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, 2013 OR**

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

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Common Stock	Outstanding Shares as of August 9, 2013
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

Part I

Part II

Part I

Item 1 – Financial Statements

United States Postal Service
Statements of Operations
(Unaudited)

(Dollars in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Operating revenue	$ 16,177	$ 15,613	$ 50,185	$ 49,517
Operating expenses				
Compensation and benefits	11,257	11,745	35,371	35,929
Retiree health benefits	2,129	3,712	6,316	11,104
Workers' compensation	(469)	1,486	284	2,255
Transportation	1,588	1,604	5,088	5,048
Other	2,371	2,208	6,870	6,706
Total operating expenses	16,876	20,755	53,929	61,042
Loss from operations	**(699)**	**(5,142)**	**(3,744)**	**(11,525)**
Interest and investment income	6	6	18	18
Interest expense	(47)	(49)	(144)	(142)
Net loss	**$ (740)**	**$ (5,185)**	**$ (3,870)**	**$ (11,649)**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	June 30, 2013		September 30, 2012	
	(Unaudited)		(Audited)	
Current Assets				
Cash and cash equivalents	$	3,102	$	2,319
Restricted cash		100		-
Receivables:				
Foreign countries		592		509
U.S. Government		83		142
Other		255		308
Receivables before allowances		930		959
Less: Allowances		41		41
Total receivables, net		889		918
Supplies, advances and prepayments		137		126
Total Current Assets		**4,228**		**3,363**
Noncurrent Assets				
Property and equipment, at cost:				
Buildings		24,537		24,452
Equipment		19,855		20,143
Land		2,909		2,919
Leasehold improvements		1,278		1,208
		48,579		48,722
Less: Allowances for depreciation and amortization		31,061		30,187
		17,518		18,535
Construction in progress		325		328
Total property and equipment, net		17,843		18,863
Other assets - principally revenue forgone receivable		392		385
Total Noncurrent Assets		**18,235**		**19,248**
Total Assets	$	**22,463**	$	**22,611**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	June 30, 2013 (Unaudited)	September 30, 2012 (Audited)
Current Liabilities		
Compensation and benefits	$ 2,422	$ 1,856
Retiree health benefits	15,345	11,205
Workers' compensation	1,305	1,337
Payables and accrued expenses:		
Trade payables and accrued expenses	1,109	1,159
Foreign countries	570	583
U.S. Government	84	93
Total payables and accrued expenses	1,763	1,835
Deferred revenue-prepaid postage	4,139	4,014
Customer deposit accounts	1,235	1,210
Outstanding postal money orders	680	677
Prepaid box rent and other deferred revenue	469	475
Short-term portion of debt	9,800	9,500
Total Current Liabilities	**37,158**	**32,109**
Noncurrent Liabilities		
Workers' compensation	15,158	16,230
Employees' accumulated leave	1,865	1,855
Deferred appropriations and other revenue	171	194
Long-term portion of capital lease obligations	367	410
Deferred gains on sales of property	309	313
Contingent liabilities and other	951	846
Long-term portion of debt	5,200	5,500
Total Noncurrent Liabilities	**24,021**	**25,348**
Total Liabilities	**61,179**	**57,457**
Net Deficiency		
Capital contributions of the U.S. Government	3,132	3,132
Deficit since 1971 reorganization	(41,848)	(37,978)
Total Net Deficiency	**(38,716)**	**(34,846)**
Total Liabilities and Net Deficiency	**$ 22,463**	**$ 22,611**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Changes in Net Deficiency
(Unaudited)

(Dollars in millions)	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2011	$ 3,132	$ (22,072)	$ (18,940)
Net loss	-	(11,649)	(11,649)
Balance, June 30, 2012	**$ 3,132**	**$ (33,721)**	**$ (30,589)**
Balance, September 30, 2012	$ 3,132	$ (37,978)	$ (34,846)
Net loss	-	(3,870)	(3,870)
Balance, June 30, 2013	**$ 3,132**	**$ (41,848)**	**$ (38,716)**

See accompanying (unaudited) notes to the financial statements.

United States Postal Service
Statements of Cash Flows
(Unaudited)

(Dollars in millions)	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Cash flows from operating activities:		
Net loss	$ (3,870)	$ (11,649)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	1,437	1,579
(Gain) loss on disposals of property and equipment, net	(51)	6
(Increase) decrease in other assets - primarily revenue forgone receivable	(7)	23
(Decrease) increase in noncurrent workers' compensation liability	(1,072)	886
Increase (decrease) in noncurrent employees accumulated leave	10	(25)
Increase (decrease) in noncurrent deferred appropriations and other revenue	13	(3)
Increase (decrease) in other noncurrent liabilities	105	(65)
Changes in current assets and liabilities:		
Receivables, net	29	185
Supplies, advances and prepayments	(11)	(14)
Compensation and benefits	566	(99)
Retiree health benefits	4,140	9,215
Workers' compensation	(32)	65
Payables and accrued expenses	(172)	(108)
Customer deposit accounts	25	(108)
Deferred revenue-prepaid postage	125	445
Outstanding postal money orders	3	33
Prepaid box rent and other deferred revenue	3	(41)
Net cash provided by (used in) operating activities	1,241	325
Cash flows from investing activities:		
Purchases of property and equipment	(489)	(575)
Proceeds from deferred building sales	-	38
Proceeds from sales of property and equipment	111	65
Net cash used in investing activities	(378)	(472)
Cash flows from financing activities:		
Issuance of notes payable	4,400	3,700
Payments on notes payable	(4,400)	(4,100)
Net change in revolving credit line	-	35
Payments on capital lease obligations	(44)	(36)
U.S. government appropriations - (expensed)	(36)	(47)
Net cash used in financing activities	(80)	(448)
Net increase (decrease) in cash and cash equivalents	783	(595)
Cash and cash equivalents at beginning of year	2,319	1,488
Cash and cash equivalents at end of period	**$ 3,102**	**$ 893**
Supplemental cash flow disclosures:		
Interest paid	$ 144	$ 142
Restricted Cash	$ 100	$ -

See accompanying (unaudited) notes to the financial statements.

Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

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

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present the financial position of the Postal Service as of June 30, 2013; and the results of operations for the three and nine months ended June 30, 2013, and 2012; and the cash flows for the nine months ended June 30, 2013, and 2012. Operating results for the three and nine month periods ended June 30, 2013, are not necessarily indicative of the results that may be expected for all of fiscal year 2013. During the three months ended June 30, 2013, the Postal Service recorded a non-recurring adjustment of $246 million to the deferred revenue - prepaid postage liability which resulted in an increase to revenue for the quarter. This adjustment was for usage related to forever stamped envelopes and cards that was previously unrecognized is considered immaterial to the current and prior periods.

Subsequent events have been evaluated through August 9, 2013, the date the Postal Service filed its Form 10-Q for the quarter ended June 30, 2013, with the Postal Regulatory Commission (PRC).

The Postal Service held $100 million in restricted cash as of June 30, 2013. The Postal Service received these funds as the result of an investigation by the United States Postal Inspection Service for mail and wire fraud. The funds are expected to be distributed to the Department of Justice (DOJ) within the next year to reimburse DOJ for the victim restitution program that the agency is administering. There was no restricted cash at September 30, 2012.

The Postal Service, which is an independent establishment of the executive branch of the Government of the United States, has significant transactions with other U.S. Government agencies, as disclosed throughout this report. In addition to the amounts disclosed elsewhere, deferred revenue of $53 million at June 30, 2013, and $27 million at September 30, 2012, related to government deposits are included in the Balance Sheets in “Customer Deposit Accounts”.

Note 2 – Liquidity

LIQUIDITY CONCERNS

The Postal Service continues to suffer from a severe lack of liquidity. The Postal Service held unrestricted cash of $3.1 billion and $2.3 billion as of June 30, 2013, and September 30, 2012, respectively. These cash balances represent approximately 11 days, and 8 days, respectively, of average daily expenses. It had no remaining borrowing capacity on its $15 billion debt facility as of June 30, 2013. (See Note 3- *Debt*, for additional information). By mid-October 2013, the Postal Service projects it will have a cash balance on hand of approximately 5 days of its average daily expenses. This low level of available cash means that the Postal Service will be unable to make the $5.6 billion legally-mandated prefunding of retiree health benefits due by September 30, 2013. Further, this level of cash could be insufficient to support operations in the event of another significant downturn in mail volume.

The Postal Service has suffered 7 consecutive quarters of net losses and has had net losses in 16 of the last 18 quarters. The net loss of $3,870 million for the first nine months of the year included $4,200 million of expense accrued for the legally-mandated prefunding payment for retiree health benefits.

In addition to the requirement to prefund $5.6 billion of retiree health benefits for 2013, the Postal Service continues to pay the employer’s share of the health insurance premiums for the Postal Service’s retirees.

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

During 2012, the Postal Service was forced to default on $11.1 billion of required prefunding payments to the PSRHBF for retiree health benefits. The statutory requirement establishing the prefunding payment schedule, P.L. 109-435, contains no provisions addressing a payment default. This $11.1 billion is reflected as a current liability on the September 30, 2012 Balance Sheet and is included, along with the $4.2 billion accrued during this fiscal year on the June 30, 2013 Balance Sheet. As of the date of this report, August 9, 2013, the Postal Service has suffered no financial penalties as a result of its inability to make these payments.

The requirement of the *Postal Accountability and Enhancement Act,* Public Law 109-435 (P.L. 109-435) to prefund its retiree health benefit obligations, a requirement not imposed upon other federal agencies or private sector businesses, plus the drop in mail volume and changes in the mail mix caused by changes in consumers' use of mail, have been the major factors contributing to Postal Service losses since the recession ended in 2009. Without structural change to the business model, the Postal Service will continue to be negatively impacted by these factors and, absent legislative change, it anticipates continuing quarterly losses into the foreseeable future.

Current projections indicate that the Postal Service will have a continued low level of liquidity in the remainder of 2013. It is expected that the Postal Service will be unable to make the required $5.6 billion retiree health benefits prefunding payment due by September 30, 2013. This cash position will continue to worsen in October 2013, when the Postal Service is required to make its annual payment of approximately $1.4 billion to the DOL for workers' compensation. This low level of liquidity will continue to exist, absent legislative actions by Congress that have been requested to assist the Postal Service in returning to a financially stable position,

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

POSTAL ACTIONS TAKEN TO IMPROVE LIQUIDITY

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

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

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

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

Alignment of network size and cost with reduced mail volumes

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

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

In the first nine months of 2013, the Postal Service recorded the following operational and personnel achievements which are expected to lead to improved efficiency and productivity:

- 104 mail processing facilities were consolidated;
- 7,397 Post Offices reduced operating hours as part of the Post Plan;
- 258 new Village Post Offices were established;
- 1,156 delivery routes were consolidated or reduced;
- Career employee workhours reduced by approximately 41 million hours as the complement decreased by over 34,000 employees; and,
- Non-career employee workhours increased by approximately 30 million.

Revenue Management

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

The Postal Service's efforts in this area are evident in the following achievements during the first nine months of 2013:

- Total revenue increased by 1.3%, after annual declines in each of the last four fiscal years;
- Revenue from Shipping & Packages increased by 7.5%;
- Standard (advertising) mail revenue increased by 2.9%

Implementation of a USPS sponsored healthcare program

A vital component of the Plan is the requirement that the Postal Service dramatically reduce its healthcare costs by sponsoring its own healthcare program independent of other federal health insurance programs. The Postal Service's proposed program is intended to provide Postal employees and retirees with equivalent benefits, but at lower cost. It is estimated that a Postal Service-sponsored healthcare program could achieve approximately $8 billion of projected annual savings by 2016. The Plan would eliminate the need for any additional retiree health benefit prefunding as established in P.L. 109-435, which would save the Postal Service over $5.6 billion annually through 2016. The Plan also proposes to transfer current retirees into the Postal Service sponsored healthcare program, an action that also requires legislation. In addition, the Postal Service is also currently working with its unions to develop a healthcare proposal intended to provide the Postal Service similar financial benefits while staying within FEHB.

Business Model Change

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

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

MITIGATING CIRCUMSTANCES

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

The Postal Service continues to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues it faces and the legislative changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, it is hopeful that Congress will promptly enact, and the President will sign, legislation which will mitigate the Postal Service's short-term financial challenges and provide it with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2013, 2014, 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, 2013, and September 30, 2012:

Indebtedness to Federal Financing Bank

(Dollars in millions)

Maturity	Debt Type	June 30, 2013 Balance (Unaudited)	June 30, 2013 Rate %	September 30, 2012 Balance (Audited)	September 30, 2012 Rate %
Fixed rate notes - short-term					
May 30, 2013	Fixed rate-payable at maturity	$ -	-	$ 1,200	0.298
September 19, 2013	Fixed rate-payable at maturity	500	0.299	500	0.299
November 14, 2013	Fixed rate-payable at maturity	1,300	0.293	1,300	0.227
January 31, 2014	Fixed rate-payable at maturity	300	2.035	-	-
May 1, 2014	Fixed rate-payable at maturity	1,200	0.242	-	-
Fixed rate notes - long-term					
January 31, 2014	Fixed rate-payable at maturity	-	-	300	2.035
May 2, 2016	Fixed rate-payable at maturity	300	2.844	300	2.844
November 15, 2018	Fixed rate-payable at maturity	500	3.048	500	3.048
February 15, 2019	Fixed rate-payable at maturity	700	3.296	700	3.296
May 15, 2019	Fixed rate-payable at maturity	1,000	3.704	1,000	3.704
May 15, 2019	Fixed rate-payable at maturity	500	3.513	500	3.513
August 16, 2021	Fixed rate-payable at maturity	1,000	2.066	1,000	2.066
May 17, 2038	Fixed rate-payable at maturity	200	3.770	200	3.770
February 15, 2039	Fixed rate-payable at maturity	1,000	3.790	1,000	3.790
Floating rate notes and revolving credit line - short-term					
June 19, 2013	Floating rate	-	-	500	0.236
September 18, 2013	Floating rate	600	0.177	600	0.231
October 17, 2013	Floating rate[1]	700	0.186	700	0.228
December 17, 2013	Floating rate[2]	700	0.177	700	0.227
June 18, 2014	Floating rate[3]	500	0.181	-	-
	Short-term revolving credit line	3,400	0.145	3,400	0.176
	Overnight revolving credit line	600	0.145	600	0.186
Total debt		**$ 15,000**		**$ 15,000**	
Current portion of debt		**$ 9,800**		**$ 9,500**	
Long-term portion of debt		**$ 5,200**		**$ 5,500**	

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

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

[3] Floating Rate Note- Repurchasable at par on each interest rate reset date and the interest rate resets on September 18,2013; December 18, 2013; and March 18, 2014.

The Postal Service has two revolving credit lines with the FFB, both of which are available until April 30, 2014. One, a short-term credit line, enables it to draw up to $3,400 million with two days prior notice. Borrowings under this credit line are typically on an overnight basis, but can have a maximum term of up to one year. The second credit facility, which only allows for borrowings on an overnight basis, enables borrowings of up to $600 million on the same business day that funds are requested. As of June 30, 2013, both of these lines of credit have been fully drawn. In addition, the Postal Service can use a series of other notes with varying provisions to draw upon with two days prior notice. These credit facilities and note arrangements provide the flexibility to borrow short or long-term, using fixed or floating-rate notes. Fixed-rate notes can be either callable or non-callable at the option of the Postal Service. Debt, all of which is unsecured and not subject to sinking fund requirements, can be repaid at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the Treasury Security market at the time of repayment.

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

Scheduled principal repayments, exclusive of capital leases, as of June 30, 2013, are as follows:

Scheduled Debt Principal Repayments - By Fiscal Year		
(Dollars in millions)		
(Unaudited)		
2013 (remaining)	**$**	**5,100**
2014		**4,700**
2015		**-**
2016		**300**
2017		**-**
After 2017		**4,900**
Total Debt	**$**	**15,000**

Note 4 – Property and Equipment

Property and equipment are recorded at cost which includes the interest on borrowings used to pay for the construction of major capital additions, less accumulated depreciation. Interest capitalized during the three and nine month periods ended June 30, 2013, and 2012, was not significant. Property and equipment are depreciated over estimated useful lives that range from 3 to 40 years, except for buildings with historic status, which are depreciated over 75 years, using the straight-line method.

In September 2011, the Postal Service announced plans to realign its mail processing, delivery, and retail networks. These plans continue to be updated for maximum operating and cost efficiencies. See Note 2-*Liquidity,* for additional details. As a result, an assessment was performed on both the real estate and equipment associated with the proposed realignment efforts to determine if any impairment should be recognized. Any facility lacking utility to the realigned mail processing, distribution, and retail networks will be marked for disposal. Once a facility is marked for disposal, determination of impairments, if any, will be made by management. As of June 30, 2013, these evaluations are ongoing. For the three and nine month periods ended June 30, 2013, there were no significant impairment charges related to these plans.

Assets classified as held for sale of $98 million as of June 30, 2013, and $111 million as of September 30, 2012, are included on the Balance Sheets in “Land” and “Buildings.” Impairment charges were immaterial for the three months ended June 30, 2013 and 2012. Impairment charges were $21 million and $36 million for the nine months ended June 30, 2013 and 2012, respectively. Impairment charges are included in the Statements of Operations in “Other.”

Note 5 – Leases and Other Commitments

Leases

At June 30, 2013, the future minimum payments on non-cancelable operating and capital leases were as follows:

Lease Obligations (Dollars in millions)	Operating	Capital
(Unaudited)		
2013 (remaining)	$ 191	$ 24
2014	710	93
2015	652	90
2016	584	87
2017	518	78
After 2017	4,025	216
Total Lease Obligations	$ 6,680	$ 588
Less: Interest		163
Total Capital Lease Obligations		425
Less: Current Portion of Capital Lease Obligations		58
Long-term portion of Capital Lease Obligations		$ 367

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 month periods ended June 30, 2013, and 2012, was as follows:

Rental Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
(Unaudited)				
Non-cancelable real estate leases including related taxes	$ 221	$ 223	$ 694	$ 710
Facilities leased from GSA* subject to 120-day cancellation	10	11	29	31
Equipment and other short-term rentals	39	40	116	130
Total Rental Expense	$ 270	$ 274	$ 839	$ 871

*General Services Administration

Capital Commitments

At June 30, 2013, commitments to acquire capital assets were $535 million, compared to $644 million at September 30, 2012, as summarized in the following table:

Capital Commitments	As of	
(Dollars in millions)	June 30, 2013	September 30, 2012
	(Unaudited)	(Audited)
Mail Processing Equipment	$ 270	$ 281
Building Improvements, Construction, and Building Purchase	225	301
Postal Support Equipment	34	56
Vehicles	6	6
Total Capital Commitments	$ 535	$ 644

Note 6 – Contingent Liabilities

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

Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Each quarter, any existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates. This evaluation of cases resulted in a net increase of $209 million to the liability for the nine months ended June 30, 2013, compared to September 30, 2012. The table summarizes contingent liabilities provided for in the Postal Service's financial statements as of the dates indicated.

Contingent Liabilities	As of			
(Dollars in millions)		June 30, 2013		September 30, 2012
		(Unaudited)		(Audited)
Labor - Employment	$	931	$	722
Environmental		48		48
Tort		43		43
Total Contingent Liabilities	$	1,022	$	813

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

Based on currently available information, adequate provision has been made for probable losses arising from claims and suits. The current portion of this liability of $99 million at June 30, 2013, and $61 million as of September 30, 2012, is included on the Balance Sheets in "Trade payables and accrued expenses." The long-term portion of this liability was $923 million at June 30, 2013, and $752 million at September 30, 2012, and is included on the Balance Sheets in "Contingent liabilities and other."

In addition to the amounts accrued in the financial statements, the Postal Service also has claims and lawsuits which it deems reasonably possible of an unfavorable outcome which range from $300 million to $475 million at June 30, 2013. No provisions for these reasonably possible losses are accrued or included in the financial statements.

Note 7 – Retirement Programs

Employees participate in one of three federal government pension programs based on the starting date of their employment with the federal government. Employee and employer contributions are made to the Civil Service Retirement System (CSRS), the Dual Civil Service Retirement System/Social Security (Dual CSRS), or the Federal Employees' Retirement System (FERS), all of which are administered by the OPM. As government-sponsored benefit plans, the CSRS, Dual CSRS, and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Employees may also participate in the Thrift Savings Plan (TSP), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board.

EMPLOYEE/EMPLOYER CONTRIBUTIONS

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

As required by law, the Postal Service contribution rate was 11.9% of base salary for current FERS employees for the three and nine month periods ended June 30, 2013, and June 30, 2012. The Postal Service is required to contribute to the TSP a minimum of 1% per year of the basic pay of employees covered by this system, and is also required to match a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of an employee's contribution of between 3% and 5% of basic pay.

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

Total retirement expense was $1,413 million and $1,470 million for the three months ended June 30, 2013, and 2012, respectively. For the nine months ended June 30, 2013, and 2012, total retirement expense was $4,315 million and $4,406 million, respectively. Total retirement expense is recorded in "Compensation and benefits" in the Statements of Operations, and includes the costs of FERS, TSP, and Social Security.

Note 8 – Health Benefits Programs

CURRENT EMPLOYEES

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

Employees paid approximately 23% and 22% of the premium costs in the three and nine month periods ended June 30, 2013, respectively.   Employees paid approximately 22% of the premium costs in both the three and nine month periods ended June 30, 2012. The remaining employee healthcare expense was paid by the Postal Service. The employer's share of healthcare expense including Medicare insurance premiums was $1,215 million, and $1,292 million in the three months ended June 30, 2013, and 2012, respectively. For the nine months ended June 30, 2013, and 2012, the employer's share of healthcare expense including Medicare insurance premiums was $3,723 million, and $3,902 million, respectively. These expenses are included in "Compensation and benefits" in the Statements of Operations.

RETIREES

Employees who participate in the FEHBP for the five years immediately preceding their retirement may participate in the FEHBP during their retirement. The Postal Service is required to pay the employer's share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retire on or after July 1, 1971. The employer's share of premium costs for retirees (and their survivors) is set by law and is not subject to negotiation with the unions. Costs attributable to federal civil service before July 1, 1971 are not paid by the Postal Service. As discussed below, the

Postal Service has been required to prefund retiree health benefits since 2007, by depositing funds into the PSRHBF through 2016.

In 2006, P.L. 109-435 created the PSRHBF, which is held by the U.S. Treasury and controlled by OPM, but funded by the Postal Service. P.L. 109-435 established a ten-year schedule of Postal Service prefunding payments of between $5.4 and $5.8 billion per year beginning in 2007. No other agency that participates in FEHBP is required to prefund retiree health benefits for their employees. The 2009 scheduled prefunding payment was decreased from $5.4 billion to $1.4 billion due to the enactment of P.L. 111-68. In addition, the required PSRHBF payment of $5.5 billion originally scheduled to be due by September 30, 2011, was ultimately rescheduled to be due no later than August 1, 2012. As a result, the total required PSRHBF payments in 2012 were $11.1 billion; $5.5 billion due by August 1, 2012, and $5.6 billion due by September 30, 2012. The Postal Service was forced to default on the combined $11.1 billion due in 2012 because it had insufficient funds to make either of these payments. The full $11.1 billion is recorded as a current liability in “Retiree Health Benefits” on the June 30, 2013, and September 30, 2012 Balance Sheets. As of the date of this report, August 9, 2013, the Postal Service has suffered no financial penalties as a result of its inability to make these payments.

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

At June 30, 2013, scheduled prefunding payments to the PSRHBF are:

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

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

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

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

Retiree Health Benefits	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
(Unaudited)				
Employer Premium Expense	$ 729	$ 662	$ 2,116	$ 1,954
P.L. 109-435 Payment to PSRHBF	1,400	3,050	4,200	9,150
Total Retiree Health Benefit Expense	$ 2,129	$ 3,712	$ 6,316	$ 11,104

These costs which are reflected as "Retiree health benefits" in the Statements of Operations, consist of payments to OPM for the Postal Service's share of FEHBP retiree premiums currently being paid, plus required prefunding payments to the PSRHBF. Because the amounts to be paid into the PSRHBF are set by legislation, the Postal Service retiree health expense may represent more or less than the full cost of the benefits earned by Postal Service employees.

Note 9 – Workers' Compensation

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

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

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

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the June 30, 2013 liability and expense by approximately $1.6 billion. A decrease of 1% in the discount rate would increase the June 30, 2013 liability and expense by approximately $2.0 billion.

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

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended June 30, 2013	September 30, 2012	June 30, 2012	September 30, 2011
(Unaudited)				
Compensation Claims Liability:				
Discount Rate	2.8%	2.1%	2.1%	2.3%
Wage Inflation	2.9%	2.9%	2.9%	2.9%
Medical Claims Liability:				
Discount Rate	2.9%	2.2%	2.1%	2.4%
Medical Inflation	9.0%	8.9%	8.9%	8.6%

At June 30, 2013, the present value of the liability for future workers' compensation payments was $16,463 million, compared to $17,567 million at September 30, 2012, a decrease of $1,104 million. The current portion was $1,305 million at June 30, 2013, compared to $1,337 million at September 30, 2012, a decrease of $32 million. These amounts are accrued under "Workers' compensation" on the Balance Sheets.

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. Workers' compensation expense, including the impact of changes in the discount rates, for the three and nine month periods ended June 30, 2013, and 2012, was as follows:

Workers' Compensation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
(Unaudited)				
Impact of Discount Rate Changes	$ (918)	$ 897	$ (1,373)	$ 386
Actuarial valuation of new cases and revaluation of existing cases	432	572	1,606	1,819
Subtotal	(486)	1,469	233	2,205
Administrative Fee	17	17	51	50
Total Workers' Compensation Expense	$ (469)	$ 1,486	$ 284	$ 2,255

Note 10 – Fair Value Measurements

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

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

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

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

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

Fair Value of Long-Term Financial Assets and Liabilities	June 30, 2013		September 30, 2012	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Unaudited)		(Audited)	
Revenue Forgone	$ 391	$ 489	$ 385	$ 533
Total Long-Term Financial Assets	$ 391	$ 489	$ 385	$ 533
Long-Term Portion of Debt	$ 5,200	$ 5,566	$ 5,500	$ 6,290
Total Long-Term Financial Liabilities	$ 5,200	$ 5,566	$ 5,500	$ 6,290

For the quarter ended June 30, 2013, there were no significant transfers between Level 1 and Level 2 assets or liabilities.

Non-financial assets, such as property and equipment, are measured at fair value when there is an indicator of impairment or when a decision is made to dispose of an asset, and recorded at fair value only when impairment is recognized. Impairment analyses of property and equipment were performed in each quarter of 2013 and 2012. Impairment charges were immaterial for the three months ended June 30, 2013 and 2012. For the nine months ended June 30, 2013 and 2012, impairment charges were $21 million and $36 million, respectively. See Note 4– *Property and Equipment* for details on impairments. Independent appraisals are used to determine the fair value of non-financial assets deemed impaired or being held for sale. Independent third party appraisals are deemed Level 2 inputs as defined above.

Note 11 – Revenue Forgone

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

For the three months ended June 30, 2013, the Postal Service recognized revenue of $20 million, including $6 million of imputed interest income from these appropriations, compared to recognized revenue of $21 million, including $5 million of imputed interest, for the three months ended June 30, 2012. For the nine months ended June 30, 2013, the Postal Service recognized $49 million of such revenue, including $17 million of imputed interest, compared to recognized revenue of $47 million, including $17 million of imputed interest, for the same nine month period in 2012.

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

The related amount of the receivable was $433 million at June 30, 2013, and $463 million at September 30, 2012. The current portion of this receivable was $41 million at June 30, 2013, and $78 million at September 30, 2012, and is recorded under "Receivables – U.S. Government" on the Balance Sheets while the noncurrent portions are shown as "Other Assets."

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

Cautionary Statements

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

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

Introduction

The United States Postal Service (we) commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States." We are governed by an eleven-member Board of Governors (the Board). Nine independent Governors are appointed by the President of the United States with the advice and consent of the Senate. Currently, there are four Governor vacancies on the Board. The Postmaster General, who is appointed by the independent Board members, also serves on the Board, as does the Deputy Postmaster General, who is appointed by the independent Board members and the Postmaster General. Under the *Postal Reorganization Act*, and its successor, the *Postal Accountability and Enhancement Act*, Public Law 109-435 (P.L. 109-435), we have a legal mandate to offer a "fundamental service" to the American people "at fair and reasonable rates." We fulfill this legal mandate to provide universal service at a fair price by offering a variety of classes of mail services without undue discrimination among our many customers. This means that, within each class of mail service, prices do not vary unreasonably by customer for the level of service provided. However, P.L. 109-435 provides greater flexibility in the pricing of Shipping Services, as discussed below.

We serve individual and commercial customers in the communications, distribution and delivery, advertising, and retail markets throughout the nation and internationally. As a result, we have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 2% of operating revenue.

Prices and fees are established by the Board of Governors and subject to review by the independent Postal Regulatory Commission (PRC).

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

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

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

The labor force is primarily represented by the American Postal Workers Union, AFL-CIO (APWU), the National Association of Letter Carriers, AFL-CIO (NALC), the National Postal Mail Handlers Union, AFL-CIO (NPMHU), and the National Rural Letter Carriers Association (NRLCA). More than 85% of career employees are covered by collective bargaining agreements. The current contract with the APWU became effective May 23, 2011, and extends through May 20, 2015. The current NRLCA contract term is November 10, 2010, through May 20, 2015. The NALC and NPMHU contracts are effective through May 20, 2016 with an effective date of November 20, 2011.

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

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

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

The Postal Service is not a reporting company under the Securities Exchange Act of 1934, as amended, and is not subject to regulation by the Securities and Exchange Commission (SEC). However, it is required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under Section 13 of the Securities Exchange Act of 1934. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, which are available at *http://about.usps.com/who-we-are/financials/welcome.htm*. The Postal Service is also required by law and regulations to disclose operational and financial information well beyond what the law requires of other government agencies and most private sector companies.

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

Critical Accounting Judgments and Estimates

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

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

Recent Accounting Pronouncements

New Accounting Standards

There were no accounting standards issued or adopted during the nine months ended June 30, 2013 that had or will have a material impact on our financial statements.

Results of Operations

Our net loss was $740 million for the three months ended June 30, 2013, compared to a net loss of $5,185 million for the same period last year, a decrease of $4,445 million. For the nine months ended June 30, 2013, our net loss was $3,870 million, compared to a net loss of $11,649 million for the same period last year, a decrease of $7,779 million.

Key operating statistics are summarized in the following table:

Key Operating Statistics	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars and mail volume in millions)	2013	2012	2013	2012
Operating Revenue	$ 16,177	$ 15,613	$ 50,185	$ 49,517
PSRHBF Expense	$ 1,400	$ 3,050	$ 4,200	$ 9,150
Net Loss	$ (740)	$ (5,185)	$ (3,870)	$ (11,649)
Total Mail Volume	37,874	38,309	120,166	121,228
Average Daily Volume	492	498	532	534

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

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

Our net losses include expenses for the legally-mandated prefunding of retiree health benefits, as well as the legally-mandated participation in the federal workers' compensation program that is managed by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) and governed by the Federal Employees' Compensation Act (FECA). Under FECA, workers' compensation claims cannot be settled through lump-sum payments. Rather, compensation frequently must be paid over many years. As the Postal Service does not manage the FECA program, we have little ability to control the significant claims costs. These factors, compounded by the cost of living adjustments (COLA) granted by federal law to those claims and the above-market charges for administration of these claims, result in substantially higher costs to the Postal Service than would likely be the case if claims management decisions were made by the Postal Service. In addition to the constraints imposed by the legally-mandated FECA program, actuarial estimations and projected payments that will be paid well into the future also have substantial impact on our reported workers' compensation liability. Future cash payments must be converted to present-day dollars, or discounted, by applying the current interest rates at which the liability could theoretically be settled. Discount rates can fluctuate significantly from period to period with changes in the economic and interest rate environment. Even a very small change in discount rates can have a large impact, as a 1% decrease in rates at June 30, 2013 would have resulted in approximately a $2.0 billion increase of the liability while a 1% increase in rates would have resulted in approximately a $1.6 billion decrease of the liability. This can, and does, result in the annual GAAP workers' compensation expense varying significantly from our annual cash outlays.

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

Net Loss before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Net Loss	**$ (740)**	**$ (5,185)**	**$ (3,870)**	**$ (11,649)**
Impact of:				
Expense Related to the Long-term Portion of Workers' Compensation	**(780)**	**1,182**	**(652)**	**1,295**
PSRHBF expense	**1,400**	**3,050**	**4,200**	**9,150**
Net Loss before Impact of Expense Related to Long-term Portion of Workers' Compensation and PSRHBF Expense	**$ (120)**	**$ (953)**	**$ (322)**	**$ (1,204)**

Without the impact of these non-controllable factors, our net loss would have been $120 million for the quarter ended June 30, 2013, and $322 million for the nine months ended June 30, 2013. In 2012, the net loss would have been $953 million, and $1,204 million, for the three and nine month periods ended June 30, respectively.

For the three months ended June 30, 2013, total operating revenue was $16,177 million, an increase of $564 million, or 3.6%, compared to revenues of $15,613 million for the same period last year. For the nine months ended June 30, 2013, and 2012, total operating revenue was $50,185 million, and $49,517 million, respectively, an increase of $668 million, or 1.3%. The increases in total revenue in the three and nine month period were fueled by strong revenue growth of 8.8% and 7.5% in our Shipping and Packages services supplemented by moderate increases of 3.0% and 2.9% in Standard Mail revenue, and the one-time impact of the adjustment to deferred revenue – prepaid postage. These increases, however, were offset by declines in the three and nine month periods ended June 30, 2013 of 0.9% and 2.2% in First-Class Mail revenue, which continues its decline that began in 2008.

Operating expenses fluctuate on a year-over-year basis because the majority of operating expenses are directly impacted by volume levels and mail mix, the cost of salaries and benefits, and cost reduction initiatives. The accrual for the retiree health benefits prepayment is also included in our operating expenses and greatly influences our financial results. Total operating expenses were $16,876 million for the three months ended June 30, 2013, compared to $20,755 million for the same period last year, a decrease of $3,879 million, or 18.7%. For the nine months ended June 30, 2013, operating expenses were $53,929 million, compared to $61,042 million in 2012, a decrease of $7,113 million, or 11.7%.

Operating Expenses						
	Three Months Ended June 30,		Nine Months Ended June 30,		% Change	
(Dollars in millions)	2013	2012	2013	2012	Three Months 2013 / 2012	Nine Months 2013 / 2012
Compensation and Benefits	$ 11,257	$ 11,745	$ 35,371	$ 35,929	(4.2%)	(1.6%)
Retiree Health Benefit Premiums	729	662	2,116	1,954	10.1%	8.3%
PSRHBF Prefunding	1,400	3,050	4,200	9,150	(54.1%)	(54.1%)
Workers' Compensation	(469)	1,486	284	2,255	(131.6%)	(87.4%)
Transportation	1,588	1,604	5,088	5,048	(1.0%)	0.8%
Other Expenses	2,371	2,208	6,870	6,706	7.4%	2.4%
Total Operating Expenses	$ 16,876	$ 20,755	$ 53,929	$ 61,042	(18.7%)	(11.7%)

The large decrease in total operating expenses reflects the fact that in 2013, we are accruing amounts for one legally required PSRHBF prefunding payment of $5.6 billion in contrast to the two required payments totaling $11.1 billion of prefunding payments in 2012. In addition, discount rates were increasing in the current year while decreasing in 2012 thus creating significant year-over-year differences for workers' compensation expense.

Excluding the non-controllable factors of expense related to the long-term portion of workers' compensation created by discount rate fluctuations and PSRHBF expense, operating expenses would have decreased by $267 million or 1.6% and $216 million or 0.4% for the three and nine months ended June 30, 2013 compared to the same period in 2012.

Operating Expenses before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense				
	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Total Operating Expenses	$ 16,876	$ 20,755	$ 53,929	$ 61,042
Less Impact Of:				
Expense Related to the Long-term Portion of Workers' Compensation	(780)	1,182	(652)	1,295
PSRHBF expense	1,400	3,050	4,200	9,150
Operating Expenses before Impact of Expense Related to Long-term Portion of Workers' Compensation and PSRHBF Expense	$ 16,256	$ 16,523	$ 50,381	$ 50,597

As discussed in the compensation and benefits section, we continue to focus our efforts on those costs within our control as shown by the approximate 3 million and 11 million decreases in total work hours for the three and nine month periods ended June 30, 2013, respectively.

Revenue and Volume

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

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

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

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

Despite trends away from hard copy to electronic media, First-Class Mail and Standard Mail continue to provide the vast majority of our revenues. First-Class Mail represents 43% of our revenues and accounts for 42% of the mail volume while Standard Mail generates 25% of revenues, but 51% of volume. Shipping and Packages generates nearly 20% of our revenues despite representing only 2% of volume.

The following chart presents volumes for the three and nine month periods ended June 30, 2013, and 2012, by each service line.

Volume by Service Line *	Three Months Ended June 30,		Nine Months Ended June 30,		% Change	
					Three Months	Nine Months
(Pieces in millions)	2013	2012	2013	2012	2013 / 2012	2013 / 2012
First-Class Mail[1]	16,037	16,594	50,492	52,597	(3.4%)	(4.0%)
Standard Mail[2]	19,039	18,843	60,876	59,716	1.0%	1.9%
Shipping & Packages[3]	874	816	2,804	2,653	7.1%	5.7%
International	218	218	709	735	0.0%	(3.5%)
Periodicals	1,612	1,730	4,857	5,139	(6.8%)	(5.5%)
Other[4]	94	108	428	388	(13.0%)	10.3%
Total Volume by Service Line	37,874	38,309	120,166	121,228	(1.1%)	(0.9%)

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

1 Excludes First-Class Mail Parcels.

2 Excludes Standard Mail Parcels.

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

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

The following chart presents details of our revenues for the three and nine month periods ended June 30, 2013, and 2012, by each service line.

Operating Revenue by Service Line *	Three Months Ended June 30,		Nine Months Ended June 30,		% Change	
					Three Months	Nine Months
(Dollars in millions)	2013	2012	2013	2012	2013 / 2012	2013 / 2012
First-Class Mail[1]	$ 6,936	$ 6,996	$ 21,587	$ 22,081	(0.9%)	(2.2%)
Standard Mail[2]	4,017	3,900	12,691	12,337	3.0%	2.9%
Shipping & Packages[3]	2,940	2,703	9,468	8,810	8.8%	7.5%
International	730	661	2,286	2,184	10.4%	4.7%
Periodicals	418	438	1,260	1,313	(4.6%)	(4.0%)
Other[4]	1,136	915	2,893	2,792	24.2%	3.6%
Total Operating Revenue by Service Line	$ 16,177	$ 15,613	$ 50,185	$ 49,517	3.6%	1.3%

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

1 Excludes First-Class Mail Parcels.

2 Excludes Standard Mail Parcels.

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

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

FIRST-CLASS AND STANDARD MAIL

First-Class Mail and Standard Mail accounted for approximately 68% of total revenues for the nine month periods ended June 30, 2013, and 2012.

First-Class Mail, our most profitable service category, had revenue of $6,936 million in the three months ended June 30, 2013, a decrease of $60 million, or 0.9%, from the same period last year. Volume from First-Class Mail decreased by 557 million pieces, or 3.4% in the same period. In the nine month period ended June 30, 2013, revenues declined $494 million, or 2.2%, from the same period last year. Volumes declined by 2,105 million pieces, or 4.0%, for the same nine month period when compared to last year. The most significant factor contributing to this decline continues to be the migration toward electronic communication and transactional alternatives.

Standard Mail revenue continued to increase over the same quarter in the previous year, which represents the third consecutive quarter of year-over-year growth after five consecutive quarters of year-over-year decline. Standard Mail revenues of $4,017 million were $117 million, or 3.0%, greater in the three months ended June 30, 2013, on a volume increase of 196 million pieces, or 1.0%, compared to the three months ended June 30, 2012. For the nine month period ended June 30, 2013, Standard Mail revenue of $12,691 million increased $354 million, or 2.9%, on a volume increase of 1,160 million pieces, or 1.9%, compared to the first nine month period of 2012. This year-to-date increase was boosted by political campaign mail related to the Presidential and Congressional elections mailed during the first quarter of 2013. In addition, the Postal Service introduced promotional incentives throughout calendar year 2013 for advertisers designed to promote the integration of mobile technologies into marketers' direct mail pieces, enticing them to keep mail as an essential part of their marketing mix. We expect the positive results of these offers to have a greater impact in the months ahead.

SHIPPING AND PACKAGES

The following two tables present detailed volumes and revenues for Shipping and Packages for the three and nine month periods ended June 30, 2013, and 2012, by service line.

Shipping & Packages Volume *	Three Months Ended June 30,		Nine Months Ended June 30,		% Change	
					Three Months	Nine Months
(Pieces in millions)	2013	2012	2013	2012	2013 / 2012	2013 / 2012
Priority Mail & Standard Post	218	206	710	681	5.8%	4.3%
Parcel Select, Parcel Return & Standard Parcels	336	312	1,067	985	7.7%	8.3%
Package Services	120	120	405	425	0.0%	(4.7%)
First-Class Packages[1]	191	168	594	532	13.7%	11.7%
Express Mail	9	10	28	30	(10.0%)	(6.7%)
Total Shipping & Packages Volume	874	816	2,804	2,653	7.1%	5.7%

*Note: The totals for certain mail categories for the prior year have been restated to reflect classifications used in the current year.

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

Shipping & Packages Revenue *										
	Three Months Ended June 30,				Nine Months Ended June 30,				% Change	
									Three Months	Nine Months
(Dollars in millions)		2013		2012		2013		2012	2013 / 2012	2013 / 2012
Priority Mail & Standard Post	$	1,644	$	1,531	$	5,395	$	5,104	7.4%	5.7%
Parcel Select, Parcel Return, & Standard Parcels		504		411		1,581		1,324	22.6%	19.4%
Package Services		183		183		599		624	0.0%	(4.0%)
First-Class Packages[1]		432		371		1,324		1,146	16.4%	15.5%
Express Mail		177		207		569		612	(14.5%)	(7.0%)
Total Shipping & Packages Revenue	$	2,940	$	2,703	$	9,468	$	8,810	8.8%	7.5%

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

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

Total Shipping and Packages revenue of $2,940 million for the three month period ended June 30, 2013, increased $237 million, or 8.8%, as compared to $2,703 million in the three month period ended June 30, 2012. Shipping and Packages revenue has continued to show solid growth in the nine months ended June 30, 2013, compared with the same period one year ago, increasing $658 million, or 7.5%, from $8,810 million in the first nine months of 2012, to $9,468 million in the nine months ended June 30, 2013. The increases are reflective of our successful efforts to take advantage of the growing area of shipping and packages and compete in the ground shipping services and “last-mile” e-commerce fulfillment markets. Additionally, the 2012 holiday season provided a surge in package volume in the first quarter as we took advantage of consumers’ growing fondness for shopping online.

INTERNATIONAL MAIL

International Mail revenues were $730 million for the three month period ended June 30, 2013, which represented an increase of $69 million or 10.4% over the same period in 2012. International Mail revenues were $2,286 million and $2,184 million, respectively during the nine months ended June 30, 2013 and 2012 representing an increase of $102 million, or 4.7%. This increase was driven by rate increases for International services.

PERIODICALS AND OTHER

We continue to see the impact that electronic devices have on written media and expect that the popularity of these devices will continue to have a detrimental impact on our results from Periodicals into the foreseeable future. Periodicals revenue decreased $20 million, or 4.6%, from $438 million in the three month period ended June 30, 2012, to $418 million for the three months ended June 30, 2013, as volume decreased 118 million pieces, or 6.8%, to 1,612 million pieces. During the nine month period ended June 30, 2013, Periodicals volume declined 282 million pieces, or 5.5%, while revenues declined $53 million, or 4.0%, compared to the same period last year.

Other revenue includes ancillary services such as Certified Mail, P.O. Box services, return receipts, and delivery confirmation. In addition, revenue generated from items such as the sales of money orders, passport services, gains from the sales of real estate, and one-time revenue adjustments not applicable to current period performance are also included in this category. Other revenue of $1,136 million in the three month period ended June 30, 2013 increased $221 million or 24.2% compared to the three month period ended June 30, 2012. This increase was attributable to the recognition of gains on the sale of real property and the impact from an adjustment to deferred revenue – prepaid postage related to usage in prior years. During the nine month period ended June 30, 2013 and 2012 other revenue was $2,893 million and $2,792 million, respectively an increase of $101 million or 3.6%.

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

Compensation and benefits expense for the three months ended June 30, 2013, was $11,257 million, a $488 million, or 4.2%, decrease compared to the three months ended June 30, 2012. For the nine months ended June 30, 2013, compensation and benefits was $35,371 million, a decrease of $558 million, or 1.6%. Included in the expense for the nine months ended June 30, 2013 is $351 million of separation incentive expenses for employees who voluntarily separated from the Postal Service during January and February of 2013. There was no charge for incentive expenses in Quarter III, 2013. Excluding the impact of the separation incentive expense, total compensation and benefits expense for the nine months ended June 30, 2013, would have decreased by $909 million, or 2.6%, compared to the same period in 2012.

Compensation and Benefits Expense	Three Months Ended June 30,				Nine Months Ended June 30,			
(Dollars in millions)		2013		2012		2013		2012
Compensation	$	8,551	$	8,898	$	27,069	$	27,332
Retirement		1,413		1,470		4,315		4,406
Health Benefits		1,215		1,292		3,723		3,902
Other		78		85		264		289
Total Compensation & Benefits	$	11,257	$	11,745	$	35,371	$	35,929

COMPENSATION

Compensation expense of $8,551 million for the three months ended June 30, 2013, was $347 million, or 3.9%, less than the three months ended June 30, 2012.

For the nine months ended June 30, 2013, compensation expense was $27,069 million, $263 million or 1.0%, less than for the nine months ended June 30, 2012. Excluding the impact of the amounts related to separation incentives, compensation expense decreased by $614 million, or 2.2%, for the nine months ended June 30, 2013, compared to the same period last year.

Voluntary separations and early retirements of employees allow us to better manage our staffing, and we are able to decrease ongoing compensation and benefits expenses. Total compensation expense decreased after we successfully reduced total work hours by approximately 3 million, and approximately 11 million, for the year-over-year, three and nine month periods ended June 30, 2013, respectively. The increased utilization of non-career employees facilitated the realignment of staffing and workload levels that contributed to the reduction of costs. These cost reductions were offset by increases in overtime due to our efforts to optimize the mail processing facility and route network for the three and nine month periods ended June 30, 2013, and a 1% pay increase which was effective November 17, 2012 for approximately half of our employees that are represented by the APWU and NRLCA.

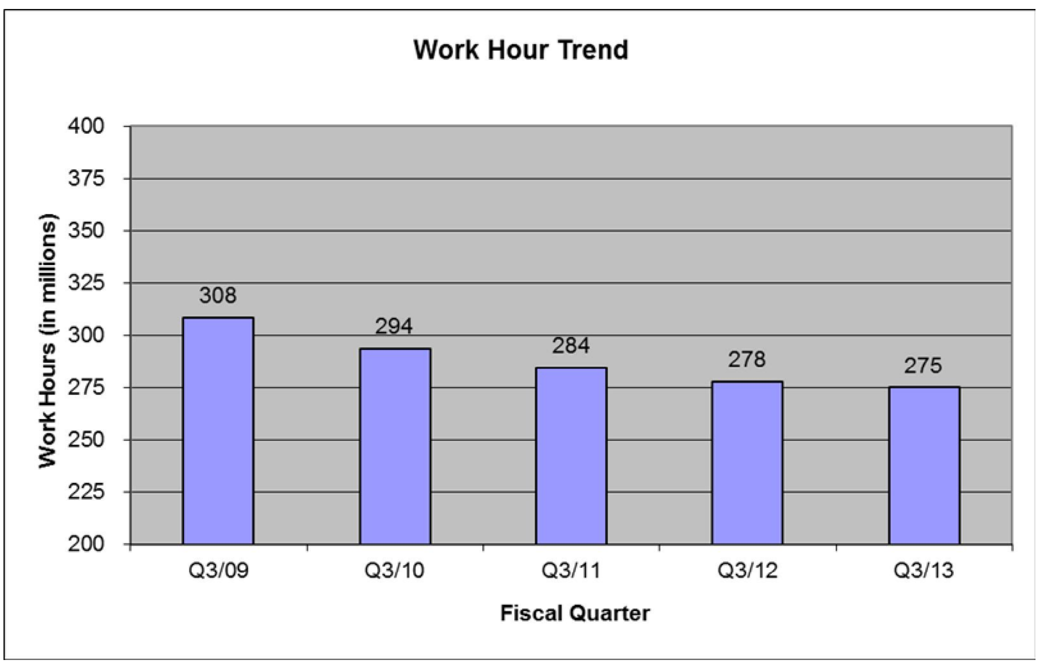
WORK HOURS

The Postal Service reduced work hours in the quarter ended June 30, 2013, by approximately 3 million hours, or 1.3%, compared to the same three month period last year. This decrease was achieved despite an increase of 7.1% in volume for Shipping and Packages – our services with the highest levels of workload. For the nine months ended June 30, 2013, cumulative reductions in work hours were 11 million or 1.3%.

Work Hours (Hours in Thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
City Delivery	98,825	97,026	295,726	293,552
Mail Processing	48,771	50,391	155,101	159,958
Customer Services Operations	33,888	35,821	104,941	109,658
Rural Delivery	44,466	44,828	131,935	133,323
Postmasters	13,983	14,836	42,479	43,579
Other, including Retail, Plant, Vehicle Services, Operational Support, & Administration	35,244	35,773	105,756	107,089
Total	**275,177**	**278,675**	**835,938**	**847,159**

In the three months ended June 30, 2013, Customer Service Operations work hours decreased by 2 million or 5.4% compared to the same period in the prior year as modified window hours took effect in many post office locations. Mail processing operations also experienced a 2 million or 3.2% work hour reduction due to the network consolidation efforts. Conversely, the combined work hours for city and rural delivery increased by 1 million or 1.0% and less than 1 million and 0.2% for the three and nine month period due to the increased package volume. Work hour reductions have been the single largest contributor to the ongoing achievement of savings targets. Since 2000, year-over-year we have increased our efficiency and removed a cumulative total of 515 million work hours from our cost base. At our current average hourly compensation and benefit rate, this equates to annual savings of approximately $22 billion.

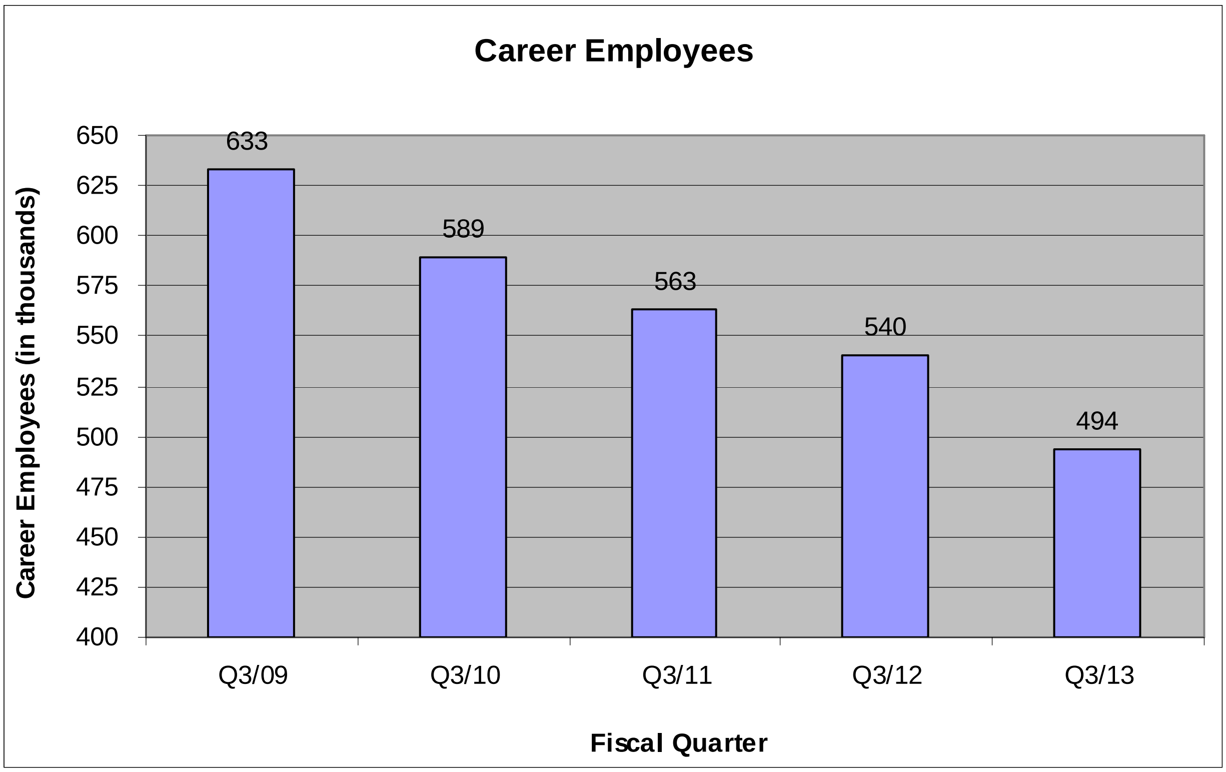
The following chart illustrates our work hour usage in the third quarter of each year since 2009 which shows that year over year work hours have steadily declined.



EMPLOYEE WORKFORCE

The total number of employees at June 30, 2013, was approximately 617,000 of which approximately 494,000 were career employees. The number of career employees decreased by approximately 4,000 during the three months ended June 30, 2013 and has declined by approximately 46,000 since June 30, 2012. There has been a cumulative reduction of approximately 294,000, or more than one third, of our career employees since September 30, 2000. The reductions have been accomplished primarily through attrition and separation incentives. The number of non-career employees was approximately 123,000 at June 30, 2013, an increase of approximately 4,000 and 25,000 during the three and nine month period ended June 30, 2013. Although the number of non-career employees grew, these employees work on average approximately 15% fewer hours than career employees at a lower rate. The Postal Service now has its lowest career employee complement since 1966.

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



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

To help manage our employment levels, voluntary separation incentives are periodically offered. In Quarter I, 2013, the USPS offered a voluntary early retirement (VER) and special incentive opportunity to approximately 187,000 employees represented by the American Postal Workers Union (APWU). The total incentive amount was $15,000, which is being paid in two installments: $10,000 on May 24, 2013 and $5,000 on May 23, 2014, for employees who voluntarily separated from the Postal Service by February 28, 2013. The expense related to this offer was recorded in compliance with GAAP in Quarter I, and Quarter II, 2013, depending on the employee's ability to revoke their decision prior to the selected separation date. For the approximately 22,800 employees who voluntarily separated in 2013, we recognized no expense for the three month period ended June 30, 2013 and $351 million for the nine month period ended June 30, 2013.

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

RETIREMENT AND HEALTH BENEFITS EXPENSE– CURRENT EMPLOYEES

Total retirement expense was $1,413 million for the three months ended June 30, 2013, compared to $1,470 million for the same period last year, a decrease of $57 million, or 3.9%. Year-to-date total retirement expense was $4,315 million, compared to $4,406 million for the same period last year, a decrease of $91 million, or 2.1%. The decreases reflect the lower numbers of employees in the current year compared to the prior periods which were discussed above.

The Postal Service's share of the healthcare premiums for our employees was 77% and 78% of the total premium cost for the three and nine month periods ended June 30, 2013. For the three and nine month period ended June 30, 2012, the Postal Service's share of the healthcare premiums for our employees was 77%. Total employer's healthcare premium cost for the three month periods ended June 30, 2013, and 2012, was $1,215 million and $1,292 million, respectively. This represents a decrease of $77 million or 6.0% over the same period last year and include $119 million and $123 million for Medicare during the three month periods ended June 30, 2013, and 2012, respectively. For the nine month periods ended June 30, 2013, and 2012, the Postal Service's contribution to healthcare benefits was $3,723 million including $318 million for Medicare and $3,902 million including $378 million for Medicare, respectively, a decrease of $179 million, or 4.6%, over the same period last year. The decrease in health benefits expense was driven by the reduction of approximately 46,000, or 8.5%, in number of career employees, compared to the same period last year. Additionally, the increased number of retirements caused a shift of health benefit expenses related to these employees to now be incurred by the retiree health benefit plan. The savings which resulted from the reduction in the number of employees was offset by a 3.4% increase in the average healthcare cost per employee due to rising healthcare premiums.

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

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

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

Operating Expenses – Retiree Health Benefits

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

As previously reported in our Annual Report on Form 10-K for the year ended September 30, 2012, we defaulted on the legally required $11.1 billion of PSRHBF payments due in 2012. The full $11.1 billion is recorded as a current liability in "Retiree health benefits" on the June 30, 2013 Balance Sheets. In accordance with GAAP, we are also accruing the $5.6 billion payment due by September 30, 2013, in equal amounts throughout the year; $4.2 billion of the 2013 required payment is also included in "Retiree health benefits." Absent legislative change, we see no current means to satisfy the future payment of $5.6 billion due by September 30, 2013, and we will be forced to default when that payment becomes due.

Current law also obligates us to make additional payments of $5.7 billion in 2014 and 2015, and $5.8 billion in 2016, each due by September 30 of each respective year. Although the 2009 scheduled payment amount was changed by law and the 2011 scheduled payment was rescheduled, subsequent to the passage of P.L. 109-435, no law changes have addressed the original prefunding requirements for the remaining years, 2013 to 2016. However, given the low levels of our cash resources, we will be forced to default on the 2013 prefunding payment and may be forced to default on the additional prefunding payments and prioritize payments to our employees and our suppliers, in order to ensure that we will continue to be able to fulfill our other statutory obligations, including our obligation to provide universal mail service to the nation (as discussed in Note 2- *Liquidity,* in the Notes to the Financial Statements). The statutory requirement establishing the payment schedule (P.L. 109-435) contains no provisions addressing a payment default. As of August 9, 2013, no penalties or adverse consequences have resulted from our inability to make the payments due in 2012.

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

Under P.L. 109-435, we pay the premiums for postal retirees participating in FEHBP, and we continue to expense these payments as they become due, at a cost of $729 million, and $2,116 million, for the three and nine month period ended June 30, 2013, respectively. The major drivers of retiree health benefits premium costs are the number of retirees and survivors on the rolls, the mix of plans selected by retirees, the premium costs of those plans, and the apportionment of premium costs to the federal government for retiree service prior to 1971.

The components of retiree health benefits expense for the three and nine month periods ended June 30, 2013, and 2012, are as follows:

Retiree Health Benefits	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Employer Premium Expense	$ 729	$ 662	$ 2,116	$ 1,954
P.L. 109-435 Payment to PSRHBF	1,400	3,050	4,200	9,150
Total Retiree Health Benefits Expense	$ 2,129	$ 3,712	$ 6,316	$ 11,104

Note that, while no PSRHBF prepayments were made during the first nine months of the year, the expense has been accrued. Expenses for the three months ended June 30, 2013 for retiree health benefits employer premiums increased $67 million, or 10.1%, from the same period last year. For the nine months ended June 30, 2013, retiree health benefits employer premiums increased $162 million, or 8.3%, from the same period last year. As of June 30, 2013, there were approximately 488,000 participants, a net increase of approximately 19,000 since June 30, 2012, when there were approximately 469,000 participants. In addition to the growth in the number of plan participants, retiree health benefit premium expense also increased due to an increase in the cost of premiums.

Operating Expenses – Workers' Compensation

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

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

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the reporting period. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The liability for claims arising more than ten years ago is determined by an independent actuary.

The FECA participants are not required to retire and leave FECA for Federal retirement, and the FECA benefit structure is often superior to benefits available under normal federal retirement. These more lucrative FECA payments will, in some cases, continue for the rest of the lives of the claimants.

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

The estimation of the liability is highly sensitive to changes in inflation and discount rates. An increase of 1% in the discount rate would decrease the June 30, 2013 liability and expense by approximately $1.6 billion. A decrease of 1% in the discount rate would increase the June 30, 2013 liability and expense by approximately $2.0 billion.

At June 30, 2013, the present value of the liability for future workers' compensation payments was $16,463 million, compared to $17,567 million at September 30, 2012, a decrease of $1,104 million. The current portion was $1,305 million at June 30, 2013, compared to September 30, 2012, when the current portion was $1,337 million, a decrease of $32 million.

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

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended June 30, 2013	September 30, 2012	June 30, 2012	September 30, 2011
Compensation Claims Liability:				
Discount Rate	2.8%	2.1%	2.1%	2.3%
Wage Inflation	2.9%	2.9%	2.9%	2.9%
Medical Claims Liability:				
Discount Rate	2.9%	2.2%	2.1%	2.4%
Medical Inflation	9.0%	8.9%	8.9%	8.6%

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. Workers' compensation expense, including the impact of changes in the discount rates, for the three and nine month periods ended June 30, 2013, and 2012, was as follows:

Workers' Compensation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
(Unaudited)				
Impact of Discount Rate Changes	$ (918)	$ 897	$ (1,373)	$ 386
Actuarial valuation of new cases and revaluation of existing cases	432	572	1,606	1,819
Subtotal	(486)	1,469	233	2,205
Administrative Fee	17	17	51	50
Total Workers' Compensation Expense	$ (469)	$ 1,486	$ 284	$ 2,255

On a quarterly basis, changes in the number of claims and amounts paid are highly volatile and depend on a number of factors including, but not limited to, the following: the number, timing and severity of injuries; the number of new claims and closed claims within the period; and the amount and timing of payments made by the OWCP on our behalf. Medical and compensation claims payments fluctuate significantly from quarter to quarter so the change in the number of paid medical and compensation claims for any quarter compared to the same period last year may not necessarily be representative of the results to be expected for the full year. The following variance calculations are based upon the latest actual data available at March 31, 2013. In the three month period ended June 30, 2013, we experienced a $5 million, or 2.9%, increase in compensation claim payments over the same period last year; however, for the nine month period ended June 30, 2013, we experienced a $38 million, or 6.2%, decrease in compensation claim payments. For the three and nine month periods ended June 30, 2013, there was an increase of $2 million, or 2.2%, and an increase of $16 million, or 4.8%, in medical claims, respectively.

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

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

Workers' Compensation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Total Workers' Compensation Expense	$ (469)	$ 1,486	$ 284	$ 2,255
Claims Paid on Behalf of Postal Service's Workers' Compensation Obligations	(311)	(304)	(936)	(960)
Expense Related to the Long-Term Portion of Workers' Compensation	$ (780)	$ 1,182	$ (652)	$ 1,295

Operating Expenses – Transportation

Transportation expenses are primarily comprised of highway, air, and international transportation costs. For the three months ended June 30, 2013, transportation expenses were $1,588 million, a decrease of $16 million, or 1.0%, compared to $1,604 million for the same period last year. For the nine months ended June 30, 2013, transportation expenses were $5,088 million, a $40 million, or 0.8%, increase from $5,048 million expense incurred during the first nine months of 2012.

Transportation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Highway Transportation	$ 812	$ 817	$ 2,551	$ 2,557
Air Transportation	565	564	1,800	1,723
International Transportation including Air	200	216	706	735
Other Transportation	11	7	31	33
Total Transportation Expense	$ 1,588	$ 1,604	$ 5,088	$ 5,048

In Quarter III, 2013, highway transportation expenses were $812 million, a decrease of $5 million, or 0.6%, compared to expenses of $817 million in Quarter III, 2012. For the first nine months of 2013, highway transportation expenses were $2,551 million, a decrease of $6 million, or 0.2% decrease, over expenses of $2,557 million for the same period last year. Diesel fuel, which makes up approximately 93% of fuel purchased for highway contracts, had an average cost of $3.88 per gallon during Quarter III, 2013, compared to $3.95 per gallon in Quarter III, 2012, a decrease of 1.8%.

Air transportation expenses of $565 million for the quarter ended June 30, 2013, increased by $1 million, or 0.2%, from $564 million for the same quarter last year. For the nine months ended June 30, 2013, air transportation expenses of $1,800 million were $77 million, or 4.5%, greater than the first nine months of 2012. Air transportation expenses are highly influenced by fuel prices and volumes. Declining volume has allowed us to offset some of the fuel increases experienced over the nine month period.

International transportation expenses of $200 million and $706 million for the three and nine month periods ended June 30, 2013, decreased $16 million, or 7.4%, and $29 million, or 3.9%, respectively, when compared to last year. Historically, the largest component of international transportation expense is the fees that we pay to foreign postal administrations for transportation and delivery of mail within their country. These foreign postal transaction fees represented 71% of the total international transportation expense for the nine months ended both June 30, 2013, and 2012.

Operating Expenses – Other Operating Expense

Other operating expenses of $2,371 million for the three months ended June 30, 2013, were $163 million, or 7.4%, more than the $2,208 million of other operating expenses for the same period last year. For the nine months ended June 30, 2013, other operating expenses of $6,870 million were $164 million, or 2.4%, more than the first nine months of 2012.

Other Operating Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Supplies and Services	$ 578	$ 557	$ 1,718	$ 1,638
Depreciation and Amortization	469	509	1,437	1,579
Rent and Utilities	380	380	1,187	1,211
Vehicle Maintenance Service	258	248	779	748
Information Technology and Communications	194	173	512	483
Rural Carrier Equipment Maintenance Allowance	142	144	416	431
Other	350	197	821	616
Total Other Operating Expense	**$ 2,371**	**$ 2,208**	**$ 6,870**	**$ 6,706**

For the three and nine months ended June 30, 2013, depreciation and amortization expense experienced decreases of $40 million, or 7.9%, and $142 million, or 9.0%, respectively. Rent and utilities expense remained flat for the three months ended June 30, 2013 and decreased $24 million, or 2.0%, for the nine months ended June 30, 2013. These expense reductions were driven by a freeze in non-essential capital spending and our overall efforts to reduce square footage of postal facilities. Rural carrier equipment maintenance decreased $2 million, or 1.4%, and $15 million, or 3.5%, for the three and nine months ended June 30, 2013, respectively. These decreases reflect management's continued efforts to control such costs.

Offsetting these decreases were increases in supplies and services which increased $21 million, or 3.8%, and $80 million, or 4.9%, for the three and nine month periods ended June 30, 2013, largely caused by the need to replace mail transporting equipment. In addition, the other expense category experienced an increase of $153 million, or 77.7%, and $205 million, or 33.3%, for the three and nine month periods ended June 30, 2013, respectively, primarily due to changes in the estimate of new and existing contingent liabilities as a result of the ongoing evaluation process.

Liquidity and Capital Resources

CASH FLOW ACTIVITY

Cash and cash equivalents totaled $3,102 million at June 30, 2013, compared to $2,319 million and $893 million at September 30, 2012, and June 30, 2012, respectively. The following table provides a summary of our cash flows for the three and nine month periods ended June 30, 2013, and 2012:

Cash Flow Statement	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Operating activities:				
Net loss	$ (740)	$ (5,185)	$ (3,870)	$ (11,649)
Noncash depreciation and gains on sales	398	532	1,386	1,585
Changes in assets and liabilities	879	5,203	3,725	10,389
Cash provided by operating activities	537	550	1,241	325
Investing activities:				
Capital expenditures, net of proceeds	(99)	(135)	(378)	(472)
Cash used by investing activities	(99)	(135)	(378)	(472)
Financing activities:				
Net change in notes payable	-	(400)	-	(400)
Net change in revolving credit line	-	89	-	35
Other	(27)	(29)	(80)	(83)
Cash used by financing activities	(27)	(340)	(80)	(448)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 411	$ 75	$ 783	$ (595)

Operating Activities: Cash provided by operating activities was $537 million and $550 million in the three month periods ended June 30, 2013 and 2012, respectively. Operating activities generated $1,241 million of cash during the nine months ended June 30, 2013, compared to $325 million of cash generated by operating activities for the nine months ended June 30, 2012, an increase of $916 million. During the nine months ended June 30, 2012, a significant use of cash was the deferred payment of $911 million of FERS employer contributions that were withheld from June 2011 through September 2011. Had we not made the catch-up FERS contributions in Quarter I, 2012, to compensate for the funds not paid in 2011, operating cash flow for the nine months ended June 30, 2012, would have generated $1,236 million.

Investing Activities: Investing activities used $99 million and $378 million of cash during the three and nine month periods ended June 30, 2013, respectively. Purchases of property and equipment were $489 million for the nine months ended June 30, 2013, compared to $575 million in the same period last year, a decrease of $86 million, or 15.0%, as capital spending continued to decrease in order to conserve cash. Proceeds from the sale of property and equipment were $111 million, and $103 million, for the nine months ended June 30, 2013, and 2012, respectively.

Financing Activities: In the three and nine month periods ended June 30, 2013, $27 million and $80 million of cash, respectively, were used by financing activities. In addition to the cash generated by operations, we use credit lines and notes payable to the Federal Financing Bank to help fund operations. During the nine months ended June 30, 2013, we issued and repaid $4,400 million in notes payable for a zero net issuance. For the same period last year, we issued $3,700 million and repaid $4,100 million in notes payable. The revolving credit line did not change from its September 30, 2012, balance of $4,000 million. For the nine months ended June 30, 2012, the revolving credit line had increased $35 million from the prior year end.

LIQUIDITY CHALLENGES

LIQUIDITY CONCERNS

We continue to suffer from a severe lack of liquidity. We held unrestricted cash of $3.1 billion and $2.3 billion as of June 30, 2013, and September 30, 2012, respectively. These cash balances represent approximately 11 days, and 8 days, respectively, of average daily expenses. We have no remaining borrowing capacity on our $15 billion debt facility as of June 30, 2013. (See Note 3- *Debt*, for additional information). By mid-October 2013, we project that we will have a cash balance on hand of approximately 5 days of our average daily expenses. This low level of available cash means that we will be unable to make the $5.6 billion legally-mandated prefunding of retiree health benefits due by September 30, 2013. Further, this level of cash could be insufficient to support operations in the event of another significant downturn in mail volume.

We have suffered 7 consecutive quarters of net losses and have had net losses in 16 of the last 18 quarters. The net loss of $3,870 million for the first nine months of the year included $4,200 million of expense accrued for the legally-mandated prefunding payment for retiree health benefits.

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

During 2012, we were forced to default on $11.1 billion of required prefunding payments to the PSRHBF for retiree health benefits. The statutory requirement establishing the prefunding payment schedule, P.L. 109-435, contains no provisions addressing a payment default. This $11.1 billion is reflected as a current liability on our Balance Sheets as of September 30, 2012 and is included, along with the $4.2 billion accrued during this fiscal year on the June 30, 2013 Balance Sheet. As of the date of this report, August 9, 2013, we have suffered no financial penalties as a result of our inability to make these payments.

The requirement of the *Postal Accountability and Enhancement Act,* Public Law 109-435 (P.L. 109-435) to prefund our retiree health benefit obligations, a requirement not imposed upon other federal agencies or private sector businesses, plus the drop in mail volume and changes in the mail mix caused by changes in consumers' use of mail, have been the major factors contributing to our losses since the recession ended in 2009. Without structural change to the business model, we will continue to be negatively impacted by these factors and, absent legislative change, we anticipate continuing quarterly losses into the foreseeable future.

Current projections indicate that we will have a continued low level of liquidity in the remainder of 2013. It is expected that we will be unable to make the required $5.6 billion retiree health benefits prefunding payment due by September 30, 2013. This cash position will continue to worsen in October 2013, when we are required to make our annual payment of approximately $1.4 billion to the DOL for workers' compensation. This low level of liquidity will continue to exist, absent legislative actions by Congress that have been requested to assist us in returning to a financially stable position,

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

POSTAL ACTIONS TAKEN TO IMPROVE LIQUIDITY

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

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

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

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

<u>Alignment of network size and cost with reduced mail volumes</u>

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

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

In the first nine months of 2013, we recorded the following operational and personnel achievements which will lead to improved efficiency and productivity:

- 104 mail processing facilities were consolidated;
- 7,397 Post Offices reduced operating hours as part of the Post Plan;
- 258 new Village Post Offices were established;
- 1,156 delivery routes were consolidated or reduced;
- Career employee workhours reduced by approximately 41 million hours, as the complement decreased by over 34,000 employees; and,
- Non-career employee workhours increased by approximately 30 million.

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

Our efforts in this area are evident in the following achievements during the first nine months of 2013:

- Total revenue increased by 1.3%, after annual declines in each of the last four fiscal years;
- Revenue from Shipping & Packages increased by 7.5%;
- Standard (advertising) mail revenue increased by 2.9%

Implementation of a USPS sponsored healthcare program
A vital component of the Plan is the requirement that we dramatically reduce our health care costs by sponsoring our own health care program independent of other federal health insurance programs. Our proposed program would provide Postal employees and retirees with equivalent benefits, but at lower cost. It is estimated that a Postal Service-sponsored health care program could achieve approximately $8 billion of projected annual savings by 2016. The Plan would eliminate the need for any additional retiree health benefit prefunding as established in P.L. 109-435, which would save us over $5.6 billion annually through 2016. The Plan also proposes to transfer current retirees into the Postal Service sponsored health care program, an action that also requires legislation. In addition, we are also currently working with our unions to develop a Health Care proposal that would provide the Postal Service the similar financial benefits while staying within FEHB.

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

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

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

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues we face and the legislative changes that would help provide financial stability. Given the vital role we play in the U.S. economy, we are hopeful that Congress will promptly enact, and the President will sign, legislation which will mitigate our short-term financial challenges and provide us with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2013, 2014, or at all.

Contractual Obligations

Our cash flow obligations as of June 30, 2013 and future years are scheduled in the following table.

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]	$ 15,000	$ 9,800	$ 300	$ -	$ 4,900
Interest on debt[1]	1,942	184	335	318	1,105
PSHRBF	33,900	16,700	11,400	5,800	-
Capital lease obligations	588	94	178	147	169
Operating leases	6,680	724	1,268	1,013	3,675
Capital commitments[2]	535	305	199	20	11
Purchase obligations[2]	6,422	1,065	1,750	1,698	1,909
Workers' compensation[3]	23,713	1,305	2,997	3,343	16,068
Employees' leave	2,182	319	251	201	1,411
Total Contractual Obligations	**$ 90,962**	**$ 30,496**	**$ 18,678**	**$ 12,540**	**$ 29,248**

(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 w hen 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 w orkers' compensation payments. The discounted amount of $16,463 million is reflected in our Balance Sheet at June 30, 2013.

Legal Matters and Contingent Liabilities

An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Assessing contingencies is highly subjective and requires judgments about future events. We regularly review loss contingencies to determine the adequacy of our accruals and related disclosures. The amount of the actual loss may differ significantly from these estimates. As of June 30, 2013, the material claims increased to $1,022 million from $813 million at September 30, 2012.

Fair Value Measurements

As required by authoritative accounting literature, certain fair value disclosures as of the three months ended June 30, 2013, are contained in the Notes to the Financial Statements. We did not recognize gains as a result of valuation measurements during Quarter III, 2013. All recognized losses have been incorporated into our financial statements as of June 30, 2013. See Note 10- *Fair Value Measurements.*

Legislative Update

Our legislative update section provides ongoing insights into the legislative and policy processes that may affect the Postal Service and its operations. Please also refer to the Legislative Update contained in our Annual Report on Form 10-K for the period ending September 30, 2012, and our quarterly reports on Form 10-Q for the quarters ending December 31, 2012, and March 31, 2013.

MAJOR CONGRESSIONAL POSTAL REFORM

As the 113th Congress considers postal reform legislation, below are reforms that are urgently needed. Our key legislative requirements include:

- Require USPS Healthcare Plan (resolves Retiree Health Benefit Prefunding Issue)
- Refund FERS overpayment and adjust the FERS payment schedule
- Adjust delivery frequency (six-day package/five-day mail delivery)
- Streamline governance model
- Provide authority to expand products and services
- Require defined contribution retirement system for future postal employees
- Require arbitrators to consider the Postal Service's financial condition in their decisions.
- Reform Workers' Compensation
- Provide the right to appeal EEOC class action decisions to Federal Court

MAJOR CONGRESSIONAL POSTAL REFORM LEGISLATION

Postal Reform Act of 2013 –H.R. 2748

On July 19, 2013, H.R. 2748, the *Postal Reform Act of 2013*, was introduced in the House. H.R. 2748 would allow the Postal Service to establish five-day mail delivery schedule, while temporarily mandating a six-day package delivery for domestic competitive products. It would allow the Postal Service to forgo past due payments to prefund retiree healthcare benefits, and would eliminate the fiscal year 2013 and fiscal year 2014 payments. Starting in 2015, prefunding payments would be based on an actuarial calculation designed to achieve full funding in 2056, while retiree premiums would be paid out of the PSRHBF. The measure would replace the current Board of Governors with a panel of five full-time executives. Once the Postal Service meets certain financial requirements, the panel would dissolve and a smaller Board of Governors would be constituted, made up initially of the panel members.

H.R. 2748 would begin to phase out door delivery of mail, in favor of curbside and clusterbox delivery, except in cases in which eliminating door delivery is infeasible, or where customers either pay for continued door delivery or have a significant hardship that requires them to receive door delivery. It would also require the above CPI increases in the prices for postal products where costs exceed revenues, and eliminate the ability of political committees to use the non-profit Standard Mail rate. The measure would requires postal workers to pay the same premiums that other federal workers pay for health and life insurance benefits and seeks to clarify the compensation parity currently required between postal and private sector workers. The bill would allow the Postal Service to offer state and local government services, such as the sale of fishing licenses. The bill seeks to create a mechanism that allows the FERS surplus to be transferred to the PSRHBF to the extent that the surplus exceeds any unfunded liability in CSRS. The measure specifies that postal employees would in the future be subject to the same Reduction-in-Force (RIF) authority as the rest of the federal workforce. The bill would allow the use of Postal Service-specific economic assumptions to calculate liabilities and annual payments for both the FERS and the CSRS pension systems.

The bill would limit the closure of rural post offices and require the Postal Service to consider broadband penetration, cellular phone service, and distance to closest replacement service in determining whether to close Post Offices. It would also create a Chief Innovation Officer whose goal would be to identify and grow new postal and authorized non-postal products. The measure would raise the current revenue limit on experimental product market tests.

The House Oversight and Government Reform Committee amended and passed the bill at its July 24, 2013 business meeting by a margin of 22-17. The bill now moves to the full House for consideration.

Postal Reform Act of 2013, S. 1486

On August 2, 2013 the *Postal Reform Act of 2013*, S. 1486, was introduced in the Senate. The bill proposes to improve, sustain and transform the United States Postal Service by addressing a number of issues, including: assessments of the Federal Employees' Retirement System (FERS) and the Civil Service Retirement System (CSRS); proper calculation of any surplus; and treatment of such surpluses; authority to negotiate retirement benefits for new employees; restructuring of payments for Retiree Health Benefits (RHB); and implementation of a Postal Service health benefits plan through negotiation with the unions, that could include Medicare coordination efforts for postal employees and future retirees. The measure also requires arbitrators to consider the financial condition of the Postal Service when rendering decisions.

The bill addresses Postal Service operations in several areas, including: requiring the Postal Service to maintain, for two years, existing service standards for First-Class Mail and Periodicals; a two-year moratorium on the closure or consolidation of mail processing facilities; permitting establishment of a five-day mail delivery schedule one year after the enactment of the bill; delivery point modernization; Board establishment of a system of classes and rates for market-dominant products, as well as workshare discounts and Negotiated Service Agreements (NSAs); authority to introduce new nonpostal services and governmental services; and permitting the Postal Service to ship beer, wine, and distilled spirits. S. 1486 would make changes to the current governance structure, including: modifying the make-up of the Board of Governors; establishing an Advisory Committee to develop and oversee implementation of strategies to ensure the long-term financial solvency of the Postal Service; appointment of a Chief Innovation Officer; creation of a plan to reduce the total number of area and district offices; and changes related to the appointment of the Postal Service Inspector General (IG). The bill would make substantial reforms, applying to the entire federal government, to the Federal Workers' Compensation Act (FECA). It also includes provisions related to property management, including co-location with other federal agencies and disposal of real property. The bill was referred to the Senate Homeland Security and Governmental Affairs Committee.

ADMINISTRATION PROPOSAL

PRESIDENT'S FISCAL YEAR 2014 BUDGET PROPOSAL

On April 10, 2013, the President released his Fiscal Year 2014 Budget Proposal, which included several recommendations related to the Postal Service. The President's proposal is one component of the budgeting process. Congress will now work to determine its own budget proposals for consideration. The President proposed a comprehensive postal reform package that would require the Office of Personnel Management (OPM) to calculate FERS costs using factors specific to the demographics of the Postal Service workforce, and return the FERS surplus. The President's proposal would also restructure Retiree Health Benefits payments on an accruing cost basis rather than on a fixed cost basis; reduce mail delivery from six days to five days per week starting in June 2013; increase collaboration with state and local governments; and permit the Postal Service Governors to enact a modest one-time increase in postage for Market-Dominant services (primarily First-Class Mail and Standard Mail).

OTHER SIGNIFICANT POSTAL LEGISLATION

The United States Postal Service Shipping Equity Act

On April 24, 2013, H.R. 1718, the *United States Postal Service Shipping Equity Act*, was introduced in the House. The bill amends Title 18 and Title 39, U.S. Code and would provide the Postal Service the authority to deliver wine and beer. The Postal Service is required to prescribe regulations to ensure direct delivery to the addressee. The addressee is an individual at least 21 years of age with valid, government-issued photo identification at the time of delivery. The wine or malt beverages are not to be used for resale or commercial purposes. The Postal Service is directed to prescribe regulations to provide that the winery or brewery involved certifies in writing, through a registration process administered by the Postal Service that the mailing is not in violation of any provisions described in the bill. The bill was referred to the House Oversight and Government Reform and the House Judiciary Committees.

The United States-Cuba Normalization Act of 2013

On May 9, 2013, H.R. 1917, the *United States-Cuba Normalization Act of 2013*, was introduced in the House. The bill would lift the trade embargo on Cuba. The bill would remove provisions restricting trade, travel, telecommunications, and other relations with Cuba. H.R. 1917 directs that the Postal Service must take such actions as are necessary to provide direct mail service to and from Cuba, including, in the absence of common carrier service between the two countries, the use of charter providers. The bill was referred to the House Oversight and Government Reform Committee and several other committees.

The Protect Overnight Delivery Act

On June 20, 2013, H.R. 2459, the *Protect Overnight Delivery Act*, was introduced in the House. The bill would reinstate overnight delivery standards for Market-Dominant products. The service standards implemented by the Postal Service on July 1, 2012 would be repealed and have no force or effect, and the Postal Service would be required to reinstate the service standards that were in effect on December 31, 2011. The bill was referred to the House Oversight and Government Reform Committee.

BOARD OF GOVERNORS NOMINATIONS

On June 21, 2013, President Obama announced his nomination of James C. Miller, III to serve on the Board of Governors of the United States Postal Service for a term expiring December 8, 2017. This brings to three the total number of Board nominations pending before the Senate, including those of Stephen Crawford, nominated on March 12, 2013, for a term expiring December 8, 2015 and David Michael Bennett, nominated on April 23, 2013, for a term expiring December 8, 2018.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Item 4 – Controls and Procedures

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

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

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of June 30, 2013. Based upon, and as of the date of, the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Internal Controls
There have been no changes in the Postal Service's internal controls over financial reporting during the quarter ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

Part II

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

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

Item 4 – Mine Safety Disclosures

Not applicable to the United States Postal Service.

Item 6 – Exhibits

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

Signatures

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

United States Postal Service

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

Date: August 9, 2013

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

Date: August 9, 2013

Exhibit 31.1

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

I, Patrick R. Donahoe, certify that:

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

Date: August 9, 2013

/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 9, 2013

/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, 2013, (the “Report”), I, Patrick R. Donahoe, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: August 9, 2013

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

Exhibit 32.2

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended June 30, 2013 (the "Report"),I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: August 9, 2013

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