cash. Proceeds from the sale of property and equipment increased by $24 million, or 54.6%, from $44 million in the first nine months of 2010 to $68 million in the first nine 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 nine months ended June 30, 2011, we had a net increase in notes payable of $1.3 billion as we issued new notes payable of $3.7 billion and repaid $2.4 billion of notes payable. This inflow of cash related to notes payable is in contrast to 2010 when we repaid $2.5 billion. We were able to repay more debt in the first nine 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 is a reflection of 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 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. As discussed in greater detail below, in addition to the numerous cost reduction steps already taken, on June 24, 2011 we suspended our employer's contributions to OPM for the defined benefit portion of our FERS funding requirement. This action was necessary in order to provide sufficient liquidity to fund operations in light of continued weakness in mail volumes and the significant uncertainty regarding legislative reforms.

Mail volume has declined by almost 20% since its peak of 213 billion pieces in 2006. Projected 2011 total mail volume currently stands at 167.1 billion pieces, which is a 3.5 billion or 2% decrease 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 6.5%, in 2011 compared to 2010. First-Class Mail volume decreased by 3.9 billion pieces, or 6.5%, in the first nine months of 2011 compared to the same period in 2010.

We had net losses of $5,657 million and $5,379 million for the nine months ended June 30, 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 but for the enactment of 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 2009 payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) by $4 billion. P.L. 111-68 did not, however, address future payments to the PSRHBF, including the $5.5 billion pre-funding payment required on September 30, 2011. Without legislative adjustments to our obligations as discussed below, we will have a negative cash flow from operations in 2011 and 2012. Even with a continuing mild economic recovery, steps to generate revenue, and stringent cost control efforts, we will not generate sufficient funds during 2011 and 2012 to meet all of our projected financial obligations.

By statute, we are limited to an annual net increase in debt of $3 billion, and total outstanding debt of $15 billion. Currently 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 DOL for the annual payment of our workers' compensation liability. Based on the cash balance and the remaining borrowing capacity of approximately $2.3 billion at June 30, 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 these obligations to the federal government, absent regulatory and legislative adjustments to some, or all, of these obligations.

As a result of the critically low liquidity level projected for October 2011 and all of 2012, on June 24, 2011, the Postal Service suspended employer's contributions to OPM for the defined benefit portion of the FERS funding requirement. OPM has determined that we have a FERS account surplus valued at $6.9 billion as of September 30, 2009, the most recent actuarial valuation date. Due to the surplus in this FERS account, we believe that we have satisfied our current funding obligations. The Postal Service, along with OPM, has agreed to ask the Office of Legal Counsel at the Department of Justice to review the potential impact of the FERS funding suspension. We continue to transmit to OPM employees' contributions to FERS and also continue to transmit employer automatic and matching contributions and employee contributions to the Thrift Savings Plan.

The legally-required employer contributions to FERS are approximately $114 million per pay period (every two weeks). Suspension of payments, effective June 24, will provide additional liquidity of approximately $900 million through September 30, 2011. This added liquidity will not be sufficient to enable payment of the $5.5 billion obligation to the PSRHBF however it may allow us to fulfill our $1.2 billion payment requirement to the DOL for the workers' compensation program.

The legal and/or regulatory consequences of the defaults to the FERS program and the required PSRHBF contribution to the U.S. government are unknown.

In addition to the necessary defaults on contributions to FERS and PSRHBF, we have taken numerous actions to generate additional revenue and reduce operating expenses. Some of these are discussed below.

Prices were increased by an average of 1.7% for Mailing Services in April 2011 and by an average of 3.6% in January 2011 for Shipping Services. The Mailing Services price increase was the first increase in almost two years. In January 2012, we expect to implement additional moderate price increases for Mailing and Shipping Services. At the same time, effort has been made to increase revenues by implementing initiatives such as the expansion of simplified addressing for businesses, Priority Mail Regional Rate Boxes, Reply Rides Free, and others. However, these new services are not expected to offset the precipitous decline in volume and revenue that is occurring in First-Class Mail.

As a result of management cost-control initiatives, work hours during the nine months of 2011 were reduced by 25 million hours compared to the first nine months of 2010. This is in addition to reductions of 75 million, 115 million, and 50 million work hours in fiscal years 2010, 2009, and 2008, respectively. Compensation and benefits costs represent approximately 65% of total operating costs. However, when workers' compensation and retiree health benefits, including the federally mandated prefunding of the retiree health benefits, are added, total personnel cost increases to approximately 80%. 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.

A new labor contract with the American Postal Workers Union (APWU), which affects approximately 205,000 APWU members, became effective May 23, 2011. The labor contract, which expires 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. Our employer contribution to employee's health insurance premiums will also decrease. The contract includes a 3.5% pay increase over the term of the contract, with no increases in 2011 and 2012 and 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.

To further reduce costs, we are currently implementing our January 2011 plan to significantly realign administrative functions 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. The redesign, which is being implemented through March 2012, is anticipated to capture annualized savings of over $750 million, beginning in 2012. We have also suspended discretionary awards and frozen officer and executive compensation. We have continued to reduce the size of our workforce and over the last four fiscal years, have decreased our size by 110,000 career positions and saved $12 billion in costs.

In addition, in July 2011, we announced plans to consolidate plants and review a significant number of Post Office locations for possible closure. Studies of approximately 3,700 retail offices will be conducted to determine customer needs, and how affected communities across the nation might be better served by a retail-replacement option known as Village Post Offices.

As previously noted, 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 not be, either individually or in the aggregate, sufficient to avoid a cash shortfall in 2011. Absent significant changes in the legislative environment occurring in September 2011, the $15 billion debt ceiling will be reached in September 2011, thereby exhausting our external funding ability. No assurance can be given that 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 and FERS overfunding, we will continue to face financial stability concerns. In March 2010 we issued our action plan for the next decade, *Ensuring a Viable Postal Service for America*. In this plan and in subsequent updates, we estimated that by 2020, there could be losses of $20 billion per year and cumulative financial losses of over $150 billion, absent significant operational and legislative changes. We have taken, and continue to take, specific actions which help address the elements under management control. Despite these changes, the outlook continues to show the 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; five-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 annually and remains a crucial component in our efforts to restructure our 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. 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 us with needed cost savings, although the extent of those savings is uncertain" and that our 5-day proposal should be considered in the context of other restructuring strategies both within and outside the delivery network". We are confident in our savings projections and, since the PRC opinion is advisory, continue to pursue this matter with the Congress.

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 us to significantly curtail or cease operations.

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues we face and the legislative changes that would help ensure the availability of sufficient liquidity on September 30, 2011, and beyond. However, 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 period ending June 30,				
(Dollars in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt (1)	$ 12,692	$ 8,192	$ 300	$ 300	$ 3,900
Interest on debt (1)	2,070	154	305	295	1,316
PSHRBF	33,900	5,500	11,200	11,400	5,800
Capital lease obligations	772	25	198	179	370
Operating leases	7,444	199	1,443	1,220	4,582
Capital commitments (2)	962	502	300	89	71
Purchase obligations (2)	3,401	1,534	1,857	10	0
Workers' compensation (3)	19,440	1,170	3,706	4,014	10,550
Employees' leave	2,314	189	336	301	1,488
	$ 82,995	$ 17,465	$ 19,645	$ 17,808	$ 28,077

(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 $12,413 million is reflected in our Balance Sheet at June 30, 2011.

Fair Value Measurements

As required by authoritative accounting literature, certain fair value disclosures for the nine months ended June 30, 2011 are contained in the Notes to the Financial Statements. We did not recognize gains as a result of valuation measurements during Quarter III, 2011, or the nine month period ended June 30, 2011. All recognized losses have been incorporated into our financial statements as of June 30, 2011, and for the three and nine month periods then ended. See Note 10, *Fair Value Measurements.*

Legislative Update

APPROPRIATIONS

On June 23, the House Appropriations Committee approved H.R. 2434, *Financial Services and General Government Appropriations Act, 2012*. The measure provided no funds for the $29 million revenue forgone debt repayment due to the Postal Service, but did recommend a funding level of $78 million to the Postal Service for free mail for the blind and overseas voting. This amount is $23 million less than the amount we requested. The bill continues to include language specifying that six-day delivery and rural delivery of mail shall continue at not less than the 1983 level. The bill also continues to include language prohibiting funds in the Act from being used to consolidate or close small rural and other small Post Offices. The bill will next be considered by the full House.

POSTAL OPERATIONS SUSTAINMENT AND TRANSFORMATION (POST) ACT OF 2011

On May 17, S. 1010, the *Postal Operations Sustainment and Transformation (POST) Act of 2011* was introduced. The POST Act addresses crucial legacy cost issues, such as Retiree Health Benefits (RHB) pre-payments and overpayments to the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). It requires the Office of Personnel Management (OPM) to use a new methodology to revalue the Postal Service's CSRS obligation, as well as determine whether a surplus exists in the FERS. The measure provides for various actions that prescribe the use of any surplus, including using it to pay for RHB obligations, pay down the Postal Service debt, or make payments related to the Federal Employees' Compensation Act (FECA), pending Board approval. S. 1010 also removes the prohibition against the Postal Service closing a Post Office solely for economic reasons and gives the Postal Service delivery flexibility. It requires an arbitrator to consider the financial health of the USPS when rendering final decisions on collective bargaining. It provides flexibility to the Postal Service for development and introduction of non-postal products and services, allows for the shipment of wine and beer, and permits the Postal Service to partner with Federal, state and local agencies. S. 1010 was referred to the Senate Committee on Homeland Security and Governmental Affairs.

POSTAL REFORM ACT OF 2011

On June 23, H.R. 2309, the *Postal Reform Act of 2011* was introduced. The bill would create a Commission on Postal Reorganization (CPR), which would conduct proceedings regarding closures and discontinuances of the Postal infrastructure, including retail facilities, mail processing facilities, and area and district offices. The bill provides the Postal Service the authority to change delivery frequency. It also establishes a Postal Service Financial Responsibility and Management Assistance Authority, which would operate during any control period. A control period commences whenever the Postal Service has been in default to the U.S. Treasury with respect to borrowing, for a period of 30 days. The Authority would have broad powers during such control period, including assuming all of the powers of the Postal Service Board of Governors, the authority to modify collective bargaining agreements and the authority to require the Postal Service to increase its debt by an additional $10 billion to fund its government obligations. H.R. 2309 also addresses the following issues: placing limitations on postal contributions to life and health insurance programs under FEGLI and FEHBP, modifying some postal rates, allowing the Postal Service to offer specific non-postal products and services, and making reforms in specific Postal Service contracting practices and provisions. The bill will be taken up by the full House Committee on Oversight and Government Reform.

U.S. POSTAL SERVICE IMPROVEMENTS ACT OF 2011

On February 15, 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.

CLOSURE/DISCONTINUANCE OF POST OFFICES

On May 26, H.R. 2024, the *Post Office Transparency Act* was introduced. The bill would amend Title 39, United States Code, to provide that the procedures governing the closure or consolidation of postal branches and stations shall be the same as those applicable in the case of Post Offices. Specifically, H.R. 2024 would amend Section 404 of Title 39, U.S.C., by adding language that defines the term "post office" to include a branch, station, or other facility which is operated by the Postal Service and provides services to persons according to the following criteria: persons served by a Post Office includes, postal patrons who receive mail delivery services from such Post Office, residents who reside within the ZIP Code served by such Post Office, postal patrons having P.O. Boxes at such post office, as well as relevant local government officials. 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 and the sluggish and uneven recovery that has followed. In addition, and possibly more importantly, there have been fundamental changes in the way businesses and consumers use the mail which were exacerbated by the recession. Finally, our ability to make the necessary structural reforms needed to address these issues is often constrained by our need to first obtain legislative approval.

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 resulted in the closure of one of eight area offices and seven of seventy-four district offices, and is expected to eliminate over 7,500 employee positions. On July 14, 2011, we published a notice in the Federal Register outlining new, streamlined procedures for the discontinuance of Post Offices, and, on July 26, 2011, we announced plans to consolidate plants and review a significant number of Post Office locations for possible closure. Studies of approximately 3,700 retail offices will be conducted to determine customer needs, and how affected communities across the nation might be better served by a retail-replacement option known as Village Post Offices. Although this will not impact the near term, it is expected to provide savings in the future.

In spite of these efforts, however, our financial outlook remains clouded by continuing uncertainty concerning Congressional action regarding the $5.5 billion PSRHBF pre-funding contribution required in 2011, and the continuing need for legislative action in a number of areas.

REVENUE OUTLOOK

Based on the results of the past three months, revenue is now projected to be below 2010 levels despite the increases in Shipping Services prices in January 2011 and Mailing Services prices in April 2011. Minimal 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 nine months of 2011, together Standard Mail and Shipping Services revenue increased $737 million, or 3.8%, and First-Class Mail revenue decreased $1,633 million, or 6.2%, 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 for the remainder of 2011, and beyond.

We expect slight revenue and volume growth in 2011 for Standard Mail. The profit contribution rate for this mail category is approximately one-third the contribution rate of First-Class Mail. This contributes greatly to the long-term financial problems of the Postal Service as volume shifts away from our most profitable product.

Shipping Services volume, which represents approximately 1% of total volume, is expected to increase somewhat for the remainder of 2011, as is revenue growth in this category. This entire group faces fierce competition from competitors, who have significantly greater pricing and cost reduction flexibility.

EXPENSE OUTLOOK

We continue to aggressively reduce controllable expenses throughout the organization. We are currently trending toward annualized savings of approximately $1.4 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. In addition, the Postal Service has also suspended discretionary awards and frozen officer and executive compensation for 2011.

Also, as part of the organizational redesign effort that we are currently implementing, we are realigning 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. Although not expected to significantly impact 2011 results, it is anticipated that these steps will allow us to capture annualized savings of over $750 million, beginning in 2012.

The benefits obtained from these cost-reduction initiatives, however, may continue to be offset by high and rising fuel prices. Fuel prices have increased more than expected since the beginning of the fiscal year and remain volatile. As noted previously, the average year-to-date cost of diesel fuel has risen by 24% from the comparable period of 2010.

The outlook for the non-cash portion of workers' compensation expenses, which does 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 $1.4 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 June 30, 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 June 30, 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

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

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: August 5, 2011

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

Date: August 5, 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: August 5, 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: August 5, 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 June 30, 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: August 5, 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 June 30, 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: August 5, 2011

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