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

# FORM 10-Q

**☑ QUARTERLY REPORT PURSUANT TO 39 U.S.C. §3654 AND SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2022

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

For the transition period from ______ to ______

# UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

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 every Interactive Data File required to be submitted 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 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | |
|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ | Non-accelerated filer ☐ |
| Smaller reporting company ☐ | Emerging growth company ☐ | Not applicable ☑ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**UNITED STATES POSTAL SERVICE**
**STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| *(in millions)* | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Nine Months Ended June 30, 2022 | Nine Months Ended June 30, 2021 |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Operating revenue | $ 18,741 | $ 18,484 | $ 59,820 | $ 58,869 |
| Other revenue | 40 | 10 | 67 | 28 |
| **Total revenue** | **18,781** | **18,494** | **59,887** | **58,897** |
| **Operating expenses:** | | | | |
| Compensation and benefits | 12,469 | 12,271 | 38,544 | 37,871 |
| Retirement benefits | 1,924 | 1,824 | 5,745 | 5,404 |
| Retiree health benefits | — | 1,432 | — | 3,832 |
| Workers' compensation | (1,021) | 1,053 | (1,146) | (485) |
| Transportation | 2,450 | 2,364 | 7,651 | 7,309 |
| Other operating expenses | 2,878 | 2,505 | 8,492 | 7,620 |
| **Total operating expenses** | **18,700** | **21,449** | **59,286** | **61,551** |
| **Income (loss) from operations before the impact of Postal Service reform legislation** | **81** | **(2,955)** | **601** | **(2,654)** |
| Impact of Postal Service reform legislation | 59,625 | — | 56,975 | — |
| **Income (loss) from operations** | **59,706** | **(2,955)** | **57,576** | **(2,654)** |
| Interest and investment income | 42 | 5 | 62 | 20 |
| Interest expense | (40) | (37) | (116) | (117) |
| **Net income (loss)** | **$ 59,708** | **$ (2,987)** | **$ 57,522** | **$ (2,751)** |

See accompanying notes to the unaudited financial statements.

## UNITED STATES POSTAL SERVICE
## BALANCE SHEETS

| *(in millions)* | June 30, 2022 | | September 30, 2021 | |
|---|---|---|---|---|
| | (unaudited) | | | |
| **Current Assets:** | | | | |
| Cash and cash equivalents | $ | 21,268 | $ | 23,858 |
| Restricted cash | | 865 | | 449 |
| Receivables, net (less allowances of $125 and $134) | | 1,436 | | 1,412 |
| Supplies, advances and prepayments | | 275 | | 189 |
| **Total current assets** | | **23,844** | | **25,908** |
| Property and equipment, net | | 14,827 | | 14,778 |
| Operating lease right-of-use assets | | 5,159 | | 5,070 |
| Other assets | | 660 | | 649 |
| **Total assets** | **$** | **44,490** | **$** | **46,405** |
| **Current Liabilities:** | | | | |
| Compensation and benefits | $ | 3,251 | $ | 3,810 |
| Retirement benefits | | 17,277 | | 14,915 |
| Retiree health benefits | | — | | 56,975 |
| Workers' compensation | | 1,322 | | 1,325 |
| Payables and accrued expenses | | 2,606 | | 2,523 |
| Deferred revenue-prepaid postage | | 2,469 | | 2,623 |
| Operating lease liabilities | | 1,322 | | 1,336 |
| Customer deposit accounts | | 1,209 | | 1,194 |
| Other current liabilities | | 1,690 | | 1,628 |
| Short-term debt | | — | | 1,000 |
| **Total current liabilities** | | **31,146** | | **87,329** |
| Workers' compensation, noncurrent | | 14,381 | | 16,849 |
| Operating lease liabilities, noncurrent | | 3,949 | | 3,847 |
| Employees' accumulated leave, noncurrent | | 2,365 | | 2,334 |
| Other noncurrent liabilities | | 807 | | 1,726 |
| Long-term debt | | 10,000 | | 10,000 |
| **Total liabilities** | | **62,648** | | **122,085** |
| **Net Deficiency:** | | | | |
| Capital contributions of the U.S. government | | 13,132 | | 13,132 |
| Deficit since 1971 reorganization | | (31,290) | | (88,812) |
| **Total net deficiency** | | **(18,158)** | | **(75,680)** |
| **Total liabilities and net deficiency** | **$** | **44,490** | **$** | **46,405** |

See accompanying notes to the unaudited financial statements.

**UNITED STATES POSTAL SERVICE**
**STATEMENTS OF CHANGES IN NET DEFICIENCY**
**(UNAUDITED)**

**For the three and nine months ended June 30, 2021**

| *(in millions)* | **Capital Contributions of U.S. Government** | **Accumulated Deficit Since Reorganization** | **Total Net Deficiency** |
|---|---|---|---|
| **Balance, September 30, 2020** | **$ 3,132** | **$ (83,840)** | **$ (80,708)** |
| Cumulative effect adjustment for adoption of new accounting pronouncement | — | (42) | (42) |
| Net income | — | 318 | 318 |
| **Balance, December 31, 2020** | **$ 3,132** | **$ (83,564)** | **$ (80,432)** |
| Capital contributions of the U.S. government | 8,649 | — | 8,649 |
| Net loss | — | (82) | (82) |
| **Balance, March 31, 2021** | **$ 11,781** | **$ (83,646)** | **$ (71,865)** |
| Capital contributions of the U.S. government | 964 | — | 964 |
| Net loss | — | (2,987) | (2,987) |
| **Balance, June 30, 2021** | **$ 12,745** | **$ (86,633)** | **$ (73,888)** |

See accompanying notes to the unaudited financial statements.

**For the three and nine months ended June 30, 2022**

| *(in millions)* | **Capital Contributions of U.S. Government** | **Accumulated Deficit Since Reorganization** | **Total Net Deficiency** |
|---|---|---|---|
| **Balance, September 30, 2021** | **$ 13,132** | **$ (88,812)** | **$ (75,680)** |
| Net loss | — | (1,547) | (1,547) |
| **Balance, December 31, 2021** | **$ 13,132** | **$ (90,359)** | **$ (77,227)** |
| Net loss | — | (639) | (639) |
| **Balance, March 31, 2022** | **$ 13,132** | **$ (90,998)** | **$ (77,866)** |
| Net income | — | 59,708 | 59,708 |
| **Balance, June 30, 2022** | **$ 13,132** | **$ (31,290)** | **$ (18,158)** |

See accompanying notes to the unaudited financial statements.

**UNITED STATES POSTAL SERVICE**
**STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| *(in millions)* | Nine Months Ended June 30, 2022 | Nine Months Ended June 30, 2021 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 57,522 | $ (2,751) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,261 | 1,254 |
| (Gain) loss on disposals of property and equipment, net | (34) | 9 |
| Increase in operating lease right-of-use assets | (89) | (103) |
| Increase in other assets | (10) | (91) |
| Decrease in noncurrent workers' compensation | (2,468) | (1,810) |
| Increase in noncurrent deferred appropriations and other revenue | — | 77 |
| Increase in noncurrent operating lease liabilities | 102 | 68 |
| Decrease in other noncurrent liabilities | (909) | (248) |
| Changes in current assets and liabilities: | | |
| Receivables, net | (24) | (166) |
| Other current assets | (86) | 36 |
| Retirement benefits | 2,362 | 2,328 |
| Retiree health benefits | (56,975) | 3,833 |
| Payables, accrued expenses, and other | (529) | 410 |
| Operating lease liabilities | (14) | 5 |
| Deferred revenue-prepaid postage and other deferred revenue | (122) | 44 |
| **Net cash (used in) provided by operating activities** | **(13)** | **2,895** |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (1,206) | (1,395) |
| Proceeds from sales of property and equipment | 69 | 12 |
| **Net cash used in investing activities** | **(1,137)** | **(1,383)** |
| **Cash flows from financing activities:** | | |
| Repayments of borrowings | (1,000) | (3,000) |
| Payments on finance lease obligations | (24) | (24) |
| Contributions of the U.S. government | — | 9,613 |
| **Net cash (used in) provided by financing activities** | **(1,024)** | **6,589** |
| Net (decrease) increase in cash, cash equivalents & restricted cash | (2,174) | 8,101 |
| Cash, cash equivalents & restricted cash - beginning of period | 24,307 | 14,712 |
| **Cash, cash equivalents & restricted cash - end of period** | **$ 22,133** | **$ 22,813** |
| **Supplemental cash flow disclosures:** | | |
| Cash paid for interest | $ 108 | $ 114 |

See accompanying notes to the unaudited financial statements.

## NOTES TO UNAUDITED FINANCIAL STATEMENTS

### *NOTE 1 - BASIS OF PRESENTATION*

**Interim Financial Statements**

The accompanying unaudited interim financial statements of the United States Postal Service (the "Postal Service") have been prepared in accordance with accounting principles generally accepted in the United States ("U.S.") ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of the U.S. Securities and Exchange Commission Regulation S-X. These financial statements should be read in conjunction with the Postal Service's financial statements for the year ended September 30, 2021 included in its Annual Report on Form 10-K ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 10, 2021, and do not include all information and footnotes which are normally included in the Annual Report. Except as otherwise specified, all references to years are to fiscal years beginning October 1 and ending September 30, and quarters are quarters within fiscal years 2022 and 2021.

In the opinion of management, the accompanying unaudited interim financial statements reflect all material adjustments, including recurring adjustments, necessary to fairly present the financial position as of June 30, 2022, the results of operations for the three and nine months ended June 30, 2022 and 2021, the changes in net deficiency for the three and nine months ended June 30, 2022 and 2021, and the cash flows for the nine months ended June 30, 2022 and 2021. Operating results for the three and nine months ended June 30, 2022 are not necessarily indicative of the results that may be expected for all of 2022. Mail volume and revenue are historically greatest in the first quarter of the year, which includes the holiday mailing season.

**Postal Service Reform Legislation**

On April 6, 2022, the President signed the *Postal Service Reform Act of 2022* ("PSRA"), enacted as Public Law 117-108. The enactment of this legislation significantly impacts the Postal Service's obligations for retiree health benefits and its accompanying unaudited financial statements as of June 30, 2022, as it repeals the requirement that the Postal Service annually prepay future retiree health benefits and cancels all past due prefunding obligations.

The repeal of the prefunding for retiree health benefits and cancellation of the past due payments are reflected as a benefit of $59.6 billion and $57.0 billion to net income in the accompanying unaudited *Statements of Operations* for the three and nine months ended June 30, 2022, respectively. This benefit eliminated the *Retiree health benefits* liability as of June 30, 2022 in the accompanying *Balance Sheets*, a reduction of $59.6 billion from the amount reported on the *Balance Sheet* as of March 31, 2022.

For further discussion of the PSRA and its impact on retiree health benefits, see *Note 9 - Health Benefits Plans.*

### *NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS*

**Accounting Standards Update 2021-10 *Disclosures by Business Entities about Government Assistance***

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-10 *Disclosures by Business Entities about Government Assistance*, which has since been codified in Accounting Standards Codification ("ASC") 832, *Government Assistance* ("ASC 832"). The new standard establishes disclosure requirements to increase the transparency and comparability of government assistance received by an entity. These requirements include: 1) the types of assistance; 2) an entity's accounting for the assistance; and 3) the effect of the assistance on an entity's financial statements.

The Postal Service intends to adopt ASC 832 for its 2023 fiscal year (beginning October 1, 2022) and the quarters therein. However, the Postal Service generally does not receive material government assistance. Furthermore, given the Postal Service's status as an independent establishment of the executive branch, in instances where material government assistance has been received, such transactions already require disclosure under ASC 850, *Related Parties*. As such, the Postal Service does not expect the adoption to have a significant impact on its disclosures.

***NOTE 3 - LIQUIDITY***

The Postal Service's liquidity consists of unrestricted cash and cash equivalents plus authorized borrowing capacity under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435 (the "PRA").

**Cash**

The Postal Service generates its cash almost entirely from the sale of postal products and services. The Postal Service holds its *Cash and cash equivalents* and *Restricted cash* with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly-liquid, short-term investments issued by the U.S. Treasury.

In March 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act,* enacted as Public Law 116-136 (the "*CARES Act*") in response to the coronavirus ("COVID-19") pandemic. The *CARES Act* offered certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages from March 27, 2020 through December 31, 2020. In accordance with this provision, the Postal Service had originally deferred $1.8 billion as of December 31, 2020. One half of these deferred payments was due and paid on December 31, 2021. The other half is due by December 31, 2022 and is recorded within *Compensation and benefits* in the accompanying *Balance Sheets*.

As of June 30, 2022 and September 30, 2021, the Postal Service held unrestricted cash and cash equivalents of $21.3 billion and $23.9 billion, respectively.

The Postal Service also holds restricted cash that is not considered part of its liquidity. Restricted cash represents the Postal Service's cash that is not available for general use, including:

- Funds originated from forfeitures or seizures due to consumer fraud or other criminal activity related to the mail and either held for third-party beneficiaries or awaiting disposition;
- Funds received for revenue under the Postal Service's retirement-based pricing authority, a price increase authorized by the PRC, under which any incremental funds received must be remitted to the U.S. Office of Personnel Management ("OPM") for amortization payments;
- Funds designated for specific use due to congressional appropriation for Postal Service obligations to the PRC and the United States Postal Service Office of Inspector General; or
- Funds that are otherwise restricted.

As of June 30, 2022 and September 30, 2021, the Postal Service held restricted cash of $865 million and $449 million, respectively.

**Debt**

The PRA authorizes the Postal Service to raise cash through the issuance of debt obligations. The PRA requires the Postal Service to notify the Secretary of the Treasury of its intent to issue debt and to allow the U.S. Treasury the first option to purchase such obligations. However, if the Secretary of the Treasury elects not to purchase such obligations, the PRA authorizes the Postal Service to issue and sell such obligations to a party or parties other than the U.S. Treasury, which may include a transaction in the public or private debt markets. Under the PRA, the Postal Service is limited by statute to annual net increases in debt of $3.0 billion calculated as of the end of each fiscal year, and total debt of $15.0 billion.

As of June 30, 2022 and September 30, 2021, the aggregate principal of all debt outstanding was $10.0 billion and $11.0 billion, respectively, all of which was issued to the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury.

As of June 30, 2022, the Postal Service had $5.0 billion in remaining borrowing capacity under the PRA, though it is still limited by statute to annual net increases in debt of $3.0 billion, as noted above.

**Liquidity Concerns**

The Postal Service continues to face systemic imbalances that make its current operating model unsustainable. As communicated in the *Delivering for America* plan that was published in March 2021, the Postal Service is implementing strategic operational reforms to meet the changing needs of its business and residential customers. While the enactment of the PSRA is a critical component of the plan, the success of the plan still requires management initiatives and administrative change to retiree benefit funding rules determining how

OPM apportions the costs for Civil Service Retirement System (“CSRS”) benefits for employees and retirees that worked for both the Post Office Department and the Postal Service.

Shortfalls or delays in implementation of the plan will place additional pressure on the Postal Service’s liquidity and financial results. As a result of these concerns, the Postal Service may not have sufficient liquidity to meet all of its existing legal obligations when due while also repaying its maturing debt and making the critical infrastructure investments that have been deferred in recent years.

Furthermore, while the Postal Service may issue debt obligations within its statutory borrowing authority, it has no assurance that it would be able to raise additional cash through new debt financing with the FFB or from other lenders, or that such financing would be provided on terms comparable to those applicable to its prior debt issuances.

***Business Model Challenges and Constraints***

The Postal Service is constrained by laws and regulations, which restrict revenue sources and mandate certain expenses.

The Postal Service offers two categories of services, which are classified by the *Postal Accountability and Enhancement Act of 2006* (“PAEA”), enacted as Public Law 109-435, as Market-Dominant and Competitive "products." However, throughout this report, the term "services" is used for consistency with other descriptions of services offered by the Postal Service.

Market-Dominant services, which include, but are not limited to, *First-Class Mail*, *Marketing Mail*, *Periodicals,* and certain parcel services, accounted for 55% of the Postal Service's annual operating revenues in 2021. Market-Dominant services are subject to a price cap system. Prices in effect for most of 2021 were limited by the Consumer Price Index for All Urban Consumers ("CPI-U"). In November 2020, the PRC modified the price cap system by providing some additional pricing flexibility and authority. Under this authority, the Postal Service raised prices on certain Market-Dominant services by 6.8% on August 29, 2021, and by 6.5% on July 10, 2022.

Unlike the prices for Market-Dominant services, the Postal Service's costs are not similarly constrained or capped. While the Postal Service received additional pricing authority, as discussed above, this authority is only expected to partially offset the effect of declining mail volume and growing delivery points, and may not be able to offset our increasing costs. Moreover, the Postal Service is constrained by law, or by contract, from reducing many of its costs or from pursuing many alternate sources of revenue. A large portion of its cost structure cannot be altered expeditiously due to the Postal Service's universal service obligation and the various legislative and administrative requirements impacting its employee and retiree benefit costs. While, effective April 6, 2022, the PSRA eliminated the unique obligation to prefund the statutorily mandated retiree health benefit program, other mandatory retirement benefit costs are still imposed on the Postal Service.

Because the Postal Service provides its services primarily through its employees, its costs are heavily concentrated in wages and benefits for both current employees and retirees. These costs are significantly impacted by contractual wage increases, which are linked to inflation, as well as employee health benefit premium increases and statutorily mandated retirement and workers' compensation programs, which have generally increased at a rate higher than inflation in recent years. See *Note 8 - Retirement Plans*, *Note 9 - Health Benefits Plans,* and *Note 10 - Workers' Compensation* in this document for further information on statutorily mandated costs.

Further, the number of delivery points continues to grow by more than one million per year, which drives up delivery costs. When combined with the impact of lower mail volume, the average number of pieces delivered per delivery point per day has decreased from 5.5 pieces in 2007 to 3.0 pieces in 2021, a decline of 46%.

***COVID-19 Considerations***

Pandemic-related pressures continue to have a material impact on the Postal Service’s business and further compound its existing business model challenges.

The pandemic has had a sustained effect on customer demand, affecting the historic volume trends and resulting in lower mail volumes and higher Shipping and Package volumes than pre-pandemic levels. While prices for Shipping and Packages are set at rates that maximize revenue and cover attributable costs (direct and indirect costs attributable to such products), Shipping and Packages produces a lower contribution margin per revenue dollar due to higher associated labor and transportation expenses.

The pandemic has also had a significant impact on the Postal Service's operating expenses, beyond the impact of the increased package volume. General economic conditions, which have been impacted by the pandemic and other geopolitical and global economic factors, have created inflationary pressures resulting in higher compensation costs, higher transportation costs, and higher fuel costs.

While the U.S. economy continues to recover, that recovery has been slowed by the emergence of several COVID-19 variants. The Postal Service expects that its liquidity may worsen if the nation experiences a prolonged period of disruption, or if package volume were to return to pre-pandemic levels.

***Past Due Obligations***

In order to preserve liquidity and ensure that its ability to fulfill its primary mission is not placed at undue risk, the Postal Service has not made certain payments to the CSRS and the Federal Employees Retirement System ("FERS") for certain retirement benefits.

The following table presents the total retirement benefit related expenses accrued but unpaid by the Postal Service as of September 30, 2021 and the fiscal years in which the accruals were recorded:

| *(in millions)* | **2021** | **2020** | **2019** | **2012 to 2018** | **Total** |
|---|---|---|---|---|---|
| CSRS unfunded retirement benefits amortization | $ 1,858 | $ 1,817 | $ 1,617 | $ 3,181 | $ 8,473 |
| FERS unfunded retirement benefits amortization | 1,401 | 1,343 | 1,060 | 2,370 | 6,174 |
| **Total expenses accrued but unpaid** | **$ 3,259** | **$ 3,160** | **$ 2,677** | **$ 5,551** | **$ 14,647** |

As of the date of this report, the Postal Service has not incurred any penalties or negative financial consequences as a result of not making these payments.

In addition, the Postal Service had not made payments totaling $57.0 billion to the Postal Service Retiree Health Benefit Fund ("PSRHBF") for certain retiree health benefit programs. These amounts were past due as of September 30, 2021, but canceled effective April 6, 2022, as a result of the PSRA.

***Mitigating Circumstances***

The Postal Service continues to pursue strategies within its control to increase operational efficiency and improve liquidity. The Postal Service has managed capital in recent years by spending what it believed was essential to maintain its existing facilities and service levels, to ensure employee health and safety and to increase efficiencies. However, some increases in capital investment are necessary to upgrade its facilities, fleet of vehicles, and processing equipment, in order to remain operationally viable. Aggressive management of the business operations that will enable it to increase revenue and reduce costs and administrative reform related to how OPM apportions the cost of CSRS benefits will all be necessary to restore the Postal Service to financial health.

The Postal Service's status as an independent establishment of the executive branch that generally 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 annual total revenue in 2021 of $77 billion, a financially sound Postal Service continues to be vital to the U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that it supports. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail, as well as the delivery of vital mail and packages like medicine, essential consumer staples, benefits checks, and important information. In the event of a cash shortfall, the U.S. government would likely prevent the Postal Service from significantly curtailing or ceasing operations. The Postal Service continues to inform the executive branch, Congress, the

PRC, and other stakeholders of the immediate and long-term financial challenges it faces and the management initiatives and administrative change related to how OPM apportions the cost of CSRS benefits that are required to restore its financial stability.

In the event that circumstances leave the Postal Service with insufficient liquidity, it would likely be required to implement additional contingency plans to ensure that its primary mission is fulfilled and that mail deliveries continue. These measures may require the Postal Service to prioritize payments to the FFB, employees, and suppliers ahead of some payments to fund retirement benefits, as has been done in the past.

### *NOTE 4 - REVENUE RECOGNITION*

The Postal Service generates the majority of its revenue from contracts associated with the processing and delivery of different types of mail and packages, both domestically and internationally, which generally occur over a relatively short period of time (e.g., several days).

**Disaggregation of Revenue**

The following table summarizes the Postal Service's disaggregated operating revenue for the three and nine months ended June 30, 2022 and 2021, by each service category:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021[1]** | **2022** | **2021[1]** |
| **Operating Revenue:** | | | | |
| First-Class Mail[2] | $ 5,585 | $ 5,537 | $ 18,319 | $ 17,816 |
| Marketing Mail[3] | 3,774 | 3,450 | 11,983 | 10,843 |
| Shipping and Packages[4] | 7,574 | 7,659 | 24,088 | 24,813 |
| International | 388 | 527 | 1,347 | 1,733 |
| Periodicals | 246 | 237 | 729 | 716 |
| Other[5] | 1,174 | 1,074 | 3,354 | 2,948 |
| **Total operating revenue** | **$ 18,741** | **$ 18,484** | **$ 59,820** | **$ 58,869** |

[1] Prior period amounts for certain service categories include reclassifications of amounts amongst service categories to conform to current period presentation. These reclassifications are immaterial for each affected category and have no effect on total operating revenue for the period. These reclassifications are required by Postal Service regulatory requirements and are included in this document for consistency amongst publicly-available information.

[2] Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.

[3] Excludes *Marketing Mail Parcels*.

[4] Includes *Priority Mail*, *USPS Retail Ground*, *Parcel Select Mail*, *Parcel Return Service Mail*, *Marketing Mail Parcels*, *Package Service Mail*, *First-Class Package Service - Retail*, *First-Class Package Service - Commercial,* and *Priority Mail Express*.

[5] Revenue includes *PO Box* and Caller Services, *Certified Mail*, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, *Registered Mail*, Stamped Envelopes and Cards, Money Orders, Passport Services, and other services.

**Contract Liabilities**

The following table presents the balances of the Postal Service's contract liabilities as of June 30, 2022 and September 30, 2021:

| *(in millions)* | June 30, 2022 | September 30, 2021 |
|---|---|---|
| **Deferred revenue-prepaid postage:** | | |
| Forever stamps | $ 1,475 | $ 1,581 |
| Mail-in-transit | 546 | 600 |
| Metered postage | 345 | 324 |
| Other prepaid postage | 103 | 118 |
| **Total deferred revenue-prepaid postage** | **2,469** | **2,623** |
| **Prepaid PO Box and Caller Service fees*** | **615** | **557** |
| **Total deferred revenue** | **$ 3,084** | **$ 3,180** |

* Included within *Other current liabilities* in the accompanying *Balance Sheets.*

The following table provides details of revenue recognized during the nine months ended June 30, 2022 that was reported in the Postal Service's contract liabilities for deferred revenue as of September 30, 2021:

| *(in millions)* | Nine Months Ended June 30, 2022 |
|---|---|
| **Revenue recognized in the period from deferred revenue:** | |
| Forever stamps | $ 1,119 |
| Mail-in-transit | 600 |
| Metered postage | 324 |
| Other prepaid postage | 92 |
| PO Box and Caller Service fees | 532 |

***NOTE 5 - RELATED PARTIES***

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities, which are considered related parties for accounting purposes.

On January 14, 2022, the Postal Service signed an inter-agency agreement with the U.S. Department of Health and Human Services ("HHS") to distribute COVID-19 tests to American households upon their request. The agreement provides that the Postal Service will receive payment for postage and be fully reimbursed for its costs. The Postal Service received an advanced payment pursuant to this agreement. Any unused funding will be returned to HHS following the completion of the contract. If the postage and reimbursable costs should exceed the amount already received, HHS will provide additional funding.

The following table presents related-party assets and liabilities as of June 30, 2022 and September 30, 2021:

| *(in millions)* | June 30, 2022 | September 30, 2021 |
|---|---|---|
| **Related-party assets:** | | |
| Carrying amount of revenue forgone installment receivable[1] | $ 517 | $ 504 |
| **Related-party liabilities:** | | |
| Short-term debt | $ — | $ 1,000 |
| Other current liabilities[2] | 18,880 | 73,814 |
| Long-term debt | 10,000 | 10,000 |
| Other noncurrent liabilities[3] | 14,395 | 16,861 |

[1] Included within *Other assets* in the accompanying *Balance Sheets*. The 2022 Congressional appropriations bill did not include an appropriation for the annual revenue forgone installment, bringing the past due amounts unpaid by Congress to $279 million. See further discussion in *Note 12 - Fair Value Measurement* in this document and *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 16 - Revenue Forgone* in the Annual Report.

[2] Amounts include CSRS, FERS, and current workers' compensation obligations, as well as payables to other agencies. Amount reported as of September 30, 2021 includes PSRHBF obligations that were eliminated by the PSRA. See further discussion in *Note 8. Retirement Benefits*, *Note 9. Health Benefit Plans*, and *Note 10. Workers' Compensation*. Amount reported as of June 30, 2022 includes the remaining funding associated with the COVID-19 test kit distribution.

[3] Amounts include noncurrent workers' compensation obligations. See further discussion in *Note 10. Workers' Compensation*.

The following table presents related-party revenue and expenses for the three and nine months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | 2022 | 2021 | 2022 | 2021 |
| Related-party operating revenue[1] | $ 600 | $ 345 | $ 2,016 | $ 1,008 |
| Related-party operating expenses[2] | $ 3,490 | $ 4,678 | $ 10,270 | $ 13,707 |
| Impact of Postal Service reform legislation[3] | $ 59,625 | $ — | $ 56,975 | $ — |
| Related-party interest income[4] | $ 41 | $ 5 | $ 59 | $ 20 |
| Related-party interest expense[5] | $ 39 | $ 36 | $ 112 | $ 113 |

[1] Included within *Operating revenue* in the accompanying unaudited *Statements of Operations*. Amounts reported for both the three and nine months ended June 30, 2022, include revenue from HHS associated with the COVID-19 test kit distribution.

[2] Included within *Operating expenses* in the accompanying unaudited *Statements of Operations*.

[3] Represents the benefit recorded for the PSRA impact in the accompanying unaudited *Statements of Operations*.

[4] Represents interest imputed on the revenue forgone installment receivable, as well as interest generated on U.S. Treasury instruments and other cash equivalents held with the Federal Reserve Bank of New York. Included within *Interest and investment income* in the accompanying unaudited *Statements of Operations*.

[5] Incurred on debt issued to the FFB and included within *Interest expense* in the accompanying unaudited *Statements of Operations*.

## *NOTE 6 - PROPERTY AND EQUIPMENT, NET*

Assets within *Property and equipment, net* in the accompanying *Balance Sheets* are recorded at cost, which includes the interest on borrowings used to finance construction of major capital additions, less allowances for depreciation and amortization. Fixed assets are depreciated over estimated useful lives ranging from 3 to 40 years using the straight-line method.

For the three months ended June 30, 2022 and 2021, depreciation and amortization expense was $434 million and $416 million, respectively. For both the nine months ended June 30, 2022 and 2021, depreciation and amortization expense was $1.3 billion. These items are included within *Other operating expenses* in the accompanying unaudited *Statements of Operations*.

## *NOTE 7 - COMMITMENTS AND CONTINGENCIES*

### Contingent Liabilities

The Postal Service's contingent liabilities consist primarily of claims resulting from labor and employment matters; asset retirement obligations and environmental matters; property damage and injuries on Postal Service properties; and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, the Postal Service evaluates each claim to determine its potential liability. If the Postal Service determines that an unfavorable outcome from a new claim is both probable and reasonably estimable, it records a liability for the amount. Preexisting claims are also reviewed and adjusted quarterly for resolutions or revisions to prior estimates based on new facts and circumstances.

The Postal Service is, from time to time, involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its financial condition or operations. For additional information see *Part I, Item 3. Legal Proceedings* and *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies* in the Annual Report.

### *Provision for Losses*

The Postal Service has made adequate provision for probable losses arising from all claims. The following table presents contingent liabilities by current and noncurrent portions as of June 30, 2022 and September 30, 2021:

| *(in millions)* | June 30, 2022 | September 30, 2021 |
|---|---|---|
| **Current / noncurrent portions of contingent liabilities:** | | |
| Current portion[1] | $ 314 | $ 138 |
| Noncurrent portion[2] | 147 | 201 |
| **Total contingent liabilities** | **$ 461** | **$ 339** |

[1] Included within *Payables and accrued expenses* in the accompanying *Balance Sheets*.

[2] Included within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

### *Reasonably Possible Contingencies*

The Postal Service does not accrue for contingencies which it deems reasonably possible of an unfavorable outcome. These ranged in amount from $300 million to $1.2 billion at both June 30, 2022 and September 30, 2021.

## *NOTE 8 - RETIREMENT PLANS*

The majority of career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, which are administered by the OPM. Associated costs include the FERS normal costs, contributions based on a percentage of active employee's basic pay, and CSRS and FERS amortization costs to fund the remaining unfunded liabilities. These costs are recorded in *Retirement Benefits* in the accompanying unaudited *Statement of Operations*.

Employees who participate in FERS are eligible to receive matching retirement contributions to the Thrift Savings Plan ("TSP"), a defined contribution plan. Employees who participate in FERS and certain employees who participate in CSRS are also eligible to receive Social Security benefits upon retirement. The Postal Service contributes at standard Social Security tax rates for these employees. These TSP and Social Security costs are recorded in *Compensation and Benefits* in the accompanying unaudited *Statement of Operations*.

In October 2021, the OPM provided the Postal Service with an actuarial report indicating the projected annual amortization payments due September 30, 2022 would be $1.9 billion for the CSRS obligation and $1.4 billion for the FERS obligation. The Postal Service expects to receive the invoice from the OPM for the actual amounts due September 30, 2022 during the fourth quarter of 2022, and this invoice may differ from the estimated projections and calculations due to further changes in experience and/or actuarial assumptions as of the calculation date.

The following table presents the retirement benefits expenses for the three and nine months ended June 30, 2022 and 2021:

| (in millions) | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| FERS normal costs | $ 1,110 | $ 1,034 | $ 3,301 | $ 3,034 |
| CSRS unfunded retirement benefits amortization[1] | 464 | 454 | 1,393 | 1,363 |
| FERS unfunded retirement benefits amortization[2] | 350 | 336 | 1,051 | 1,007 |
| **Total retirement benefits** | **$ 1,924** | **$ 1,824** | **$ 5,745** | **$ 5,404** |

[1] Expense for the accrual for the annual payment due to the OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. Payments are to be made through 2043 based on the OPM invoices.

[2] Expense for the accrual for the annual payment due to the OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on the OPM invoices.

For additional information, see *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 12 - Retirement Plans* in the Annual Report.

### *NOTE 9 - HEALTH BENEFITS PLANS*

The Federal Employee Health Benefit ("FEHB") Program covers nearly all career employees and also covers pre-career employees and retirees who meet certain eligibility requirements. The OPM administers the FEHB Program and allocates the cost of funding the program to participating U.S. government employers. Separate from the FEHB Program, the Postal Service offers its own healthcare plan to certain pre-career employees who are ineligible for the FEHB Program.

The PSRA establishes the Postal Service Health Benefits ("PSHB") Program within the FEHB Program. Beginning in January 2025, the Postal Service's employees and annuitants eligible under the FEHB Program will be covered under the PSHB Program. Coverage and cost-sharing under the PSHB Program will be similar to that under the FEHB Program.

#### Active Employees

The Postal Service's employee health benefits expense, which includes the employer portion of Medicare taxes, is most significantly impacted by the number of employees electing coverage and the premium costs of the selected plans. The Postal Service's employee health benefits expense was $1.3 billion and $3.9 billion for both the three and nine months ended June 30, 2022 and 2021, respectively. These expenses are included within *Compensation and benefits* in the accompanying unaudited *Statements of Operations*.

#### Retirees

Despite the Postal Service being a significant contributor of Medicare taxes, not all of its annuitants enroll in Medicare upon retirement. Beginning in January 2025, the PSRA requires the enrollment of annuitants covered by the PSHB Program in Medicare, with certain limited exceptions.

The PSRA also amended how the Postal Service's retiree health benefits are funded. It eliminated the unique obligation to prefund the retiree health benefit program and canceled all past due prefunding obligations. The PSRHBF will continue to pay annuitant premiums for the Postal Service's annuitants until the fund is exhausted. Once exhausted, the Postal Service will return to a pay-as-you-go methodology, similar to most other federal agencies and private-sector businesses.

Not later than 2026, the Postal Service will also be required to make annual top-up payments to the PSRHBF, based on the difference between annuitant premiums and net claims costs, should claims costs exceed the premium payments.

The Postal Service will not incur retiree health benefit costs until either OPM's annual calculation results in a top-up payment, expected to occur in 2026, or the PSRHBF is exhausted and it is required to make contributions to OPM for annuitant premiums.

The elimination of the prefunding is presented in *Impact of Postal Service reform legislation* in the accompanying unaudited *Statements of Operations as* a benefit of $59.6 billion and $57.0 billion to net income for the three and nine months ended June 30, 2022, respectively.

### *NOTE 10 - WORKERS' COMPENSATION*

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

#### Workers' Compensation Liability

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured on the job and are eligible for benefits, or for their qualified survivors. The Postal Service uses an estimation model that utilizes four generally accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked.

Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial assumptions, new compensation and medical cases, the progression of existing cases and changes in interest (discount) and inflation rates, including long-term cost of living adjustments ("COLA") rates for compensation claims, and medical rates for medical claims. These rates are updated as of the balance sheet date and factored into the model.

To determine the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries, and the expected trend in future costs. The Postal Service then calculates the amount that would need to be invested at current interest (discount) rates to fully fund the future total cost of claims, and this calculated present value is the recorded value of the workers' compensation liability.

In setting the discount rates, the Postal Service uses the current yield, as of the measurement date, on U.S. Treasury securities that are matched to the expected duration of both the medical and compensation payments. Expected inflation in compensation claim obligations are estimated using the consensus inflation forecast from the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters. Expected inflation for future medical claim obligations are estimated using the average rate of medical cost increases experienced by the Postal Service's workers' compensation claimants over the past five years.

This liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the June 30, 2022 liability and related expense by $1.6 billion. Likewise, a 1% decrease in the discount rate would increase the June 30, 2022 liability and related expense by $1.9 billion.

The following table details the applicable inflation and discount rates for compensation and medical claims, which are used to estimate the workers' compensation liability as of June 30, 2022 and September 30, 2021:

| | June 30, 2022 | September 30, 2021 |
|---|---|---|
| **Compensation claims liability:** | | |
| Discount rate | 3.16% | 1.79% |
| Long-term wage inflation rate | 2.70% | 2.60% |
| **Medical claims liability:** | | |
| Discount rate | 3.16% | 1.81% |
| Medical inflation rate | 3.10% | 3.10% |

As of June 30, 2022 and September 30, 2021, the Postal Service's total liability for workers' compensation was $15.7 billion and $18.2 billion, respectively. As of June 30, 2022 and September 30, 2021, the current portion of the liability was $1.3 billion at both dates and the noncurrent portion of the liability was $14.4 billion and $16.9 billion, respectively, as reflected in the accompanying *Balance Sheets*.

**Workers' Compensation (Benefit) Expense**

The impacts of changes in discount rates and inflation rates, actuarial valuation of new cases, and revaluation of existing cases are components of total workers' compensation (benefit) expense recorded in the accompanying unaudited *Statements of Operations*. In addition, the Postal Service pays an administrative fee to the DOL, which is considered a component of workers' compensation (benefit) expense.

The following table presents the components of workers' compensation (benefit) expense for the three and nine months ended June 30, 2022 and 2021:

| | **Three Months Ended June 30,** | | **Nine Months Ended June 30,** | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| Impact of discount rate changes | $ (1,312) | $ 581 | $ (2,703) | $ (1,577) |
| Actuarial revaluation of existing cases | 25 | 159 | 624 | 112 |
| Cost of new cases | 243 | 292 | 865 | 917 |
| Administrative fee | 23 | 21 | 68 | 63 |
| **Total workers' compensation (benefit) expense** | **$ (1,021)** | **$ 1,053** | **$ (1,146)** | **$ (485)** |

For additional information, see *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 14 - Workers' Compensation* in the Annual Report.

***NOTE 11 - LEASES***

The Postal Service holds lessee positions in real property leases as well as in leases embedded in service contracts involving rights to use transportation equipment and facilities.

Lease costs for operating leases for all non-cancellable leases are set forth below for the three and nine months ended June 30, 2022 and 2021:

| | **Three Months Ended June 30,** | | **Nine Months Ended June 30,** | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| Operating lease cost | $ 382 | $ 326 | $ 1,164 | $ 995 |
| Variable lease cost | 206 | 169 | 621 | 575 |
| Short-term lease cost | 24 | 59 | 142 | 225 |
| **Total lease cost** | **$ 612** | **$ 554** | **$ 1,927** | **$ 1,795** |

The following information represents supplemental cash and non-cash information as well as lease term and discount rate information separately for operating leases, for the nine months ended June 30, 2022 and 2021:

| *($ in millions)* | Nine Months Ended June 30, 2022 | Nine Months Ended June 30, 2021 |
|---|---|---|
| Operating cash flows from operating leases | $ 1,156 | $ 1,016 |
| Right-of-use assets obtained in exchange for operating lease liabilities | $ 432 | $ 194 |
| Weighted-average remaining lease term - operating leases | 5.29 years | 5.39 years |
| Weighted-average discount rate - operating leases | 1.37 % | 1.46 % |

For additional information, see *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 15 - Leases* in the Annual Report.

### *NOTE 12 - FAIR VALUE MEASUREMENT*

The carrying amounts of certain current assets and liabilities, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, approximate fair value due to their short-term nature. Assets within *Property and equipment, net* are recorded at cost and measured at fair value on a nonrecurring basis if they are determined to be impaired or classified as assets held for sale.

Noncurrent receivables and long-term debt are disclosed at fair value using inputs of the fair value hierarchy model. This model prioritizes observable and unobservable inputs, which are used to measure fair value, and consists of three broad levels, as defined in authoritative literature.

The carrying amount and fair value of the revenue forgone installment receivable and long-term debt are presented for disclosure purposes only in the following table:

| | June 30, 2022 | | September 30, 2021 | |
|---|---|---|---|---|
| *(in millions)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Revenue forgone installment receivable[1] | $ 517 | $ 482 | $ 504 | $ 540 |
| Long-term debt[2] | $ 10,000 | $ 9,858 | $ 10,000 | $ 10,449 |

[1] The carrying amount is included within *Other assets* (which includes items in addition to the revenue forgone installment receivable) in the accompanying *Balance Sheets*.

[2] The fair value amount reflects the premium or discount associated with prepayment of all debt based on prevailing interest rates plus any prepayment penalties, as applicable.

The *Revenue Forgone Reform Act of 1993* (the "RFA") authorized $1.2 billion to be paid to the Postal Service in 42 annual installment payments of $29 million each from 1994 through 2035 as reimbursement for below-cost postage offered to certain categories of mailers between 1991 and 1998. Although the RFA authorized the reimbursement, Congress must appropriate the $29 million to the Postal Service within the annual federal budget for the Postal Service to receive funding. The 2022 Congressional appropriations bill did not include an appropriation for the annual revenue forgone installment, bringing the past due installments unpaid by Congress to $279 million.

The Postal Service continues to include the total past due installments in each annual appropriations request to Congress. Although it has not consistently received the installment payments, the amounts are established by the RFA and, in any year, Congress could appropriate the full amount, including past-due installments. The Postal Service believes that the amount remains fully collectible and no reserve is necessary for the uncollected amounts due to the full faith and credit of the U.S. government. For additional information on the revenue forgone installment receivable, see *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 16 - Revenue Forgone* in the Annual Report.

The revenue forgone installment receivable qualifies as a financial instrument in accordance with authoritative literature. To calculate its fair value, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of this receivable using the interest method, which converts future cash flows to a single discounted amount using interest rates for similar assets, which are considered *Level 2* inputs. The Postal Service then calculates the net present value of anticipated annual installment payments to be received, discounted by the 20-year U.S. Treasury Constant Maturity Rate.

The long-term debt also qualifies as a financial instrument. Because no active market exists for its debt with the FFB, the Postal Service estimates the fair value of the long-term debt by imputing future payments at discount rates provided by the FFB, considered *Level 3* inputs.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENTS

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting the financial results, liquidity, capital resources, and critical accounting estimates of the United States Postal Service ("Postal Service," "USPS," "we," "our," and "us"). Our results of operations may be impacted by risks and uncertainties discussed here and in our Annual Report on Form 10-K for the year ended September 30, 2021 ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 10, 2021. Such factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated.

Our operating results for the three and nine months ended June 30, 2022 are presented in accordance with accounting principles generally accepted in the United States ("GAAP"). These results are not necessarily indicative of the results to be expected for the year ended September 30, 2022 and should be read in conjunction with our Annual Report. All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2022 and 2021.

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 included in this report use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project," or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report. These risks include, but are not limited to, the effects of the novel strain of coronavirus ("COVID-19") on our business, financial condition, and results of operations. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### OVERVIEW

With our mandate to provide universal postal services to the nation, we serve consumer and commercial customers in the United States ("U.S.") as well as internationally. Our operations include an extensive and integrated retail, processing, distribution, transportation, and delivery network, and we operate throughout the U.S., including its possessions and territories. We do not operate in segments; we report our performance as a single business.

The *Postal Accountability and Enhancement Act* ("PAEA"), enacted as Public Law 109-435, classifies our products into two broad categories: Market-Dominant and Competitive "products," however, we use the term "services" in this document for consistency with other descriptions of services offered. The statutes under which we operate also establish certain requirements that affect our financial results, including obligations for retirement benefits within the Civil Service Retirement System ("CSRS") and the Federal Employee Retirement System ("FERS"), and obligations for retiree health benefits. We must coordinate with the U.S. Office of Personnel Management ("OPM") to address these obligations.

We continue to implement initiatives that are expected to drive revenue by capitalizing on innovation, technology, customer and consumer insights, and data management. This includes strengthening the value of mail through the continued enhancement of *Informed Delivery,* which enables customers to digitally preview mail and manage package delivery and adds digital marketing capabilities to the printed mailpiece. We also recently launched *USPS Connect* that aims to drive package growth by broadening network access to next-day delivery capability for businesses of all sizes. However, legal restrictions on Market-Dominant pricing, service diversification, and operations currently restrict our ability to cover our costs to provide prompt, reliable, and efficient postal services to the nation.

As an independent establishment of the U.S. government, we have a unique mission to:

- Serve the American people and, through the universal service mission, bind our nation together by maintaining and operating our unique, vital, and resilient infrastructure;
- Provide trusted, safe, and secure communications and services between the U.S. government and the American people, businesses and their customers, and the American people with each other; and
- Serve all areas of our nation, making full use of evolving technologies.

We will carry out this mission by remaining an integral part of the U.S. government and providing all Americans with universal and open access to our unrivaled delivery and retail network; using technology, innovation and, where appropriate, private-sector partnerships to meet our customers' changing needs; operating in a modern, precise, efficient, and effective manner; and remaining an employer of choice, including attracting and retaining high-quality employees.

***DELIVERING FOR AMERICA***

In March 2021, we published our vision and ten-year plan to achieve financial stability and service excellence entitled *Delivering for America* (https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf).

Our comprehensive plan delivers:

- A modernized Postal Service capable of providing world class service reliability at affordable prices;
- Maintenance of universal six-day mail delivery and expanded seven-day package delivery;
- Workforce stability and investment strategies that empower, equip, and engage each employee and put them in the best possible position to succeed;
- Innovation that grows revenue and meets changing marketplace needs; and
- Financial sustainability to fund our universal service mission.

We can accomplish these goals with legislative and administrative changes, effective use of newly acquired and existing pricing authorities, operating more precisely and efficiently across our enterprise, and by driving revenue growth through innovative customer solutions.

Our plan's strategies for revenue growth, cost savings, and investment, combined with legislative and administrative actions, will enable us to operate in a financially self-sustaining manner while fulfilling our universal service mission.

We continue to implement core elements of our plan and have been provided with the legislative reform that was needed through the enactment of the *Postal Service Reform Act of 2022* ("PSRA"), as discussed in *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 1 - Basis of Presentation* and our first-year progress report on the execution of the plan published on April 7, 2022 (https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-one-year-report.pdf). However, the remainder of the plan, including the management initiatives and administrative change to how OPM apportions the cost of CSRS benefits for our employees and retirees who worked for both the Post Office Department and the Postal Service, must be implemented timely and in full to meet our financial targets.

## RESULTS OF OPERATIONS

### *SUMMARY*

The enactment of the PSRA significantly impacted the results of operations for the three and nine months ended June 30, 2022, as it repealed the requirement that we annually prepay future retiree health benefits and canceled all past due prefunding obligations. These impacts are reflected as a benefit of $59.6 billion and $57.0 billion to net income for the three and nine months ended June 30, 2022, respectively.

Rising inflation also had a significant impact on our results of operations. Our Market-Dominant services are subject to a price cap system that is generally limited by the Consumer Price Index for All Urban Consumers, with some additional pricing flexibility and authority granted by the Postal Regulatory Commission. Our overall revenue grew for the three and nine months ended June 30, 2022, compared to the same periods last year, as a result of price increases reflective of the inflationary environment. Despite this increase in revenue, our operating results remain challenged due to rising costs associated with inflationary pressures. We have experienced higher compensation costs, higher transportation costs, and higher fuel costs as a result of rising inflation.

Other major factors that impacted our operating results include overall customer demand, the mix of postal services and the pricing and contribution associated with those services, the volume of mail and packages processed through our network, our ability to manage our cost structure in line with secularly declining levels of mail volume, increased competition in the more labor-intensive Shipping and Packages business, and an increasing number of delivery points.

Pandemic-related pressures on our operations also continue to have a material impact. The operating results for the three and nine months ended June 30, 2022 reflect the sustained effect that the pandemic has had on customer demand, resulting in lower mail volumes and higher shipping and package volumes than pre-pandemic levels, as well as pandemic-related inflation contributing to certain higher operating expenses. The operating results for the three and nine months ended June 30, 2022 also reflect increases in certain revenues and expenses associated with our inter-agency agreement with the U.S. Department of Health and Human Services ("HHS") to distribute COVID-19 tests as described in *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 5 - Related Parties.*

**Three Months Ended June 30, 2022**

As more fully described below in *Operating Revenue and Volume*, our operating revenue for the three months ended June 30, 2022 increased $257 million, or 1.4%, compared to the same period last year, driven by the impact of price increases and the following changes by service category:

- *Marketing Mail* revenue increase of $324 million, or 9.4%, compared to the same period last year, with a volume growth of 545 million pieces, or 3.5%, compared to the same period last year. *Marketing Mail* experienced steep volume declines at the onset of the pandemic, but has been rebounding as the economy continues to recover. *Marketing Mail* has generally proven to be a resilient marketing channel, and its value to U.S. businesses remains strong due to healthy customer returns on investment and better data and technology integration; and
- Other services revenue increase of $100 million, or 9.3%, compared to the same period last year, due to non-postage revenue associated with the COVID-19 test kit distribution initiative.

These increases were partially offset by the following:

- *International Mail* revenue decrease of $139 million, or 26.4%, compared to the same period last year, with a volume decline of 14 million pieces, or 15.1%, compared to the same period last year, as postal administrations have continued to experience disruptions worldwide, including prolonged delays and temporary suspensions, as a result of the pandemic and other global economic factors. *International Mail* has also been impacted by shifts in global transportation modes to commercial alternatives; and
- Shipping and Packages revenue decrease of $85 million, or 1.1%, compared to the same period last year, on a volume decline of 92 million pieces, or 5.0%, compared to the same period last year. Shipping and Packages volume remains higher than pre-pandemic levels despite the volume decline, compared to the same quarter last year, due to the prior year pandemic-related surge in e-commerce.

*First-Class Mail* revenue was essentially flat, compared to the same quarter last year, despite a volume decline of 620 million pieces, or 5.1%. *First-Class Mail* volume continued to decline due to on-going migration from mail to electronic communication and transaction alternatives and remains lower than pre-pandemic levels.

As more fully described below in *Operating Expenses*, our operating expenses for the three months ended June 30, 2022, decreased $2.7 billion, or 12.8%, primarily driven by the following:

- Workers' compensation expense decrease of $2.1 billion, or 197.0%, compared to the same period last year, due to the impact of changes in discount rates and actuarial revaluation, which are outside of management’s control; and
- Retiree health benefits expense decrease of $1.4 billion, compared to the same period last year. Our *Operating Expenses* for the three months ended June 30, 2021, included $1.4 billion in retiree health benefits expense required under PAEA. As a result of the PSRA, there are no retiree health benefits expenses for the three months ended June 30, 2022.

These decreases were partially offset by the following:

- Other operating expense increase of $373 million, or 14.9%, compared to the same period last year, driven by an increase in supplies and services, an increase in rent and utilities for our facilities, and higher average fuel prices for delivery vehicles;
- Compensation and benefits expense increase of $198 million, or 1.6%, compared to the same period last year, primarily due to contractual wage increases including the inflationary impacts on related cost of living adjustments (“COLA”) and additional costs associated with the COVID-19 test kit distribution, partially offset by a lower number of work hours; and
- Retirement benefits expense increase of $100 million, or 5.5%, compared to the same period last year, primarily due to contribution rate increases for FERS normal costs established by the OPM.

Overall, we reported net income of $59.7 billion for the three months ended June 30, 2022, compared to a net loss of $3.0 billion for the same period last year. Excluding the impact of the PSRA, retiree health benefits expense, non-cash workers' compensation adjustments for the impacts of actuarial revaluation and discount rate changes, which are outside of management's control, and amortization expenses for the CSRS and the FERS unfunded liabilities, loss for the three months ended June 30, 2022, was $459 million, compared to loss of $41 million for the same period last year.

**Nine Months Ended June 30, 2022**

As more fully described below in *Operating Revenue and Volume*, our operating revenue for the nine months ended June 30, 2022, increased $1.0 billion, or 1.6%, compared to the same period last year, driven by the impact of price increases and the following changes by service category:

- *Marketing Mail* revenue increase of $1.1 billion, or 10.5%, compared to the same period last year, with a volume increase of 1.1 billion pieces, or 2.1%, compared to the same period last year. *Marketing Mail* has generally proven to be a resilient marketing channel, and its value to U.S. businesses remains strong due to healthy customer returns on investment and better data and technology integration;
- *First-Class Mail* revenue increase of $503 million, or 2.8%, compared to the same period last year, despite a volume decline of 1.2 billion pieces, or 3.2%, compared to the same period last year, due to on-going migration from mail to electronic communication and transaction alternatives. *First-Class Mail* volume remains lower than pre-pandemic levels and we expect continued secular declines; and
- Other services revenue increase of $406 million, or 13.8%, compared to the same period last year, due to non-postage revenue associated with the COVID-19 test kit distribution initiative and higher revenue associated with *PO Box* services.

These increases were partially offset by the following:

- Shipping and Packages revenue decline of $725 million, or 2.9%, compared to the same period last year, on a volume decline of 396 million pieces, or 6.7%, compared to the same period last year. Higher package volumes in the prior year were due to the pandemic-related surge in e-commerce, which continues to abate as the economy recovers and market competition intensifies, although such volumes are still higher than pre-pandemic levels; and

- *International Mail* revenue decline of $386 million, or 22.3%, compared to the same period last year, with a volume decline of 48 million, or 14.6%, compared to the same period last year, as postal administrations have continued to experience disruptions worldwide, including prolonged delays and temporary suspensions, as a result of the pandemic and other global economic factors. *International Mail* has also been impacted by shifts in global transportation modes to commercial alternatives.

As more fully described below in *Operating Expenses*, our operating expenses for the nine months ended June 30, 2022, decreased $2.3 billion, or 3.7%, compared to the same period last year. Operating expenses decreased due to the following:

- Retiree health benefits expense decrease of $3.8 billion, compared to the same period last year. Our *Operating Expenses* for the nine months ended June 30, 2021, included $3.8 billion in retiree health benefits expense required under PAEA. As a result of PSRA, there are no retiree health benefits expenses for the nine months ended June 30, 2022; and
- Workers' compensation expense decrease of $661 million, or 136.3%, compared to the same period last year, driven by the impact of actuarial revaluation and changes in discount rates, which are outside of management’s control.

These decreases were partially offset by the following:

- Other operating expense increase of $872 million, or 11.4%, compared to the same period last year, driven by an increase in supplies and services, an increase in rent and utilities for our facilities, and higher average fuel prices for delivery vehicles;
- Compensation and benefits expense increase of $673 million, or 1.8%, compared to the same period last year, primarily due to contractual wage increases, including the inflationary impacts on related COLA and additional costs associated with the COVID-19 test kit distribution, partially offset by a lower number of work hours;
- Transportation expense increase of $342 million, or 4.7%, compared to the same period last year, driven by higher average unit costs per mile, higher average diesel fuel prices, and higher average jet fuel prices; and
- Retirement benefits increase of $341 million, or 6.3%, compared to the same period last year, primarily due to contribution rate increases for FERS normal costs established by the OPM.

Overall, we reported net income of $57.5 billion for the nine months ended June 30, 2022, compared to a net loss of $2.8 billion for the same period last year. Excluding the impact of the PSRA, retiree health benefits expense, non-cash workers' compensation adjustments for the impacts of actuarial revaluation and discount rate changes, which are outside of management's control, and amortization expenses for the CSRS and the FERS unfunded liabilities, income was $848 million for the nine months ended June 30, 2022, compared to income of $1.9 billion for the same period last year.

## Non-GAAP Measures

In the day-to-day operation of our business, we focus on costs that can be managed in the course of normal business operations, such as salaries and transportation. We use various non-GAAP measures to help us better manage our business. However, these non-GAAP measures should not be considered a substitute for net income (loss) and other GAAP reporting measures.

Controllable income (loss) including partial impact of Postal Service reform legislation and partial retiree health benefits expense, a non-GAAP measure, is calculated as net income (loss) adjusted for the impact of the PSRA on past due obligations to the Postal Service Retiree Health Benefits Fund (PSRHBF) and on the current year PSRHBF amortization expenses, workers’ compensation non-cash (benefit) expense caused by actuarial revaluation and discount rate changes, expenses caused by the actuarial revaluation of PSRHBF, and the amortization of the PSRHBF, CSRS, and FERS unfunded liabilities.

Controllable (loss) income excluding full impact of Postal Service reform legislation and all retiree health benefits expense is calculated as net income (loss) adjusted for the impact of the PSRA, retiree health benefits expense, workers' compensation non-cash (benefit) expense caused by actuarial revaluation and discount rate changes, and the amortization of the CSRS and FERS unfunded liabilities.

The following table reconciles our GAAP net income (loss) to our non-GAAP financial measures for the three and nine months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| **Net income (loss)** | **$ 59,708** | **$ (2,987)** | **$ 57,522** | **$ (2,751)** |
| Impact of Postal Service reform legislation on past due PSRHBF obligations and current year PSRHBF amortization[1] | (57,475) | — | (56,975) | — |
| PSRHBF amortization and changes in normal costs of retiree health benefits due to revised actuarial assumptions[2] | — | 457 | — | 907 |
| Workers' compensation non-cash (benefit) expense[3] | (1,356) | 724 | (2,143) | (1,506) |
| CSRS unfunded liability amortization expense[4] | 464 | 454 | 1,393 | 1,363 |
| FERS unfunded liability amortization expense[5] | 350 | 336 | 1,051 | 1,007 |
| **Controllable income (loss) including partial impact of Postal Service reform legislation and partial retiree health benefits expense** | **$ 1,691** | **$ (1,016)** | **$ 848** | **$ (980)** |
| Impact of Postal Service reform legislation on current year normal costs of retiree health benefits[6] | (2,150) | — | — | — |
| Normal costs of retiree health benefits[7] | — | 975 | — | 2,925 |
| **Controllable (loss) income excluding full impact of Postal Service reform legislation and all retiree health benefits expense** | **$ (459)** | **$ (41)** | **$ 848** | **$ 1,945** |

[1] Represents the reversal of $57.0 billion for past due obligations as of September 30, 2021 and the reversal of $500 million for PSRHBF amortization that would have been due September 30, 2022, but was canceled by the PSRA. These amounts represent the noncontrollable portion of the impact of the Postal Service reform legislation.

[2] Represents expense of $230 million for PSRHBF amortization and expense of $227 million for the increase in the annual normal cost attributable to revised actuarial assumptions and discount rate changes based on OPM's invoices for obligations due September 30, 2021. These amounts represent the noncontrollable portions of retiree health benefits expense.

[3] Represents workers' compensation non-cash (benefit) expense resulting from fluctuations in discount rates, changes in assumptions, valuation of new claims, revaluation of existing claims, and the administrative fee paid to DOL, less current year claim payments.

[4] Expense for the accrual for the annual payment due to the OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. Payments are to be made through 2043 based on the OPM invoices.

[5] Expense for the accrual for the annual payment due to the OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on the OPM invoices.

[6] Represents the reversal for actuarially determined normal cost that would have been due September 30, 2022, but was canceled by the PSRA. This amount represents the controllable portion of the impact of the Postal Service reform legislation.

[7] Represents the accrual for the annual payment due to the PSRHBF by September 30, 2021 for actuarially determined normal cost of retiree health benefits for current employees, less the noncontrollable portion of $227 million. This amount represents the controllable portion of retiree health benefits expense.

Our controllable (loss) income excluding full impact of Postal Service reform legislation and all retiree health benefits expense increased $418 million for the three months ended June 30, 2022, compared to the same period last year. This increase was due to higher other operating expense of $373 million, higher compensation and benefits expense of $198 million, and higher FERS normal costs of $76 million, partially offset by the $257 million increase in operating revenue.

Our controllable (loss) income excluding full impact of Postal Service reform legislation and all retiree health benefits expense decreased $1.1 billion for the nine months ended June 30, 2022, compared to the same period last year. This decrease was due to higher other operating expense of $872 million, higher compensation and benefits expense of $673 million, higher transportation expenses of $342 million, and higher FERS normal costs of $267 million, partially offset by the $951 million increase in operating revenue.

These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses* below.

***OPERATING REVENUE AND VOLUME***

Although we operate as a single segment, we monitor and report revenue by mail classes, products, and shapes. We use the following broad service categories to describe and report on our performance: *First-Class Mail*, *Marketing Mail*, Shipping and Packages, *International Mail*, *Periodicals*, and other services. Additional information on these service categories can be found in *Part I, Item 1. Business, Services* and *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations, Operating Revenue and Volume* in our Annual Report.

The following table summarizes our operating revenue and volume for the three and nine months ended June 30, 2022 and 2021, by each service category:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021[1]** | **2022** | **2021[1]** |
| **Operating Revenue:** | | | | |
| First-Class Mail[2] | $ 5,585 | $ 5,537 | $ 18,319 | $ 17,816 |
| Marketing Mail[3] | 3,774 | 3,450 | 11,983 | 10,843 |
| Shipping and Packages[4] | 7,574 | 7,659 | 24,088 | 24,813 |
| International | 388 | 527 | 1,347 | 1,733 |
| Periodicals | 246 | 237 | 729 | 716 |
| Other[5] | 1,174 | 1,074 | 3,354 | 2,948 |
| **Total operating revenue** | **$ 18,741** | **$ 18,484** | **$ 59,820** | **$ 58,869** |
| **Volume:** | | | | |
| First-Class Mail[2] | 11,518 | 12,138 | 37,708 | 38,940 |
| Marketing Mail[3] | 16,126 | 15,581 | 50,772 | 49,711 |
| Shipping and Packages[4] | 1,740 | 1,832 | 5,475 | 5,871 |
| International | 79 | 93 | 280 | 328 |
| Periodicals | 909 | 939 | 2,633 | 2,819 |
| Other[6] | 78 | 68 | 221 | 231 |
| **Total volume** | **30,450** | **30,651** | **97,089** | **97,900** |

[1] Prior period amounts for certain service categories include reclassifications of amounts amongst service categories to conform to current period presentation. These reclassifications are immaterial for each affected category and have no effect on total operating revenue for the period. These reclassifications are required by Postal Service regulatory requirements and are included in this document for consistency amongst publicly-available information.

[2] Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.

[3] Excludes *Marketing Mail Parcels*.

[4] Includes *Priority Mail*, *USPS Retail Ground*, *Parcel Select Mail*, *Parcel Return Service Mail*, *Marketing Mail Parcels*, *Package Service Mail*, *First-Class Package Service - Retail*, *First-Class Package Service - Commercial,* and *Priority Mail Express*.

[5] Revenue includes *PO Box* and Caller Services, *Certified Mail*, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, *Registered Mail*, Stamped Envelopes and Cards, Money Orders, Passport Services, and other services.

[6] Volume includes Postal Service internal mail and free mail provided to certain congressionally mandated groups.

Revenue for the three and nine months ended June 30, 2022 and 2021, was impacted by the following pricing changes:

- On August 29, 2021, we increased prices on certain Market-Dominant services by an average of 6.8%;
- On January 24, 2021, we implemented the 2021 pricing schedule, increasing prices for certain Market-Dominant and Competitive services;
- On January 9, 2022, we increased prices on certain Competitive services (i.e., *Priority Mail*, *Priority Mail Express,* and military mail) by an average of 3.1%; and
- We also implemented time-limited price increases on certain Shipping and Packages subcategories during peak seasons from October 18, 2020 through December 27, 2020, and again from October 3, 2021 through December 26, 2021, after which prices reverted to the original 2020 and 2021 pricing schedules, respectively.

On July 10, 2022, we increased prices on certain Market-Dominant services by an average of 6.5%.

**First-Class Mail**

For the three months ended June 30, 2022, *First-Class Mail* revenue was essentially flat, despite a volume decline of 620 million pieces, or 5.1%, compared to the same period last year. For the nine months ended June 30, 2022, *First-Class Mail* revenue increased $503 million, or 2.8%, despite a volume decline of 1.2 billion pieces, or 3.2%, compared to the same period last year. Revenue was essentially flat despite the volume declines for the three months ended June 30, 2022 and grew despite the volume declines for the nine months ended June 30, 2022 due to the price increases, as noted above. The most significant factor contributing to the declining trend in *First-Class Mail* volume is the on-going migration from mail to electronic communication and transaction alternatives.

**Marketing Mail**

For the three months ended June 30, 2022*, Marketing Mail* revenue increased $324 million, or 9.4%, and volume increased 545 million pieces, or 3.5%, compared to the same period last year. For the nine months ended June 30, 2022*, Marketing Mail* revenue increased $1.1 billion, or 10.5%, and volume increased 1.1 billion pieces, or 2.1%, compared to the same period last year. Revenue grew due to price increases, as noted above. *Marketing Mail* had experienced steep volume declines at the onset of the pandemic but has been rebounding as the economy continues to recover. *Marketing Mail* has generally proven to be a resilient marketing channel, and its value to U.S. businesses remains strong due to healthy customer returns on investment and better data and technology integration. However, this category has been challenged by commercial mailers' increasing use of digital and mobile advertising, which had been accelerated by the pandemic, and *Marketing Mail* volume remains lower than pre-pandemic levels.

For the three months ended June 30, 2022*,* our revenue and volume from political and election mail increased by more than $130 million and more than 600 million pieces, respectively, compared to the same period last year. If not for the impact of these mailings, *Marketing Mail* revenue would have increased at a lesser rate and *Marketing Mail* volume would have decreased for the three months ended June 30, 2022.

For the nine months ended June 30, 2022*,* our revenue and volume from political and election mail decreased by nearly $220 million and more than 1.6 billion pieces, respectively, compared to the same period last year. If not for the impact of these mailings, *Marketing Mail* revenue and volume would have increased at a greater rate for the nine months ended June 30, 2022.

## Shipping and Packages

The following table summarizes our operating revenue and volume for Shipping and Packages for the three and nine months ended June 30, 2022 and 2021, by each service subcategory:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| **Shipping and Packages Revenue:** | | | | |
| Priority Mail Services[1] | $ 3,080 | $ 3,338 | $ 10,192 | $ 11,158 |
| Parcel Services[2] | 2,334 | 2,309 | 7,125 | 7,316 |
| First-Class Package Services[3] | 1,974 | 1,822 | 6,133 | 5,709 |
| Package Services | 186 | 190 | 638 | 630 |
| **Total Shipping and Packages revenue** | **$ 7,574** | **$ 7,659** | **$ 24,088** | **$ 24,813** |
| **Shipping and Packages Volume:** | | | | |
| Priority Mail Services[1] | 289 | 338 | 956 | 1,117 |
| Parcel Services[2] | 874 | 876 | 2,654 | 2,764 |
| First-Class Package Services[3] | 478 | 502 | 1,504 | 1,596 |
| Package Services | 99 | 116 | 361 | 394 |
| **Total Shipping and Packages volume** | **1,740** | **1,832** | **5,475** | **5,871** |

[1] Includes *Priority Mail, Priority Mail Express* and *USPS Retail Ground.*
[2] Includes *Parcel Select*, *Parcel Return*, and *Marketing Mail Parcels.*
[3] Includes *First-Class Package Services - Retail* and *First-Class Package Services - Commercial.*

For the three months ended June 30, 2022, Shipping and Packages revenue decreased $85 million, or 1.1%, on a volume decline of 5.0%, compared to the same period last year. For the nine months ended June 30, 2022, Shipping and Packages revenue decreased 2.9%, on a volume decline of 6.7%, compared to the same period last year. We believe consumer behavior has evolved during the pandemic and our Shipping and Packages volume is not expected to return to pre-pandemic levels, as the nation has increasingly relied on the safety and convenience of e-commerce. However, the surge in e-commerce has continued to abate as the economy recovers. Furthermore, competition in the overall market has increased as certain major customers have returned to diverting their volume from our network and aggressively pricing their products and services to fill their networks and grow package density.

### *Priority Mail Services*

Priority Mail Services accounted for our largest portion of Shipping and Packages revenue, representing between 41% and 45% of the total for the three and nine months ended June 30, 2022 and 2021. However, Priority Mail Services accounted for between 17% and 19% of the total Shipping and Packages volume for the three and nine months ended June 30, 2022 and 2021.

For the three months ended June 30, 2022, Priority Mail Services revenue decreased 7.7%, on a volume decline of 14.5%, compared to the same period last year. For the nine months ended June 30, 2022, Priority Mail Services revenue decreased 8.7%, on a volume decline of 14.4%, compared to the same period last year. These decreases are reflective of the elevated package levels in the prior year due to the pandemic.

### *Parcel Services*

For the three months ended June 30, 2022, revenue from Parcel Services increased 1.1%, while volume was essentially flat, compared to the same period last year. For the nine months ended June 30, 2022, revenue from Parcel Services decreased 2.6%, on a volume decline of 4.0%, compared to the same period last year. These decreases are reflective of the elevated package levels in the prior year due to the pandemic and growing market competition. Parcel Services is primarily a last-mile service that bypasses much of our infrastructure and therefore is one of our lowest-priced package services.

***First-Class Package Services***
For the three months ended June 30, 2022, First-Class Package Services revenue increased 8.3%, despite a volume decline of 4.8%, compared to the same period last year. For the nine months ended June 30, 2022, First-Class Package Services revenue increased 7.4%, despite a volume decline of 5.8%, compared to the same period last year. The volume changes for both periods are reflective of the elevated package levels in the prior year due to the pandemic, partially offset by the additional volume associated with the COVID-19 test kit distribution initiative. Revenue grew despite this volume decline due to the price increases, as noted above.

***Package Services***
For the three months ended June 30, 2022, Package Services revenue decreased 2.1%, on a volume decline of 14.7%, compared to the same period last year. For the nine months ended June 30, 2022, Package Services revenue increased 1.3%, despite a volume decline of 8.4%, compared to the same period last year. These volume declines are reflective of growing market competition. Revenue declined at a slower rate than volume decline for the three months ended June 30, 2022 and grew despite the volume decline for the nine months ended June 30, 2022 due to price increases and shifts in the mix of services provided.

**International Mail**
For the three months ended June 30, 2022, *International Mail* revenue decreased 26.4%, on a volume decline of 15.1%, compared to the same period last year. For the nine months ended June 30, 2022, *International Mail* revenue decreased 22.3%, with a volume decline of 14.6%, compared to the same period last year. The declines in volume were due to various competitive pricing, political, and economic factors, including the impact of the pandemic on transportation logistics and the global economy in general. Postal administrations have continued to experience disruptions worldwide, including prolonged delays and temporary suspensions, as a result of the pandemic. Our volume was also impacted by shifts in global transportation modes to commercial alternatives. Revenue for the *International Mail* category decreased, largely as a result of the volume decline due to the impacts of the pandemic and shifts in the mix of services provided. However, the overall contribution margin per revenue dollar for the *International Mail* category increased, despite the revenue and volume declines, as a result of our self-declared rates.

**Periodicals**
For the three months ended June 30, 2022, *Periodicals* revenue increased 3.8%, despite a volume decline of 3.2%, compared to the same period last year. For the nine months ended June 30, 2022, *Periodicals* revenue increased 1.8%, despite a volume decline of 6.6%, compared to the same period last year. While the revenue increase is driven by price increases on certain Market-Dominant services, the declining volume is consistent with the systemic decline related to the trend away from hard-copy reading behavior and the shift of advertising away from print.

**Other**
Other services revenue includes ancillary services such as *Certified Mail*, *PO Box* services, and Return Receipt services. Also included in this category are the fluctuations in our deferred revenue estimates, money order services, passport services, signature-on-delivery services, insurance, and our own internal mail, which generates no revenue but has volume that can vary significantly from year to year. In addition, this category contains the non-postage revenue associated with cost reimbursements for the COVID-19 test kit distribution initiative that began in the second quarter of 2022.

Other services revenue increased 9.3% and 13.8% for the three and nine months ended June 30, 2022, respectively, compared to the same periods last year, primarily due to non-postage revenue associated with the COVID-19 test kit distribution initiative noted above. The nine months ended June 30, 2022 also benefited from higher revenue associated with *PO Box* services.

***OPERATING EXPENSES***
In an effort to align our resources with anticipated future mail and package volume, we continue to aggressively manage operating expenses under management's control.

We originally designed our mail processing and distribution network to provide delivery service of *First-Class Mail* within specified delivery areas for a much higher volume of mail than we are required to process and deliver today, and the network's legacy capabilities are not completely aligned to today's mail and package mix and volume. Consequently, certain of our processing and distribution facilities continue to operate at less than full capacity. Our challenge to contain costs is also compounded by the increasing number of delivery points, which, when combined with lower mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from 5.5 pieces in 2007 to 3.0 pieces in 2021, a reduction of 46%.

**Compensation and Benefits**

Compensation and benefits, our largest operating expense category, is significantly impacted by the terms in our collective bargaining agreements. The majority of our employees are covered by collective bargaining agreements. For additional information, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 7 - Commitments and Contingencies* in this document and *Part I, Item 1. Business, Employees* and *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies* in our Annual Report.

Our compensation and benefits expenses consist of costs related to our active career and pre-career employees other than retirement costs associated with U.S. government defined benefit pension programs and retiree health benefits costs, which are further discussed in *Retirement Benefits* and *Retiree Health Benefits*, respectively.

The following table presents compensation and benefits expenses for the three and nine months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| Compensation | $ 10,176 | $ 9,985 | $ 31,586 | $ 30,960 |
| Employee health benefits | 1,298 | 1,326 | 3,924 | 3,934 |
| Social Security | 582 | 568 | 1,809 | 1,762 |
| Thrift Savings Plan | 323 | 308 | 978 | 910 |
| Other | 90 | 84 | 247 | 305 |
| **Total compensation and benefits** | **$ 12,469** | **$ 12,271** | **$ 38,544** | **$ 37,871** |

Overall, our compensation and benefits expenses increased 1.6% and 1.8% for three and nine months ended June 30, 2022, respectively, compared to the same periods last year. These increases are primarily due to contractual wage increases, which include the inflationary impacts on related COLA, partially offset by a lower number of work hours.

***Work Hours***

Work hours are a significant component of compensation expense. We are committed to minimizing costs by using the appropriate mix of work hours based on the complement and the assessment of relative cost for each work hour type. In some instances, the use of overtime hours may be necessary to meet service standard commitments and obligations for mail delivery or to serve as a more cost-effective option. In most instances, the compensation for an overtime hour is less than the cost of a straight-time hour as adding employees results in additional costs for hiring training, and benefits. Furthermore, certain benefit costs are only calculated as a percentage of basic pay and do not increase with higher overtime pay.

For the three months ended June 30, 2022, total work hours were 288 million, a decrease of 3 million hours, or 1.0%, compared to the same period last year, consisting of a decrease of 4 million overtime hours, partially offset by an increase of 1 million straight-time hours. For the nine months ended June 30, 2022, total work hours were 892 million, a decrease of 8 million hours, or 0.9%, compared to the same period last year, consisting of a decrease of 13 million overtime hours, partially offset by an increase of 5 million straight-time hours. The decrease in total work hours for both periods was reflective of the lower Shipping and Packages volume, partially offset by the additional hours associated with the COVID-19 test kit distribution.

***Workforce Composition***
The number of career employees at June 30, 2022 was 509,000, an increase of 500 employees, or 0.1%, compared to the same date a year ago.

The number of pre-career employees at June 30, 2022 was 127,000, a decrease of 5,000 employees, or 3.8%, compared to the same date a year ago.

We continue to convert employees from pre-career to career status, consistent with our *Delivering for America* plan, to create a stable and empowered workforce with the opportunity for career development and growth for all employees. However, our overall workforce decreased slightly reflecting continued reductions in employee augmentation previously required to accommodate the limited employee availability and surge in package volumes during the pandemic.

**Retirement Benefits**
We participate in FERS and CSRS, federal employee defined pension benefit programs administered by the OPM. Our retirement benefits expenses include statutorily required contributions to amortize the unfunded portion of these programs and a percentage of basic pay for our active employees, as established by the OPM. For the three and nine months ended June 30, 2022, our retirement benefits expenses increased 5.5% and 6.3%, respectively, compared to the same periods last year, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization and increased FERS normal costs associated with both contribution rate increases and normal compensation increases.

For additional information, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 8 - Retirement Plans*, in this document and *Part II, Item 8. Financial Statements and Supplementary Data, and Supplementary Data*, *Notes to Financial Statements*, *Note 12 - Retirement Plans* in our Annual Report.

**Retiree Health Benefits**
We participate in federal employee benefit programs for retiree health benefits. The PSRA amended how these benefits are funded. It eliminated the unique obligation to prefund the retiree health benefit program and canceled all past due prefunding obligations. The PSRHBF will continue to pay annuitant premiums for the Postal Service's annuitants until the fund is exhausted. Once exhausted, we will return to a pay-as-you-go methodology, similar to most other federal agencies and private-sector businesses.

The elimination of the prefunding is presented in *Impact of Postal Service reform legislation* in the accompanying unaudited *Statements of Operations as* a benefit of $59.6 billion and $57.0 billion to net income for the three and nine months ended June 30, 2022, respectively.

We will not incur additional retiree health benefit costs until either OPM's annual calculation results in a top-up payment, expected to occur in 2026, or the PSRHBF is exhausted and we are required to make contributions to OPM for annuitant premiums.

The PSRA is also expected to materially impact OPM's valuation of our post-retirement health benefit liability and our unfunded obligations for retiree health benefits. These calculations involve several areas of judgment and estimates could vary significantly depending on the assumptions used by OPM. Medicare integration, the change from prefunding obligations to the pay-as-you-go approach, and updated calculations based on only employees and annuitants who have met the plan's vesting requirements will all impact the liability and unfunded obligations. While these changes are expected to be material, they are not yet estimable. We expect OPM will provide their actuarial valuations in the fourth quarter.

For additional information, see *Part I, Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 9 - Health Benefits Plans*, *Retirees.*

**Workers' Compensation**

Our employees injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by the DOL's Office of Workers' Compensation Programs, as described in our Annual Report.

On a daily basis we focus on costs that can be managed in the course of normal business operations. Certain aspects of workers' compensation can be managed through human resource initiatives, safety measures and training. Other workers' compensation costs cannot be managed in the course of normal business operations and are less predictable, including expenses caused by actuarial revaluation and discount rate changes. We subtract the cash payments made by the DOL on behalf of workers' compensation obligations, which are relatively predictable, from total workers' compensation (benefit) expense in order to determine the non-cash component of workers' compensation (benefit) expense, a non-GAAP financial measure.

The following table presents the components of workers' compensation (benefit) expense, including the cash payments made by the DOL on behalf of our employees for workers' compensation obligations, for the three and nine months ended June 30, 2022 and 2021:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| Impact of discount rate changes | $ (1,312) | $ 581 | $ (2,703) | $ (1,577) |
| Actuarial revaluation of existing cases | 25 | 159 | 624 | 112 |
| Cost of new cases | 243 | 292 | 865 | 917 |
| Administrative fee | 23 | 21 | 68 | 63 |
| **Total workers' compensation (benefit) expense** | **$ (1,021)** | **$ 1,053** | **$ (1,146)** | **$ (485)** |
| Less cash payments made by the DOL on behalf of workers' compensation obligations | (335) | (329) | (997) | (1,021) |
| **Total workers' compensation non-cash (benefit) expense** | **$ (1,356)** | **$ 724** | **$ (2,143)** | **$ (1,506)** |

For the three and nine months ended June 30, 2022, the portion of workers' compensation benefit driven by discount rate changes increased $1.9 billion and $1.1 billion, respectively, compared to the same periods last year.

The combined costs of new workers' compensation cases and revaluation of existing workers' compensation cases decreased by $183 million and increased by $460 million for the three and nine months ended June 30, 2022, respectively, compared to the same periods last year. Changes in actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial estimation, the progression of existing cases, and updated COLA assumptions, which are largely outside of management's control.

For additional information, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 10 - Workers' Compensation* in this document and *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 14 - Workers' Compensation* in our Annual Report.

**Transportation**

Transportation expenses include the costs we incur to transport mail and packages between facilities, comprising highway, air, and international transportation contracts, plus contract delivery services. We rely on third-parties under highway contract routes for the significant majority of long-haul transportation services between facilities. Furthermore, we do not own or operate aircraft, and we rely on third-parties for the air transportation service required to deliver our mail and packages to various destinations within the U.S. and abroad.

With the exception of contract delivery services, our costs to deliver mail and other products to delivery points are not included within *Transportation* but in *Compensation and benefits* for employee costs and in *Other operating expenses* for fuel, vehicle maintenance and repair, and other costs in the accompanying unaudited

*Statements of Operations.* Furthermore, transportation expenses do not include the compensation and related costs of employees responsible for transporting mail and packages between closely located facilities.

Variations in the volume and weight of mail and packages transported, the mode of transportation used, and fuel prices have significant impact on transportation expenses.

Overall, transportation expenses increased 3.6% and 4.7% for the three and nine months ended June 30, 2022, respectively, compared to the same periods last year. The components of transportation expenses for the three and nine months ended June 30, 2022 and 2021, are presented in the following table:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| Highway | $ 1,426 | $ 1,295 | $ 4,584 | $ 4,081 |
| Air | 912 | 909 | 2,695 | 2,737 |
| International | 97 | 148 | 336 | 455 |
| Other | 15 | 12 | 36 | 36 |
| **Total transportation expenses** | **$ 2,450** | **$ 2,364** | **$ 7,651** | **$ 7,309** |

Highway transportation expenses increased 10.1% and 12.3% for the three and nine months ended June 30, 2022, respectively, compared to the same periods last year, primarily due to higher average unit costs per mile and higher average diesel fuel prices. Consistent with the tenet of our *Delivering for America* plan to optimize our transportation networks, our changes in service standards have further facilitated the shift of package volume from air to highway transportation when more economical but allowing for improved reliability and service performance.

Air transportation expenses were essentially flat for the three months ended June 30, 2022 and decreased 1.5% for the nine months ended June 30, 2022, compared to the same periods last year. Despite the impact of higher average jet fuel prices, air transportation expenses were flat or decreased, compared to the same periods last year, due to the overall lower package volumes and the shift of certain volumes to highway transportation.

**<u>Other Operating Expenses</u>**

Other operating expenses for the three and nine months ended June 30, 2022 and 2021, are detailed in the following table:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2022** | **2021** | **2022** | **2021** |
| Supplies and services | $ 722 | $ 694 | $ 2,368 | $ 2,247 |
| Depreciation and amortization | 434 | 416 | 1,261 | 1,254 |
| Rent and utilities | 471 | 423 | 1,457 | 1,322 |
| Information technology and communications | 272 | 246 | 785 | 729 |
| Vehicle maintenance service | 177 | 151 | 515 | 471 |
| Rural carrier equipment maintenance | 159 | 135 | 472 | 419 |
| Fuel - delivery vehicles | 223 | 140 | 581 | 375 |
| Miscellaneous other | 420 | 300 | 1,053 | 803 |
| **Total other operating expenses** | **$ 2,878** | **$ 2,505** | **$ 8,492** | **$ 7,620** |

Total other operating expenses increased by 14.9% and 11.4% for the three and nine months ended June 30, 2022, respectively, compared to the same periods last year. We had an increase in supplies and services, an increase in rent and utilities for our facilities, and an increase in fuel for delivery vehicles due to higher average fuel prices. Aside from these items, the period-over-period changes in the various components of other operating expenses for the three and nine months ended June 30, 2022 reflect ongoing inflation and were relatively immaterial.

## LIQUIDITY AND CAPITAL RESOURCES

### *LIQUIDITY*

Our liquidity consists of unrestricted cash and cash equivalents plus our authorized borrowing capacity under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435 (the "PRA"). For additional information see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 3 - Liquidity.*

As of June 30, 2022 and September 30, 2021, we held unrestricted cash and cash equivalents of $21.3 billion and $23.9 billion, respectively. During the nine months ended June 30, 2022, our average daily liquidity balance was $26.1 billion. This amount represented 131 days of liquidity, which we define as average liquidity divided by our 2021 cash expenses (total expenses excluding depreciation expense, expenses accrued but unpaid for PSRHBF, CSRS and FERS, and the deferred employer contributions for Social Security) and capital expenditures per calendar day.

### *CASH FLOW ANALYSIS*

**Operating Activities**

Net cash used in operating activities was $13 million for the nine months ended June 30, 2022, compared to net cash provided by operating activities of $2.9 billion for the nine months ended June 30, 2021. This change was largely driven by the impact of the Social Security payments deferred under the *CARES Act*. During the first quarter of 2021, we deferred payments of $529 million. During the first quarter of 2022, we paid one half of the $1.8 billion that had been deferred between March 27, 2020 and December 31, 2020. There were no further impacts to the second or third quarters of 2021 or 2022.

**Investing Activities**

We invested $1.2 billion in the purchase of property and equipment for the nine months ended June 30, 2022, which is a decrease of $189 million, or 13.5%, compared to the same period last year. As of the date of this report, the amount of our full year projected capital expenditures is $2.3 billion.

**Financing Activities**

Net cash used in financing activities was $1.0 billion for the nine months ended June 30, 2022, compared to net cash provided by financing activities of $6.6 billion for the nine months ended June 30, 2021. This change in financing activities was due primarily due to $9.6 billion in combined *CARES Act* contributions from the U.S. government in the second and third quarters of 2021. This change was also impacted by a smaller debt repayment of $1.0 billion in April 2022, compared to a $3.0 billion debt repayment in April 2021.

### *LIQUIDITY OUTLOOK*

**2022 and Beyond**

While the enactment of the PSRA is a critical component of the *Delivering for America* plan and restoring the Postal Service to financial sustainability, we continue to face systemic imbalances that make our current operating model unsustainable. Although our liquidity has generally increased since 2012, it remains insufficient to pay all obligations, to make capital investments necessary for continuity of operations, and to prepare for unexpected contingencies in the medium or long-term. For additional information on our operating challenges and constraints and the relevant mitigating circumstances, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 3 - Liquidity.*

**Legally Required Obligations**

We have estimated obligations for unfunded retirement benefits of $3.3 billion due on September 30, 2022 and a workers' compensation payment of $1.3 billion due in October 2022, representing the workers' compensation claims paid by DOL for the chargeback year July 1, 2021 to June 30, 2022, plus the estimated administrative fee.

The *CARES Act* offered certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020 through December 31, 2020. In accordance with this provision, we had deferred $1.8 billion as of December 31, 2020. One half of these deferred payments was due and paid on December 31, 2021, while the other half of these deferred payments is due by December 31, 2022.

**Capital Investments**

We currently estimate that our required cash outlays for capital investments necessary to ensure that we can continue to perform our universal service mission will amount to $1.1 billion for the remainder of 2022, and an additional $17.9 billion for years 2023 through 2026, depending on the timing of investments to replace our delivery fleet and other appropriate capital assets, as outlined in our *Delivering for America* plan. Although our future projections include these capital cash outlays, the severity and duration of the pandemic may impact these outlays, and the future cash flow from operations alone may not generate the cash needed to enable us to fully fund such necessary capital investments.

## LEGISLATIVE UPDATE

As a self-funded independent establishment of the executive branch, our business model and operations are significantly influenced by congressional oversight and legislation.

### *BOARD OF GOVERNORS*

Consistent with our independent self-funded design, Congress intended for us to be governed by an eleven-member Board of Governors ("Board"), which consists of our Postmaster General, Deputy Postmaster General, and nine independent governors ("Governors"). The President appoints the Governors with the advice and consent of the U.S. Senate ("Senate").

On May 12, 2022, the Senate confirmed the nominations of Dan Tangherlini and Derek Kan to be Governors for terms expiring December 2027 and December 2028, respectively.

Governor Tangherlini was sworn in on May 17, 2022. Governor Kan was sworn in on May 19, 2022.

As of the date of this report, we have a full Board.

### *APPROPRIATIONS*

On July 28, 2022, the *Financial Services and General Government Appropriations Act, 2023* (S. 4685) was introduced in the Senate. The bill includes $50.25 million in funding for the Postal Service for free mail for the blind and overseas voting. S. 4685 prohibits any of the appropriated funds from being used to consolidate or close small rural or other small Post Offices and requires the continued sale of the *Multinational Species Conservation Funds* Semipostal Stamp. There has been no further action on this bill since its introduction.

On June 24, 2022, the U.S. House Committee on Appropriations approved the *Financial Services and General Government Appropriations Act, 2023* (H.R. 8254), which includes $56.25 million in funding for free mail for the blind and overseas voting and other provisions. The bill also prohibits any of the appropriated funds from being used to consolidate or close rural or other small Post Offices and requires the continued sale of the *Multinational Species Conservation Funds* Semipostal Stamp. H.R. 8254 was incorporated into a six-bill appropriations package (H.R. 8294), which passed the U.S. House of Representatives ("House") on July 20, 2022.

In a non-binding report to accompany H.R. 8254 (H. Rept. 117-393), the U.S. House Committee on Appropriations included several additional Postal Service-related directives, encouragements, and expressions.

### *LEGISLATION*

On August 7, 2022, the Senate passed the *Inflation Reduction Act of 2022* (S. Amendment 5194), which was introduced as an amendment in the nature of a substitute for the *Build Back Better Act* (H.R. 5376). This budget reconciliation package with tax, health care, and climate provisions also provides $1.29 billion in funding to the Postal Service for the procurement of zero-emission delivery vehicles and $1.71 billion in funding to the Postal Service for the purchase, design, and installation of the requisite infrastructure to support zero-emission delivery vehicles at facilities that the Postal Service owns or leases from non-Federal entities. Both amounts, which will be deposited into the Postal Service Fund, remain available through September 30, 2031. At the time of this report, the Senate-passed measure is awaiting House consideration.

On May 11, 2022, the House Committee on Oversight and Reform ("COR") reported the *Ensuring an Accurate Postal Fleet Electrification Act* (H.R. 7682) favorably to the full House. The bill, introduced on May 6, 2022, would invalidate the Postal Service's Next Generation Delivery Vehicle ("NGDV") Environmental Impact Statement ("EIS"), and prohibit the Postal Service from moving forward with any NGDV procurement until a revised EIS compliant with the statutory requirements in the *National Environmental Policy Act* is completed. There has been no further action on this bill since the COR markup.

On March 22, 2022, the *Postal Banking Act* (S. 3891), was introduced in the Senate. The bill would grant authority for the Postal Service to offer services such as checking and interest-bearing savings accounts, transactional services, including debit cards, automated teller machines, online checking accounts, check-cashing services, automatic bill-pay, mobile banking, and other products or partnerships that allow users to engage in the financial services. It would also allow the Postal Service to provide low-cost, small-dollar loans. There has been no further action on this bill since its introduction.

On March 9, 2022, the *Green Postal Service Fleet Act of 2022 (*H.R. 7018), was introduced in the House. The bill prohibits the Postal Service from carrying out the contract with Oshkosh Defense for the procurement of postal delivery vehicles unless each purchase includes at least 75 percent electric or zero-emission vehicles. There has been no further action on this bill since its introduction.

On May 25, 2021, the *Postal Service Electric Fleet Authorization Act of 2021* (H.R. 3521), a bill to modernize our fleet of delivery vehicles with electric or zero-emission vehicles, was introduced in the House. The bill would authorize $8.0 billion in funding for the acquisition of vehicles and the infrastructure required to operate a fleet of electric vehicles. There has been no further action on this bill since its introduction.

### *POSTAL SERVICE REFORM*

On April 6, 2022, the President signed the *Postal Service Reform Act of 2022* ("PSRA"), enacted as Public Law 117-108. Beyond the financial impacts discussed in *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 1 - Basis of Presentation*, this law establishes the Postal Service Health Benefits Program for the Postal Service's employees and retirees and requires their enrollment in Medicare; provides authority for the provision of certain services to state, local, and tribal governments; requires the Postal Service to develop and maintain a publicly available dashboard to track service performance and to report regularly on its operations and financial condition; codifies delivery frequency at six days per week in those areas where it is currently provided; and requires that the Postal Service maintain an integrated delivery network for mail and packages.

## FAIR VALUE MEASUREMENTS

As required by authoritative accounting literature, certain fair value disclosures for the periods ended June 30, 2022 and September 30, 2021, are discussed in *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements, Note 12 - Fair Value Measurement*. We did not recognize gains as a result of valuation measurements during the three and nine months ended June 30, 2022. All recognized losses have been incorporated into our financial statements as of June 30, 2022.

## RELATED PARTY TRANSACTIONS

As disclosed throughout this quarterly report, we have significant transactions with other U.S. government entities, which are considered related parties in accordance with GAAP. For a more detailed description, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 5 - Related Parties*.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, alternative policies or estimation techniques may 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 *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates* of our Annual Report. Management normally discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board.

## RECENT ACCOUNTING STANDARDS

See *Item 1. Financial Statements and Supplementary Data*, *Notes to Unaudited Financial Statements*, *Note 2 - Recent Accounting Pronouncements*, for a description of recently announced accounting standards.

## 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 rates, 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, as well as 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 have not purchased or held derivative financial instruments for speculative purposes.

We also have provisions in our debt agreements that allow us to prepay our $10.0 billion debt with the Federal Financing Bank at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the U.S. Treasury market at the time of repayment.

See *Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk* in our Annual Report for additional information.

## ITEM 4. CONTROLS AND PROCEDURES

We are responsible for the preparation, integrity, and fair presentation of our financial statements.

## 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 PAEA 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 the Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of June 30, 2022. Based upon and as of the date of the evaluation, the Postmaster General and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

## INTERNAL CONTROLS

We have made no changes in our internal control over financial reporting during the three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings affecting us, please refer to *Part I, Financial Information, Item 1. Financial Statements*, *Notes to Unaudited Financial Statements, Note 7 - Commitments and Contingencies*, as well as *Part I, Item 3. Legal Proceedings* and *Part II, Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies* in our Annual Report.

## ITEM 1A. RISK FACTORS

No material changes have transpired in our risk factors from the disclosures in *Part I, Item 1A. Risk Factors* in our Annual Report.

## ITEM 6. EXHIBITS

| Exhibit Number | Exhibit Description |
|---|---|
| 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/ Louis DeJoy

Louis DeJoy

Postmaster General and Chief Executive Officer

Date: August 9, 2022

/s/ Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

Date: August 9, 2022

**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, Louis DeJoy, 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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors:

    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, 2022

/s/ Louis DeJoy

Louis DeJoy

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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service’s Board of Governors:
    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, 2022

/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, 2022, (the "Report"), I, Louis DeJoy, 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.

Date: August 9, 2022

/s/ Louis DeJoy
Louis DeJoy
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, 2022, (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.

Date: August 9, 2022

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