UNITED STATES
POSTAL REGULATORY COMMISSION
Washington, D.C. 20268-0001
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended MARCH 31, 2015
or

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

For the Transition Period from ________to________

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Not Applicable ☑

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

The aggregate market value of shares of common stock held by non-affiliates as of March 31, 2015: N/A

The number of shares of common stock outstanding as of May 7, 2015: N/A

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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 March 31, 2015	Three Months Ended March 31, 2014	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014
Revenue				
Operating revenue	$ 16,946	$ 16,723	$ 35,680	$ 34,680
Other revenue	24	4	51	41
Total revenue	**16,970**	**16,727**	**35,731**	**34,721**
Operating expenses				
Compensation and benefits	11,588	11,293	24,009	23,395
Retiree health benefits	2,205	2,170	4,389	4,323
Workers' compensation	706	1,022	1,492	1,022
Transportation	1,595	1,588	3,393	3,367
Other operating expenses	2,305	2,486	4,591	4,758
Total operating expenses	**18,399**	**18,559**	**37,874**	**36,865**
Loss from operations	**(1,429)**	**(1,832)**	**(2,143)**	**(2,144)**
Interest and investment income	6	6	12	12
Interest expense	(46)	(46)	(92)	(94)
Net loss	**$ (1,469)**	**$ (1,872)**	**$ (2,223)**	**$ (2,226)**

See accompanying notes to the unaudited financial statements.

United States Postal Service
Balance Sheets

(in millions)	March 31, 2015	September 30, 2014
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 6,091	$ 4,906
Restricted cash	241	246
Receivables, net	903	930
Supplies, advances and prepayments	156	122
Total current assets	**7,391**	**6,204**
Property and equipment, net	16,065	16,338
Other assets	413	420
Total assets	**$ 23,869**	**$ 22,962**
Current Liabilities:		
Compensation and benefits	$ 1,680	$ 1,506
Retiree health benefits	25,269	22,417
Workers' compensation costs, current	1,390	1,320
Payables and accrued expenses	1,865	2,023
Deferred revenue-prepaid postage	3,342	3,064
Customer deposit accounts	1,154	1,191
Other current liabilities	1,170	1,221
Current portion of debt	9,800	9,800
Total current liabilities	**45,670**	**42,542**
Workers' compensation costs, noncurrent	17,170	17,102
Employees' accumulated leave, noncurrent	1,920	1,982
Other noncurrent liabilities	1,463	1,467
Noncurrent portion of debt	5,200	5,200
Total liabilities	**71,423**	**68,293**
Net Deficiency:		
Capital contributions of the U.S. Government	3,132	3,132
Deficit since 1971 reorganization	(50,686)	(48,463)
Total net deficiency	**(47,554)**	**(45,331)**
Total liabilities and net deficiency	**$ 23,869**	**$ 22,962**

See accompanying notes to the unaudited financial statements.

United States Postal Service
Statements of Cash Flows
(Unaudited)

(in millions)	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014
Cash flows from operating activities:		
Net loss	$ (2,223)	$ (2,226)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	869	929
Gain on disposals of property and equipment, net	(22)	(22)
Decrease (increase) in other assets	7	(24)
Increase (decrease) in noncurrent workers' compensation	68	(320)
Decrease in noncurrent deferred appropriations and other revenue	(6)	(37)
Decrease in other noncurrent liabilities	(41)	(112)
Changes in current assets and liabilities:		
Receivables, net	27	101
Other assets	(34)	(28)
Retiree health benefits	2,852	2,799
Payables, accrued expenses and other	108	208
Deferred revenue-prepaid postage, prepaid box rents and other	220	467
Net cash provided by operating activities	**1,825**	**1,735**
Cash flows from investing activities:		
Change in restricted cash	5	39
Purchases of property and equipment	(629)	(333)
Proceeds from sales of property and equipment	14	35
Net cash used in investing activities	**(610)**	**(259)**
Cash flows from financing activities:		
Issuance of notes payable	3,000	3,000
Payments on notes payable	(3,000)	(3,000)
Payments on capital lease obligations and other	(30)	(66)
Net cash used in financing activities	**(30)**	**(66)**
Net increase in cash and cash equivalents	1,185	1,410
Cash and cash equivalents at beginning of period	4,906	2,326
Cash and cash equivalents at end of period	**$ 6,091**	**$ 3,736**
Supplemental cash flow disclosures:		
Cash paid for interest	$ 91	$ 95

See accompanying notes to the unaudited financial statements.

Note 1- Basis of Presentation

The United States Postal Service (the "Postal Service") began operations on July 1, 1971 in accordance with the provisions of the *Postal Reorganization Act,* which established it as an "independent establishment of the executive branch of the Government of the United States." It succeeded the cabinet-level Post Office Department, a U.S. government department established in 1792. The Postal Service does not receive tax dollars for operating expenses and relies solely on the sale of postage, products and services to fund its operations.

The *Postal Accountability and Enhancement Act*, Public Law 109-435 ("PAEA"), classifies Postal Service "products" into two broad categories: Market-Dominant and Competitive "products." However, the term "services" is used in this document for consistency with other descriptions of "services" offered by the Postal Service. These products and services are sold by approximately 32,000 post offices, stations and branches, plus a large network of Contract Postal Units, Community Post Offices, Village Post Offices, commercial outlets which sell stamps on the Postal Service's behalf and on its website www.usps.com.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("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 ("SEC") Regulation S-X. These financial statements should be read in conjunction with the Postal Service's financial statements for the year ended September 30, 2014, included in its Annual Report on Form 10-K filed with the Postal Regulatory Commission ("PRC") on December 5, 2014, and do not include all information and footnotes which are normally included in the Annual Report on Form 10-K. Except as otherwise specified, all references to years are to the fiscal year beginning October 1 and ending September 30, and quarters are quarters within fiscal years 2015 and 2014.

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 March 31, 2015, and the results of operations for the three and six months ended March 31, 2015, and 2014, and the cash flows for the six months ended March 31, 2015, and 2014. Operating results for the three and six months ended March 31, 2015, are not necessarily indicative of the results that may be expected for all of 2015. Subsequent events have been evaluated through the date the Postal Service filed its Form 10-Q for the quarter ended March 31, 2015, with the PRC.

The Postal Service has significant transactions with other U.S. government entities. These are more fully discussed in *Note 3-Related Parties*.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09"). The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is effective for fiscal years and interim periods within those years, beginning after December 15, 2016. Early adoption was not permitted. In April 2015, FASB voted to propose a delay in the effective date of ASU 2014-09. The proposed new effective date will be annual reporting periods beginning after December 15, 2017. The proposed new guidance allows early adoption as of the original effective date of December 15, 2016. The Postal Service is currently evaluating the impact of adopting this standard on its financial statements, which is not known or reasonably estimable at this time.

In August 2014, the FASB issued Accounting Standards Update 2014-15 *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). The new standard requires management to perform interim and annual assessments of an entity's ability to continue to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter, with early adoption permitted. Management does not believe the adoption of the new standard will have a significant impact on results of operations.

Note 2- Liquidity

The Postal Service generates its cash almost entirely through the sale of postal products and services. It holds its 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. Department of Treasury. As of March 31, 2015, and September 30, 2014, the Postal Service held cash and cash equivalents of $6.1 billion and $4.9 billion, respectively.

Debt

The Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury, holds all of the Postal Service's debt, which consists of two revolving credit facilities and fixed and floating-rate notes with various maturities. The aggregate principal balance of debt outstanding was $15.0 billion as of March 31, 2015, and September 30, 2014, which is the maximum borrowing amount allowed under the Postal Service's statutory debt ceiling. The Postal Service has not increased its debt since September 2012 and has maintained $15.0 billion in outstanding debt since that time.

The two revolving credit facilities referenced above have interest rates determined by the U.S. Department of Treasury each business day and enable the Postal Service to draw up to $4.0 billion in total. As of March 31, 2015, and September 30, 2014, these facilities were fully drawn, had maturity dates of April 27, 2015, and were included in the current portion of debt. These facilities were renewed at their expiration and now mature on April 19, 2016.

Liquidity Concerns

The Postal Service is constrained by laws and regulations which restrict its revenue sources, and, as noted above, it has reached its borrowing capacity under its statutory debt ceiling. Although cash balances have increased from 2014 amounts, they remain insufficient to support an organization with approximately $73 billion in annual operating expenses. The Postal Service's average daily cash balance during the six months ended March 31, 2015, was $6.2 billion, which represents approximately 22 days of operating cash. Considering its statutory debt ceiling, the current level of available liquidity could be insufficient to support operations in the event of another significant downturn in the U.S. economy.

The Postal Service incurred net losses of $1.5 billion and $2.2 billion for the three and six months ended March 31, 2015, respectively, and has incurred cumulative losses of $53.9 billion since 2007. As a result of these ongoing losses, the Postal Service does not have sufficient cash balances to meet all of its existing legal obligations, to make reductions in its debt and to make critical investments in its infrastructure that were deferred in recent years.

The Postal Service continues to incur significant losses, in part due to the PAEA-mandated Postal Service Retiree Health Benefits Fund ("PSRHBF") prefunding requirement. Such a requirement to prefund retiree healthcare obligations is not imposed on most other federal entities or private-sector businesses. In addition to the $22.4 billion of prefunding payments that were due but not paid since 2012, the Postal Service accrued expenses of $1.4 billion and $2.9 billion for the three and six months ended March 31, 2015, respectively, for its required prefunding payment of $5.7 billion due by September 30, 2015. As of the date of this report, the Postal Service has not incurred any penalties or negative consequences resulting from its inability to make the PSRHBF prefunding payments. In addition to the prefunding requirement, the Postal Service continues to pay the employer share of health insurance premiums for its retirees, which was $780 million and $1.5 billion during the three and six months ended March 31, 2015, respectively.

Another significant factor contributing to Postal Service losses is the ongoing decline in the volume of First-Class Mail, which generates a higher profit margin than other classes of mail. This decline is the result of the ongoing effects of the Great Recession, as well as changes in consumers' and businesses' use of mail resulting from the continuing migration to electronic communication and transactional alternatives, which was exacerbated by the Great Recession. This is compounded by the increase in the number of delivery points, which, when combined with the impact of the reduction in hard-copy mail volume, has resulted in a drop of 31% in the average number of pieces delivered per delivery point per day from 5.5 pieces in 2007 to 3.8 pieces in 2014.

Furthermore, the Postal Service network was designed to provide overnight delivery service of First-Class Mail within specified delivery areas, and these legacy network capabilities are excessive relative to today's mail volume. The Postal Service anticipates that diversion of hard copy mail will continue to reduce First-Class Mail volume and revenue for the foreseeable future. Although increased Shipping and Package volume has offset some of these declines, the Postal Service must earn $3 in Shipping and Package revenue to replace the profit lost from each $1 of First-Class Mail revenue.

In December 2013, the PRC ruled that the Postal Service could collect an exigent surcharge on Market-Dominant products beginning in January 2014, until such time as it recovers $3.2 billion in incremental revenue from the surcharge. This incremental revenue is in addition to revenue that the Postal Service would generate solely from a 1.7% price increase based on the Consumer Price Index for All Urban Consumers ("CPI-U"). As reported to the PRC on March 27, 2015, the Postal Service had collected approximately $2.0 billion in such incremental revenue as of December 31, 2014, and it currently estimates that the recovery of the entire $3.2 billion in incremental revenue will occur later in 2015. Also in January 2014, the Postal Service increased prices an average of 2.4% for Competitive services.

The Postal Service appealed the PRC's ruling on the exigent price increase to the U.S. Court of Appeals for the District of Columbia, arguing that the PRC erred in its decision to limit the incremental revenue from the exigent surcharge to $3.2 billion. Some mailers have also filed an appeal seeking relief from the PRC's decision to allow any exigent price increase. The Postal Service's liquidity will be adversely impacted if the exigent price increase expires, which would result in the reduction of most product prices.

With the exception of the exigent price increase discussed above, Market-Dominant services, which account for approximately 78% of the Postal Service's annual operating revenues, are subject to a price cap based on the CPI-U. While the vast majority of revenues are constrained by the price cap, costs are not statutorily constrained. Contractual obligations granting cost-of-living adjustments ("COLA") and general wage increases, along with increases in costs for mandatory federal benefits programs, such as retiree health benefits and the Federal Employees Retirement System ("FERS"), have continued to escalate expenses. Health benefits and retirement cost increases alone are expected to add approximately $700 million to 2015 expenses. Although the annual PSRHBF prefunding mandate ends in 2016, the PAEA requires the Postal Service to fund the normal costs and amortization of the unfunded liabilities of the PSRHBF and the Civil Service Retirement System ("CSRS") from 2017 through 2056.

Mitigating Circumstances

The Postal Service's status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of approximately $68 billion, generated almost entirely through the sale of postal products and services, a financially-sound Postal Service continues to be vital to 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.

Millions of check payments, letters and packages upon which customers depend are mailed through the Postal Service network on a daily basis. Disruption of the mail would cause undue hardship to businesses and consumers, and 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 Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges it faces and the legislative changes that are required to restore its financial stability. However, the possibility of a restructuring of the pension and benefit payment schedules or the enactment of any other legislation that benefits the Postal Service in the foreseeable future remains uncertain.

Note 3- Related Parties

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities. Related-party receivables and advances were $87 million and $90 million as of March 31, 2015, and September 30, 2014, respectively, which are included in "Receivables, net" in the accompanying Balance Sheets. As discussed in greater detail in *Note 9- Fair Value Measurement*, the carrying amount of revenue forgone was $413 million and $420 million as of March 31, 2015, and September 30, 2014, respectively, and is included in "*Other assets*" in the accompanying Balance Sheets. In addition, the Postal Service held restricted cash that it received as a result of various legal proceedings in the federal judiciary or from certain arrangements with the U.S. Department of Justice of $241 million and $246 million as of March 31, 2015, and September 30, 2014, respectively.

Excluding $9.8 billion in debt, related-party current liabilities, which include the PSRHBF obligations discussed in *Note 7- Health Benefit Plans*, were $26.8 billion and $23.9 billion as of March 31, 2015, and September 30, 2014, respectively. Excluding $5.2 billion in debt, related-party noncurrent liabilities, which consist primarily of workers' compensation and other noncurrent liabilities, were $17.2 billion as of March 31, 2015, and September 30, 2014. As discussed in greater detail in *Note 2- Liquidity*, the Postal Service's debt, borrowed from the FFB, was $15.0 billion as of March 31, 2015, and September 30, 2014.

Related-party operating revenue from other U.S. government entities was $240 million and $495 million for the three and six months ended March 31, 2015, respectively. Operating revenue was $225 million and $429 million for the three and six months ended March 31, 2014, respectively. These items are included in "*Operating revenue*" in the accompanying unaudited Statements of Operations.

Related-party operating expenses, consisting primarily of benefits, retiree health benefits and workers' compensation, were $4.4 billion and $8.9 billion for the three and six months ended March 31, 2015, respectively. Operating expenses were $4.2 billion and $8.6 billion for the three and six months ended March 31, 2014, respectively. These items are included in "*Operating expenses*" in the accompanying unaudited Statements of Operations.

Related-party interest income, generated on cash and equivalents held with the Federal Reserve Bank of New York or short-term investments in U.S. Treasury instruments, was $6 million and $11 million for three and six months ended March 31, 2015, respectively, and $6 million and $12 million for the three and six months ended March 31, 2014, respectively. These items are included in *"Interest and investment income"* in the accompanying unaudited Statements of Operations.

Related-party interest expense, payable on debt issued to the FFB, was $45 million and $90 million for three and six months ended March 31, 2015, respectively, and $45 million and $92 million for the three and six months ended March 31, 2014, respectively. These items are included in *"Interest expense"* in the accompanying unaudited Statements of Operations.

Note 4- Property and Equipment, net

Property and equipment, net, are recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during both the three and six months ended March 31, 2015, and 2014, was not significant. Property and equipment, net, are depreciated over estimated useful lives that range from 3 to 40 years using the straight-line method.

Assets classified as held for sale were approximately $98 million and $97 million as of March 31, 2015, and September 30, 2014, respectively, and are included within "*Property and equipment, net*" in the accompanying Balance Sheets. Impairment charges were de minimis for both the three and six months ended March 31, 2015, and 2014. Depreciation and amortization expense was $427 million and $869 million for the three and six months ended March 31, 2015, respectively, and $466 million and $929 million for the three and six months ended March 31, 2014, respectively, which are included within "*Other operating expenses*" in the accompanying unaudited Statements of Operations.

Deferred gains on sales of property are recognized in income, and the assets sold are removed from the accounting records when arrangements requiring continued Postal Service involvement in the properties, such as lease-backs, have expired. Deferred gains recognized in income were $17 million and $38 million for the three and six months ended March 31, 2015, respectively, and are included within "*Other revenue*" in the accompanying unaudited Statements of Operations. There were no deferred gains recognized in income for the three months ended March 31, 2014. The deferred gains recognized in income for the six months ended March 31, 2014, was $6 million.

Note 5- Contingencies

Contingent liabilities of the Postal Service consist primarily of claims and lawsuits resulting from labor, employment, environmental matters, property damage claims and injuries on Postal Service properties and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Any pre-existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates.

Based on available information, the Postal Service has made adequate provision for probable losses arising from all claims and lawsuits. The current portion of the contingent liability was $144 million and $158 million at March 31, 2015, and September 30, 2014, respectively, and is included in "*Payables and accrued expenses*" in the accompanying Balance Sheets. The noncurrent portion of this liability was $796 million and $776 million at March 31, 2015, and September 30, 2014, respectively, and is included in "*Other noncurrent liabilities*" in the accompanying Balance Sheets.

As of March 31, 2015, contingent liabilities consisted of $858 million associated with labor and employment matters, $43 million with asset retirement obligations, $38 million with tort matters and $1 million with contractual matters, for a total of $940 million. As of September 30, 2014, contingent liabilities consisted of $839 million associated with labor and employment matters, $48 million with asset retirement obligations, $45 million with tort matters and $2 million with contractual matters, for a total of $934 million.

In addition to the amounts accrued in the financial statements, the Postal Service has claims and lawsuits which it deems reasonably possible of an unfavorable outcome, which ranged from $350 million to $925 million at March 31, 2015, and $325 million to $925 million at September 30, 2014. No accruals for these reasonably possible losses have been recorded in the financial statements.

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 business, financial condition or operations.

Note 6- Retirement Benefit Plans

Pension Programs

The majority of employees participate in one of two U.S. government pension programs, the CSRS or the FERS, based on the starting date of their employment with the Postal Service or other U.S. government entities. Employee and employer contributions for these programs are administered by the Office of Personnel Management ("OPM"). As government-sponsored benefit plans, the CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Employees may also participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. The Postal Service cannot direct the costs, benefits or funding requirements of the plans. Accordingly, the Postal Service's participation in these plans is accounted for under multiemployer plan accounting rules.

The Postal Service's annual retirement expense, which includes the costs of FERS, TSP and the employer's share of Social Security taxes, amounts to approximately $6.2 billion. For the three months ended March 31, 2015, and 2014, retirement expenses were $1.5 billion and $1.4 billion, respectively. For the six months ended March 31, 2015, and 2014, retirement expenses were $3.1 billion and $2.9 billion, respectively. Retirement expense is included in "*Compensation and benefits*" in the accompanying unaudited Statements of Operations.

Employer Contributions

PAEA suspended the Postal Service's contributions to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code until 2017. At that time, OPM will determine whether additional funding is required for the benefit of the Postal Services' CSRS retirees. As a result, the Postal Service's employer contribution rate for CSRS was zero for the three and six months ended March 31, 2015, and 2014.

As required by law, the Postal Service's contribution rates were determined to be 13.2% and 11.9% of base salary for most current FERS employees for 2015 and 2014, respectively. The Postal Service is also required to contribute to the TSP for FERS employees by contributing 1% of basic pay and to match voluntary employee contributions up to an additional 4% of basic pay.

Note 7- Health Benefit Plans

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

Current Employees

The Postal Service paid approximately 75% and 76% of FEHB premium costs for current employees during the three months ended March 31, 2015, and 2014, respectively. The Postal Service paid approximately 75% and 77% of the premium costs during the six months ended March 31, 2015, and 2014, respectively. Postal Service employee healthcare expense was $1.2 billion during each of the three months ended March 31, 2015, and 2014. Postal Service employee healthcare expense was $2.4 billion during each of the six months ended March 31, 2015, and 2014. These expenses are included in "*Compensation and benefits*" in the accompanying unaudited Statements of Operations.

Retirees

Employees who participate in the FEHB for the five years immediately preceding their retirement may receive benefits from the plan during their retirement. The Postal Service is required to pay a portion of retiree health insurance premiums, based on each employee's length of federal civilian service occurring after July 1, 1971, for retired employees who participate in the FEHB and who retired on or after that date, and their survivors. The employer's share of premium costs for retirees and their survivors is set by law and is not subject to negotiation with the unions.

Since 2007, the PAEA has mandated the Postal Service to prefund retiree health benefits by depositing funds each year into the PSRHBF through 2016. This prefunding requirement is not imposed on most U.S. government entities or private sector businesses. The Postal Service has recorded $25.3 billion as a current liability in "*Retiree health benefits*" in the accompanying Balance Sheets as of March 31, 2015, representing payment defaults of $22.4 billion from 2012 through 2014, and $2.9 billion accrued as of March 31, 2015 related to the $5.7 billion payment due by September 30, 2015. The PAEA also obligates the Postal Service to make an additional annual payment of $5.8 billion by September 30, 2016.

Although PAEA dictates the annual prefunding requirements through 2016, these amounts and the timing of funding could change at any time with the enactment of a new law or the amendment of existing law. However, given its liquidity concerns, the Postal Service has and will likely continue to default on these prepayments in order to fulfill its other statutory obligations, including the obligation to provide universal mail service to the nation (as discussed in *Note 2- Liquidity*). PAEA contains no provisions addressing a payment default.

The unfunded PSRHBF commitment including past defaulted amounts and future obligations totals $33.9 billion. Beginning in 2017, the Postal Service's share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF. Although 2016 is the final year the Postal Service is mandated to make its prefunding payment, the statute requires that OPM perform an actuarial valuation no later than 2017 to determine if additional payments into the PSRHBF are required, and if so, OPM must design an amortization schedule under which the Postal Service will fully fund any remaining liability by 2056.

In addition to the prefunding requirement, the Postal Service continues to pay approximately $3.1 billion annually for the employer share of its retiree health insurance premiums. These totaled $780 million and $1.5 billion for the three and six months ended March 31, 2015, respectively. These totaled $745 million and $1.5 billion for the three and six months ended March 31, 2014, respectively.

Note 8- Workers' Compensation

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

The liability for estimated future workers' compensation payments is recorded at its present value. To record the liability and annual expense, the Postal Service estimates the amount of funding that would need to be invested at current interest rates in order to fully fund all estimated future payments. Discount (interest) rates and inflation rates are updated as of the date of the financial statements to determine the present value of the workers' compensation liability at the balance sheet dates. The impact of changes in the discount rates and inflation rates is included in operating expenses in the accompanying unaudited Statements of Operations.

The Postal Service uses an estimation model that combines four generally-accepted actuarial valuation techniques to forecast future claim payments based upon past claim-payment experience and exposure to claims as measured by total employee hours worked. For employees who have been injured and are eligible for benefits, the Postal Service records a liability for the present value of estimated future payments for those individuals or their qualified survivors. The estimated total cost of claims is based on the date of the injury, the pattern of historical payments, frequency or severity of the claim-related injuries and the expected trend in future costs.

The estimation of the liability is highly sensitive to changes in discount rates used to calculate the present value of the future obligation. The inflation rates include long-term COLA rates for compensation claims and medical rates for medical claims. A 1% increase in the discount rate would decrease the March 31, 2015, liability and related expense by approximately $2.0 billion. A 1% decrease in the discount rate would increase the March 31, 2015, liability and related expense by approximately $2.5 billion.

The following table presents the inflation and discount rates used to estimate the liability as of the dates noted:

	March 31, 2015	September 30, 2014
Compensation claims liability		
Discount Rate	2.2%	2.8%
Inflation Rate	2.7%	2.9%
Medical claims liability		
Discount Rate	2.2%	2.7%
Inflation Rate	6.7%	9.0%

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases and the progression of existing cases. The present value of the total liability for future workers' compensation payments was $18.6 billion and $18.4 billion at March 31, 2015, and September 30, 2014, respectively. The current portion of the liability was $1.4 billion and $1.3 billion at March 31, 2015, and September 30, 2014, respectively. On October 15, 2014, the Postal Service made its annual payment to the DOL of $1.4 billion.

The following table presents the components of workers' compensation expense for the three and six months ended March 31, 2015, and 2014:

(in millions)	Three Months Ended		Six Months Ended	
	2015	**2014**	**2015**	**2014**
Impact of discount rate changes	$ 401	$ 541	$ 1,217	$ —
Actuarial valuation of new cases and revaluation of existing cases	287	464	240	988
Administrative fee	18	17	35	34
Total workers' compensation expense	**$ 706**	**$ 1,022**	**$ 1,492**	**$ 1,022**

Change in Estimate

The Postal Service revised the calculation used in its valuation model to determine the fair value of workers' compensation liability beginning in the first quarter of 2015. As of December 31, 2014, the impact of the change in estimate decreased the workers' compensation liability and operating expenses for the three months ended December 31, 2014, by $353 million. This was considered a change in accounting estimate under GAAP. Management believes this change allows greater flexibility to select factors that reflect current injury trends and provides a more accurate estimate of workers' compensation liability. The Postal Service does not report the impact of the change in estimate beyond what was reported as of December 31, 2014.

Note 9- Fair Value Measurement

The Postal Service defines fair value based on the price that would be received upon sale of an asset or the price that would be paid to transfer a liability between unrelated parties. The carrying amounts of the short-term financial instruments of the Postal Service, including cash, accounts receivable, accounts payable and accrued expenses, approximate fair value due to their short-term maturities. Noncurrent receivables and noncurrent debt are measured using inputs of the fair value hierarchy model. Property and equipment are stated at cost, less accumulated depreciation and amortization, and measured at fair value on a nonrecurring basis if impaired.

Measurement of assets and liabilities at fair value is performed using inputs from a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy described below consists of three broad levels, as defined in the authoritative literature:

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

Considerable judgment is involved in developing these estimates and, accordingly, they may not necessarily be indicative of amounts that would be realized upon disposition of a specific asset or liability.

The fair values of revenue forgone and debt, which qualify as financial instruments in accordance with the accounting literature, are calculated using *Level 2 and Level 3* inputs, respectively. Because no active market exists for the Postal Service's debt with the FFB, the fair value of the noncurrent portion of this liability has been estimated using expected future payments at risk-adjusted discount rates provided by the FFB, a *Level 3* input.

Under the *Revenue Forgone Reform Act of 1993*, Congress agreed to reimburse the Postal Service $1.2 billion in 42 annual installments of $29 million through 2035, for services the Postal Service performed for other U.S. government entities during years 1991 through 1998. The Postal Service recognizes the imputed interest it is owed as interest and estimates the value of revenue foregone using the income approach, which converts future cash flows to a single discounted amount using an interest rate for similar assets, a *Level 2* input. To determine the fair value of this noncurrent asset, the Postal Service calculates a net present value of anticipated annual payments received, discounted by the 20-year Treasury Constant Maturity Rate, which was 2.31% and 2.98% as of March 31, 2015, and September 30, 2014, respectively.

For the periods ended March 31, 2015, and September 30, 2014, no transfers between *Level 1* and *Level 2* assets or liabilities took place. The carrying values and fair values of revenue forgone and debt are summarized in the following table, presented for disclosure purposes only:

(in millions)	**March 31, 2015**		**September 30, 2014**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Revenue forgone	$ 413	$ 527	$ 420	$ 505
Total noncurrent financial assets	**$ 413**	**$ 527**	**$ 420**	**$ 505**
Debt	$ 5,200	$ 5,781	$ 5,200	$ 5,565
Total noncurrent financial liabilities	**$ 5,200**	**$ 5,781**	**$ 5,200**	**$ 5,565**

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

Cautionary Statements

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project" or other similar terminology. These statements reflect current expectations regarding future events and operating performance as of the date of this report. These forward-looking statements involve a number of risks and uncertainties. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this report describe the principal factors affecting the results of operations, liquidity, capital resources and critical accounting estimates of our business and financial results. These may be impacted by risks and uncertainties discussed here and in the Annual Report on Form 10-K for the year ended September 30, 2014. Such factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated.

Operating results for the three and six months ended March 31, 2015, and 2014, are not necessarily indicative of the results to be expected for the year ended September 30, 2015. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2014. As in that report, except as otherwise indicated by the context, the terms "Postal Service," "USPS," "we," "our" and "us" are used to refer to the United States Postal Service. 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 2015 and 2014.

Introduction

The United States Postal Service commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States" responsible for providing postal services to the nation. We succeeded the cabinet-level Post Office Department, a U.S. government department established in 1792. We do not receive tax dollars for operating expenses and rely solely on the sale of postage, products and services to fund our operations.

We are governed by an eleven-member Board of Governors (the "Board"). Nine independent Governors are appointed by the President of the United States with the advice and consent of the United States Senate. The Postmaster General, who is appointed by the independent Governors, also serves on the Board, as does the Deputy Postmaster General, who is appointed by the independent Governors and the Postmaster General.

The Board is required by law to have a quorum of six members in order to take action. In December 2014, due to the term expiration of one Governor and Senate inaction on pending nominees, the number of sitting Board members dropped to five, thereby rendering the Board unable to assemble a quorum. In November 2014, while the Board still had a quorum, the Board issued a resolution that established a Temporary Emergency Committee of the Board ("TEC") to exercise certain powers reserved to the Board during a period in which it is unable to assemble a quorum. The TEC consists of the remaining members of the Board and exercises those Board powers necessary for operational continuity. The TEC will continue in existence until the Board is again able to assemble a quorum. The establishment of the TEC was publicly announced in a Federal Register notice on December 16, 2014.

The Federal Register notice also announced a resolution issued by the Governors in November 2014, regarding the exercise of those powers conferred by law solely on the Governors, as distinguished from the full Board. Powers conferred solely upon the Governors include the appointment and removal of the Postmaster General and the establishment of prices and classifications for postal products. The Governors determined that the inability of the Board to assemble a quorum does not inhibit the Governors' authority to continue exercising their independent powers.

Under the *Postal Reorganization Act*, and its successor, the *Postal Accountability and Enhancement Act*, Public Law 109-435 ("PAEA"), we have a legal mandate to offer a "fundamental service" to the American people "at fair and reasonable rates." We serve individual and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the nation and internationally. As a result, we maintain a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 4.6% of operating revenue.

We fulfill our legal mandate to provide universal service at fair and reasonable prices by offering a variety of mail service classes without undue discrimination among our customers. Within each class of mail service, prices do not vary unreasonably by customer for the level of service provided. Prices and fees are determined by the Governors, subject to a review process by the Postal Regulatory Commission ("PRC"). PAEA provides greater flexibility in the pricing of Competitive services, as discussed below.

PAEA classifies postal services into two broad categories: Market-Dominant and Competitive "products." However, the term "services" is used in this document for consistency with other descriptions of "services" we offer. Price increases for those services classified as Market-Dominant are subject to a price cap based on the Consumer Price Index - All Urban Consumers ("CPI-U"). The legal requirements for Competitive services place no upper limit on price changes, but do set a price floor.

Throughout this document and in the day-to-day operations of the organization, we refer to our major service categories as the following: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals and Other. Most services in the First-Class Mail, Standard Mail and Periodicals categories are considered Market-Dominant services. Shipping and Package Services and International Mail, which are predominantly Competitive services, include, but are not limited to, First-Class and Standard Mail Parcels, Priority Mail, Priority Mail Express, Parcel Select and Parcel Return Service, Bulk Standard Post and Bulk International Mail.

Products and services are sold through a network of approximately 32,000 post offices, stations and branches, plus thousands of Contract Postal Units, Community Post Offices, Village Post Offices, retail establishments that sell postage stamps and other services and through our website at *www.usps.com*. Mail deliveries are made to approximately 154 million city, rural, PO Box and highway delivery points. Operations are conducted primarily in the domestic market, with international revenue representing approximately 4.1% of operating revenue.

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

Our labor force is primarily represented by the American Postal Workers Union, AFL-CIO ("APWU"), the National Association of Letter Carriers, AFL-CIO ("NALC"), the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") and the National Rural Letter Carriers Association ("NRLCA"). Approximately 91% of career employees are covered by collective bargaining agreements. We are currently under contract negotiations as our collective bargaining agreements with the APWU and NRLCA are set to expire on May 20, 2015. If agreements are not reached during negotiations, the matter may proceed to mediation, and to arbitration, pursuant to law. In addition, we are required by law to consult with management associations representing supervisory and managerial employees and postmasters prior to making final decisions concerning changes to pay and benefits for such employees.

We are not a reporting company under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are not subject to regulation by the Securities and Exchange Commission ("SEC"). However, the PAEA requires us to file with the PRC certain financial reports containing information prescribed by the SEC under Sections 13 and 15(d) of the Exchange Act. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, which are available at *www.about.usps.com/who-we-are/financials/welcome.htm.*

We are required by law and regulations to disclose operational and financial information well beyond what the law requires of other U.S. government entities and most private-sector companies. Pursuant to Title 39 of the United States Code and PRC regulations, additional disclosures on the organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces and Weight reports, financial and strategic plans and the *Comprehensive Statement on Postal Operations* are filed with the PRC and may also be found online at *www.about.usps.com.* Information on the website is not incorporated by reference into this document.

Cyber Intrusion Incident

As we disclosed in our Annual Report on Form 10-K for the year ended September 30, 2014, during the fourth quarter of 2014, we learned of a cyber intrusion into some of our information systems. We have been working closely with the U.S. Computer Emergency Readiness Team, the Federal Bureau of Investigation, the USPS Office of Inspector General ("OIG"), the Postal Inspection Service, Carnegie Mellon's Computer Emergency Response Team and private-sector forensic specialists to investigate the matter and to strengthen the security of our systems against future cyber intrusions. We have incurred a total of approximately $5 million in expenses related to remediation efforts since our original announcement.

Critical Accounting Policies and Estimates

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

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report on Form 10-K for the year ended September 30, 2014. Management discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board.

During the three months ended December 31, 2014, we revised the calculation used to estimate our workers' compensation liability (See *Item 1. Financial Statements, Note 8- Workers' Compensation*). Other than this revision, we have made no significant changes or updates to our critical accounting policies and estimates since our last Annual Report on Form 10-K.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09"). The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09, as amended, is effective for fiscal years and interim periods within those years, beginning after December 15, 2016. Early adoption was not permitted. In April 2015, the FASB voted to propose a delay in the effective date of ASU 2014-09. The proposed new effective date will be annual reporting periods beginning after December 15, 2017. The proposed new guidance allows early adoption as of the original effective date of December 15, 2016. The Postal Service is currently evaluating the impact of adopting this standard on its financial statements, which is not known or reasonably estimable at this time.

In August 2014, the FASB issued Accounting Standards Update 2014-15 *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). The new standard requires management to perform interim and annual assessments of an entity's ability to continue to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We do not believe the adoption of the new standard will have a significant impact on results of operations.

Related Party Transactions

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities. Related-party assets, consisting primarily of restricted cash, receivables and revenue foregone, were $741 million and $756 million as of March 31, 2015, and September 30, 2014, respectively. Related-party liabilities, consisting primarily of PSRHBF obligations, workers' compensation and debt, were $59.0 billion and $56.1 billion as of March 31, 2015, and September 30, 2014, respectively.

Related-party operating revenue from other U.S. government entities was $240 million and $495 million for the three and six months ended March 31, 2015, respectively. Operating revenue was $225 million and $429 million for the three and six months ended March 31, 2014, respectively. Related-party operating expenses, consisting primarily of benefits, retiree health benefits and workers' compensation, were $4.4 billion and $8.9 billion for the three and six months ended March 31, 2015, respectively. Operating expenses were $4.2 billion and $8.6 billion for the three and six months ended March 31, 2014, respectively.

Related-party interest income was $6 million and $11 million for three and six months ended March 31, 2015, respectively and $6 million and $12 million for the three and six months ended March 31, 2014, respectively. Related-party interest expense on debt issued to the FFB was $45 million and $90 million for three and six months ended March 31, 2015, respectively, and $45 million and $92 million for the three and six months ended March 31, 2014, respectively.

Three and Six Months Ended March 31, 2015, and 2014

Results of Operations

Our net loss was $1.5 billion for the three months ended March 31, 2015, compared to a net loss of $1.9 billion for the same period last year, a favorable decrease of $403 million. Operating revenue increased $223 million, or 1.3%, compared to the same period last year. This increase in operating revenue was primarily due to an increase in our Shipping and Packages volume. Operating expenses decreased $160 million, or 0.9%, compared to the same period last year resulting in part by changes in interest rates affecting the fair value adjustment of our workers' compensation expense. These declines were partially offset by an increase in compensation and benefits of $295 million caused by an increase in labor hours as Shipping and Packages volume increased during the quarter and by higher Federal Employees Retirement System ("FERS") contribution rates mandated by the Office of Personnel Management ("OPM").

Our net loss was $2.2 billion for the six months ended March 31, 2015, was essentially unchanged from our net loss for the same period last year. Operating revenue increased $1.0 billion, or 2.9%, compared to the same period last year. This increase in operating revenue was primarily due to the approved price increases, including the temporary exigent surcharge that was implemented in January 2014, and an increase in our Shipping and Packages volume. Operating expenses increased $1.0 billion, or 2.7%, compared to the same period last year. This increase in operating expenses was primarily due to an increase in compensation and benefits of $614 million, resulting primarily from an increase in labor hours due to the more labor intensive activity of handling and delivering packages associated with the increase in Shipping and Packages volume. In addition, workers' compensation expense increased by $470 million resulting from changes in interest rates affecting the fair value adjustment and an increase in our FERS contribution rates.

The major factors that impact operating results include overall customer demand, the mix of postal services and profit margins associated with those services, volume of mail and packages processed through our network and our ability to manage our cost structure in line with declining levels of mail volume and growth in more labor-intensive packages volume.

In the day-to-day operation of our business, we focus our attention on those costs that are within our control, which include wages, transportation and certain other costs to address the decline in mail volume levels. We exclude non-controllable expenses from our internal financial analyses to focus on relevant expenses that management can control. These non-controllable expenses, which greatly impact our financial results, consist of the legally-mandated Postal Service Retirement Health Benefit Fund ("PSRHBF") prefunding expense and non-cash items such as the fluctuations in workers' compensation expense due to changes in interest rates and changes resulting from the revaluation of the related liability.

We determine our non-GAAP controllable income by adjusting our net loss for the impact of these non-controllable expenses. Non-GAAP controllable income for the three and six months ended March 31, 2015, and 2014, were as follows:

	Three Months Ended		Six Months Ended	
(in millions)	2015	2014	2015	2014
Net loss	**$ (1,469)**	**$ (1,872)**	**$ (2,223)**	**$ (2,226)**
Impact of:				
Interest rate changes related to workers' compensation liability	401	541	1,217	—
Other non-cash workers' compensation (benefit) expense	(44)	167	(407)	402
PSRHBF prefunding expense	1,425	1,425	2,850	2,850
Controllable income	**$ 313**	**$ 261**	**$ 1,437**	**$ 1,026**

Operating Revenue and Volume

Although revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail, we have been proactive in addressing how to grow our business. We continue to concentrate on our customers' needs and have increased our marketing investment and focused on mail and package innovation. However, we recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and pricing we may offer to our customers and the speed with which we can bring them to market.

As described above, we implemented a price increase on our Market-Dominant and Competitive products, effective January 2014. Market-Dominant prices included a 1.7% increase based on the CPI-U plus a 4.3% exigent price increase. Additionally, our prices increased an average of 2.4% for Competitive service products. The PRC approved this exigent price increase as a surcharge to be collected only until we recover $3.2 billion of incremental revenue above what we would otherwise have generated through a CPI-U increase alone. As reported to the PRC on March 27, 2015, we had collected approximately $2.0 billion in incremental revenue from the exigent price increase as of December 31, 2014, and we currently estimate that the recovery of the entire $3.2 billion in incremental revenue will occur later in 2015.

To address the impacts of the Great Recession and the long-term trend that technological change and the diversion to electronic alternatives have had on our First-Class Mail revenue and volume, which the Great Recession exacerbated, we have focused our efforts on providing new services, growing e-commerce and implementing marketing campaigns that have helped us grow our Shipping and Packages business. The *Priority:You* campaign, which offers day-specific delivery, improved tracking and text message alerts and up to $50 of free insurance on most Priority Mail packages, is an example of this strategy.

While we continue to experience strong results in our Shipping and Packages business, it represented only 22% of our 2015 revenues, compared to First-Class Mail, which represented 41%. Furthermore, the costs we incur to provide Shipping and Packages services are substantially higher than our costs associated with First-Class Mail. As a result, we must earn $3 in Shipping and Package revenue to replace the profit lost from each $1 of First-Class Mail revenue.

Summary of Revenue and Volume Results

For the three months ended March 31, 2015, operating revenue was $16.9 billion, an increase of $223 million, or 1.3%, compared to the same period last year. However, operating revenue for the current quarter reflects the typical reduction in revenue following our peak holiday season results of the first quarter. Representing the most significant change in revenue, Shipping and Packages revenue was $3.6 billion for the three months ended March 31, 2015, an increase of $342 million, or 10.4%, compared to the same period last year. Shipping and Packages volume was 1.1 billion pieces for the three months ended March 31, 2015, an increase of 138 million pieces, or 14.4%, compared to the same period last year.

For the six months ended March 31, 2015, operating revenue was $35.7 billion, an increase of $1.0 billion, or 2.9%, compared to the same period last year. Shipping and Packages revenue was $7.8 billion for the six months ended March 31, 2015, an increase of $784 million, or 11.2%, compared to the same period last year. Shipping and Packages volume was 2.3 billion pieces for the six months ended March 31, 2015, an increase of 290 million pieces, or 14.2%, compared to the same period last year, bolstered by the record number of holiday seasonal packages delivered.

The following table summarizes our operating revenue and volume for the three and six months ended March 31, 2015, and 2014, by each service:

(in millions)	Three Months Ended 2015	Three Months Ended 2014	Six Months Ended 2015	Six Months Ended 2014
Operating Revenue:				
First-Class Mail [1]	$ 7,108	$ 7,171	$ 14,707	$ 14,542
Standard Mail [2]	4,200	4,213	9,179	8,841
Shipping and Packages [3]	3,636	3,294	7,811	7,027
International	693	721	1,554	1,592
Periodicals	390	394	803	803
Other [4]	919	930	1,626	1,875
Total operating revenue	**$ 16,946**	**$ 16,723**	**$ 35,680**	**$ 34,680**
Volume:				
First-Class Mail [1]	15,775	16,121	32,506	33,189
Standard Mail [2]	19,103	19,313	41,871	41,307
Shipping and Packages [3]	1,098	960	2,334	2,044
International	233	217	504	488
Periodicals	1,463	1,480	2,953	3,044
Other [5]	74	75	227	279
Total volume	**37,746**	**38,166**	**80,395**	**80,351**

Note: The totals for certain mail categories for the prior year have been reclassified to conform with classifications used in the current year.
[1] Excludes First-Class Mail Parcels.
[2] Excludes Standard Mail Parcels.
[3] Includes Priority Mail, Standard Post, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service and Express Mail.
[4] Includes PO Box Services, Certified Mail, Return Receipts, Insurance, Other Ancillary Fees, Shipping and Mailing Supplies and Other services.
[5] Includes the U.S. Postal Service's mail and free mail provided to certain groups.

First-Class Mail and Standard Mail continue to provide the majority of our revenue for the three and six months ended March 31, 2015, despite customers' continuing migration toward electronic communication and transactional alternatives. First-Class Mail represented 41.9% of our revenue and 41.8% of our volume while Standard Mail generated 24.8% of revenue but 50.6% of volume. Shipping and Packages generated 21.5% of our revenue despite representing only 2.9% of our volume.

First-Class Mail

First-Class Mail volume, our most profitable service category, continues to decline. The most significant factors contributing to this decline in volume are the ongoing effects of the Great Recession and the continued migration toward electronic communication and electronic transaction alternatives, which the Great Recession exacerbated. Despite the decline in volume, revenue increased during 2015, primarily due to the price increases that were implemented in January 2014, which included the temporary exigent price increase. Price increases for all services in the First-Class Mail category are generally capped at the rate of inflation because these services are classified by law as Market-Dominant.

Standard Mail

Increases and decreases in volume are reflective of the cyclical nature of Standard Mail, the extent to which we utilize targeted sales advertising campaigns and the strength of the U.S. economy, which affect demand for standard mail. Volume was also favorably impacted in the first quarter of 2015, by the mailings associated with the November 2014, mid-term elections, which alone, generated approximately 1.0 billion pieces and $204 million in revenues. Since the implementation of the January 2014, price increase through December 31, 2014, our incremental Standard Mail revenue from the exigent price increase was approximately $690 million . Price increases for all services in the Standard Mail category are generally capped at the rate of inflation because they are classified by law as Market-Dominant.

Shipping and Packages

The following table summarizes our operating revenue and volume for Shipping and Packages for the three and six months ended March 31, 2015 and 2014, by each service:

	Three Months Ended		Six Months Ended	
(in millions)	**2015**	**2014**	**2015**	**2014**
Shipping and Package Revenue				
Priority Mail[1]	$ 1,899	$ 1,758	$ 4,124	$ 3,833
Parcel Select, Parcel Return, Standard Parcels	815	643	1,779	1,400
First-Class Packages[2]	532	495	1,106	992
Package Services	205	207	421	415
Priority Mail Express	185	191	381	387
Total Shipping and Package revenue	**$ 3,636**	**$ 3,294**	**$ 7,811**	**$ 7,027**
Shipping and Package Volume				
Priority Mail[1]	255	230	540	487
Parcel Select, Parcel Return, Standard Parcels	473	375	1,021	823
First-Class Packages[2]	220	209	457	428
Package Services	141	137	298	288
Priority Mail Express	9	9	18	18
Total Shipping and Package volume	**1,098**	**960**	**2,334**	**2,044**

Note: The totals for certain mail categories for the prior year have been reclassified to conform with classifications used in the current year.

[1] Includes Standard Post which is a retail-only product classified as Market-Dominant. Standard Post is priced identically to Priority Mail for Zones 1-4 and is functionally equivalent to Priority for those Zones.

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

Shipping and Packages revenue continued to show solid volume growth as a result of our successful efforts to compete in the ground shipping services and "last mile" e-commerce fulfillment markets which include Sunday delivery growth. Volume also experienced strong end-to-end growth as we responded to customers' increased usage of online shopping, which provided a surge in package volume with a record number of packages delivered during the 2014 holiday season. To accommodate this surge in volume and minimize service disruptions during the holiday season, we provided Sunday delivery service in limited U.S. markets.

Priority Mail

We continue to improve our Priority Mail service to better meet the needs of consumers and business mailers. Priority Mail represented approximately 52.8% of our total Shipping and Packages revenue for the six months ended March 31, 2015.

Parcel Services
Parcel Services revenue increased $172 million, or 26.7%, for the three months ended March 31, 2015, compared to the same period last year. These services, driven largely by the continuing growth of e-commerce, continue to show strong volume growth of 26.1% for the three months ended March 31, 2015, compared to the same period last year. However, this category represents one of our lowest available priced services, and as a result, provides a relatively lower profit margin compared to many of our other services.

First-Class Packages
First-Class Packages includes First-Class Package Service, an under-one-pound commercial package product and First-Class Parcels, a Market-Dominant under-13-ounce retail package product. First-Class Package Service offers commercial customers that ship primarily lightweight fulfillment parcels the lowest-priced expedited end-to-end package option in the marketplace. Revenue for the three months ended March 31, 2015, increased $37 million, or 7.5%, with a corresponding volume increase of 5.3% compared to the same period last year.

International Mail
A weaker global economy and increasing competition continue to be the primary factors contributing to the decline in international mail revenue. Despite this ongoing decline in revenue, international mail volume increased for both the three and six months ended March 31, 2015. This is primarily the result of an increase in inbound mail flow, much of that from tracked letter packets and parcels related to trade in international e-commerce. While this increase in inbound flow has more than offset the declines in outbound flow, we must generate $3 in inbound mail revenue to offset the profit generated from $1 in lost outbound mail revenue.

Periodicals
For years, trends in hard-copy reading behavior and advertising shifts from print to other media have impacted this segment. Periodicals are not expected to rebound as e-readers and electronic content continue to grow in popularity with the public.

Operating Expenses

Compensation and Benefits
Compensation and benefits expenses consist of costs related to our active career and non-career employees, including compensation expense, retirement expense, health benefits expense and other miscellaneous expenses more fully described below.

The following table presents the compensation and benefits expense for the three and six months ended March 31, 2015, and 2014:

	Three Months Ended		Six Months Ended	
(in millions)	2015	2014	2015	2014
Compensation	$ 8,781	$ 8,610	$ 18,341	$ 17,930
Retirement	1,543	1,422	3,122	2,884
Health benefits	1,187	1,192	2,387	2,414
Other	77	69	159	167
Total compensation and benefits	**$ 11,588**	**$ 11,293**	**$ 24,009**	**$ 23,395**

Compensation Expense
Compensation expense increased $171 million, or 2.0%, for the three months ended March 31, 2015, compared to the same period last year. This was primarily due to an increase of approximately four million work hours, or 1.4%, due to an increase in customer service and delivery operations related to higher package volume.

Compensation expense increased $411 million, or 2.3%, for the six months ended March 31, 2015, compared to the same period last year. This was primarily due to an increase of approximately ten million work hours, or 1.8%, primarily due to an increase in package volume and Sunday deliveries.

Retirement Expense

The majority of employees participate in one of two U.S. government pension programs based on the starting date of their employment with the government. See *Item 1. Financial Statements, Note 6- Retirement Benefit Plans*. Compensation and benefits expense includes all retirement program expenses except for retiree health benefits.

Retirement expense increased $121 million, or 8.5%, and $238 million, or 8.3%, for the three and six months ended March 31, 2015, respectively, compared to the same period last year. This increase was primarily due to the increase in our employer contribution rate from 11.9% to 13.2% of basic pay for most current FERS employees, which became effective October 1, 2014. This contribution increase is expected to result in an annual increase in our retirement expense of approximately $450 million. This government-wide increase, determined by the OPM, underscores the need for USPS-specific calculations of our retirement costs, as the government-wide population of participants result in higher expenses than using only the USPS-specific participants.

Health Benefits Expense

Health benefits expense decreased $5 million, or 0.4%, and $27 million, or 1.1%, for the three and six months ended March 31, 2015, respectively, as compared to the same period last year. The decrease in health benefits expense for 2015, was primarily due to lower employer healthcare contribution percentages that we implemented during the year for certain categories of employees, consistent with our contractual agreements. Our share of healthcare premiums represented approximately 75% and 76% for the three months ended March 31, 2015, and 2014, respectively. Our share of healthcare premiums for our employees represented approximately 75% and 77% of the total healthcare premium cost for the six months ended March 31, 2015 and 2014, respectively.

Retiree Health Benefit Premiums and PSRHBF Prefunding

We participate in federal employee benefit programs for retirement, health and workers' compensation benefits. Under PAEA, we are obligated to fully fund the employer's portion of the established health and retirement benefits of retirees and our current employees (as discussed in *Item 1. Financial Statements, Note 7- Health Benefit Plans* and *Note 2- Liquidity)*.

The components of retiree health benefits expense for the three and six months ended March 31, 2015, and 2014 were as follows:

	Three Months Ended		Six Months Ended	
(in millions)	2015	2014	2015	2014
Employer premium expense	$ 780	$ 745	$ 1,539	$ 1,473
Accrual for prefunding payment to PSRHBF	1,425	1,425	2,850	2,850
Total retiree health benefits expense	**$ 2,205**	**$ 2,170**	**$ 4,389**	**$ 4,323**

Under PAEA, we continue to pay the premiums for our retirees participating in the Federal Employees Health Benefits ("FEHB") Program until September 30, 2016, and we continue to expense these payments during the year they become due. Retiree health benefits premium costs are primarily impacted by the number of retirees and survivors receiving health benefits, the mix of plans selected by retirees, the premium costs of those plans and the portion of premium costs allocated to the U.S. government for retiree service prior to 1971. As of March 31, 2015, the number of retirees participating in the plans were approximately 488,000, unchanged from the same date last year. Employer premium expense increased 4.7% for the three months ended March 31, 2015, due to a 3.1% increase in the cost of premiums and a change in the mix of plans in which retirees enroll.

The increase in retiree health benefits premium expense is due to the increased employer health benefit premiums for the period. Total retiree health benefits expense increased $35 million and $66 million, or approximately 1.6% and 1.5%, for the three and six months ended March 31, 2015, respectively, compared to the same periods last year. We anticipate employer health benefit premiums expense to continue to increase for the remainder of our fiscal year.

These costs are reflected as "*Retiree health benefits*" in the accompanying unaudited Statements of Operations, and consist of payments to OPM for our share of FEHB retiree premiums currently paid, plus accrued prefunding payments to the PSRHBF. Because the amounts scheduled to be paid into the PSRHBF are set by legislation, our retiree health expense may represent more than the full normal cost of the benefits earned by our employees.

Workers' Compensation

Our employees injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by Department of Labor's ("DOL") Office of Workers' Compensation Programs ("OWCP"), which makes all decisions regarding injured workers' eligibility for benefits. Annually, we reimburse the DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee (as discussed in *Item 1. Financial Statements, Note 8- Workers' Compensation*).

We revised the calculation we use to determine the estimate of our workers' compensation liability, effective December 31, 2014. This change was considered a change in accounting estimate under GAAP, and management believes the change allows greater flexibility to select loss development factors reflecting the best and most current injury trends, providing a more accurate estimate of our workers' compensation liability. The impact of the change in estimate decreased the workers' compensation liability at December 31, 2014, and operating expenses for the three months ended December 31, 2014, by $353 million. Excluding the change in estimate, workers' compensation expense would have been $706 million and $1.8 billion for the three and six months ended March 31, 2015, respectively. We do not report the impact of the change in estimate beyond what was reported as of December 31, 2014.

Routine changes in our workers' compensation liability are attributable to the combined impact of changes in discount (interest) rates and inflation rates, routine changes in actuarial estimates, new compensation and medical cases and the progression of existing cases. Changes in the number of claims and amounts paid are highly volatile and depend on a number of factors including, but not limited to, the number, timing and severity of injuries; the number of new claims and closed claims within the period; and the amount and timing of payments made by the OWCP on our behalf. As payments on claims fluctuate significantly from quarter to quarter, the change in the number of claims for any quarter compared to the same period in the prior year is not necessarily representative of what can be expected for the full year.

At March 31, 2015, the present value of the liability for future workers' compensation payments was $18.6 billion, after making the scheduled annual payment of $1.4 billion on October 15, 2014. The current portion of the liability was $1.4 billion and $1.3 billion as of March 31, 2015, and September 30, 2014, respectively.

The following table presents the components of workers' compensation expense for the three and six months ended March 31, 2015, and 2014:

	Three Months Ended		Six Months Ended	
(in millions)	2015	2014	2015	2014
Impact of discount rate changes	$ 401	$ 541	$ 1,217	$ —
Actuarial valuation of new cases and revaluation of existing cases	287	464	240	988
Administrative fee	18	17	35	34
Total workers' compensation expense	**$ 706**	**$ 1,022**	**$ 1,492**	**$ 1,022**

The impact of discount rate changes for the three months ended March 31, 2015, amounted to $140 million less than the impact from the same period last year. In addition, the actuarial valuation of new and existing cases decreased workers' compensation expense $177 million for the three months ended March 31, 2015, compared to the same period last year.

The impact of lower discount rates on March 31, 2015, compared to the prior period increased workers' compensation expense by $1.2 billion for the six months ended March 31, 2015, compared to no discount rate changes during the same period last year. The actuarial valuation of new and existing cases decreased workers' compensation expense by $748 million for the six months ended March 31, 2015, compared to the same period last year. This decrease in actuarial valuation of new and existing cases is comprised of the $353 million change in accounting estimate and a reduction of $395 million in actuarial valuation of new and existing cases, driven by lower compensation claim payments and updated cost-of-living adjustment ("COLA") assumptions.

Under FECA, workers' compensation claims for many types of injuries cannot be settled through lump-sum payments, and in those claims, compensation may be paid over many years. Federal law grants COLA adjustments to those claims, and results in substantially higher costs to us than would likely result if we managed our own claims. Additionally, since we do not manage the FECA program, we have no ability to control the significant administrative costs associated with managing the claims and payments process.

Transportation

Transportation expense consists primarily of highway, air, and international transportation costs. The components of transportation expense for the three and six months ended March 31, 2015, and 2014, were as follows:

	Three Months Ended		Six Months Ended	
(in millions)	**2015**	**2014**	**2015**	**2014**
Highway	$ 869	$ 863	$ 1,851	$ 1,802
Air	520	496	1,084	1,060
International	199	218	436	482
Other	7	11	22	23
Total transportation expenses*	**$ 1,595**	**$ 1,588**	**$ 3,393**	**$ 3,367**

* Transportation expense includes only the costs we incur to transport mail and other products between our facilities. Other delivery costs, i.e., the "last mile" are included in *"Other operating expenses."*

For the three months ended March 31, 2015, air transportation costs increased $24 million, or 4.8%, primarily due to the increase in package volume compared to the same period last year. International transportation costs decreased $19 million, or 8.7%, primarily due to the decrease in international outbound mail volume.

For the six months ended March 31, 2015, highway transportation costs increased, primarily due to a 6.5% increase in mileage for Highway Contract Routes. Air transportation increased, primarily due to the increase in package volume compared to the same period last year. Increases in highway and air transportation expenses were partially offset by a reduction of approximately 17.2% in diesel fuel prices compared to the same period last year. International transportation costs decreased by $46 million, or 9.5% primarily due to the decrease in international outbound mail volume.

Other Operating Expenses

The components of other operating expenses for the three and six months ended March 31, 2015, and 2014, are as follows:

(in millions)	Three Months Ended 2015	Three Months Ended 2014	Six Months Ended 2015	Six Months Ended 2014
Supplies and services	$ 657	$ 665	$ 1,327	$ 1,281
Depreciation and amortization	427	466	869	929
Rent and utilities	422	419	828	813
Vehicle maintenance service*	255	280	524	551
Information technology and communications	197	209	356	361
Rural carrier equipment maintenance	124	132	268	273
Miscellaneous other	223	315	419	550
Total other operating expenses	**$ 2,305**	**$ 2,486**	**$ 4,591**	**$ 4,758**

* Includes fuel costs for delivery routes.

The total decrease in other operating expenses for the three and six months ended March 31, 2015, compared to the same period last year is primarily due to a decrease in miscellaneous other associated with a reduction in the estimate of our outstanding contingent liabilities.

Liquidity and Capital Resources

We held cash and cash equivalents of $6.1 billion and $4.9 billion as of March 31, 2015, and September 30, 2014, respectively. Our cash from operations, which benefited in the first quarter due to the seasonal impact of holiday mailings, particularly packages, favorably impacted cash balances during the six months ended March 31, 2015. Furthermore, as reported to the PRC on March 27, 2015, we collected $2.0 billion in incremental revenue from the exigent surcharge as of December 31, 2014. As of March 31, 2014, we collected $347 million. We currently estimate that the recovery of the entire $3.2 billion in incremental revenue will occur later in 2015.

Cash provided by operating activities increased by $90 million, or 5.2%, for the six months ended March 31, 2015, compared to the same period last year. This increase resulted primarily from the revenue generated by our shipping and package services.

We invested $629 million in the purchase of property and equipment in the six months ended March 31, 2015. This was an increase of $296 million over the same period last year as we used additional cash on hand to fund some of our much needed investment in building improvements, vehicles, equipment and other capital projects.

Our debt, all of which is borrowed from the FFB, consists of fixed and floating-rate notes as well as two revolving credit facilities with various maturities with an aggregate principal balance of $15.0 billion as of March 31, 2015, and September 30, 2014, the maximum borrowing amount allowed under our statutory debt ceiling. The two revolving credit facilities have interest rates determined by the U.S. Department of Treasury each business day and enable us to draw up to $4.0 billion in total. As of March 31, 2015, and September 30, 2014, these facilities were fully drawn, had maturity dates of April 27, 2015, and are included in the current portion of debt. These facilities were renewed upon their expiration and now mature on April 19, 2016.

Except as described otherwise in this quarterly report, the nature and amounts of our payment obligations under our debt, capital and operating lease agreements, purchase commitments and other liabilities as of March 31, 2015, have not materially changed from those described in our Annual Report on Form 10-K for the year ended September 30, 2014.

Postal Service Actions Taken to Improve Liquidity
In order to conserve cash, we have reduced our capital expenditures by approximately 51%, from an annual average of approximately $1.5 billion in years 2009 through 2011 to an annual average of approximately $718 million in years 2012 through 2014. As noted below, we must increase our capital expenditures in order to address our aging facilities and vehicles and to upgrade our equipment to remain competitive in the marketplace.

Our delivery fleet includes approximately 140,000 vehicles that are at least 20 years old and at or near the end of their useful lives. Repair and maintenance costs for these vehicles have risen significantly in recent years. We have deferred facilities maintenance, other than for health and safety reasons, to save cash. Investments in package sorting and handling equipment are needed to fully capitalize on business opportunities in the growing package delivery market, and we must also invest in letter sorting equipment that is at or near the end of its useful life.

For the six months ended March 31, 2015, we made capital investments of $629 million. We currently estimate that cash outlays for capital assets will amount to approximately $1.6 billion in 2015, and as much as an additional $8.0 billion for the period of 2016 through 2020. Although our Integrated Financial Plan includes these capital cash outlays, future cash flow from operations alone may not generate the cash needed for such capital expenditures. Further legislative change, raising our debt ceiling, additional revenue sources or further reductions in our expenses may be required in order to execute our capital commitments as planned.

In 2013, we began a realignment of our operations to further reduce costs and strengthen our finances. These operational realignments included reductions in the number of mail processing operations, realignment of retail office hours to match demand, reductions in the number of delivery routes and consolidations of delivery offices. In January 2015, we revised our service standards for First-Class Mail and will implement a second phase of mail processing realignments which will result in a consolidation impacting up to 82 processing operations. We began our consolidation efforts in 2015, but will not fully realize the projected cost savings until we are able to implement the consolidation effort as planned. Legislative requests for a delay in the consolidation constrain the timeliness and effectiveness of our proposed cost-saving measures.

We continue to leverage employee attrition, Voluntary Early Retirement ("VER") and utilization of non-career employees to the maximum extent permitted by our labor contracts. In July 2014, we offered a VER to approximately three thousand postmasters who were impacted by reductions in retail hours at certain of our facilities. This offer was accepted by 1,381 postmasters, most of whom have since left the Postal Service.

On May 7, 2015, the PRC approved price adjustments and classifications for Standard Mail, Periodicals and Package Services. Previously, the PRC had approved price adjustments for First Class Mail and special services. These price adjustments will become effective May 31, 2015. The average price adjustments on these Market-Dominant services are below the CPI-U price cap of 1.966%.

Liquidity Outlook
We continue to pursue legislation to reform our obsolete business model and streamline our burdensome regulatory structure. Such changes could include a transition to a new Monday-through-Friday mail delivery schedule, while maintaining a package delivery schedule from Monday through Saturday (and on Sundays in some instances). Additionally, reform is needed to establish a set of healthcare plans within the FEHB that would fully integrate with Medicare for current and future retirees. Such reform would eliminate any necessity for the PSRHBF prefunding requirement by virtually eliminating the unfunded liability previously noted. Although we continue to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, there can be no assurances that our requests will result in meaningful reform in the foreseeable future.

In the event that circumstances leave us with insufficient cash, we would be required to implement contingency plans to ensure that mail deliveries continue. These measures may require us to prioritize payments to our employees and suppliers ahead of some payments to U.S. government entities, as has been done in the past. Without structural change to our business model and legislative change, the factors discussed above will continue to negatively impact us resulting in continuing losses and liquidity challenges for the foreseeable future.

Our status as an independent establishment of the executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of approximately $68 billion, generated almost entirely through the sale of postal products and services, a financially-sound Postal Service continues to be vital to American commerce.

Legal Matters and Contingent Liabilities

When we determine that we have incurred a probable liability and can reasonably estimate the amount of the loss, we accrue an estimated loss contingency in our financial statements. Assessing contingencies is highly subjective and requires judgments about future events. We regularly review loss contingencies to determine the adequacy of our accruals and related disclosures. The amount of the actual loss may differ significantly from our estimates. The estimate of our liability for material claims was $940 million and $934 million as of March 31, 2015, and September 30, 2014, respectively, based upon our evaluation of new and existing claims.

Fair Value Measurements

As required by authoritative accounting literature, certain fair value disclosures for the periods ended March 31, 2015, and September 30, 2014, are contained in the Notes to the Financial Statements. We did not recognize gains as a result of valuation measurements during the three and six months ended March 31, 2015. All recognized losses have been incorporated into our financial statements as of March 31, 2015. See *Item 1. Financial Statements, Note 9- Fair Value Measurement.*

Legislative Update

Our legislative update section provides ongoing insights into the legislative and policy processes that may affect us and our operations. Since beginning of the 114th Congress in January 2015, several bills and resolutions have been introduced, however it is too early to assess whether any of those bills will become laws or the extent to which those bills would affect our finances and operations. Please also refer to the Legislative Update contained in our Annual Report on Form 10-K for the year ended September 30, 2014, filed with the PRC on December 5, 2014.

Board of Governors Nominations

On May 6, 2015, the U.S. Senate Committee on Homeland Security and Governmental Affairs (the "Senate Committee") voted to advance four Board nominees for full Senate consideration:

- David Michael Bennett, to serve for a term to expire on December 8, 2018;
- Mickey D. Barnett, to serve for a term to expire on December 8, 2020;
- Stephen Crawford, to serve for the remainder of the term expiring on December 8, 2015, and for an additional term that expires on December 8, 2022; and
- James C. Miller III, to serve for a term that expires on December 8, 2017.

As reported in our quarterly report on Form 10-Q filed with the PRC on February 6, 2015, the President has also nominated David S. Shapira to serve for a term to expire on December 8, 2019. Mr. Shapira's nomination awaits consideration by the Senate Committee.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

We also have a provision in our debt agreements that allow us to prepay our $15.0 billion debt at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the Treasury Security market at the time of repayment.

See our 2014 Annual Report on Form 10-K, Part II, *Item 7A. Quantitative and Qualitative Disclosures about Market Risk*.

Item 4. Controls and Procedures

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

Disclosure Controls
We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized and reported within the time frames specified by 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 Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of March 31, 2015. Based upon, and as of the date of, the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Internal Controls
There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As we disclosed in a Periodic Report on Form 8-K filed with the PRC on November 14, 2014, the Governors announced the appointment of Megan J. Brennan as Postmaster General. Ms. Brennan became Postmaster General on February 1, 2015, succeeding Patrick R. Donahoe, whose retirement became effective on the same date.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings affecting the Postal Service, please refer to the Annual Report on Form 10-K, filed on December 5, 2014, as well as the information under the caption "*Legal Matters and Contingent Liabilities*" within *Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this report.

Item 1A. Risk Factors

There have been no material changes in risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2014.

Item 6. Exhibits

Exhibit Number	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/Megan J. Brennan

Megan J. Brennan
Postmaster General and Chief Executive Officer

Date: May 7, 2015

/s/Joseph Corbett

Joseph Corbett
Chief Financial Officer and Executive Vice President

Date: May 7, 2015

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, Megan J. Brennan, certify that:

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

Date: May 7, 2015

/s/Megan J. Brennan
Megan J. Brennan
Postmaster General and Chief Executive Officer

Exhibit 31.2

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

I, Joseph Corbett, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 7, 2015

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

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service (“Postal Service”) on Form 10-Q for the period ended March 31, 2015, (the “Report”), I, Megan J. Brennan, 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: May 7, 2015

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of the United States Postal Service (“Postal Service)” on Form 10-Q for the period ended March 31, 2015, (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: May 7, 2015

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