



POSTAL NEWS

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Postal Service Losses of \$3.2 Billion in Second Quarter Underscore the Need for Legislative Changes

WASHINGTON — The Postal Service ended its second quarter (Jan. 1 – March 31) with a net loss of \$3.2 billion, compared to a net loss of \$2.2 billion for the same period last year. Despite ongoing management actions that have grown and improved efficiency, the losses will continue until key provisions of the Postal Service five-year business plan move forward.

Without the impact of the non-controllable costs related to mandated retiree health benefit pre-funding payments and accounting for non-cash adjustments for worker's compensation, the non-GAAP loss for the quarter was \$486 million compared to \$469 million for the same period last year as shown in Table I below.

The losses are due primarily to legislative mandates such as the unique mandated pre-funding of retiree health benefits, and prohibiting management from making the needed operational and human resource changes required to address these issues under current laws and contracts. Also contributing to the continuing losses are the declining First-Class Mail and Standard Mail volumes. The Congress must act soon to pass legislation providing the Postal Service with the flexibility and speed needed to make the changes necessary for long-term financial viability.

"We are aggressively pursuing new revenue streams and reducing costs in areas within our control," said Postmaster General and CEO Patrick Donahoe. "These actions are not enough to return the Postal Service to profitability. The legislative changes outlined in our business plan will enable us to reduce annual operational expenses by approximately \$22.5 billion by 2016 and set the stage for long-term financial stability so we can continue to provide secure, reliable and economical universal service to the American public."

Postal Service actions to increase revenue continue to pay off in the shipping and package service lines of its business. Revenues related to shipping and packages totaled \$3.5 billion, an increase of over 13 percent compared to the same period in the previous year, as volume increased 74 million pieces, or 9 percent.

Despite the growth and success of Postal Service shipping and package products, it was not enough to overcome the decline in Mailing Services. Revenue from Mailing Services, excluding Market Dominant packages, totaled \$12.8 billion, a 3 percent decrease compared to the same period last year, on a volume decrease of 1.8 billion pieces. The revenue reduction reflects the continued decline in First-Class Mail as consumers continue to turn to electronic alternatives. The second quarter also saw a decline in Standard Mail, attributable to a decline in direct mail advertising spending across a number of sectors as sales

prospecting slowed in certain sectors, advertisers used more selective targeting methods and competition from electronic advertising media increased.

“We expect to retain the ability to continue high quality delivery services to all of our customers, and continue to take all actions necessary to make sure that our employees and suppliers will be paid. Without legislative change, we will not have sufficient cash to pay the \$11.1 billion required for retiree health prefunding and may be forced to default on other payments due to the Federal Government,” said Chief Financial Officer Joe Corbett.

The Postal Service’s comprehensive business plan addresses these financial challenges through revenue growth programs, process improvements, eliminating excess mail processing capacity and other actions to address underutilized assets as well as improve operational efficiencies. It includes targeted legislative changes such as giving the Postal Service the ability to transition to a five-day delivery schedule, restructuring the retiree health pre-funding, enabling the Postal Service to sponsor its own health care program that is independent of other federal health insurance programs, and returning nearly \$11 billion dollars to the Postal Service from its prior overfunding of the Federal Employees’ Retirement System (FERS) which would provide vital cash flow to ease the current liquidity crisis.

Other details of the second quarter results compared to the same period last year include:

- Total mail volume of 39.5 billion pieces, a decrease of 1.7 billion pieces, or 4.1%;
- Operating revenue of \$16.2 billion, a decrease of \$7 million or less than 1 percent;
- Operating expenses of \$19.4 billion, an increase of \$938 million, or 5.1 percent, driven by expenses related to the legally mandated prefunding of retiree health benefits payments scheduled to be paid in the final quarter of this year;
- Transportation expenses of \$1.7 billion, an increase of \$126 million, or 8.1 percent, driven by rising fuel costs. Other expenses of \$2.3 billion, a decrease of \$133 million, or 5.6 percent.

These results bring the year to date net loss to \$6.5 billion, compared to \$2.6 billion for the same period last year.

Table 1

	Quarter 2, 2012	Quarter 2 2011
Non-GAAP Operating Loss	\$486 million	\$ 469 million
PSRHBF Payments	\$3,050 million	\$1,375 million
Worker’s Compensation Fair Value Adjustment	\$ (599) million	\$ (209) million
Worker’s Compensation Claims & Adjustment	\$ 240 million	\$ 593 million
Net Loss	\$3,177 million	\$2,228 million

Complete financial results are available in the Form 10-Q, available at <http://about.usps.com/who-we-are/financials/welcome.htm>

CFO Briefing Today

Chief Financial Officer Joe Corbett will host a telephone/web conference call at 1 p.m. ET today (May 10) to discuss the results. The call is open to the news media and all other interested parties.

To attend by phone with audio only, dial 866-567-8049 (Meeting ID: 1581806).

To attend the web conference and join with audio:

- 1) Browse to: <http://meetingplace3.usps.gov/join.asp?1581806>
- 2) After the MeetingPlace window is open, click the Phone icon (under the Participant List or in the upper right-hand corner).
- 3) Click Connect Me, validate or update your phone number and click Connect Me again.
- 4) When the system calls you press 1 to join.

The briefing will also be available on live audio webcast (listen only) at:

<http://about.usps.com/news/electronic-press-kits/cfo/welcome.htm>.

The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

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Please Note: For broadcast quality video and audio, photo stills and other media resources, visit the USPS Newsroom at <http://about.usps.com/news/welcome.htm>.

A self-supporting government enterprise, the U.S. Postal Service is the only delivery service that reaches every address in the nation, 151 million residences, businesses and Post Office Boxes. The Postal Service receives no tax dollars for operating expenses, and relies on the sale of postage, products and services to fund its operations. With 32,000 retail locations and the most frequently visited website in the federal government, *usps.com*, the Postal Service has annual revenue of more than \$65 billion and delivers nearly 40 percent of the world's mail. If it were a private sector company, the U.S. Postal Service would rank 35th in the 2011 Fortune 500. In 2011, the U.S. Postal Service was ranked number one in overall service performance, out of the top 20 wealthiest nations in the world, Oxford Strategic Consulting. *Black Enterprise* and *Hispanic Business* magazines ranked the Postal Service as a leader in workforce diversity. The Postal Service has been named the Most Trusted Government Agency for six years and the sixth Most Trusted Business in the nation by the Ponemon Institute.

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