



INTEGRATED FISCAL YEAR 2010 FINANCIAL PLAN

SEPTEMBER 2009

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I. EXECUTIVE SUMMARY

The Integrated Financial Plan (IFP or Plan) of the US Postal Service for Fiscal Year (FY) 2010 reflects a continuation of the severe economic downturn that has affected the nation since 2007. We continue to face enormous financial challenges that have been created by the most difficult economic conditions in decades. The economic recession, together with the continuing effects of electronic diversion, have resulted in significant declines in mail volume that are expected to continue through FY2010.

The FY2010 IFP includes an Operating Plan with a net loss of \$7.8 billion, after capturing cost savings of \$3.8 billion for the year. The FY2010 IFP also includes capital commitments and cash outlays of \$1.5 billion each. These investment levels are below those of recent years, reflecting the need to conserve capital, but also recognizing the necessity of planning for the future. The FY2010 Financing Plan includes borrowing up to the statutory limit of \$3.0 billion to fund the net loss. This will bring total debt at year end to \$13.2 billion, but will leave a cash balance of only \$200 million.

Operating Plan – Volume and Revenue

The volume plan for FY2010 is for 166 billion mail pieces, a decrease of 11 billion pieces from the FY2009 level, and well down from annual volumes in excess of 200 billion pieces realized as recently as two years ago. The revenue plan for FY2010 is \$65.9 billion, a decrease of \$2.2 billion from the FY2009 revenue of \$68.1 billion, and significantly less than the FY2008 revenue of \$74.9 billion.

Operating Plan - Expenses

The FY2010 operating expense plan, excluding Retiree Health Benefits (RHB), is \$66.0 billion, net of cost savings. This is a reduction of \$2.5 billion from the FY2009 net level of \$68.5 billion, and is driven by the planned reduction of 93 million workhours in FY2010. This follows the record 115 million workhour reduction in FY2009. For FY2010, RHB costs are expected to total \$7.7 billion, representing \$2.2 billion of premiums for retirees and \$5.5 billion of pre-funding for current employees to the Postal Service Retiree Health Benefit Fund (PSRHBF). In FY2009, we benefitted from the enactment of legislation at the end of our fiscal year which reduced the FY2009 funding to the PSRHBF by \$4.0 billion, to \$1.4 billion.

Capital Plan

The FY2010 capital commitment and cash outlay plans of \$1.5 billion each will be targeted toward projects that improve service, provide a high return on investment with relatively short payback periods, and support our core initiatives and basic infrastructure needs. This is well below our historical five-year averages for capital commitments and spending.

Liquidity and Financing Plan

The FY2010 net loss will be funded with cash carried over from FY2009 and a \$3.0 billion increase in debt. This will bring the total debt outstanding to \$13.2 billion, but leave a cash balance of only \$200 million after making the full \$5.5 billion payment to the PSRHBF on September 30, 2010. In FY2009, we ended the year with a cash balance of \$4.1 billion after borrowing \$3.0 billion and making the legislatively adjusted payment of \$1.4 billion to the PSRHBF.

Projections and Managing liquidity in FY2010 and FY2011

Economic conditions in 2008 and 2009 led to a recession of unprecedented depth and global reach and forecasters are uncertain of the timing and strength of any recovery. Many commercial entities are now unable to reasonably predict future results, and as a result they are abstaining from making public forecasts. The Postal Service is making its FY2010 Plan available in the interest of full transparency; however readers should be aware that the actual financial results may vary from the Plan and differences may be large and material. While this caution is true of all projections, results in FY2010 are especially difficult to forecast.

Our overriding principle for FY2010 is that we must maintain the quality of service and our liquidity. The FY2010 Plan reflects projected revenues based on economic models, industry research and trends, customer inputs and other analyses. The Plan also reflects the payment of all compensation and benefits

and all other legal and commercial obligations in accordance with contractual or legal terms and payment schedules. All amounts assume adherence to current laws including matters such as six-day delivery and no closing of Post Offices for economic reasons. Assuming actual results for FY2010 approximate the Plan, the Postal Service would have insufficient cash to meet its obligations in October 2010, and throughout FY2011. Accordingly, while this Plan reflects payment of all obligations, we may not be able to make all payments due in FY2010, including but not limited to, the \$5.5 billion prefunding of RHB due September 30, 2010.

The table at right summarizes the Postal Service's financial results in FY2009 and the FY2010 IFP.

Operating Budget				
	FY 2009	FY 2010		%
	Actual	Plan	Change	Change
Volume	177.1	166.1	(11.0)	-6.2%
Revenue	\$68.1	65.9	(2.2)	-3.3%
Operating Expenses (1)	74.6	69.8	(4.8)	-6.5%
RHB Payments	<u>3.4</u>	<u>7.7</u>	<u>4.3</u>	
Net Loss, Before Cost Savings	(9.9)	(11.6)	(1.7)	
Cost Savings	6.1	3.8	(2.3)	
Net Loss	<u>(\$3.8)</u>	<u>(7.8)</u>	<u>(4.0)</u>	
<i>(1) Includes interest expense</i>				
<i>(In Billions)</i>				

II. INTRODUCTION

A. PRINCIPLES OF THE PLAN

The FY2010 IFP has been prepared while observing the following basic principles:

- Liquidity
- Protect the Brand
- Maintain Service: Quality and Timeliness
- Fulfill Universal Service Obligation
- Work Towards a Return to Profitability
- Grow New Revenue Streams
- Continue Cost Reduction Initiatives

B. STATUS OF LEGISLATION AND EFFECTS ON THE PLAN

This IFP is based upon current laws and regulations. While the FY2009 financial results reflect the \$4.0 billion PSRHB payment reduction approved by Congress in September 2009, no further reductions are assumed herein for FY2010.

III. ECONOMY AND DRIVERS OF MAIL VOLUME AND REVENUE

A. ECONOMIC ASSUMPTIONS

The macroeconomic data and forecasts underlying the Postal Service's volume and revenue forecasts for this IFP are primarily based on 2009 baseline forecasts of IHS Global Insight, Inc. (Global Insight), an independent economic forecasting firm. Global Insight forecasts a decline in the economy, as measured by real Gross Domestic Product (GDP), until the second quarter of FY2010. Projected economic growth for the remainder of FY2010 will result in GDP growth for the fiscal year as a whole.

Although GDP is the most widely used statistic in discussions of economic growth, postal mail volumes are more strongly correlated with other metrics such as retail sales, employment and investment. Global Insight's forecast shows improvements for FY2010 in all these metrics. This reflects the recent signs of improvement in the US economy. History shows, however, that growth in mail volume lags economic recovery from a recession by approximately two quarters. So, positive changes in economic assumptions may not significantly move the current year's volume and revenue forecasts.

Economic Assumptions		
	FY 2009	FY 2010
Gross Domestic Product	-2.6%	0.5%
Retail Sales	-8.9%	1.5%
Non-farm Employment	-3.9%	-1.8%
Investment	-21.2%	0.7%
Inflation (CPI-U)	-0.4%	1.4%
Source: IHS Global Insight, Inc. – 2009 Baseline Forecast		

B. MAJOR DRIVERS FOR FY2010

The economic recovery is expected to be long and slow, especially for the recovery of employment levels. Housing, commercial construction, manufacturing (especially automobile-related manufacturing), and financial services continue to show signs of weakness. High unemployment rates are influencing American consumers to spend less and save more, putting retail sales at risk. Business investment spending is expected to decline through the second quarter of FY2010, before improving.

To add to these substantial economic difficulties, mail volumes will continue to be lost to electronic media, especially the Internet (electronic commerce/payments and email). First-Class Mail is the most impacted mail category by this type of electronic diversion. Since First-Class Mail contributes more than any other product to the institutional costs of the Postal Service, this volume loss places a large, continuing strain on Postal Service finances. Electronic diversion is a long-term structural problem that will not abate as the economy recovers. Increases in the availability and adoption of broadband internet service and changes in consumer behavior as they become more comfortable with electronic records will allow more bills to be paid online, more statements and bills to be presented electronically, and more correspondence to move to email.

IV. OPERATING PLAN - VOLUME & REVENUE

A. VOLUME AND REVENUE SUMMARY

Mail volume trends are affected by a number of factors, with the economy playing a critical role. Other factors include population growth and price changes (both for postal and competitors' products). Another important long term trend is the steady erosion of volume to alternative electronic media. Combining all these factors, we anticipate additional declines in volume during FY2010, with a plan of 166 billion pieces for the year.

Volume				
Mail Classes	FY 2009	%	FY 2010	%
	Actual	Change	Plan	Change
First-Class Mail	83.8	-8.6%	77.1	-7.9%
Standard Mail	82.7	-16.5%	78.9	-4.6%
Periodicals	8.0	-7.6%	7.5	-5.9%
Package Services	0.7	-13.7%	0.6	-8.9%
All Other *	1.9	-23.2%	2.0	3.0%
Total USPS Volume	177.1	-12.7%	166.1	-6.2%

(in Billions)
() Includes Shipping Services, Postal Service Mail and Free Mail*

First-Class Mail had a total volume of 83.8 billion pieces in FY2009, which was 8.6 percent below 2008. The volume plan for FY2010 calls for a further decrease to 77.1 billion pieces, a decline of 7.9 percent. First-Class Mail declines are driven by the sluggish economy, specifically weakness in the financial sector, and the on-going diversion of mail volumes to electronic alternatives.

Standard Mail principally includes direct mail advertising. Although Standard Mail has increased its market share in recent years, it is subject to downturns in the business cycle. Volume declines in FYs 2009 and 2010 reflect this link to the economy. Standard Mail ended FY2009 at 82.7 billion pieces, 16.4 billion pieces, or 16.5 percent, less than in FY2008. The FY2010 plan shows Standard Mail volumes continuing to fall 4.6 percent to 78.9 billion pieces.

Periodical Mail volume is adversely affected by long term declines in reading hard copy material, to declines in the advertising market, and to electronic diversion. Periodicals declined by 651 million pieces, or 7.6 percent, to 8.0 billion pieces in FY2009. The plan calls for a further expected decline in Periodicals of 0.5 billion pieces, or 5.9 percent, in FY2010.

Package Services is a mixture of parcels, books, and heavy weight advertising materials. In FY2009 this category had a volume of 730 million pieces, a 13.7 percent decline compared to the previous year. In FY2010 Package Services are expected to decrease in volume by 8.9 percent.

The All Other category declined significantly in FY2009 mostly from reductions in free and internal mail.

Total USPS volume for FY2009 declined a staggering 25.6 billion pieces, or 12.7 percent. The FY2010 plan assumes a continued decline of 11.0 billion pieces (6.2 percent) to 166.1 billion pieces.

Total revenue for FY2009 was \$68.1 billion, \$6.9 billion less than FY2008. The significant volume decline of FY2009 and two sets of general price increases affected these results. The first price increases came in February and May 2008, and thus influenced all of FY2009. The second set of pricing changes came in January and May 2009, influencing only part of FY2009. On balance, price and product mix changes increased revenue per piece by 4.0 percent in FY2009. Based on

Revenue				
Mail Classes	FY 2009	%	FY 2010	%
	Actual	Change	Plan	Change
First-Class Mail	\$35.9	-6.0%	\$33.3	-7.1%
Standard Mail	17.4	-15.7%	16.8	-3.1%
Periodicals	2.0	-11.2%	2.0	-1.7%
Package Services	1.7	-8.8%	1.6	-5.7%
All Other *	11.1	-7.5%	12.2	8.8%
Total USPS Revenue	\$68.1	-9.1%	\$65.9	-3.3%

(\$ in Billions)
() Includes Shipping Services, Certified Mail, Return Receipts, PO Boxes, Money Orders, Investment Income & Appropriations.*

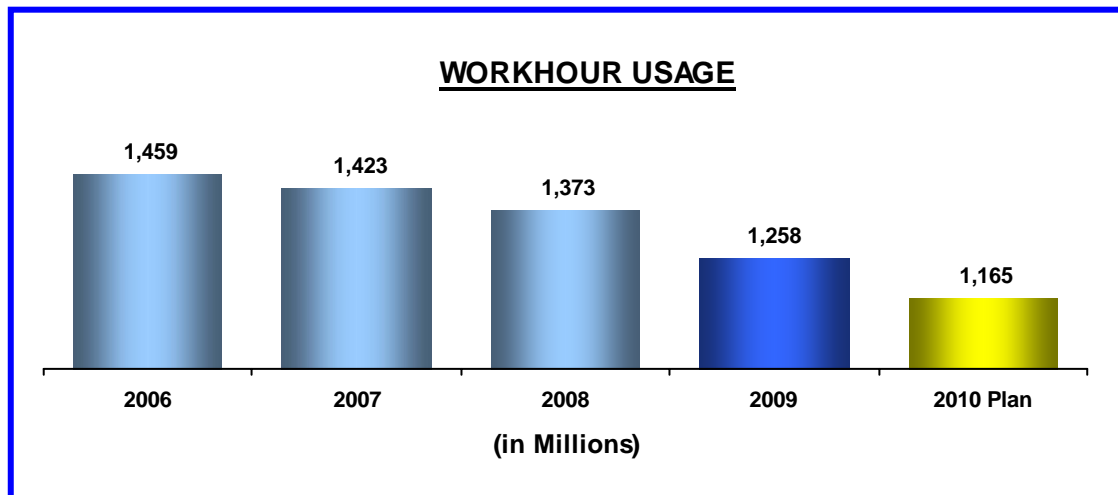
forecasted volumes and planned price changes, revenues for FY2010 are expected to decrease \$2.2 billion or 3.3 percent to \$65.9 billion. Revenues in FY2010 will benefit from four factors: a full year effect of the May 2009 price increase of 3.8 percent for Mailing Services, two price increases for Shipping Services, one each in January 2009 and 2010 (planned) and revenue from marketing initiatives.

Taken together, these price increases and revenue initiatives plus continued shifts in the mix of products should result in an increase in revenue per piece of 3.0 percent in FY2010.

V. OPERATING PLAN - EXPENSES

A. SUMMARY OF EXPENSES

In FY2009 we used 1,258 million workhours, a 115 million decline, or 8.4 percent, compared to FY2008. In FY2010, the total workhour reduction is estimated to be 93 million or 7.4 percent. This workhour reduction will help drive \$3.8 billion in planned cost reductions for FY2010. This continues the long-term trend of workhour declines shown in the table below.



Net Operating Expenses, excluding retiree health benefits, declined 2.7 percent in FY2009 and are projected to decline 3.7 percent in FY2010. The Operating Expense reduction for FY2010 reflects the value of the significant workhour savings discussed above, offset by small increases in areas such as benefit costs. RHB costs for FY2010 are planned at \$2.2 billion of retiree premiums plus pre-funding to the PSRHBF at the current statutory level of \$5.5 billion. Legislative savings, such as the \$4.0 billion saved in FY2009, are not provisioned in the FY2010 plan.

Summary of Expenses				
	FY 2009 Actual	FY 2010 Plan	Change	% Change
Operating Expenses (1)	\$74.6	\$69.8	-\$4.8	-6.5%
Cost Savings	<u>6.1</u>	<u>3.8</u>	<u>-2.3</u>	<u>-37.7%</u>
Net Operating Expenses	68.5	66.0	-2.5	-3.7%
Retiree Health Benefits	<u>3.4</u>	<u>7.7</u>	<u>4.3</u>	<u>127.1%</u>
Total Expenses	\$71.9	\$73.7	\$1.8	2.5%
(1) Includes interest expense (\$ In Billions)				

VI. CAPITAL PLAN

A. CAPITAL COMMITMENTS

Capital commitments have averaged \$2.1 billion annually over the past five years, even with only \$0.8 billion committed in FY2009. The FY2010 capital commitment plan of \$1.5 billion is well below that five-year average due to the current economic environment. Capital commitments will be targeted toward projects that achieve improved service, provide a high return on investment and near-term positive cash flows, support the key initiatives we must address, and provide basic infrastructure needs.

Capital Commitments		
	5-Year Average	FY 2010 Plan
Facilities	\$0.9	\$0.6
Equipment	0.7	0.6
Infrastructure and Support	0.4	0.3
Vehicles	<u>0.1</u>	<u>0.0</u>
Total	\$2.1	\$1.5
(\$ in Billions)		

Facilities

In FY2010, the planned commitment for facilities is \$0.6 billion or 40 percent of the total plan. This reflects our continued efforts to invest primarily in facility infrastructure repairs for our aging buildings.

Equipment

The FY2010 capital plan for equipment is \$0.6 billion or 40 percent of the total plan. The majority of this is for programs that raise productivity and reduce operating costs.

Infrastructure and Support

The infrastructure and support category is planned at \$0.3 billion or 20 percent of the total plan in FY2010. Investments in this category include information/communications network and system requirements. These improvements will make it easier for our customers to transact business by creating a higher awareness of our online products.

B. CAPITAL CASH OUTLAYS

Capital cash outlays declined in FY2009 compared to the previous fiscal year. The five-year annual average is \$2.2 billion, including \$1.8 billion in cash outlays for FY2009. In FY2010, cash outlays are forecasted at \$1.5 billion. The majority of the planned outlays in FY2010 relate to commitments made in prior years.

Capital Cash Outlays		
	5-Year Average	FY 2010 Plan
Facilities	\$0.9	\$0.6
Equipment	0.8	0.6
Infrastructure and Support	0.5	0.3
Vehicles	<u>0.1</u>	<u>0.0</u>
Total	\$2.2	\$1.5
(\$ in Billions)		

VII. LIQUIDITY AND FINANCING PLAN

A. CASH FLOW AND DEBT

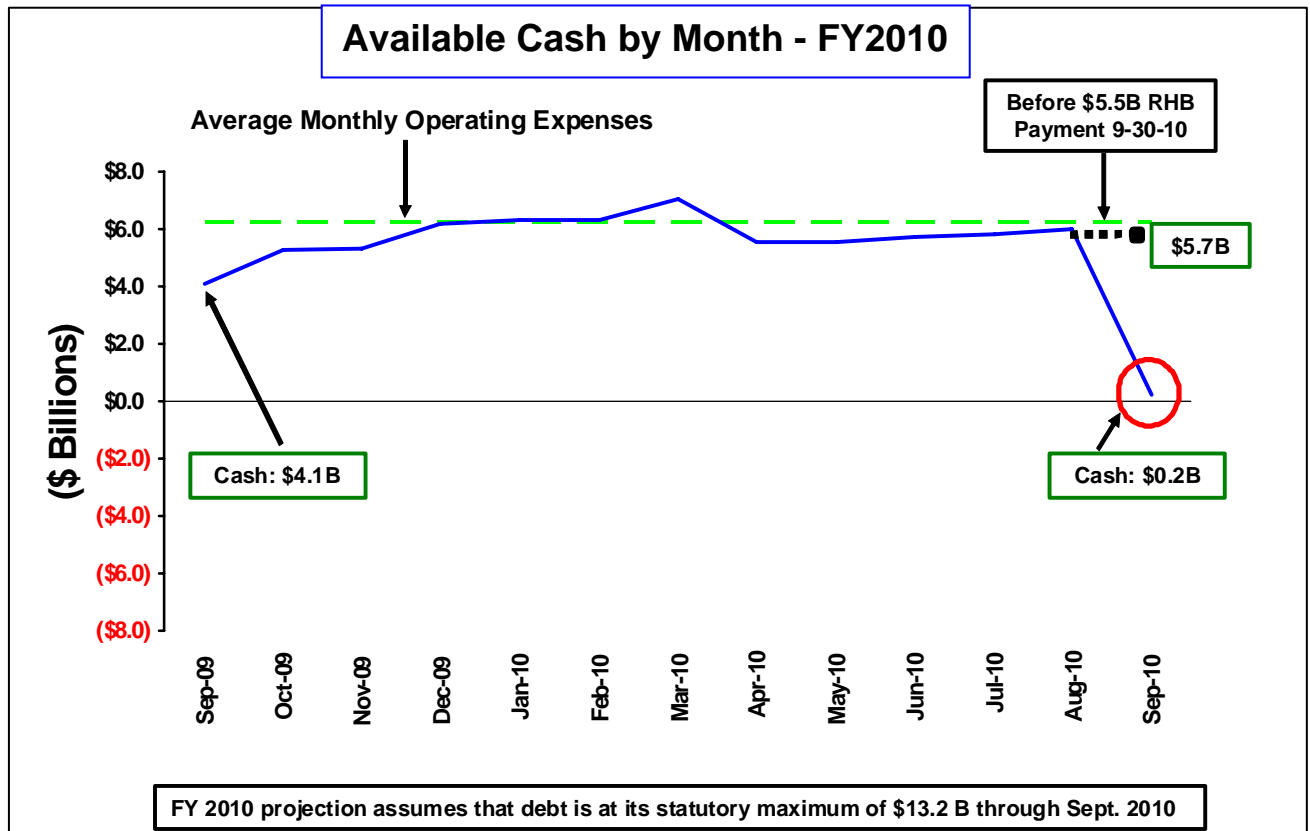
For FY2009, with a net loss of \$3.8 billion (including the \$1.4 billion payment to the PSRHBF) plus capital cash outlays of \$1.8 billion, the net cash used in operations was \$0.3 billion. Other changes in working capital during FY2009 included deferrals and non-cash expense items totaling \$3.0 billion, and are not expected to recur in FY2010. Total liquidity entering FY2009 was \$4.4 billion, comprised of \$1.4 billion in cash and the statutory authority to increase debt by \$3.0 billion, to a total debt balance of \$10.2 billion. The end result for FY2009 was a total cash surplus of \$4.1 billion.

Cash Flow		
	FY 2009 Actual	FY 2010 Plan
Net Loss (after cost savings)	(\$3.8)	(7.8)
(+) Depreciation	2.3	2.3
(-) Capital Cash Outlay	(1.8)	(1.5)
(+) Other Changes in Working Capital	<u>3.0</u>	<u>0.1</u>
Cash Used in Operations	(0.3)	(6.9)
Available Cash & Debt	4.4	7.1
Cash at end of Year	<u>\$4.1</u>	<u>0.2</u>
(\$ Billions)		

For FY2010, based on a projected net loss of \$7.8 billion (including the \$5.5 billion year-end payment to the PSRHBF) plus planned capital cash outlays of \$1.5 billion, net cash used in operations is estimated to be \$6.9 billion. Liquidity entering FY2010 is comprised of the \$4.1 billion cash surplus from FY2009 plus \$3.0 billion of borrowing authority. Total cash at year-end is projected to be only \$200 million, with total debt outstanding expected to be \$13.2 billion.

B. LIQUIDITY

The graph below plots liquidity on a monthly basis for FY2010, beginning with the September 30, 2009 level and ending September 30, 2010. Liquidity in this context is the sum of our cash balance plus available borrowing capacity, which is limited to \$3.0 billion annually. The graph shows that our liquidity is generally less than approximately \$6 billion, which represents only one month's operating costs. Under this scenario, FY2010 begins with \$4.1 billion in cash and borrowing capacity of \$3.0 billion. Assuming the Plan is met during the year, and we do not experience another large drop in mail volume as in FY2009, liquidity remains near the minimum acceptable level until the last day of the fiscal year when the \$5.5 billion RHB payment is due. The remaining cash balance of \$200 million at the end of FY2010 would carry over into FY2011 and be combined with our borrowing authority of \$1.8 billion for the year (as we reach our total debt limit of \$15.0 billion). This would provide only \$2.0 billion of liquidity for FY2011, just barely covering payroll funding of approximately \$1.9 billion on the first day of the year.



Despite major cost reductions, our financial projections show that we run out of cash in early FY2011 thus jeopardizing our operations. Our number one priority is to meet our mission to deliver the mail. This must be achieved in a quality manner to serve the American public and to protect the value of the mail. Service problems caused by insufficient liquidity could irreparably harm the nation's postal infrastructure which is the center of a \$1 trillion industry. We cannot risk this scenario, so we will continue to be more efficient, and we will work with all of our stakeholders to affect structural changes to improve our financial condition. This work will include such items as further reductions in RHB, changing delivery frequency and supplier renegotiations. We will also take actions to conserve cash which could include deferrals of certain large non-payroll obligations.