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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2017
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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

The number of shares of common stock outstanding as of August 9, 2017: 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 June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
Revenue				
Operating revenue	$ 16,665	$ 17,698	$ 53,117	$ 54,779
Other revenue	10	20	27	65
Total revenue	**16,675**	**17,718**	**53,144**	**54,844**
Operating expenses				
Compensation and benefits	13,256	11,996	39,066	36,681
Retiree health benefits	1,418	2,287	3,191	6,815
Workers' compensation	(29)	976	(794)	2,234
Transportation	1,740	1,681	5,534	5,305
Other operating expenses	2,391	2,297	7,282	6,964
Total operating expenses	**18,776**	**19,237**	**54,279**	**57,999**
Loss from operations	**(2,101)**	**(1,519)**	**(1,135)**	**(3,155)**
Interest and investment income	17	8	38	23
Interest expense	(56)	(56)	(167)	(167)
Net loss	**$ (2,140)**	**$ (1,567)**	**$ (1,264)**	**$ (3,299)**

UNITED STATES POSTAL SERVICE
BALANCE SHEETS

(in millions)	June 30, 2017 (Unaudited)	September 30, 2016
Current Assets:		
Cash and cash equivalents	$ 9,498	$ 8,077
Restricted cash	362	253
Receivables, net	1,056	1,042
Supplies, advances and prepayments	155	140
Total current assets	**11,071**	**9,512**
Property and equipment, net	14,947	15,296
Other assets	433	411
Total assets	**$ 26,451**	**$ 25,219**
Current Liabilities:		
Compensation and benefits	$ 4,330	$ 2,669
Retiree health benefits	37,091	33,900
Workers' compensation costs	1,513	1,427
Payables and accrued expenses	1,816	1,892
Deferred revenue-prepaid postage	2,174	2,253
Customer deposit accounts	1,156	1,246
Other current liabilities	1,186	1,128
Current portion of debt	10,100	10,100
Total current liabilities	**59,366**	**54,615**
Workers' compensation costs, noncurrent	16,400	18,612
Employees' accumulated leave, noncurrent	1,933	1,926
Other noncurrent liabilities	1,098	1,148
Noncurrent portion of debt	4,900	4,900
Total liabilities	**83,697**	**81,201**
Net Deficiency:		
Capital contributions of the U.S. Government	3,132	3,132
Deficit since 1971 reorganization	(60,378)	(59,114)
Total net deficiency	**(57,246)**	**(55,982)**
Total liabilities and net deficiency	**$ 26,451**	**$ 25,219**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in millions)	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
Cash flows from operating activities:		
Net loss	$ (1,264)	$ (3,299)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	1,256	1,307
Loss (gain) on disposals of property and equipment, net	6	(47)
(Increase) decrease in other assets	(22)	8
(Decrease) increase in noncurrent workers' compensation	(2,212)	761
(Decrease) in noncurrent deferred appropriations and other revenue	(92)	(29)
Increase (decrease) in other noncurrent liabilities	86	(118)
Changes in current assets and liabilities:		
Receivables, net	(14)	(159)
Other current assets	(15)	(13)
Retiree health benefits	3,191	4,350
Payables, accrued expenses and other	1,667	1,586
Deferred revenue-prepaid postage, prepaid box rents and other	(56)	(1,076)
Net cash provided by operating activities	**2,531**	**3,271**
Cash flows from investing activities:		
Purchases of property and equipment	(997)	(1,006)
Proceeds from sales of property and equipment	45	111
Net cash used in investing activities	**(952)**	**(895)**
Cash flows from financing activities:		
Issuance of notes payable	17,100	6,600
Payments on notes payable	(17,100)	(6,600)
Payments on capital lease obligations and other	(49)	(35)
Net cash used in financing activities	**(49)**	**(35)**
Net increase in cash, cash equivalents and restricted cash	1,530	2,341
Cash, cash equivalents and restricted cash at beginning of period	8,330	6,867
Cash, cash equivalents and restricted cash at end of period	**$ 9,860**	**$ 9,208**
Supplemental cash flow disclosures:		
Cash paid for interest	$ 160	$ 147

See accompanying notes to the unaudited financial statements.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Interim Financial Statements

The accompanying unaudited interim financial statements of the United States Postal Service (the "Postal Service") have been prepared in accordance with accounting principles generally accepted in the United States ("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, 2016, included in its Annual Report on Form 10-K ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 15, 2016, and do not include all information and footnotes which are normally included in the Annual Report. Except as otherwise specified, all references to years are to the fiscal year beginning October 1 and ending September 30, and quarters are quarters within fiscal years 2017 and 2016.

In the opinion of management, the accompanying unaudited interim financial statements reflect all material adjustments, including recurring adjustments, necessary to fairly present the financial position as of June 30, 2017, the results of operations for the three and nine months ended June 30, 2017, and 2016, and cash flows for the nine months ended June 30, 2017, and 2016. Operating results for the three and nine months ended June 30, 2017, are not necessarily indicative of the results that may be expected for all of 2017. Mail volume and revenue are historically greatest in the first quarter of the fiscal year, which includes the holiday mailing season.

2016 Change in Accounting Estimate

During the three months ended June 30, 2016, the Postal Service revised the estimation technique utilized to determine its *Deferred revenue-prepaid postage* liability for a series of postage stamps. The change resulted from new information regarding customers' retention and usage habits of *Forever Stamps*, and enabled the Postal Service to update its estimate of usage and "breakage" (representing stamps that will never be used for mailing due to loss, damage or stamp collection).

As a result of this change in estimate, the *Deferred revenue-prepaid postage* liability as of June 30, 2016, decreased by $1.1 billion, and the adjustment was reflected in operating results by the same amount as an increase to revenue and decrease in net loss for the three and nine months ended June 30, 2016. Management believes the change improves the estimation of stamp usage and related revenue recognition. The change was accounted for as a change in accounting estimate.

Recent Accounting Standards

Accounting Standards Update 2014-09 Revenue from Contracts with Customers

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. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings or net deficiency at the effective date for existing contracts with remaining performance obligations.

The new standard becomes effective for the Postal Service's 2019 fiscal year and the quarters therein. The Postal Service is in process of evaluating the impact of the standard. As of the date of this filing, the Postal Service has completed its identification of significant revenue streams to determine the material revenue streams for further analysis. The Postal Service has begun its initial scoping analysis based on the revenue streams identified. The Postal Service has also begun contract analysis based on the five-step model as outlined in the authoritative literature. The Postal Service anticipates using the modified retrospective approach, but does not intend to early adopt the standard.

Accounting Standards Update 2014-15 Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

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 an entity to perform interim and annual assessments of its ability to continue to meet obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the Postal Service's 2017 fiscal year and the quarters thereafter. The Postal

Service has completed its analysis and does not believe the adoption of the new standard as of September 30, 2017, will have a significant impact on its reported disclosures.

Accounting Standards Update 2016-02 Leases
In February 2016, the FASB issued Accounting Standards Update 2016-02 *Leases* ("ASU 2016-02"). The new standard requires an entity to record most leases on its balance sheets but continue to recognize expenses in the statements of operations in a manner similar to current accounting practices. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Expenses related to leases determined to be operating leases will be recognized on a straight-line basis, while those determined to be capital leases will generally have higher expense in the earlier periods of the lease and both interest and amortization are presented separately in the statements of operations.

ASU 2016-02 will become effective for the Postal Service's 2020 fiscal year and the quarters therein, with early adoption permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Postal Service continues to evaluate the impact of adopting this standard on its financial statements and disclosures, and it expects that the adoption will have a material effect on its financial statements and disclosures. As of the date of this filing, the Postal Service continues its initial scoping exercise.

Accounting Standards Update 2016-04 Liabilities - Extinguishments of Liabilities
In March 2016, the FASB issued Accounting Standards Update 2016-04 *Liabilities - Extinguishments of Liabilities* ("ASU 2016-04"). The new standard requires entities that sell prepaid stored-value products redeemable for goods, services or cash at third-party merchants to recognize "breakage" (i.e., the value that is ultimately not redeemed by the consumer) in a way that is consistent with how gift card breakage will be recognized under ASU 2014-09, referenced earlier.

ASU 2016-04 will become effective for the Postal Service's 2019 fiscal year and the quarters therein, with early adoption permitted. The new standard may be adopted either retrospectively or on a modified retrospective basis with a cumulative catch-up adjustment recorded to beginning retained earnings or net deficiency as of the beginning of the fiscal year the standard is effective. The standard is applicable to the Postal Service's determination of outstanding money orders and related escheatment. The Postal Service continues to evaluate the impact of adopting this standard on its financial statements and disclosures.

Accounting Standards Update 2016-18 Statement of Cash Flows, Restricted Cash
In November 2016, the FASB issued Accounting Standards Update 2016-18 *Statement of Cash Flows, Restricted Cash* ("ASU 2016-18"). The new standard provides final guidance, based on a consensus of the Emerging Issues Task Force, to clarify how entities should present restricted cash in the statements of cash flows. The new standard requires entities to show the change in the total of cash, cash equivalents and restricted cash and no longer present transfers between cash, cash equivalents and restricted cash in the statements of cash flows.

The Postal Service elected to early adopt this standard during the second quarter of fiscal year 2017 using a retroactive application approach, which results in some presentation reclassification of cash, cash equivalents and restricted cash within the statements of cash flows for the nine months ended June 30, 2017, and 2016. See *Note 4 - Cash, Cash Equivalents and Restricted Cash* for further details.

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 the Treasury. As of June 30, 2017, and September 30, 2016, the Postal Service held unrestricted cash and cash equivalents of $9.5 billion and $8.1 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 totaling up to $4.0 billion and fixed-rate notes with various maturities of $11.0 billion. As of both June 30, 2017, and September 30, 2016, the aggregate principal balance of debt outstanding was $15.0 billion, the maximum borrowing amount allowed under the Postal Service's statutory debt ceiling. The Postal Service has reported $15.0 billion in outstanding debt each quarter since September 30, 2012.

The two revolving credit facilities referenced above have interest rates determined by the U.S. Department of the Treasury each business day and enable the Postal Service to draw up to $4.0 billion in total. As of June 30, 2017, and September 30, 2016, these facilities were fully drawn and were included in the current portion of debt. These annually-renewable facilities were renewed on April 20, 2017, and are scheduled to expire in April 2018.

Liquidity Concerns

The Postal Service is constrained by laws and regulations, including the *Postal Accountability and Enhancement Act*, Public Law 109-435 ("PAEA"), which restricts revenue sources and mandates certain expenses, included prefunding requirements for retiree health benefits unlike those imposed on most other federal entities or private sector businesses. The PAEA established the Postal Service Retiree Health Benefits Fund ("PSRHBF") and mandated certain obligations for paying the normal costs and prefunding of retiree health benefits, described below and in *Note 8 - Health Benefits Plans*. Additionally, as noted above, the Postal Service has reached the maximum borrowing capacity under its statutory debt ceiling.

The Postal Service defaulted on $33.9 billion in PSRHBF prefunding payments for the years 2012 through 2016, and reported operating expenses of approximately $77 billion in 2016. The Postal Service has incurred cumulative net losses of $63.6 billion from 2007 through June 30, 2017, and projects continuing annual net losses in the future absent legislative and regulatory change. As a result of these losses and its liquidity concerns, the Postal Service will unlikely have sufficient liquidity, absent legislative and regulatory change, to meet all of its existing legal obligations when due, to pay down its debt and to make the critical infrastructure investments that have been deferred in recent years.

Business Model Challenges/Constraints

Market-Dominant services, which account for approximately 70% of the Postal Service's annual operating revenues, are subject to a price cap as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"). However, the Postal Service's costs are not similarly constrained. A large portion of its cost structure cannot be altered expeditiously due to the Postal Service's universal service obligation, and the number of delivery points continues to grow by approximately one million per year, which drives up delivery costs. Other employee and retiree benefit costs are mandated by law and cannot be altered without legislative change. Accordingly, the Postal Service is generally unable to increase prices sufficiently to offset increased costs.

Aside from its universal service obligation, a significant factor contributing to Postal Service losses is the ongoing decline in the volume of *First-Class Mail*, which generates a higher contribution than other mail classes. This decline is largely the result of changes in consumers' and businesses' use of mail that have taken place over the last decade. *First-Class Mail* volume has also been negatively affected by the continuing migration to electronic communication and transactional alternatives. Also contributing to losses is the increase in the number of delivery points, which, when combined with the impact of the reduction in mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from 5.5 pieces in 2007 to 3.7 pieces in 2016, a decline of approximately 32%.

Because the Postal Service provides its services primarily through its employees, its costs are heavily concentrated in wages and benefits for both current employees and retirees. These costs are significantly impacted by wage inflation, health benefit premium increases, and retirement and workers' compensation programs. Some of these costs have historically tended to increase at a higher rate than inflation.

Retiree Health and Supplemental Unfunded Retirement Benefits

In 2017, the Postal Service's funding requirements for retiree health benefits changed. In accordance with PAEA, the PSRHBF is to be used to fund the Postal Service's share of retiree health benefit premiums, and the U.S. Office of Personnel Management ("OPM") is to calculate and provide the amount of annual payments the Postal Service will need to make to amortize the PSRHBF unfunded obligation.

The Postal Service remains obligated to fund the $33.9 billion in PSRHBF prefunding payments that it defaulted on for the years 2012 through 2016. Given that OPM considers the $33.9 billion to be due and payable, the Postal Service continues to reflect this amount as a current liability within *Retiree health benefits* in the accompanying Balance Sheets.

The Postal Service received its invoice from OPM, dated July 30, 2017, which confirmed the PSRHBF unfunded obligation of $19.8 billion as of September 30, 2016. The invoice also indicated that the related amortization payment for 2017 is $955 million, due by September 30, 2017.

Furthermore, the Postal Service is obligated to pay the estimated normal costs of retiree health benefits attributable to the service of its employees during the most recently ended fiscal year. OPM's July 30, 2017, invoice indicated the normal cost payment for 2016, also payable by September 30, 2017, is $3.3 billion. This amount reflects an increase of $527 million over OPM's previous estimate provided in October 2016, primarily due to revised actuarial assumptions. The Postal Service has therefore recorded an additional $395 million accrual for the three and nine months ended June 30, 2017, to adjust for the increase in the invoiced amount as compared to the previous estimate.

The majority of Postal Service employees participate in either the Civil Service Retirement System ("CSRS") or the Federal Employee Retirement System ("FERS") based on the starting date of employment with the Postal Service or other U.S. government employer. The Board of Actuaries of the Civil Service Retirement System ("Board of Actuaries") makes recommendations regarding the interest, salary inflation, cost-of-living-adjustment ("COLA") and investment return rates used to determine the funded status of both CSRS and FERS. On June 1, 2017, the Board of Actuaries updated these actuarial assumptions.

For 2017, obligations pertaining to CSRS changed according to PAEA, and the Postal Service is now obligated to make annual payments to OPM to fully amortize its CSRS unfunded liabilities. The Postal Service received an invoice from OPM, dated June 28, 2017, in the amount of $1.7 billion for the first annual CSRS amortization payment due September 30, 2017. Due to the Board of Actuaries' revised assumptions, this invoiced amount reflects an increase of $510 million over OPM's previous estimate provided in October 2016. The Postal Service has therefore recorded an additional $383 million accrual for the three and nine months ended June 30, 2017, to adjust for the increase in the invoiced amount as compared to the previous estimate.

Furthermore, the Postal Service has revised its estimate of its FERS annual amortization payment due September 30, 2017, based on preliminary discussions with OPM regarding the updated actuarial assumptions, which will affect the revaluation of the FERS liability. This adjustment resulted in an increase in FERS amortization expense of $491 million for both the three and nine months ended June 30, 2017. Until the Postal Service receives an invoice from OPM, these preliminary estimates are subject to change.

The following table shows a composition of the expenses related to retiree health benefits, CSRS and FERS for the three and nine months ended June 30, 2017, and 2016, respectively:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
PSRHBF supplemental unfunded liability expense[1]	$ 332	$ —	$ 716	$ —
PSRHBF prefunding fixed amount[2]	—	1,450	—	4,350
Normal cost of retiree health benefits[3]	1,086	—	2,475	—
Retiree health benefits premiums[4]	—	837	—	2,465
CSRS supplemental unfunded liability expense[5]	691	—	1,306	—
FERS supplemental unfunded liability expense[6]	553	60	677	181

[1] Expense for the accrual for the $955 million annual payment due by September 30, 2017, on the unfunded liability of $19.8 billion as provided by OPM. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate.

[2] Expense for the accrual for the $5.8 billion annual prefunding payment to the PSRHBF due on September 30, 2016, which the Postal Service defaulted on.

[3] Expense for the accrual for the $3.3 billion annual payment due to the PSRHBF by September 30, 2017, based on OPM's invoice, for actuarially-determined normal cost of retiree health benefits for current employees. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate.

[4] Expense for the amount the Postal Service incurred for its share of retiree health benefit premiums for annuitants. Beginning in 2017, the PSRHBF pays the Postal Service's share of retiree health benefit premiums.

[5] Expense for the accrual for the $1.7 billion annual payment due by September 30, 2017, based on OPM's invoice, to amortize the $26.9 billion unfunded CSRS retirement obligation as of September 30, 2016, the date of the most recent available information. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate. Payments are to be made in equal installments beginning in 2017 through 2043.

[6] Expense for the accrual for the estimated 2017 payment amount of approximately $900 million due September 30, 2017, based on actuarial valuations and assumptions, to amortize the estimated unfunded FERS retirement obligation as of September 30, 2016. This estimate is based on the September 30, 2015, liability, the most recent available information. This amount includes an adjustment to reflect the increase in the Postal Service's estimate as compared to OPM's previous estimate. Payments are to be made in equal installments through 2046.

The Postal Service anticipates that given its ongoing liquidity concerns, and without legislative and regulatory action, it will not likely be able to make all legally-required payments in 2017 and still have sufficient cash to ensure that it can fulfill its statutory universal service obligation. Additionally, the Postal Service believes that continuing productivity improvements alone will not be sufficient to address the challenges presented by declining Market-Dominant volume and revenue, and that any revenue growth will unlikely be able to keep pace with increased costs.

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 total revenue in 2016 of approximately $71 billion, 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. 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 and regulatory changes that are required to restore its financial stability.

NOTE 3 - RELATED PARTIES

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

The following table presents related-party assets and liabilities as of June 30, 2017, and September 30, 2016:

(in millions)	June 30, 2017	September 30, 2016
Related-party assets:		
Receivables and advances[1]	$ 27	$ 40
Carrying amount of revenue forgone installment receivable[2]	421	405
Related-party liabilities:		
Current portion of debt	$ 10,100	$ 10,100
Other current liabilities[3]	41,331	36,509
Noncurrent portion of debt	4,900	4,900
Other noncurrent liabilities[4]	16,423	18,638

[1] Included within *Receivables, net* in the accompanying Balance Sheets.
[2] Included within *Other assets* in the accompanying Balance Sheets.
[3] Amounts include PSRHBF, FERS and CSRS obligations and current workers' compensation obligations.
[4] Amounts include noncurrent workers' compensation obligations.

The following table presents related-party revenue and expenses for the three and nine months ended June 30, 2017, and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Related-party operating revenue[1]	$ 220	$ 224	$ 717	$ 758
Related-party operating expenses[2]	$ 5,090	$ 4,838	$ 12,382	$ 14,399
Related-party interest income[3]	$ 16	$ 8	$ 38	$ 23
Related-party interest expenses[4]	$ 51	$ 49	$ 151	$ 145

[1] Included within *Operating revenue* in the accompanying unaudited Statements of Operations.

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

[3] Imputed on the revenue forgone installment receivable or generated on cash equivalents held with the Federal Reserve Bank of New York or short-term investments in U.S. Treasury instruments. Included within *Interest and investment income* in the accompanying unaudited Statements of Operations.

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

NOTE 4 - CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The Postal Service elected to early adopt ASU 2016-18 as of March 31, 2017. Adoption of this standard is considered a change in accounting principle using a retrospective application approach, which results in some reclassification, for presentation purposes, of cash, cash equivalents and restricted cash in the statements of cash flows for the nine months ended June 30, 2017, and 2016.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the balance sheets as of June 30, 2017, and 2016, respectively, and as of September 30, 2016, and 2015, respectively (to disclose the opening balances), that sum to the totals of the same such amounts shown in the unaudited statements of cash flows for the nine months ended June 30, 2017, and 2016:

	June 30,		September 30,	
(in millions)	**2017**	**2016**	**2016**	**2015**
Cash and cash equivalents	$ 9,498	$ 8,890	$ 8,077	$ 6,634
Restricted cash	362	318	253	233
Total cash, cash equivalents and restricted cash as shown in the statements of cash flows	**$ 9,860**	**$ 9,208**	**$ 8,330**	**$ 6,867**

Restricted cash represents Postal Service cash that is not available for general use. This includes cash originated from forfeitures or seizures related to consumer fraud or other criminal activity related to the mail and either held for third-party beneficiaries or awaiting disposition. *Restricted cash* also includes funds designated for specific use due to congressional appropriation for Postal Service obligations to the PRC and the United States Postal Service Office of Inspector General, or that is otherwise restricted.

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Assets within *Property and equipment, net* in the accompanying Balance Sheets are recorded at cost, which includes the interest on borrowings used to finance construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during both the three and nine months ended June 30, 2017, and 2016, was not significant. Fixed assets are depreciated over estimated useful lives ranging from 3 to 40 years using the straight-line method.

The book values of assets classified as held for sale were approximately $23 million and $43 million as of June 30, 2017, and September 30, 2016, respectively, and are included within *Property and equipment, net* in the accompanying Balance Sheets.

For the three months ended June 30, 2017, and 2016, depreciation and amortization expense was $431 million and $435 million, respectively, and impairment charges were de minimis. For both the nine months ended June 30, 2017, and 2016, depreciation and amortization expense was $1.3 billion and impairment charges were de minimis. These items are included within *Other operating expenses* in the accompanying unaudited Statements of Operations.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Commitments

In December 2016, the Postal Service reached a new 40-month collective bargaining agreement (retroactive to May 2016) with the National Postal Mail Handlers Union ("NPMHU") which was subsequently ratified by NPMHU membership. The new contract includes general wage increases totaling 3.8% over 40 months (1.2% of which was retroactive to November 2016) with a COLA base month of July 2014 (the first COLA payment was retroactive to September 2016), a reduction in the employer share of health insurance premiums beginning in the 2018 plan year, and annual increases in uniform and work clothing allowances. The contract will expire on September 20, 2019.

In May 2017, the Postal Service reached a new 40-month collective bargaining agreement (retroactive to May 2016) with the National Association of Letter Carriers ("NALC") which was subsequently ratified by NALC membership. The new contract includes general wage increases totaling 2.5% over 40 months (1.2% of which was retroactive to November 2016) with a COLA base month of July 2014 (the first COLA payment was retroactive to September 2016), a November 2018 consolidation of the current two pay grades into a single pay grade, a reduction in the employer share of health insurance premiums beginning in the 2018 plan year, and annual increases in uniform and work clothing allowances. The contract will expire on September 20, 2019.

Contingencies

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

The Postal Service has made adequate provision for probable losses arising from all claims. The following table presents contingent liabilities by current and noncurrent portions and by category, as of June 30, 2017, and September 30, 2016:

(in millions)	June 30, 2017	September 30, 2016
Current/noncurrent portions of contingent liabilities:		
Current portion[1]	$ 144	$ 166
Noncurrent portion[2]	508	498
Total contingent liabilities	**$ 652**	**$ 664**
Contingent liabilities by category:		
Labor and employment matters	$ 544	$ 565
Asset retirement obligations	54	47
Tort matters	50	48
Contractual matters	4	4
Total contingent liabilities	**$ 652**	**$ 664**

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

In addition to accruals for probable losses in the financial statements, the Postal Service also has claims which it deems reasonably possible of an unfavorable outcome, which are not accrued for in the financial statements. These ranged in amount from $225 million to $725 million at June 30, 2017, and from $225 million to $950 million at September 30, 2016. The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its financial condition or operations.

NOTE 7 - RETIREMENT PLANS

The majority of employees participate in one of two U.S. government pension programs, CSRS or FERS, which are administered by OPM. Each employee's participation in either plan is largely based on the starting date of employment with the Postal Service or other U.S. government entity. Career 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's TSP expenses are related only to its contributions for FERS employees who participate in the TSP.

As government-sponsored benefit plans, CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Likewise, because the Postal Service cannot direct the costs, benefits or funding requirements of these plans, it accounts for program expenses under multiemployer plan accounting rules. As such, the Postal Service records contributions to the plans as an expense in the period in which each contribution is due.

By law, the Postal Service does not incur normal costs for CSRS retirement benefits. The Postal Service's retirement plan obligations consist of FERS normal costs, the employer portion of TSP contributions and costs for supplemental unfunded retirement benefits, and are reflected as a current liability within *Compensation and benefits* in the accompanying Balance Sheets. The expenses for retirement plan obligations are included within *Compensation and benefits* in the accompanying unaudited Statements of Operations.

The following table presents retirement benefits expenses for the three and nine months ended June 30, 2017, and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
FERS normal costs and employer TSP contributions	$ 1,630	$ 1,611	$ 4,951	$ 4,867
Supplemental unfunded retirement benefits[1,2]	1,244	60	1,983	181
Total retirement benefits	**$ 2,874**	**$ 1,671**	**$ 6,934**	**$ 5,048**

[1] Includes the expense for the accrual for the $1.7 billion annual payment due by September 30, 2017, based on OPM's invoice, to amortize the $26.9 billion unfunded CSRS retirement obligation as of September 30, 2016, the date of the most recent available information. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate. Payments are to be made in equal installments beginning in 2017 through 2043.

[2] Includes the expense for the accrual for the estimated 2017 payment amount of approximately $900 million due September 30, 2017, based on actuarial valuations and assumptions, to amortize the estimated unfunded FERS retirement obligation as of September 30, 2016. This estimate is based on the September 30, 2015, liability, the most recent available information. This amount includes an adjustment to reflect the increase in the Postal Service's estimate as compared to OPM's previous estimate. Payments are to be made in equal installments through 2046.

FERS Normal Costs and Employer TSP Contributions

For most FERS employees, OPM has set the Postal Service's normal cost contribution rates at 13.7% of base salary for both 2017 and 2016. For FERS employees who participate in TSP, the Postal Service contributes 1% of basic pay and matches voluntary employee contributions up to an additional 4% of basic pay.

Expenses for the normal costs of FERS and employer TSP contributions were $1.6 billion for each of the three months ended June 30, 2017, and 2016, and $5.0 billion and $4.9 billion for the nine months ended June 30, 2017, and 2016, respectively.

Supplemental Unfunded Retirement Benefits

OPM periodically notifies the Postal Service regarding its revaluation of unfunded CSRS and FERS liabilities. OPM calculates these obligations using government-wide salary growth and demographic data, rather than Postal Service-specific demographics and salary growth assumptions. The amounts that the Postal Service records for its supplemental unfunded retirement benefits expense are significantly impacted by changes in actuarial assumptions used to revalue the unfunded liabilities.

PAEA suspended the Postal Service's CSRS contributions that would otherwise have been required under Title 5, Section 8334(a)(1) of the U.S. Code until 2017. The Postal Service received an invoice from OPM, dated June 28, 2017, in the amount of $1.7 billion for the first annual amortization payment due September 30, 2017. Due to the Board of Actuaries' revised actuarial assumptions, this invoiced amount was a $510 million increase over the estimate OPM previously provided in October 2016. The Postal Service has accrued $691 million and $1.3 billion for the three and nine months ended June 30, 2017, respectively. These amounts reflect an additional $383 million accrual for the three and nine months ended June 30, 2017, to adjust for the increase in the invoiced amount as compared to the previous estimate.

Based on preliminary discussions with OPM regarding changes in actuarial assumptions used to determine the revaluation of the FERS liability, the Postal Service revised its estimate of the annual amortization payment due September 30, 2017. This adjustment resulted in an increase in FERS amortization expense of $491 million for both the three and nine months ended June 30, 2017. Until the Postal Service receives an invoice from OPM, these preliminary estimates are subject to change.

NOTE 8 - HEALTH BENEFITS PLANS

The Federal Employees Health Benefits ("FEHB") Program covers nearly all career employees and also covers non-career employees and retirees who meet certain eligibility requirements. OPM administers FEHB and allocates the cost of funding the program to participating U.S. government employers. The Postal Service cannot direct the costs, benefits or funding requirements of the plans. Therefore, it accounts for program expenses using multiemployer plan accounting rules by recording estimates of the contributions to the plans that will be required by OPM as an expense in the period in which the contributions are due. Although OPM determines the actual health benefits premium costs, the allocation of these costs between the Postal Service and most of its employees is determined through agreements with Postal Service labor unions. Separate from FEHB, the Postal Service offers its own healthcare plan to certain non-career employees who are ineligible for FEHB.

Active Employees

The Postal Service paid approximately 74% of FEHB premium costs during both the three and nine months ended June 30, 2017, and 2016, respectively. Postal Service employee healthcare expense was $1.3 billion and $1.2 billion for the three months ended June 30, 2017, and 2016, respectively, and $3.9 billion and $3.7 billion for the nine months ended June 30, 2017, and 2016, respectively. These expenses are included within *Compensation and benefits* in the accompanying unaudited Statements of Operations.

Retirees

Retirees who participated in the FEHB for the five years immediately preceding their retirement may continue to participate in the program during retirement. Eligible participants include former employees (or their qualifying survivors, if applicable) who retired on or after July 1, 1971, based on each retiree's length of federal civilian service occurring after that date. Each participant's share of premium costs is set by law and is not subject to negotiation with Postal Service labor unions. The Postal Service expenses what it is billed by OPM.

For the years 2007 through 2016, the PAEA required that the Postal Service prefund retiree health benefits by paying fixed amounts into the PSRHBF, which is used to pay the Postal Service's share of retiree health benefit premiums beginning in 2017. The Postal Service defaulted on $33.9 billion of the PSRHBF prefunding payments for the years 2012 through 2016. Given that OPM considers the $33.9 billion to be due and payable, the Postal Service continues to reflect this amount as a current liability within *Retiree health benefits* in the accompanying Balance Sheets.

As required by PAEA, OPM has performed an actuarial valuation for the funding of any remaining unfunded PSRHBF obligation over a period of 40 years through 2056. The Postal Service received its invoice from OPM, dated July 30, 2017, which confirmed the PSRHBF unfunded obligation of $19.8 billion as of September 30, 2016. The invoice also indicated that the related amortization payment for 2017 is $955 million, due by September 30, 2017. The Postal Service has therefore accrued expenses of $332 million and $716 million, included within *Retiree health benefits* in the accompanying unaudited Statements of Operations, for the three and nine months ended June 30, 2017, respectively.

Furthermore, the Postal Service is obligated to pay the estimated normal costs of retiree health benefits attributable to the service of its employees during the most recently ended fiscal year. OPM's July 30, 2017, invoice indicated the normal cost payment, also payable by September 30, 2017, is $3.3 billion. This amount reflects an increase of approximately $527 million over OPM's previous estimate provided in October 2016, primarily due to revised actuarial assumptions. As a result of this revision, the Postal Service has accrued expenses of $1.1 billion and $2.5 billion for the three and nine months ended June 30, 2017, respectively. These amounts are included within *Retiree health benefits* in the accompanying unaudited Statements of Operations.

The following table details retiree health benefits expenses, including the changes that are taking effect in 2017 in accordance with the PAEA, for the three and nine months ended June 30, 2017, and 2016:

(in millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
Amortization of PSRHBF unfunded obligation[1]	$ 332	$ —	$ 716	$ —
PSRHBF prefunding fixed amount[2]	—	1,450	—	4,350
Normal cost of retiree health benefits[3]	1,086	—	2,475	—
Retiree health benefits premiums[4]	—	837	—	2,465
Total retiree health benefits expense	**$ 1,418**	**$ 2,287**	**$ 3,191**	**$ 6,815**

[1] Expense for the accrual for the $955 million annual payment due by September 30, 2017, on the unfunded liability of $19.8 billion as provided by OPM. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate.

[2] Expense for the accrual for the $5.8 billion annual prefunding payment to the PSRHBF due on September 30, 2016, which the Postal Service defaulted on.

[3] Expense for the accrual for the $3.3 billion annual payment due to the PSRHBF by September 30, 2017, based on OPM's invoice, for actuarially-determined normal cost of retiree health benefits for current employees. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate.

[4] Expense for the amount the Postal Service incurred for its share of retiree health benefit premiums for annuitants. Beginning in 2017, the PSRHBF pays the Postal Service's share of retiree health benefit premiums.

NOTE 9 - WORKERS' COMPENSATION

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

Workers' Compensation Liability

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured on the job and are eligible for benefits, or their qualified survivors. Both the current and noncurrent liabilities are recorded in the accompanying Balance Sheets.

To determine the fair value of the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries and the expected trend in future costs. The Postal Service uses an estimation model that combines four generally-accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked. Changes in the actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial assumptions, new compensation and medical cases, the progression of existing cases and changes in inflation rates, including long-term COLA rates for compensation claims, and medical rates for medical claims.

The Postal Service then calculates the amount that would need to be invested at current discount (interest) rates to fully fund the future total cost of claims, and this calculated present value is the fair value of workers' compensation liability. This liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the June 30, 2017, liability and related expense by approximately $1.9 billion. Likewise, a 1% decrease in the discount rate would increase the June 30, 2017, liability and related expense by approximately $2.4 billion.

The following table details the applicable inflation and discount rates as of June 30, 2017, and September 30, 2016:

	June 30, 2017	September 30, 2016
Compensation claims liability:		
Discount rate	2.5%	1.9%
Wage inflation	2.6%	2.6%
Medical claims liability:		
Discount rate	2.5%	1.9%
Medical inflation	2.7%	5.5%

Workers' Compensation Expense

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

The following table presents the components of workers' compensation (benefit) expense for the three and nine months ended June 30, 2017, and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Impact of discount rate changes	$ 258	$ 668	$ (1,346)	$ 1,214
Actuarial revaluation of existing cases	(668)	(134)	(783)	(452)
Cost of new cases	361	424	1,202	1,418
Administrative fee	20	18	133	54
Total workers' compensation (benefit) expense	**$ (29)**	**$ 976**	**$ (794)**	**$ 2,234**

DOL implemented a new pharmaceutical compounding policy in July 2016, and in October 2016, it implemented a "Letter of Medical Necessity" requirement for compound pharmaceuticals. The Postal Service recorded a $572 million benefit for both the three and nine months ended June 30, 2017, largely due to these changes in rules for pharmaceutical compounding.

NOTE 10 - FAIR VALUE MEASUREMENT

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

Noncurrent receivables and noncurrent debt are measured using a fair value hierarchy model. This model prioritizes observable and unobservable inputs used to measure fair value, and consists of three broad levels, as defined in authoritative literature.

For the periods ended June 30, 2017, and September 30, 2016, no significant transfers between *Level 1* and *Level 2* assets or liabilities transpired. The carrying amount and fair value of the revenue forgone installment receivable and the noncurrent portion of debt are presented for disclosure purposes only in the following table:

	June 30, 2017		September 30, 2016	
(in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Revenue forgone installment receivable*	$ 421	$ 497	$ 405	$ 527
Noncurrent portion of debt	$ 4,900	$ 5,236	$ 4,900	$ 5,492

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

The revenue forgone installment receivable qualifies as a financial instrument in accordance with authoritative literature. To calculate its fair value, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of this receivable using the interest method, which converts future cash flows to a single discounted amount using interest rates for similar assets, which are considered *Level 2* inputs. The Postal Service then calculates the net present value of anticipated annual installment payments to be received, discounted by the 20-year Treasury Constant Maturity Rate, which was 2.61% and 1.99% as of June 30, 2017, and September 30, 2016, respectively.

The noncurrent portion of debt also qualifies as a financial instrument. 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, considered *Level 3* inputs.

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

CAUTIONARY STATEMENTS

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting the financial results, liquidity, capital resources and critical accounting estimates of the United States Postal Service ("Postal Service," "USPS," "we," "our" and "us"). Our results of operations may be impacted by risks and uncertainties discussed here and in our Annual Report on Form 10-K for the year ended September 30, 2016 ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 15, 2016. Such factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated.

Our operating results for the three and nine months ended June 30, 2017, are presented in accordance with accounting principles generally accepted in the United States ("GAAP"). These results are not necessarily indicative of the results to be expected for the year ended September 30, 2017, and should be read in conjunction with our Annual Report. All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2017 and 2016.

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

OVERVIEW

With our mandate to provide universal postal services to the nation, we serve retail and commercial customers in the United States, as well as internationally. Our operations include an extensive and integrated retail, distribution, transportation and delivery network.

The *Postal Accountability and Enhancement Act* ("PAEA") classifies our products into two broad categories: Market-Dominant and Competitive "products," however, we use the term "services" in this document for consistency with other descriptions of services offered. The PAEA also established certain requirements that affect our financial results, including obligations for retirement benefits and retiree health benefits, and we must coordinate with the U.S. Office of Personnel Management ("OPM") to address these obligations.

We have successfully implemented initiatives that have reduced our costs by billions of dollars while offering broader services. However, legal restrictions on pricing, service diversification and operations restrict our ability to fully implement our strategic objectives and cover our costs to provide secure, reliable and affordable postal services to the nation.

We have established a core set of goals that drive our strategic initiatives and continuous improvement efforts:

1. Deliver a world-class customer experience;
2. Equip, empower and engage employees;
3. Innovate faster to deliver value; and
4. Invest in our future platforms.

As part of these efforts, we aim to achieve long-term financial stability, as well as a reduction in our debt. Our focus on maintaining liquidity and reducing operating expenses reflects current trends, as well as projected future volume of mail and packages. We believe that revenue stability is within reach with targeted legislative and regulatory reform as we continue to identify and create innovative and affordable services, and deliver high levels of performance and service.

RESULTS OF OPERATIONS

SUMMARY

The major factors that impact our operating results include overall customer demand, the mix of postal services and contribution 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 mail volume, growth in more labor-intensive Shipping and Packages volume and an increasing number of delivery points. We operate as a single segment and report our performance as such.

Three Months Ended June 30, 2017

Operating revenue for the three months ended June 30, 2017, decreased $1.0 billion, or 5.8%, compared to the same period last year. This decrease was primarily due to the effects of a $1.1 billion non-cash change in accounting estimate recognized during the three months ended June 30, 2016, discussed below in *2016 Change in Accounting Estimate*. Excluding the effect of this change in accounting estimate, operating revenue was essentially unchanged.

Combined revenue from *First-Class Mail* and *Marketing Mail* declined by $572 million for the three-month period on a volume decline of 1.4 billion pieces. This decline in revenue was largely offset by an increase in Shipping and Packages revenue of $473 million, or 11.3%, as we continued to see growth in this lower-margin business throughout the quarter.

Operating expenses for the three months ended June 30, 2017, decreased $461 million, or 2.4%, compared to the same period last year. This was driven by a decrease in our retiree health benefits expense of $869 million, largely due to the change in funding requirements for retiree health benefits taking effect in 2017 (discussed in greater detail below in *Operating Expenses*, *Retiree Health Benefits*). Also contributing to the reduction in operating expenses was a favorable change in workers' compensation expense of $1.0 billion, compared to the same period last year, resulting from both higher discount rates and the effects of lower medical payments, which reduced our workers' compensation liability. These reductions in operating expenses were offset partially by higher compensation and benefits expenses driven by a $1.2 billion increase in supplemental retirement benefit costs due to 2017 statutory changes and revised actuarial assumptions.

These changes in revenue and expenses resulted in a net loss of $2.1 billion for the three months ended June 30, 2017, compared to a net loss of $1.6 billion for the same period last year.

Nine Months Ended June 30, 2017

Operating revenue for the nine months ended June 30, 2017, decreased $1.7 billion, or 3.0%, compared to the same period last year. This decrease was due to the combined effects of the $1.1 billion change in accounting estimate recognized during the three months ended June 30, 2016, and the April 2016 expiration of the exigent surcharge, which generated approximately $1.1 billion in incremental revenue during the same period last year. Excluding the effect of the change in accounting estimate, operating revenue for the nine months ended June 30, 2017, declined by $601 million, or 1.1%, compared to the same period last year.

Combined revenue from *First-Class Mail* and *Marketing Mail* declined by $2.3 billion for the nine-month period. This decline was largely attributable to the exigent surcharge expiration, as well as a decline in combined volume of 3.0 billion pieces. These declines in *First-Class Mail* and *Marketing Mail* revenue were partially offset by the increase in Shipping and Packages revenue of $1.7 billion, or 12.6%, as we continued to experience growth in this lower-margin business throughout the nine-month period.

Operating expenses for the nine months ended June 30, 2017, decreased $3.7 billion, or 6.4%, compared to the same period last year. This was primarily the result of a decrease in retiree health benefits expense of $3.6 billion due to the aforementioned change in funding requirements for retiree health benefits taking effect in 2017, compared to the prior year, and a decrease in workers' compensation expense of $3.0 billion, primarily because discount rates increased as of June 30, 2017, compared to the same period last year. These decreases in operating expenses were partially offset by a $1.8 billion increase in supplemental retirement benefits expense due to 2017 statutory changes and revised actuarial assumptions, and other increases in compensation and benefits expense of $583 million, largely due to an increase in work hours. To a lesser extent, transportation costs rose by $229 million, the result of increased highway expenses to support our package volume growth.

These changes in revenue and expenses resulted in a net loss of $1.3 billion for the nine months ended June 30, 2017, compared to a net loss of $3.3 billion for the same period last year.

2016 Change in Accounting Estimate

We recognize revenue for postage at the time a piece of mail is processed and delivered, not when we receive cash for the sale of postage. We estimate the amount of postage that we have sold but customers have not yet used and include this amount as a liability in our Balance Sheets as *Deferred revenue-prepaid postage*. The majority of this liability consists of our estimate of sold but unused *Forever Stamps*, the non-denominated postage stamps we introduced in 2007.

We have developed and validated the usage portion of our deferred revenue estimate through complex mathematical and statistical methods, including regression analysis of postage stamp usage trends. Small differences in inputs can lead to significant differences in our estimate of the liability. “Breakage” represents the small portion of sold *Forever Stamps* that we estimate will never be used by customers due to loss, damage or stamp collection. Assumptions regarding estimated usage and breakage of a particular postage stamp issue cannot be refined until each “series” of postage stamps nears the end of its life cycle.

In the three months ended June 30, 2016, we analyzed data that was not previously available on consumer behavior and usage patterns of *Forever Stamps*, specifically postage stamps nearing completion of their lifecycle. This new data, which allowed us to account for approximately $31 billion in *Forever Stamps* sold from 2011 through June 30, 2016*,* resulted in an update of the usage and breakage inputs we included in the statistical estimation process. We believe this change improved the estimation of stamp usage and related revenue recognition.

As a result of this analysis, we recorded a decrease in *Deferred revenue-prepaid postage* of $1.1 billion as of June 30, 2016, and an increase in revenue and decrease in our net loss by the same amount for the three and nine months ended June 30, 2016. This change relates solely to changes in our estimates of stamp usage and breakage and, in accordance with GAAP, we consider the change a change in accounting estimate. This adjustment had no impact on our current liquidity nor did it lessen the severity of our liquidity outlook.

Non-GAAP Controllable Income (Loss)

In the day-to-day operation of our business, we focus on costs within our control, such as salaries and transportation. We calculate controllable income (loss), a non-GAAP measure, by excluding items we cannot control, such as workers’ compensation expenses affected by new cases, actuarial revaluation and discount rate changes, prefunding expenses related to the Postal Service Retirement Health Benefits Fund (“PSRHBF”), the amortization of PSRHBF, CSRS and FERS unfunded obligations, and adjustments for non-recurring items, such as the 2016 change in accounting estimate. Controllable income (loss) should not be considered a substitute for net income (loss) and other GAAP reporting measures.

The following table reconciles our GAAP net loss to controllable income (loss) for the three and nine months ended June 30, 2017, and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Net loss	**$ (2,140)**	**$ (1,567)**	**$ (1,264)**	**$ (3,299)**
PSRHBF supplemental unfunded liability expense[1]	332	—	716	—
PSRHBF prefunding fixed amount[2]	—	1,450	—	4,350
Change in workers' compensation liability resulting from fluctuations in discount rates	258	668	(1,346)	1,214
Other change in workers' compensation liability[3]	(676)	(102)	(539)	(102)
Change in accounting estimate[4]	—	(1,061)	—	(1,061)
CSRS supplemental unfunded liability expense[5]	691	—	1,306	—
FERS supplemental unfunded liability expense[6]	553	60	677	181
Change in normal cost of retiree health benefits due to revised actuarial assumptions[7]	395	—	395	—
Controllable income (loss)	**$ (587)**	**$ (552)**	**$ (55)**	**$ 1,283**

[1] Expense for the accrual for the $955 million annual payment due by September 30, 2017, on the unfunded liability of $19.8 billion as provided by OPM. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate.

[2] Expense for the accrual for the $5.8 billion annual prefunding payment to the PSRHBF due on September 30, 2016, which the Postal Service defaulted on.

[3] Net amounts include changes in assumptions, as well as the valuation of new claims and revaluation of existing claims, less current year claim payments.

[4] This change in accounting estimate relates solely to changes in estimates of stamp usage and breakage for *Forever Stamps* sold from 2011 through June 30, 2016, reflected as a decrease in the *Deferred revenue-prepaid postage* liability as of June 30, 2016.

[5] Expense for the accrual for the $1.7 billion annual payment due by September 30, 2017, based on OPM's invoice, to amortize the $26.9 billion unfunded CSRS retirement obligation as of September 30, 2016, the date of the most recent available information. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate. Payments are to be made in equal installments beginning in 2017 through 2043.

[6] Expense for the accrual for the estimated 2017 payment amount of approximately $900 million due September 30, 2017, based on actuarial valuations and assumptions, to amortize the estimated unfunded FERS retirement obligation as of September 30, 2016. This estimate is based on the September 30, 2015, liability, the most recent available information. This amount includes an adjustment to reflect the increase in the Postal Service's estimate as compared to OPM's previous estimate. Payments are to be made in equal installments through 2046.

[7] Represents the accrual for the $527 million portion of the normal cost payment due September 30, 2017, attributable to revised actuarial assumptions and discount rate changes. The total normal cost payment amount is $3.3 billion, based on OPM's July 30, 2017, invoice.

For the three months ended June 30, 2017, controllable loss increased $35 million from the same period last year. This increase was largely driven by higher transportation expenses of $59 million. These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses*.

For the nine months ended June 30, 2017, controllable income (loss) changed from $1.3 billion of controllable income to a $55 million controllable loss, a net decrease of $1.3 billion. This decrease was driven by the $601 million decline in operating revenue before the 2016 change in accounting estimate, along with increases in compensation, health benefits, and transportation expenses of $335 million, $163 million, and $229 million, respectively. These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses*.

OPERATING REVENUE AND VOLUME

The combined categories of *First-Class Mail* and *Marketing Mail* continued to provide the majority of our revenue, despite long-term trends away from hard-copy communication to electronic media. Although these factors have resulted in significant volume declines in *First-Class Mail* over the last decade, *Marketing Mail* volume has remained relatively steady over that same period, although *Marketing Mail* volume has declined at a greater rate in 2017.

For the three months ended June 30, 2017*, First-Class Mail* generated approximately 36% of operating revenue, a 3% decrease in percentage from the same quarter last year, and 39% of our volume, a 1% decrease. Likewise, *Marketing Mail* generated approximately 24% of operating revenue, a 1% decrease in percentage from the same quarter last year, and 52% of our volume, which was unchanged compared to the same period last year.

While we continued to experience strong results in our Shipping and Packages business, it represented approximately 28% of our revenues for the three and nine months ended June 30, 2017. Furthermore, Shipping and Packages generated only 4% of our volume for the three and nine months ended June 30, 2017. Based on our 2016 metrics, we must generate approximately $2 in Shipping and Packages revenue to replace the contribution from each $1 of lost *First-Class Mail* revenue, as the costs associated with Shipping and Packages services have been, and continue to be, substantially higher than the costs associated with *First-Class Mail*.

We implemented price increases on certain Market-Dominant services in January 2017. We also implemented price increases on certain Competitive services in January 2016 and January 2017.

The following table summarizes our operating revenue and volume for the three and nine months ended June 30, 2017, and 2016, by each service line:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Operating Revenue:				
First-Class Mail[1]	$ 6,057	$ 6,479	$ 19,671	$ 21,266
Marketing Mail[2]	3,919	4,069	12,615	13,321
Shipping and Packages[3]	4,656	4,183	14,830	13,170
International	657	618	2,053	2,071
Periodicals	347	370	1,048	1,152
Other[4]	1,029	918	2,900	2,738
Total operating revenue before change in accounting estimate	**$ 16,665**	**$ 16,637**	**$ 53,117**	**$ 53,718**
Change in accounting estimate	$ —	$ 1,061	$ —	$ 1,061
Total operating revenue	**$ 16,665**	**$ 17,698**	**$ 53,117**	**$ 54,779**
Volume:				
First-Class Mail[1]	13,904	14,606	45,001	46,924
Marketing Mail[2]	18,447	19,115	59,583	60,653
Shipping and Packages[3]	1,348	1,215	4,324	3,894
International	254	225	784	766
Periodicals	1,363	1,427	4,048	4,258
Other[5]	109	116	287	382
Total volume	**35,425**	**36,704**	**114,027**	**116,877**

[1] Excludes *First-Class Mail Parcels*.

[2] Excludes *Marketing Mail Parcels*.

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

[4] Revenue includes *PO Box services*, *Certified Mail*, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, Registered Mail, Stamped Envelopes and Cards, money orders and Other services.

[5] Volume includes Postal Service internal mail and free mail provided to certain Congressionally-mandated groups.

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 active in addressing growth opportunities. We continue to concentrate on our customers' needs and have increased our marketing investment, and have focused on mail and package innovation. However, we also recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and prices we can offer to our customers and the speed with which we can bring new products to market.

To address the long-term trend that technological changes have had on our *First-Class Mail* revenue and volume, we have focused on providing new services, innovating with *Marketing Mail*, growing e-commerce and implementing marketing campaigns that have helped us grow our Shipping and Packages business. By offering day-specific delivery, improved tracking and text alerts and up to $50 of free insurance on most *Priority Mail* packages, we have demonstrated our responsiveness to our customers.

First-Class Mail

First-Class Mail, our most profitable service category, includes cards, letters, flats and parcels that weigh up to 13 ounces. *First-Class Mail* prices are the same regardless of how far the mail travels, and because *First-Class Mail* is classified by law as Market-Dominant, price increases are generally capped at the rate of inflation.

For the three months ended June 30, 2017, *First-Class Mail* revenue decreased $422 million, or 6.5%, and volume decreased 4.8%, compared to the same period last year. For the nine months ended June 30, 2017*, First-Class Mail* revenue decreased $1.6 billion, or 7.5%, and volume decreased by 4.1%, compared to the same period last year. The most significant factor contributing to the declining trend in *First-Class Mail* volume was the continuing migration from mail toward electronic communication and transaction alternatives.

Irrespective of this continued migration, *First-Class Mail* revenue was negatively impacted by the expiration of the exigent surcharge, as we estimate the surcharge generated incremental revenue of $648 million for the nine months ended June 30, 2016.

Marketing Mail

USPS Marketing Mail (more commonly, *Marketing Mail*) is mail not required to be mailed as *First-Class Mail* or *Periodicals*, and may include advertising, newsletters, catalogs, small marketing parcels and other printed matter. For the three months ended June 30, 2017*, Marketing Mail* revenue decreased $150 million, or 3.7%, and volume declined by 3.5%, compared to the same period last year. For the nine months ended June 30, 2017*, Marketing Mail* revenue decreased $706 million, or 5.3%, while volume declined by 1.8%, compared to the same period last year.

Marketing Mail benefited from political and election mail, which produced approximately $280 million in revenue on volume of 1.5 billion pieces during the nine months ended June 30, 2017, a period that included the 2016 general election, compared to $175 million in revenue on volume of 817 million pieces for the same period last year. In addition, *Marketing Mail* revenue was negatively impacted by the mail mix within various *Marketing Mail* services.

Despite benefiting from political and election mail, *Marketing Mail* revenue was negatively impacted by the expiration of the exigent surcharge, as we estimate the surcharge generated incremental revenue of $396 million for the nine months ended June 30, 2016.

Marketing Mail volume is reflective of the cyclical nature of the U.S. economy, although targeted advertising campaigns can stimulate demand for these services. Price increases for *Marketing Mail* 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 nine months ended June 30, 2017, and 2016, by each service:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Shipping and Packages Revenue:				
Priority Mail Services[1]	$ 2,257	$ 2,172	$ 7,263	$ 6,898
Parcel Services[2]	1,381	1,152	4,447	3,602
First-Class Packages[3]	840	689	2,523	2,075
Package Services	178	170	597	595
Total Shipping and Packages revenue	**$ 4,656**	**$ 4,183**	**$ 14,830**	**$ 13,170**
Shipping and Packages Volume:				
Priority Mail Services[1]	257	256	821	819
Parcel Services[2]	669	582	2,164	1,864
First-Class Packages[3]	288	252	876	774
Package Services	134	125	463	437
Total Shipping and Packages volume	**1,348**	**1,215**	**4,324**	**3,894**

[1] Includes *Priority Mail*, a 1-3 business day delivery service; *Priority Mail Express*, an overnight delivery service available 365 days per year; and *USPS Retail Ground,* a retail-only Market-Dominant service priced identically and functionally equivalent to *Priority Mail* for Zones 1-4.

[2] Includes *Parcel Select*, *Parcel Return*, *Marketing Mail Parcels*.

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

Our Shipping and Packages business has continued to show solid revenue and volume growth as a result of our successful efforts to compete in shipping services, including “last-mile” e-commerce fulfillment markets and Sunday delivery. Volume also experienced end-to-end growth as consumers continued to utilize online shopping, which provided a surge in package volume with a record number of packages delivered during the calendar year 2016 holiday season. To accommodate this surge in volume and to avoid service disruptions during the holiday season, we increased Sunday delivery service for some of our customers in limited U.S. markets and added non-career employees for the season in accordance with our labor agreements.

Priority Mail Services

Priority Mail Services, our Shipping and Packages subcategory that includes *Priority Mail*, *Priority Mail Express* and *Retail Ground*, allows customers the ability to send documents and packages requiring expedited transportation and handling. While Priority Mail Services revenue continues to grow year over year, its service offerings are somewhat price sensitive, particularly with retail customers, and its growth rate is lower than some other Shipping and Packages subcategories used by commercial customers.

Priority Mail Services accounts for our largest portion of Shipping and Packages revenue, representing approximately 48.5% of the total for the three months ended June 30, 2017, compared to 51.9% for the same period last year. Similarly, for the nine months ended June 30, 2017*,* Priority Mail Services represented 49.0% of our total Shipping and Packages revenue, compared to 52.4% for the same period last year.

For the three months ended June 30, 2017, Priority Mail Services revenue grew by 3.9% on essentially flat volume, compared to the same period last year. For the nine months ended June 30, 2017, Priority Mail Services revenue grew by 5.3% also on essentially flat volume, compared to the same period last year. Revenue grew more than volume for both the three-month and nine-month periods due to the January 2016 and January 2017 price increases in certain Competitive services.

Parcel Services

Our Parcel Services category includes *Parcel Select*, *Parcel Return* and *USPS Marketing Mail Parcels* (more commonly, *Marketing Mail Parcels*), which are Competitive services largely consisting of “last-mile” deliveries, offered to bulk shippers or price-sensitive customers. For the three months ended June 30, 2017, revenue from Parcel Services increased by 19.9%

compared to the same period last year. This category showed strong volume growth of 14.9% over the same period last year, driven largely by the continuing growth of e-commerce. Similarly for the nine months ended June 30, 2017, revenue from this category increased by 23.5% and volume increased by 16.1%, compared to the same period last year. However, this category is one of our lowest-priced services, and as a result, does not provide as much revenue when compared to many of our other services.

First-Class Packages
First-Class Packages includes *First-Class Package Service*, an under-one-pound Competitive service targeted to commercial customers, and *First-Class Mail Parcels*, a Market-Dominant under-13-ounce retail package service. This category offers commercial customers that ship primarily lightweight fulfillment parcels the lowest-priced expedited end-to-end package option in the marketplace.

For the three months ended June 30, 2017, First-Class Packages revenue increased 21.9% on volume growth of 14.3%, compared to the same period last year. For the nine months ended June 30, 2017, First-Class Packages revenue increased 21.6% on volume growth of 13.2%, compared to the same period last year. Revenue grew more than volume for both the three-month and nine-month periods due to the January 2016 and January 2017 price increases in certain Competitive services.

Package Services
Customers use our Package Services category for shipping merchandise or bound printed matter, including library and media mail, weighing up to 70 pounds. For the three months ended June 30, 2017, Package Services revenue increased 4.7% on volume growth of 7.2%, compared to the same period last year. For the nine months ended June 30, 2017, Package Services revenue increased by 0.3% on volume growth of 5.9%, compared to the same period last year. Volume has increased more than revenue in this category due to certain large mailers' increased use of drop shipments, offset by lower price per piece on bound printed matter.

International Mail
Our International Mail category includes several services that enable customers, both domestic and abroad, to send international mail, including postcards, envelopes, flats, and packages with either standard or express delivery options. The majority of International Mail revenue is generated from "outbound services" that allow customers in the U.S. to send mail and packages to other countries.

For the three months ended June 30, 2017, International Mail revenue increased 6.3%, and volume increased 12.9%, compared to the same period last year. For the nine months ended June 30, 2017, International Mail revenue decreased 0.9% while volume increased 2.3%, compared to the same period last year. We continue to experience an increase in lower-priced inbound mail volume, much of that from tracked letter packets and parcels related to international e-commerce. While this increase in inbound volume helped generate the increases for the three months ended June 30, 2017, it was not enough to offset the declines in higher-priced *First-Class Mail International* and other outbound volume for the nine months ended June 30, 2017.

Periodicals
Our *Periodicals* class of mail is designed for newspapers, magazines and other periodical publications whose primary purpose is transmitting information to an established list of subscribers or requesters. For the three months ended June 30, 2017, *Periodicals* revenue decreased 6.2% and volume decreased by 4.5%, compared to the same period last year. For the nine months ended June 30, 2017, *Periodicals* revenue decreased 9.0% and volume decreased by 4.9%, compared to the same period last year. Trends in hard-copy reading behavior and shifts of advertising away from print have depressed this segment for years. The *Periodicals* class is not expected to rebound as electronic content continues to grow in popularity with the public.

Other
Other services include ancillary services such as *Certified Mail*, *PO Box* services, and *Return Receipt* services. Also included in this category are money orders and passport services. For the three and nine months ended June 30, 2017, Other revenue increased by 12.1% and 5.9%, respectively, compared to the same period last year.

This category includes our internal mail, which generated no revenue and has volume that can vary significantly from period to period. We experience our highest volume in this category during the first quarter of each year.

OPERATING EXPENSES

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

Our mail processing and distribution network was originally designed to provide overnight delivery service of *First-Class Mail* within specified delivery areas to a much higher volume of mail than we are required to process and deliver today, and the network's legacy capabilities are not aligned to today's mail mix and volumes. Consequently, many of our processing and distribution facilities continue to operate at less than full capacity. Our challenge to contain costs is also compounded by the continuing increase in the number of delivery points, which, when combined with the impact of lower hard-copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.7 pieces in 2016, a reduction of approximately 32%.

Compensation and Benefits

Compensation and benefits expenses consist of costs related to our active career and non-career employees. The following table presents compensation and benefits expenses for the three and nine months ended June 30, 2017, and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Compensation	$ 9,003	$ 8,996	$ 28,014	$ 27,679
Retirement	2,874	1,671	6,934	5,048
Employee health benefits	1,295	1,246	3,865	3,702
Other	84	83	253	252
Total compensation and benefits	**$ 13,256**	**$ 11,996**	**$ 39,066**	**$ 36,681**

Compensation

Compensation expense increased 0.1% and 1.2% for the three and nine months ended June 30, 2017, respectively, compared to the same periods last year. The increases were primarily due to increases in the number of employees for both the three and nine months ended June 30, 2017, and an increase in total work hours for the nine months ended June 30, 2017.

For the three months ended June 30, 2017, total work hours were approximately 285 million, which was a slight increase of 0.1%, or essentially flat, compared to the 285 million total work hours for the three months ended June 30, 2016. This reflects management's emphasis on holding work hours steady and increased operational efficiencies during the period.

For the nine months ended June 30, 2017, total work hours were 881 million, an increase of approximately 9 million work hours, or 1.1%, from the 872 million total work hours for the nine months ended June 30, 2016. This increase is the result of additional career employees along with a surge of hours to process and deliver growing package volume during the calendar 2016 holiday season.

The number of career employees increased by approximately 4,500, or 0.9%, as of June 30, 2017, compared to the same date last year. The increase in the number of career employees primarily reflects the conversion of non-career employees to career status. In accordance with the provisions of our labor agreements, these conversions take place at the "Tier 2" level for career employees. "Tier 2" career employees are compensated at higher rates than those for non-career employees, although not as high as rates for "Tier 1" career employees.

The number of non-career employees increased by approximately 3,200, or 2.5%, as of June 30, 2017, compared to the same date last year. This growth in non-career employees is the result of additional city carriers to support package volume and new services offered, and rural carriers as we add routes. The additional use of these lower wage employees (both non-career and employees newly converted from non-career to career) mitigates some of the upward wage pressures from salary increases and rising benefit costs for career employees.

In December 2016, we reached a new 40-month collective bargaining agreement (retroactive to May 2016) with the National Postal Mail Handlers Union ("NPMHU") which was ratified by the NPMHU membership. The new contract includes general wage increases totaling 3.8% over 40 months (1.2% of which was retroactive to November 2016) with a cost-of-living allowance

("COLA") base month of July 2014 (the first COLA payment was retroactive to September 2016), a reduction in the employer share of health insurance premiums beginning in the 2018 plan year, and annual increases in uniform and work clothing allowances. The contract will expire on September 20, 2019.

In May 2017, we reached a new 40-month collective bargaining agreement (retroactive to May 2016) with the National Association of Letter Carriers ("NALC") which was subsequently ratified by the NALC membership. The new contract includes general wage increases totaling 2.5% over 40 months (1.2% of which was retroactive to November 2016) with a COLA base month of July 2014 (the first COLA payment was retroactive to September 2016), a November 2018 consolidation of the current two pay grades into a single pay grade, a reduction in the employer share of health insurance premiums beginning in the 2018 plan year, and annual increases in uniform and work clothing allowances. The contract will expire on September 20, 2019.

Retirement

The majority of our career employees participate in one of two U.S. government pension programs, CSRS and FERS, based on the starting date of their employment with a U.S. government employer. Career 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. Our TSP expenses are related only to our contributions for FERS employees who participate in the TSP.

Retirement expense increased 72.0% and 37.4% for the three and nine months ended June 30, 2017, respectively, compared to the same periods last year. The most significant factors contributing to these increases were the increases to our accruals for CSRS and FERS supplemental unfunded retirement benefits.

The following table presents the details of retirement benefits expenses for the three and nine months ended June 30, 2017, and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
FERS normal costs and employer TSP contributions	$ 1,630	$ 1,611	$ 4,951	$ 4,867
CSRS supplemental unfunded retirement benefits[1]	691	—	1,306	—
FERS supplemental unfunded retirement benefits[2]	553	60	677	181
Total retirement benefits	**$ 2,874**	**$ 1,671**	**$ 6,934**	**$ 5,048**

[1] Expense for the accrual for the $1.7 billion annual payment due by September 30, 2017, based on OPM's invoice, to amortize the $26.9 billion unfunded CSRS retirement obligation as of September 30, 2016, the date of the most recent available information. This amount includes an adjustment to reflect the increase in the invoiced amount as compared to OPM's previous estimate. Payments are to be made in equal installments beginning in 2017 through 2043.

[2] Expense for the accrual for the estimated 2017 payment amount of approximately $900 million due September 30, 2017, based on actuarial valuations and assumptions, to amortize the estimated unfunded FERS retirement obligation as of September 30, 2016. This estimate is based on the September 30, 2015, liability, the most recent available information. This amount includes an adjustment to reflect the increase in the Postal Service's estimate as compared to OPM's previous estimate. Payments are to be made in equal installments through 2046.

For additional information, see below and see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 7 - Retirement Plans*.

<u>FERS Normal Costs and Employer TSP Contributions</u>

Our FERS normal cost contribution rate remained steady at 13.7% of basic pay for most participants during both fiscal 2017 and 2016. Expenses for the FERS normal costs and employer TSP contributions increased 1.2% and 1.7% for the three and nine months ended June 30, 2017, respectively, compared to the same periods last year. These increases are in line with the general increases in the number of career employees during the comparable periods.

<u>Supplemental Unfunded Retirement Benefits</u>

The amounts that we record for our supplemental unfunded retirement benefits expense are significantly impacted by OPM's revaluations of the CSRS and FERS unfunded liabilities. OPM periodically notifies us regarding their estimate of our unfunded CSRS and FERS liabilities. OPM calculates these obligations using government-wide salary growth and demographic data, rather than Postal Service-specific demographics and salary growth assumptions. We believe that the OPM methodology unfairly increases our present and future costs and that the use of Postal Service-specific economic and demographic assumptions would significantly lower the payments required on our retirement liabilities. Experience over the last decade demonstrates that average salary increases of our employees are lower than the government-wide estimates that OPM currently uses.

The Board of Actuaries of the Civil Service Retirement System ("Board of Actuaries") makes recommendations regarding the interest, salary inflation, cost-of-living-adjustment ("COLA") and investment return rates used to determine the funded status of both CSRS and FERS. On June 1, 2017, the Board of Actuaries updated these actuarial assumptions.

In accordance with PAEA, our CSRS contribution requirement resumed in 2017. The required payment amount is based on the CSRS supplemental unfunded liability as determined by OPM. We received an invoice from OPM, dated June 28, 2017, in the amount of $1.7 billion for the first annual amortization payment due September 30, 2017, and we have accrued for this payment. Due to the updated actuarial assumptions, this invoiced amount represented a $510 million increase over the estimate OPM previously provided in October 2016. This resulted in CSRS accruals of $691 million and $1.3 billion for the three and nine months ended June 30, 2017, respectively. These amounts reflect an additional $383 million accrued in the three and nine months ended June 30, 2017, to adjust for the increase in the invoiced amount as compared to the previous estimate.

Additionally, based the updated actuarial assumptions, we revised our estimate of the annual FERS amortization payment due September 30, 2017. This resulted in an additional $491 million accrued for both the three and nine months ended June 30, 2017, to adjust for the increase in the revised estimate as compared to the previous estimate. In May 2017, OPM issued a proposed rule that would require the use of Postal Service-specific demographic assumptions when calculating supplemental retirement liabilities. The proposed rule leaves to the Board of Actuaries a determination on whether to consider Postal Service-specific economic assumptions as well. While this proposed rule is a positive development, we believe that OPM should calculate the supplemental unfunded retirement liability using both Postal Service-specific economic and demographic factors. It is not known when, or if, a final rule will be issued. Until we receive an invoice from OPM, these preliminary estimates are subject to change.

Employee Health Benefits
Employee health benefits expense increased 3.9% and 4.4% for the three and nine months ended June 30, 2017, compared to the same periods last year, due to an increase in premiums for the 2017 calendar year. On average, healthcare premiums rose 5.1% for the 2017 plan year, which affected the three and nine months ended June 30, 2017, although this increase was partially offset by the lower contribution rate of healthcare premiums that we paid.

Our share of healthcare premiums for our employees represented 73.6% and 74.2% of the total healthcare premium cost for the three months ended June 30, 2017, and 2016, respectively. Our share of healthcare premiums for our employees represented 73.8% and 74.4% of the total healthcare premium cost for the nine months ended June 30, 2017, and 2016, respectively. These decreases in our share of healthcare premium costs for employees were consistent with the terms of our contractual agreements; however, these decreases were offset by a higher number of employees receiving health benefits and higher premium costs.

Retiree Health Benefits
We participate in federal employee benefit programs for retiree health 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*, *Notes to Unaudited Financial Statements*, *Note 8 - Health Benefits Plans*).

For the three and nine months ended June 30, 2017, retiree health benefits expense declined by $869 million and $3.6 billion, respectively, compared to the same periods last year. This was primarily due to changes in how we are required to fund retiree health benefits that took effect in 2017 according to law.

In accordance with PAEA, beginning in 2017, the PSRHBF is used to fund our share of retiree health benefit premiums. We are also obligated to begin paying into the PSRHBF the normal costs of retiree health benefits attributable to the service of our employees. We received an invoice from OPM, dated July 30, 2017, which confirmed the updated estimate for normal costs that we are obligated to pay by September 30, 2017, is approximately $3.3 billion. This was an increase of approximately $527 million from OPM's preliminary estimate in October 2016 that we previously recorded. OPM's revised estimate was largely the result of updated discount rate and mortality assumptions. As of June 30, 2017, we had accrued $2.5 billion for this payment.

We remain obligated to fund the $33.9 billion in PSRHBF prefunding payments that we defaulted on for the years 2012 through 2016. OPM considers this $33.9 billion to be due and payable, and accordingly considers this amount an accrued receivable of the PSRHBF. As a result, OPM does not consider this amount to be part of the PSRHBF unfunded obligation.

As required by PAEA, OPM has performed an actuarial valuation for the funding of any remaining unfunded PSRHBF obligation over a period of 40 years through 2056. We received an invoice from OPM, dated July 30, 2017, which confirmed the PSRHBF unfunded obligation of $19.8 billion as of September 30, 2016. The invoice also indicated that the related amortization payment for 2017 is $955 million, due by September 30, 2017. As of June 30, 2017, we had accrued $716 million for this payment.

Workers' Compensation

Our 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, which makes all decisions regarding injured workers' eligibility for benefits. Our workers' compensation expense reflects the impacts of changes in discount and inflation rates, as well as the actuarial valuation of new workers' compensation cases and revaluation of existing ones. We reimburse DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee.

Workers' Compensation Expense

For the three months ended June 30, 2017, the portion of workers' compensation expense due to the impact of discount rate changes was $258 million, compared to $668 million for the same period last year, a decrease of $410 million. For the nine months ended June 30, 2017, the portion of workers' compensation expense due to the impact of discount rate changes was more than a $1.3 billion benefit, compared to a $1.2 billion expense for the same period last year, a net reduction in expenses of nearly $2.6 billion. These changes are the result of increases in interest rates, outside of management's control.

The costs of new workers' compensation cases was $361 million for the three months ended June 30, 2017, compared to $424 million for the same period last year, a decrease of $63 million. The costs of new workers' compensation cases was $1.2 billion for the nine months ended June 30, 2017, compared to $1.4 billion for the same period last year, a decrease of $216 million.

The actuarial revaluation of existing workers' compensation cases resulted in a benefit of $668 million for the three months ended June 30, 2017, compared to a benefit of $134 million for the same period last year, an increase in benefit of $534 million. The actuarial revaluation of existing workers' compensation cases resulted in a benefit of $783 million for the nine months ended June 30, 2017, compared to a benefit of $452 million for the same period last year, an increase in benefit of $331 million. These cost savings were largely the result of DOL's change in rules for pharmaceutical compounding, discussed in greater detail below, which added a $572 million benefit for both the three and nine months ended June 30, 2017.

Changes in actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial estimation, the progression of existing cases and updated COLA assumptions, which are largely outside of management's control. Payments made by DOL on behalf of workers' compensation obligations and the associated administrative fee were $389 million for the three months ended June 30, 2017, compared to $410 million for the same period last year. Payments made by DOL on behalf of workers' compensation obligations and the associated administrative fee were $1.1 billion for the nine months ended June 30, 2017, compared to $1.1 billion for the same period last year.

Under FECA, workers' compensation claims for many types of injuries cannot be settled through lump-sum payments, and in some instances with regard to those claims, compensation may be paid over many years. Federal law grants COLA rates to those claims, and these factors result 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.

Pharmaceutical Compounding Costs

In recent years, our workers' compensation liability had been increasing substantially due to DOL's failure to control compound pharmaceutical costs, and we had repeatedly urged DOL to address the problem, pressing it to adopt additional safeguards over the billing process to reign in compound pharmaceutical costs.

In order to improve controls over its processes, DOL implemented a new pharmaceutical compounding policy in July 2016. Additionally, in October 2016, DOL implemented a "Letter of Medical Necessity" requirement for any compound pharmaceuticals. These additional requirements have resulted in substantial reductions in the amount of cash outlays for compound pharmaceuticals during the three and nine months ended June 30, 2017.

Transportation

Transportation expense includes only the costs we incur to transport mail and other products between our facilities, not our costs of transportation to delivery points, which costs are included in *Other operating expenses.* Transportation expenses are primarily comprised of contracted highway, air and international transportation costs. Variations in the volume and weight of mail transported and the mode of transportation used have significant impact on transportation expenses. The components of transportation expense for the three and nine months ended June 30, 2017, and 2016, are presented in the following table:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Highway	$ 968	$ 871	$ 3,094	$ 2,857
Air	608	647	1,916	1,903
International	150	151	480	501
Other	14	12	44	44
Total transportation expenses	**$ 1,740**	**$ 1,681**	**$ 5,534**	**$ 5,305**

Overall, transportation expense increased 3.5% and 4.3% for the three and nine months ended June 30, 2017, respectively, compared to the same periods last year.

Highway transportation expenses increased 11.1% and 8.3%, during the three and nine months ended June 30, 2017, respectively, compared to the same periods last year. These increases were due in large part to package volume growth and our strategic efforts to continue to improve our delivery service results, as we have increased both our highway miles and the volume we transport via highway. The increases were also impacted by an increase in average diesel fuel prices affecting our highway network.

Our air transportation expenses decreased 6.0% during the three months ended June 30, 2017, compared to the same period last year, due to a combination of lower air network volume and a decline in average jet fuel prices for the period. However, during the nine months ended June 30, 2017, our air network volume and average jet fuel prices each increased, compared to the same period last year, causing air transportation expense to increase 0.7% for the period.

International transportation expenses, which are related only to outbound services, decreased 0.7% and 4.2%, for the three and nine months ended June 30, 2017, respectively, compared to the same periods as last year, primarily due to a decline in *Priority Mail International* and other international service volumes.

Other Operating Expenses

Period-over-period changes in other operating expenses for the three and nine months ended June 30, 2017, and 2016, were relatively immaterial and are detailed in the following table:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2017	2016	2017	2016
Supplies and services	$ 737	$ 664	$ 2,234	$ 2,027
Depreciation and amortization	431	435	1,256	1,307
Rent and utilities	376	375	1,191	1,160
Information technology and communications	230	226	653	596
Vehicle maintenance service	159	149	481	469
Rural carrier equipment maintenance	127	115	375	361
Fuel - delivery vehicles	101	90	311	265
Miscellaneous other	230	243	781	779
Total other operating expenses	**$ 2,391**	**$ 2,297**	**$ 7,282**	**$ 6,964**

LIQUIDITY AND CAPITAL RESOURCES

We held unrestricted cash and cash equivalents of $9.5 billion and $8.1 billion as of June 30, 2017, and September 30, 2016, respectively. Our average daily liquidity balance during the three months ended June 30, 2017, was $10.0 billion, representing approximately 36 days of liquidity available, which we define as unrestricted cash plus available borrowing capacity divided by estimated average cash disbursements (including capital expenditures) per business day (usually 251 cash disbursement days per year).

CASH FLOW ANALYSIS

Although our cash balances have increased since 2012, they remain insufficient to support an organization with approximately $77 billion in annual operating expenses. More significantly, this increase would not have occurred at all had we not been forced to default on $33.9 billion in legally-obligated PSRHBF prefunding payments. In addition to these defaults, the improvement in liquidity was the result of the temporary exigent surcharge (discussed in greater detail below) which generated approximately $4.6 billion in incremental revenue from January 2014 through April 10, 2016, as well as the management of operating expenses under our control and deferral of certain non-essential capital expenditures.

Looking forward, our operations will require significant capital investment over the next few years to modernize and improve our processing and delivery infrastructure in order to be able to continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation. Furthermore, given our inability to raise cash through the issuance of additional debt, our current level of available liquidity may be insufficient to support our operations in the event of another significant downturn in the U.S. economy.

Operating Activities

Cash provided by operating activities decreased by $740 million, or 22.6%, for the nine months ended June 30, 2017, compared to the same period last year. This decrease is primarily attributable to the decline in operating revenue and an increase in compensation expense.

Exigent Surcharge

As described above and previously in *Operating Revenue and Volume*, we began collecting an exigent surcharge on Market-Dominant products in January 2014, and continued to do so until we recovered over $4.6 billion of incremental revenue from the surcharge. We determined that the incremental revenue limit on the incremental exigent surcharge was reached on April 10, 2016, and we therefore reduced the prices of most Market-Dominant products on that date as required by an order of the PRC. During the nine months ended June 30, 2016, our cash flows benefited by approximately $1.1 billion from the exigent surcharge. As a result of the expiration of the surcharge, we did not generate these incremental cash flows for the nine months ended June 30, 2017.

Price Increases

On October 12, 2016, we filed a notice with the PRC of our intent to increase prices for certain Market-Dominant services by an average of 0.9%. The PRC subsequently approved this change, and it went into effect on January 22, 2017. We estimate this change will generate $360 million in additional revenue and cash flow annually.

On October 19, 2016, we filed a notice with the PRC of our intent to increase prices for certain Competitive services by an average of 3.9%. The PRC subsequently approved this change, and it went into effect on January 22, 2017. We estimate this change will generate $507 million in additional revenue and cash flow annually.

Ten-year Review

On December 20, 2016, the PRC commenced the ten-year review of its system for regulating rates and classes for Market-Dominant products as required by the PAEA. The objective of the review is to determine if the system for regulating rates and classes for Market-Dominant services is achieving the objectives established by Congress in the PAEA. As part of this review, the PRC will evaluate, among other items, the rate cap for our Market-Dominant services. The outcome of this review may affect our future pricing.

Investing Activities

We invested $997 million in the purchase of property and equipment for the nine months ended June 30, 2017, essentially flat compared to the same period last year.

We currently estimate that required cash outlays for capital assets will amount to approximately $325 million for the remainder of 2017, and an additional $7.5 billion for the periods of 2018 through 2021, as we plan to invest in a new fleet of delivery vehicles and other capital expenditures. Although our future projections include these capital cash outlays, future cash flow from operations alone may not generate the cash needed to enable us to fully fund such necessary capital expenditures.

Financing Activities

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 June 30, 2017, have not materially changed from those described in our Annual Report.

On September 30, 2012, we reported that we had reached the maximum borrowing amount allowed under our statutory debt ceiling, and the amount of debt we have reported each quarter has not changed since then. Our debt is borrowed from the Federal Financing Bank, a government-owned corporation under the general supervision of the Secretary of the Treasury, and consists of fixed-rate notes and two revolving credit facilities with various maturities with an aggregate principal balance of $15.0 billion as of June 30, 2017, and September 30, 2016.

The two revolving credit facilities have interest rates determined by the U.S. Department of the Treasury each business day and enable us to draw up to $4.0 billion in total. As of June 30, 2017, and September 30, 2016, these facilities were fully drawn and were included in the current portion of debt. These annually-renewable facilities were renewed on April 20, 2017, and are scheduled to expire in April 2018.

LIQUIDITY OUTLOOK

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue long-term financial sustainability by focusing on the following items:

1. Continued efforts by management to control costs and drive efficiencies, innovate to keep mail relevant and generate increased revenue;
2. Legislation, including reforms allowing us to adopt Postal Service-specific economic and demographic assumptions for calculating pension liabilities, establishing a set of healthcare plans within the Federal Employee Health Benefit Program (“FEHB”) that would fully integrate with Medicare for current and future retirees, which we believe would improve the affordability of our retiree health benefits system by virtually eliminating the unfunded PSRHBF obligations, and restoring half of the exigent surcharge as part of our rate base; and
3. Favorable outcome of the PRC’s ten-year review, which would allow additional pricing flexibility.

Although we continue to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, we have no assurances that our requests will result in meaningful reform in the foreseeable future.

2017 and Beyond

We anticipate that given our ongoing liquidity concerns, and without legislative action and regulatory reform, we may not be able to make all legally-required obligations and also invest in much-needed capital expenditures in 2017 and future years. Furthermore, we believe that continuing productivity improvements alone will not be sufficient to address the challenges presented by declining Market-Dominant volume and revenue, and that revenue enhancements will unlikely be able to keep pace with increased costs.

Retirement Benefit Plans

As discussed elsewhere, obligations pertaining to CSRS changed in 2017 according to the PAEA. OPM will now determine the amount of annual payments we must make to fully amortize our CSRS unfunded liabilities, and OPM has determined that our initial annual payment due September 30, 2017, will be $1.7 billion. This amount increased by $510 million from the estimate OPM previously provided in October 2016, a result of the Board of Actuaries' revised actuarial assumptions.

Furthermore, we have revised the estimate of our FERS annual amortization payment due September 30, 2017, to approximately $900 million, based on preliminary discussions with OPM regarding changes in actuarial assumptions used to determine the revaluation of the FERS liability. This adjustment resulted in an increase in our 2017 FERS obligation of $491 million. Until we receive an invoice from OPM, these preliminary estimates are subject to change.

Retiree Health Benefits

As discussed elsewhere in this report, our PSRHBF funding requirements also changed in 2017. We remain obligated to fund the $33.9 billion in PSRHBF prefunding payments that we defaulted on for the years 2012 through 2016, which OPM does not include in the PSRHBF unfunded obligation since it considers this defaulted amount to be due and payable.

As required by PAEA, OPM has performed an actuarial valuation for the funding of the remaining unfunded PSRHBF obligation over a period of 40 years through 2056. We received an invoice from OPM, dated July 30, 2017, which confirmed the PSRHBF unfunded obligation of $19.8 billion as of September 30, 2016. The invoice also indicated that the related amortization payment for 2017 is $955 million, due by September 30, 2017.

We are also obligated to begin paying into the PSRHBF the normal costs of retiree health benefits attributable to the service of our employees. OPM's July 30, 2017, invoice indicated the normal cost payment, also payable by September 30, 2017, is $3.3 billion.

Workers Compensation

We make our annual payment to DOL on or around October 15 of each year for our workers' compensation obligations, including DOL's administrative fee. We anticipate that the payment we will make in October 2017 will amount to approximately $1.5 billion.

Capital Investments

We estimate that our required cash outlays for necessary and overdue capital investments will amount to approximately $325 million for the remainder of 2017, and an additional $7.5 billion for the periods of 2018 through 2021. Although our future projections include these capital cash outlays, future cash flow from operations alone may not generate the cash needed to enable us to fully fund such necessary capital investments.

Contingency Plans

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 in 2016 of approximately $71 billion, generated almost entirely through the sale of our services, a financially-sound Postal Service continues to be vital to U.S. commerce.

In the event that circumstances leave us with insufficient cash, we would likely 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 other U.S. government entities, as has been done in the past. Without legislative and regulatory change, the factors discussed above will continue to negatively impact us resulting in continuing losses and liquidity challenges for the foreseeable future.

LEGISLATIVE UPDATE

As a self-supporting independent establishment of the executive branch, our business model and operations are significantly influenced by congressional oversight and legislation. Additionally, we are governed by an eleven-member Board of Governors ("Board") which generally consists of our Postmaster General, Deputy Postmaster General and nine independent governors ("Governors"). The Governors are appointed by the President with the advice and consent of the Senate. We currently have no Governors.

APPROPRIATIONS

On May 5, 2017, the President signed into law the *Consolidated Appropriations Act, 2017* (H.R. 244), funding the U.S. government for the fiscal year ending September 30, 2017. The $1.2 trillion measure includes funding for 11 of the 12 agencies for which annual appropriations work was not completed. The measure includes a $34.7 million payment to us for revenue forgone on "free and reduced mail" for the blind and for overseas absentee ballots. H.R. 244 also requires six-day mail delivery and prohibits any of the appropriated funds from being used to consolidate or close small rural or other small post offices. The measure was signed into law as Public Law 115-31.

On July 13, 2017, the House Appropriations Committee approved the *Financial Services and General Government Appropriations Act of 2018* (H.R. 3280). The bill makes appropriations for the fiscal year ending September 30, 2018, which includes $58.1 million to reimburse us for revenue forgone on "free and reduced mail" for the blind and overseas voting. The six-day delivery requirement remains in the bill. The bill now goes to the full House for a vote.

POSTAL SERVICE REFORM

On March 16, 2017, the House Oversight and Government Reform Committee passed the *Postal Service Reform Act of 2017* (H.R. 756) with a single dissenting vote. The core provisions of the bipartisan measure would institute separate, Postal Service-only plans within FEHB that are fully integrated with Medicare, require Postal Service-specific demographic and economic assumptions in calculating pension liabilities, reinstate half of the exigent surcharge and authorize the provision of non-postal services to state, local and tribal governments. The measure would also reduce the number of Governors from nine to five. H.R. 756 now awaits action by the House Ways and Means Committee and Energy and Commerce Committee.

LEGISLATION

On July 20, 2017, the House of Representatives (by roll call vote of 386-41) adopted *Department of Homeland Security Authorization Act* (H.R. 2825) to amend the *Homeland Security Act of 2002* to make certain revisions to the laws administered by the Secretary of Homeland Security (the "Secretary"). The bill would amend the *Trade Act of 2002*, which contains provisions regarding consultation between the Department of Homeland Security Customs and Border Protection ("CBP") and us on the appropriateness of applying cargo manifesting requirements on certain of our shipments.

The bill would codify the Air Cargo Advance Screening ("ACAS") program, which provides for advance inspection of high risk cargo. The Secretary would establish an ACAS program for CBP to receive Advance Electronic Data ("AED") from air carriers and other persons for cargo being transported into the United States so that such cargo may be screened before it comes into the country. It requires that AED be submitted at the earliest point practicable prior to loading inbound cargo, and that the Secretary ensures all high-risk identified cargo is inspected prior to loading the cargo into an aircraft at the last point of departure before leaving for the United States.

The current version of the bill allows the Secretary some discretion to consider differences in the content and timeliness of available data among entities in the air cargo industry and countries, and the interest in minimizing delays and other negative impacts on vital supply chains, as part of the Secretary's determination of the methods used to carry out the obligations in the bill.

BOARD OF GOVERNORS NOMINATIONS

On December 8, 2016, the hold-over term of our last remaining independent Governor expired. The Board has no presidentially-appointed Governors for the first time since we began operations as the United States Postal Service in 1971. The President has not yet made any Governor nominations.

FAIR VALUE MEASUREMENTS

As required by authoritative accounting literature, certain fair value disclosures for the periods ended June 30, 2017, and September 30, 2016, are contained in *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*. We did not recognize gains as a result of valuation measurements during the three and nine months ended June 30, 2017. All recognized losses have been incorporated into our financial statements as of June 30, 2017. See *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 10 - Fair Value Measurement.*

RELATED PARTY TRANSACTIONS

As disclosed throughout this quarterly report, we have significant transactions with other U.S. government entities, which are considered related parties for reporting purposes. For a more detailed description, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 3 - Related Parties*.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, alternative policies or estimation techniques may be used.

We maintain a thorough process to review the application of accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large organization. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report. 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 June 30, 2016, we revised the estimation technique utilized to estimate our *Deferred revenue-prepaid postage* liability for *Forever Stamps*. The change resulted from new information regarding customer's retention and usage habits of applicable postage. This revision enabled the Postal Service to update its estimate of stamps that will never be used for mailing. As a result of this change, *Deferred revenue-prepaid postage* was decreased by $1.1 billion. The change was accounted for as a change in accounting estimate, and was therefore reflected in operating results as an increase to revenue in the three and nine months ended June 30, 2016.

RECENT ACCOUNTING STANDARDS

See *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 1 - Basis of Presentation*, *Recent Accounting Standards* for a description of recently announced accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business we are exposed to market risks from changes in commodity prices, certain foreign currency exchange rates and interest rates. Our commodity price risk consists primarily of exposure to changes in prices for diesel fuel, unleaded gasoline and aircraft fuel for transportation of the mail, 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 provisions 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 U.S. Treasury market at the time of repayment.

See *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* in the Annual Report for additional information.

ITEM 4. CONTROLS AND PROCEDURES

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

DISCLOSURE CONTROLS

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

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and the Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of June 30, 2017. Based upon and as of the date of the evaluation, the Postmaster General and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

INTERNAL CONTROLS

We have made no changes in our internal control over financial reporting during the three months ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings affecting us, please refer to *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements* and *Note 6 - Commitments and Contingencies*, as well as our Annual Report.

ITEM 1A. RISK FACTORS

No material changes have transpired in our risk factors from those disclosed in *Item 1A. Risk Factors* of our Annual Report.

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: August 9, 2017

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

Date: August 9, 2017

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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have significant role in the Postal Service's internal control over financial reporting.

Date: August 9, 2017

/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 independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have significant role in the Postal Service's internal control over financial reporting.

Date: August 9, 2017

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

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service ("Postal Service") on Form 10-Q for the period ended June 30, 2017, (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.

Dated: August 9, 2017

/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 June 30, 2017, (the "Report"), I, Joseph Corbett, certify, pursuant to *18 U.S.C. Section 1350*, as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002* that:

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

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

Dated: August 9, 2017

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