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 DECEMBER 31, 2008**
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. (State or other jurisdiction of incorporation or organization)	41-0760000 (I.R.S. Employer Identification No.)
475 L'Enfant Plaza, S.W. Washington, D.C. (Address of principal executive offices)	20260 (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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Not Applicable ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at February 9, 2009
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

United States Postal Service
Statements of Operations

(Dollars in millions)	Three Months Ended December 31, 2008 (unaudited)	Three Months Ended December 31, 2007 (unaudited)
Operating revenue	$ 19,095	$ 20,369
Operating expenses:		
Compensation and benefits	13,657	13,643
Retiree health benefits	1,814	1,840
Transportation	1,750	1,842
Other	2,254	2,358
Total operating expenses	19,475	19,683
(Loss) Income from operations	**(380)**	**686**
Interest and investment income	6	8
Interest expense	(10)	(22)
Net (Loss) Income	**$ (384)**	**$ 672**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	December 31, 2008 (unaudited)	September 30, 2008
Assets		
Current Assets		
Cash and cash equivalents	$ 959	$ 1,432
Receivables:		
Foreign countries	472	450
U.S. government	135	133
Other	230	187
Receivables before allowances	837	770
Less allowances	34	41
Total receivables, net	803	729
Supplies, advances and prepayments	181	193
Total Current Assets	**1,943**	**2,354**
Property and Equipment, at Cost:		
Buildings	22,408	22,269
Equipment	21,535	21,544
Land	3,004	2,971
Leasehold improvements	879	914
	47,826	47,698
Less allowances for depreciation and amortization	26,220	25,886
	21,606	21,812
Construction in progress	1,638	1,381
Total Property and Equipment, Net	**23,244**	**23,193**
Other Assets - Principally Revenue Forgone Receivable	**419**	**439**
Total Assets	**$ 25,606**	**$ 25,986**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	December 31, 2008 (unaudited)	September 30, 2008
Liabilities and Net Deficiency		
Current Liabilities:		
Compensation and benefits	$ 2,543	$ 3,466
Retiree health benefits	1,350	-
Payables and accrued expenses:		
Trade payables and accrued expenses	1,158	1,246
Foreign countries	434	413
U.S. government	72	85
Total payables and accrued expenses	1,664	1,744
Customer deposit accounts	1,458	1,449
Deferred revenue - prepaid postage	1,651	1,689
Outstanding postal money orders	692	720
Prepaid box rent and other deferred revenue	440	461
Debt	6,465	7,200
Total Current Liabilities	**16,263**	**16,729**
Noncurrent Liabilities:		
Workers' compensation costs	7,243	7,003
Employees' accumulated leave	2,458	2,208
Deferred appropriation and other revenue	509	525
Long-term portion capital lease obligations	575	587
Deferred gains on sales of property	314	312
Contingent liabilities and other	300	294
Total Noncurrent Liabilities	**11,399**	**10,929**
Total Liabilities	**27,662**	**27,658**
Net Deficiency		
Capital contributions of the U.S. government	3,034	3,034
Deficit since 1971 reorganization	**(5,090)**	**(4,706)**
Total Net Deficiency	**(2,056)**	**(1,672)**
Total Liabilities and Net Deficiency	**$ 25,606**	**$ 25,986**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Statements of Cash Flows

(Dollars in millions)	Three Months Ended December 31, 2008 (unaudited)	Three Months Ended December 31, 2007 (unaudited)
Cash flows from operating activities:		
Net (loss) income	$ (384)	$ 672
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	570	597
(Gain) loss on disposals of property and equipment, net	(2)	3
Decrease in appropriations receivable revenue forgone	20	30
Increase in workers' compensation liability	240	288
Increase in employees accumulated leave	250	80
Increase in noncurrent deferred appropriations and other revenue	-	(1)
Increase (decrease) in other noncurrent liabilities	6	(48)
Changes in current assets and liabilities:		
Receivables, net	(74)	(63)
Supplies, advances and prepayments	12	48
Compensation and benefits	(923)	(1,164)
Retiree health benefits	1,350	1,400
Payables and accrued expenses	(81)	(314)
Customer deposit accounts	9	72
Deferred revenue-prepaid postage	(38)	18
Outstanding postal money orders	(28)	(47)
Prepaid box rent and other deferred revenue	(12)	12
Net cash provided by operating activities	915	1,583
Cash flows from investing activities:		
Purchases of property and equipment	(630)	(529)
Proceeds from deferred building sale	3	7
Proceeds from sales of property and equipment	1	2
Net cash used in investing activities	(626)	(520)
Cash flows from financing activities:		
Payments on debt, net	(735)	(984)
(Payments on) Issuance of capital lease obligations, net	(11)	2
U.S. government appropriations - expensed	(16)	(15)
Net cash used in financing activities	(762)	(997)
Net (decrease) increase in cash and cash equivalents	(473)	66
Cash and cash equivalents at beginning of year	1,432	899
Cash and cash equivalents at end of period	$ 959	$ 965

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Changes in Net Deficiency

(Dollars in millions)		Capital Contributions of U.S. Government		Deficit Since Reorganization		Total Net Deficiency
Balance, September 30, 2008	$	3,034	$	(4,706)	$	(1,672)
Net Loss - Three months Ended December 31, 2008 (unaudited)		-		(384)		(384)
Balance, December 31, 2008 (unaudited)	$	3,034	$	(5,090)	$	(2,056)

See accompanying notes to the financial statements (unaudited)

Item 1 – Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

These interim financial statements reflect the unaudited results of operations of the United States Postal Service for the three months ended December 31, 2008 and 2007, and our financial position as of December 31, 2008 (unaudited) and September 30, 2008. The interim financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and should be read in conjunction with the significant accounting policies and other disclosures in our 2008 Annual Report. As in the Annual Report, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2009 and 2008. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from estimates.

Certain comparative prior year amounts in the interim financial statements related to deferred gains that we have determined are immaterial to the financial statements and accompanying notes have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported operating income and net income for the period.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present our financial position as of December 31, 2008, the results of our operations for the three months ended December 31, 2008 and 2007 and cash flows for the three months ended December 31, 2008 and 2007. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the year ending September 30, 2009.

Liquidity Matters

The Postal Service has incurred net losses from operations in nine of the last 10 fiscal quarters. The net loss for the year ended September 30, 2008 was $2.8 billion. We had an operating loss of $380 million in the quarter ended December 31, 2008, down from operating income in the same quarter last year of $686 million. A significant portion of the losses over this time period can be attributed to our inability to generate cost savings sufficient to offset the annual payments into the PSRHBF of $5.4 billion in 2007 and $5.6 billion in 2008, as required under Public Law 109-435 (See Note 6). In the third quarter of 2008, the losses increased further largely due to the impact of declining mail volumes and increases in fuel costs. In the first quarter of 2009 fuel costs softened, but we experienced record contractually-mandated cost of living allowances for our almost 600,000 bargaining-unit employees. Mail volumes also declined by 5.2 billion pieces, resulting in a $1.3 billion decrease in revenue, compared to Quarter I, 2008. The decline in mail volumes is primarily attributable to the widespread financial crisis. Continued downward pressure on mail volumes is expected throughout the current fiscal year, and without substantial cost reductions, could cause our 2009 loss to be significantly higher than the 2008 net loss.

To meet this challenge, the Postal Service has, and is, undertaking a number of actions to increase efficiency, reduce costs and increase revenue. These actions include reducing work-hours and headcount, maximizing operational efficiencies, and halting construction of new postal facilities. The Postal Service has also created a new Mailing and Shipping Service division that is helping us bring new products to market.

The Postal Service has also requested relief from Congress in the form of restructuring its payments for retiree health benefits and providing the flexibility to temporarily suspend the 6 day delivery requirement. Either of these forms of relief would provide a significant additional level of financial flexibility and could substantially reduce the 2009 net loss.

We fund net operating losses through increased debt. Our annual increase in debt is limited by statute to $3 billion. The statute limits our total outstanding debt to $15 billion. We currently expect our borrowing capacity to be sufficient to fund our net operating losses. However, if our loss in 2009 exceeds approximately $5 billion we could have cash needs in excess of the cash provided from operations and our borrowing capacity for 2009. Continuing significant losses in future years would ultimately cause the $15 billion debt limitation to become insufficient.

We expect our continuing efforts to increase efficiency, reduce costs and increase revenue, combined with increased flexibility from some form of relief from Congress will allow us to significantly reduce our projected 2009 net loss without significant diminishment of service to our customers. However, no assurance can be given that our efforts will be successful or that Congress will concur with our suggested changes.

Note 2 – Debt and Related Interest

As of December 31, 2008, debt consisted of $6,465 million in short-term debt outstanding with the Federal Financing Bank compared with $3,215 million outstanding at December 31, 2007.

We continue to maintain two credit lines with the Federal Financing Bank. One credit line enables us to draw up to $3,400 million with two days notice. The other credit line enables us to draw up to $600 million on the same business day that funds are requested. In addition, we can also use a series of other notes with varying provisions to draw upon with two days notice.

Interest expense was $10 million for Quarter I, 2009 compared to $22 million for the same period last year. Our interest expense consists of interest on borrowings and other interest expense.

Cash paid for interest was $9 million in Quarter I, 2009 compared to $19 million for Quarter I, 2008.

Debt Consists of the Following:

(Dollars in millions)				December 31, 2008		September 30, 2008
NOTES PAYABLE TO THE FEDERAL FINANCING BANK (FFB) *:						
Interest Rate %	Debt Type	Maturity Date				
0.166%	Short-term revolving credit line	January 2, 2009	$	2,600	$	-
0.237%	Overnight credit line	January 2, 2009		365		-
0.145%	Note	March 12, 2009		2,500		-
0.125%	Note	March 19, 2009		1,000		-
0.297%	Short-term revolving credit line	October 1, 2008		-		2,200
0.155%	Short-term revolving credit line	December 18, 2008		-		500
0.905%	Note	December 11, 2008		-		2,500
0.485%	Note	December 18, 2008		-		2,000
Total Debt			$	6,465	$	7,200

** All debt is repurchasable at any time at a price determined by the Secretary of the Treasury, based on rates prevailing in the Treasury Security market at the time of repricing.*

Note 3 – Property and Equipment

We record property and equipment at cost, including the interest we pay on the money we borrow to pay for the construction of major capital additions. We had no interest capitalized or material impaired assets during the three months ended December 31, 2008 and 2007.

Note 4 – Leases and Other Commitments

Each year we incur new capital commitments and expense commitments. Capital commitments consist of capital lease obligations for buildings and contracts for capital items such as equipment, building construction and improvements, and vehicles. Expense commitments consist of operating leases for buildings, contracts for normal operational expense items, inventory, and research and development contracts.

Since prior year capital and expense commitments are not normally fully expended within one year, we track total resources on order for capital and expense commitments. The total resources on order being reported in a given period would equal outstanding commitments from prior years, plus new commitments, less expenditures.

CAPITAL COMMITMENTS, EXPENDITURES, RESOURCES ON ORDER

In Quarter I of this year we added new capital commitments of $125 million compared to $300 million for the same quarter in the prior year. Our December 31, 2008 balance of resources on order for capital items was $2,293 million. The schedules presented below reflect capital resources on order and future minimum lease payments for all non-cancelable capital leases.

Capital Resources on Order (Dollars in millions)		December 31, 2008
Mail Processing Equipment	$	1,288
Postal Support Equipment		222
Building Improvements		428
Construction and Building Purchase		316
Retail Equipment		34
Vehicles		5
Total Capital Resources on Order	$	2,293

Capital Lease Obligations (Dollars in millions)		December 31, 2008
2009	$	76
2010		98
2011		96
2012		98
2013		92
After 2013		524
Total Lease Obligations	$	984
Less: Interest		362
Total Capital Lease Obligations	$	622
Less: Short-term portion of capital lease		47
Long-term Portion of Capital Lease	$	575

EXPENSE COMMITMENTS, RESOURCES ON ORDER

At December 31, 2008, we estimate our commitments for expense resources on order to be $5,430 million. As of December 31, 2008 our future minimum lease payments for all non-cancelable operating leases and our annual payment requirements for retiree health benefits are shown below.

Expense Resources on Order (Dollars in millions)		December 31, 2008
Operational Contracts	$	5,338
Inventory Contracts		51
Research and Development Contracts		41
Total Expense Resources on Order	$	5,430

Operating Leases (Dollars in millions)		December 31, 2008
2009	$	601
2010		769
2011		719
2012		650
2013		589
After 2013		4,939
Total Operating Lease Obligations	$	8,267

Postal Service Retiree Health Benefit Fund Commitment (Dollars in millions)		P.L. 109-435 Requirement
2009	$	5,400
2010		5,500
2011		5,500
2012		5,600
2013		5,600
After 2013		17,200
Total Postal Service Retiree Health Benefit Fund Commitment	$	44,800

Rental expense on operating leases is shown in the following table:

Rental Expense (Dollars in millions)	Three Months Ended December 31, 2008	2007
Non-cancelable real estate leases including related taxes	$ 247	$ 243
Facilities leased from GSA subject to 120-day notice of cancellation	10	9
Equipment and other short-term rentals	69	79
Total Rental Expense	$ 326	$ 331

Note 5 – Contingent Liabilities

Contingent liabilities consist mainly of claims and suits resulting from labor, equal employment opportunity and environmental issues, property damage claims, injuries on postal properties, issues arising from postal contracts, personal claims, and traffic accidents.

Each quarter we review significant new claims and litigation and evaluate the probability of an adverse outcome. If the claim is deemed probable for an unfavorable outcome and the amount of potential settlement is estimable, we record a liability. Each quarter we also review and adjust any prior claims and litigation for settlements, or revisions to prior estimates. No individual claim currently assessed as probable is material to our interim financial statements taken as a whole. The table summarizes our contingent liabilities provided for in the interim financial statements.

Contingent Liabilities (Dollars in millions)	December 31, 2008 (unaudited)	September 30, 2008
Labor Cases	$ 341	$ 318
Equal Employment Opportunity Cases	41	45
Environmental Cases	40	40
Tort Cases	33	32
Contractual Cases	28	1
Total Contingent Liabilities	$ 483	$ 436

We believe that adequate provision has been made for probable liabilities from claims and suits. The current portion of this liability at December 31, 2008 was $239 million and $198 million at September 30, 2008 and is included on the balance sheets under the heading "Trade payables and accrued expenses". The long-term portion of this liability at December 31, 2008 was $244 million. At September 30, 2008 the long-term liability was $238 million. These amounts are accrued under the heading "Contingent liabilities and other" in our balance sheets.

We also have other claims and suits which we deem reasonably possible of an unfavorable outcome and for which we cannot yet determine the amounts or a reasonable range of potential losses. No provisions for these are included in our interim financial statements.

Note 6 – Health Benefits Programs

Current Employees

Substantially all career employees are covered by the Federal Employees' Health Benefits Program (FEHBP). The Office of Personnel Management (OPM) administers the program and allocates the cost of the program to the various participating government agency employers. Our portion of the cost is based upon the weighted average premium cost of the various employee coverage choices and the specific coverage choices made by current employees. Employees paid approximately 18% of the premium costs in Quarter I, 2009 and 17% in Quarter I in 2008. We paid the remaining employee health care expense, which was $1,330 million in Quarter I, 2009, compared to $1,357 million in Quarter I, 2008.

Retirees

Employees who participate in the FEHBP for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. We are required to pay the employer's share of health insurance premiums for all retired postal employees and their survivors who participate in the FEHBP and who retired on or after July 1, 1971. However, we do not include the costs attributable to federal civil service before that date. Since we cannot direct the costs, benefits, or funding requirements for the federally-sponsored plan, we account for these retiree costs using multiemployer plan accounting rules.

With passage of P.L.109-435, the Postal Accountability and Enhancement Act, we continue to make monthly payments to OPM for our share of premiums for retirees due to FEHBP. P.L.109-435 also established the Postal Service Retiree Health Benefits Fund (PSRHBF). The PSRHBF, which is held by the U.S. Treasury and controlled by OPM, will be used, commencing in 2017, to pay our share of the health insurance premiums for current and future Postal Service retirees. The payment schedule, which began in 2007, requires us to pay, on average, $5,600 million per year into the fund for ten years. This is in addition to our regularly allocated cost of premiums for current retirees, which will continue to be payable through 2016. After these payments are complete, in 2017, OPM will make an actuarial valuation and determine whether any further payments into the PSRHBF are required. If further payments are required, OPM will design an amortization schedule to fully fund our liability by September 30, 2056.

For 2009, the required contribution to the PSRHBF is $5,400 million, which is expensed at the rate of $1,350 million per quarter. During Quarter I we expensed $1,814 million for retiree health benefits; $464 million was for retiree health benefit invoices from OPM for current retirees and $1,350 million for the PSRHBF. For the same period last year, we expensed $1,840 million for retiree health benefits; $440 million for retiree benefits invoices and $1,400 million for the PSRHBF.

Note 7 – Retirement Programs

PENSION PROGRAMS

Employees participate in one of three pension programs based upon the starting date of their employment with the federal government. Employee contributions are made to CSRS, the Dual CSRS/Social Security (Dual/CSRS), or the Federal Employees Retirement System (FERS), all of which are administered by OPM. Employees may also participate in the Thrift Savings Plan (TSP), which is a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board.

P.L.109-435 suspends until 2017 our employer contribution to CSRS that would otherwise have been required under Title 5, Section 8334(a) (1), of the United States Code. At that time OPM will determine whether additional funding is required for the benefits of postal retirees. We continue to make employer contributions of 11.2% of base salary for current FERS employees. Retirement expense for Quarter I, 2009 was $1,512 million, compared to $1,483 million for the same period last year, and is recorded in compensation and benefits expense.

Note 8 – Workers' Compensation

Workers' compensation costs are paid under a program administered by the Department of Labor (DOL). These costs, recorded as an operating expense, include employees' medical expenses, compensation for wage loss, and DOL administrative fees. The program also provides for payment of benefits to dependents of employees who die from work-related injuries or diseases.

Our liability at December 31, 2008, represents the estimated present value of the future medical and compensation payments for postal workers injured as of the end of Quarter I, 2009. The estimated total cost of a claim is based upon the date of injury, pattern of historical payments, frequency and severity of the injuries and the expected trend in future costs.

We implemented a revised actuarial model for estimating our liability for workers' compensation at September 30, 2008. The model's methodology is similar to that used in the independent consulting firm actuarial valuation, which formed the basis for the recorded liability prior to September 30, 2008. The revised model explicitly projects the estimated cost to resolve the most recent 10 injury years. We continue to use an independent actuarial consulting firm to perform an actuarial valuation on injuries occurring more than 10 years in the past.

Our expense for workers' compensation was $353 million during Quarter I of 2009, compared to $300 million for the same period last year.

Note 9 – Revenue Forgone

Revenue forgone is an appropriation which covers the cost of providing free and reduced rate mailing service to groups designated by Congress. During Quarter I, 2009, we recognized $22 million including $6 million of imputed interest in revenue for revenue forgone appropriations, compared to $22 million, including $6 million of imputed interest during the same period last year.

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

Cautionary Statements

The *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report include statements representing our expectations about our business and financial results. These may be affected by risks and uncertainties we discuss here and in our Annual Report, such as economic conditions, regulatory and legislative changes, changes in actuarial assumptions, trends we know about, trends we anticipate and trends we believe are relevant to future operations. Some of these factors may cause our actual results to differ materially from those contemplated. Operating results for the three-month period ended December 31, 2008 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. This report should be read in conjunction with our 2008 Annual Report. As in the Annual Report, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal year 2009 and fiscal year 2008.

Introduction

The United States Postal Service (we) commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States." We are governed by an eleven-member Board of Governors. The Board is composed of nine Governors appointed by the President of the United States with the advice and consent of the Senate, the Postmaster General and the Deputy Postmaster General. Under the Postal Reorganization Act, and its successor, the Postal Accountability and Enhancement Act, Public Law 109-435 (P.L. 109-435), we have a legal mandate to offer a "fundamental service" to the American people, "at fair and reasonable rates." We fulfill this legal mandate to provide universal service at a fair price by offering a variety of classes of mail services without undue discrimination among our many customers. This means that within each class of mail our price does not unreasonably vary by customer for the levels of service we provide.

We have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 3% of operating revenue. The financial services sector, which includes real estate, represents approximately 10% of operating revenue, a drop from 11% in 2008.

P.L. 109-435 divides our services into two broad categories: market-dominant and competitive. Market-dominant services include, but are not limited to, First-Class Mail, Standard Mail, Periodicals, and Package Services. Price increases for these services are subject to a price cap based on the Consumer Price Index – All Urban Consumers (CPI-U). Competitive services, such as Priority Mail, Express Mail, Bulk Parcel Post, and Bulk International Mail have greater pricing flexibility. Throughout this document and in the day-to-day operation of the organization, we refer to market-dominant services as "Mailing Services" and competitive services as "Shipping Services".

We serve individual and commercial customers throughout the nation. Our services compete for business in the communications, distribution and delivery, advertising and retail markets. The prices and fees for our services are subject to a regulatory review process by the independent Postal Regulatory Commission (PRC).

Our mailing and shipping services are sold through almost 37,000 post offices, stations, branches, contract postal units, a large network of consignees and on-line at *www.usps.com*. We deliver mail to more than 149 million city, rural, Post Office box and highway contract delivery points. We conduct operations primarily in the domestic market, with international operations representing approximately 3% of operating revenue.

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

The labor force is primarily represented by the American Postal Workers Union, National Association of Letter Carriers, National Postal Mail Handlers Union and National Rural Letter Carriers Association. More than 85% of career employees are covered by collective bargaining agreements.

By law, we consult with management organizations representing most of the employees not covered by collective bargaining agreements. We participate in federal employee benefit programs as required by statute for retirement, health, and workers' compensation benefits.

We are not a reporting company under the Securities Exchange Act of 1934, as amended, and we are not subject to regulation by the Securities and Exchange Commission (SEC). However, effective for reporting periods ending after September 30, 2007 we are required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under section 13 of the Securities Exchange Act of 1934. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and are available on the PRC website at *www.prc.gov.*

Additional disclosures on our organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, *Vision 2013* strategic plan and the Comprehensive Statement on Postal Operations may be found on our website at *www.usps.com.* Information on our website is not incorporated by reference in this document.

Critical Accounting Estimates

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

The three critical accounting policies that we believe are either the most judgmental or involve the selection or application of alternative accounting policies, and are material to our interim financial statements are those relating to workers' compensation costs, deferred revenue for prepaid postage, and contingent liabilities. Management discusses the development and selection of these critical accounting policies and estimates with the Audit and Finance Committee of the Board of Governors. Note 2 to the financial statements in the 2008 Annual Report contains a summary of our significant accounting policies.

Results of Operations

In Quarter I we had an operating loss of $380 million compared to operating income of $686 million for Quarter I of last year.

As explained more fully later in the revenue and volume section of this report, the recession has had a significant and adverse impact on our Quarter I operating revenue. Quarter I operating revenue was $19,095 million, compared to $20,369 million in Quarter I of last year, a decrease of $1,274 million or 6.3%, in spite of a 2.9% average price increase in May 2008. All categories of service experienced volume declines in Quarter I of 2009 compared to the same period last year.

Key Operating Statistics	Three Months Ended December 31,	
(Dollars in millions)	2008	2007
Operating Revenue	$ 19,095	$ 20,369
Operating (Loss) Income	$ (380)	$ 686
Net (Loss) Income	$ (384)	$ 672
Operating Margin	-2.0%	3.4%
Average Volume per day (pieces in millions)	670	719

Quarter I operating expenses were $19,475 million, compared to $19,683 million in the corresponding quarter of last year, a decrease of $208 million or 1.1%. Operating expenses were driven by a decrease of $104 million in other expenses, which include supplies and services, depreciation, and telecommunication expense, a decrease in transportation expenses of $92 million, and a decrease in retiree health benefits expenses of $26 million. These were offset by a small increase in compensation and benefit expenses of $14 million. Compensation and benefits, and thus total operating expenses, would have been much higher if we had not decreased total workhours by 27 million compared to the same period last year.

Revenue and Volume

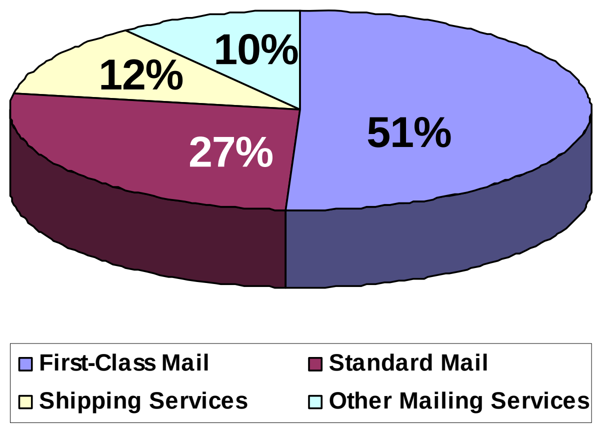
Prices for most mailing services increased by an average of 2.9% on May 12, 2008. Because of pricing design considerations, some products and services received increases more or less than 2.9%. The price of a one-ounce First-Class stamp increased from 41 cents to 42 cents. Prices also changed for Standard Mail, Periodicals, Package Services, Priority Mail, Express Mail and Special Services.

The economic recession has adversely affected all classes of domestic mail. The downturn of the housing market and related credit crisis is old news with the recession now severely impacting both First-Class Mail and Standard Mail. The contracting U.S. economy and lower retail sales have also reduced demand for all postal products.

Revenue [1]	Three Months Ended December 31,			
(Dollars in millions)	2008		2007	
First-Class Mail	$	9,654	$	10,179
Standard Mail		5,127		5,744
Periodicals		565		604
Package Services		500		526
Other Mailing Services*		909		934
Total Mailing Services	$	16,755	$	17,987
Total Shipping Services		2,340		2,382
Total Operating Revenue	$	19,095	$	20,369

* Special services revenue and other income included in "Other Mailing Services" category.

Quarter I 2009 Mail Revenue



Mailing Services

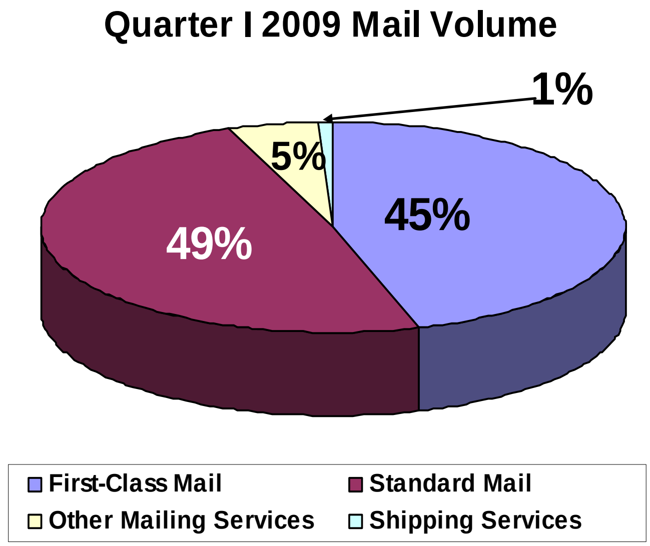
For the three months ended December 31, 2008, First-Class Mail and Standard Mail, which make up 94% of volume, decreased by over 4.8 billion pieces or 9.2% compared to the same period last year with an associated drop in revenue of $1,142 million. Most of this decrease can be attributed to the slowdown in the economy, particularly the financial and real estate sectors, which are heavy users of the mail. Each grouping under Mailing Services has experienced declines in both revenue and volume.

First-Class Mail revenue decreased $525 million or 5.2% in Quarter I on a volume decline of 1.8 billion pieces or 7.2%, compared to the same period last year. Reflecting the economy, all subgroups under First-Class Mail experienced volume declines and only single-piece Inbound International letters saw a slight revenue increase. Single-piece First-Class letters declined 962 million pieces or 9.8% for the quarter. Single-piece First-Class Mail volume, including bills, statements, confirmations, orders, and rebates has been in decline for over a decade. While price has some effect on First-Class Mail volume, the economy and technology are the primary drivers behind the continued decline in the volume of this mail class. We anticipate the technology-driven decline in single-piece First-Class letters to continue into the foreseeable future.

[1] Note: The revenue and volume charts have been reformatted to reflect the new Mailing Services and Shipping Services categories. The following summarizes the major reclassification changes.

- The First-Class Mail category includes First-Class Mail International.
- Package Services includes single-piece Parcel Post, International Inbound Surface Parcel Post, Bound Printed Matter, Media Mail and Library Mail, but now excludes Parcel Select and Parcel Return Service.
- Shipping Services includes Priority Mail, Express Mail, Parcel Select, Parcel Select Return Service and International Mail, excluding single-piece First-Class Mail International.

Mail Volume [1] (Pieces in millions)	Three Months Ended December 31, 2008	2007
First-Class Mail	22,709	24,484
Standard Mail	24,608	27,634
Periodicals	2,125	2,202
Package Services	215	235
Other Mailing Services	146	354
Total Mailing Services	49,803	54,909
Total Shipping Services	401	448
Total Mail Volume	50,204	55,357



Standard Mail revenue decreased $617 million or 10.7% in Quarter I, on a volume decrease of 3.0 billion pieces, or 11.0% compared to the same period last year. Revenue was further restrained by a 3.4% decrease in the average weight per piece. Standard Mail volume has been significantly impacted by the decline in advertising spending as a result of the recession, which has spread throughout the economy. All subgroups under Standard Mail lost both revenue and volume compared to the first quarter of last year. Standard Mail letter volume fell 12.8% or 2 billion pieces while revenue dropped $345 million or 12.1% in the first quarter. Standard Mail flat volume fell 17.3% or 498 million pieces while revenue dropped $173 million or 16.6%. The decline in each of the Standard Mail subgroups is a reflection of the economy**.** Advertisers also continue to become more sophisticated in the targeting of their mailings. We expect this trend to continue

Revenue from Periodicals decreased $39 million or 6.4% in Quarter I compared to the same period last year. Total Periodicals weight decreased by 12.6%, reflecting the declining number of publications and fewer advertising pages. Volume decreased 77 million pieces or 3.5% in the quarter compared to the same period last year. Periodicals volume continued it's long-term downward trend, reflecting trends in reading behavior.

Package Services revenue decreased $25 million or 4.8% in Quarter I compared to the first quarter of 2008. Package Services volume decreased 20 million pieces or 8.4% in the same period. The reduction in volume in the package industry is also a reflection of the slowdown in the U.S. economy. All of the major package service providers were adversely affected by economic events during the first quarter. After several years of attempting to make inroads, DHL withdrew from the U.S. domestic market. It remains to be seen how this development has and will affect package volumes handled by the Postal Service in the future.

Shipping Services

Shipping Services revenue decreased $42 million or 1.8% in Quarter I compared to the same period last year. All subgroups within Shipping Services experienced volume declines. Last year, a weaker dollar resulted in export opportunities. The global economic recession has seen those opportunities diminish. The withdrawal of DHL from the domestic portion of the American market has afforded opportunities for short-term growth for domestic expedited and package products, but did not meaningfully impact Quarter I results.

Overall, the poor Quarter I revenue performance, which includes the holiday mailing season, continues to show the severe effect of the economic recession in the U.S. economy.

Additional discussion on volume and revenue projections can be found in the outlook section of this report. Detailed data on product volume and revenue may be found in the Quarterly *Revenue, Pieces and Weight* reports on www.usps.com/financials/rpw.

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

Compensation and benefits expense for Quarter I was $13,657 million, $14 million or 0.1% more than the same period last year. The Quarter I increase primarily reflects increases in workers' compensation expense and retirement expense. These increases were offset by decreases in compensation due to a reduction of almost 27 million workhours and a 1% increase in the amount employees contribute to health benefit costs.

Compensation and Benefits Expenses (Dollars in millions)	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
Compensation	$	10,359	$	10,394
Retirement		1,512		1,483
Health Benefits		1,330		1,357
Workers' Compensation		353		300
Other		103		109
Total	$	13,657	$	13,643

Compensation expense decreased by $35 million or 0.3% in Quarter I compared to the same period last year. This was due to a 7.5%, or 27 million workhours decrease discussed below. Without the impact of the 27 million workhour reduction, compensation expenses would have been approximately $950 million higher. This tempered some of the effect of the March and September Cost of Living Adjustments (COLA) which carried over to FY 2009 that went into effect in March and September 2008. COLA payments for Quarter 1 were $306 million, compared to $58 million for same period last year.

The Postal Service has been authorized by the Office of Personnel Management (OPM) to offer voluntary early retirement, with no severance incentives, to eligible employees nationwide. Almost 8,500 employees accepted the early retirement offer; however, the impact of these early retirements had a minimal impact on compensation in Quarter I, as the effective dates for the majority of these retirements were December 31, 2008 or later.

WORKHOURS

As mail volumes shift and decline, we adjust and reduce workhours accordingly. In Quarter I we reduced almost 27 million workhours compared to the same period last year. Overtime usage was dramatically reduced from Quarter I last year, by approximately 12 million hours or 37.7%. Even though the number of delivery points increased by 1.2 million from the same period last year, both city and rural delivery workhours declined from last year's levels, due to, initiatives designed to match workhours to the substantially reduced volume throughout the network. This was especially pronounced in the mail processing function with a drop of almost 11 million workhours. City delivery and customer service & retail functions each reduced workhours by 6 million hours.

Workhours (in thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Pct Change
City Delivery	110,810	116,850	-5.2%
Mail Processing	70,902	81,692	-13.2%
Customer Services & Retail	48,056	54,188	-11.3%
Rural Delivery	45,634	47,115	-3.1%
Other, including Plant, Vehicle Services, Operational Support, Postmasters & Administration	56,363	58,651	-3.9%
Total	331,765	358,496	-7.5%

EMPLOYEE COMPLEMENT

Employee complement was reduced by 6,465 during Quarter I. The number of career employees at the end of the quarter was 656,773. This represents a reduction of 24,240 employees or 3.6% since December 31, 2007, mainly through attrition. Our Voluntary Early Retirement (VER) initiative was offered in three phases. In Quarter I, the first group of approximately 3,700 employees consisting mainly of clerks and mail handlers retired effective December 31, 2008. Phase II and III will become effective in Quarter 2, and a little more than 5% of the eligible employees have accepted the offer which will bring the total number of employees retiring under VER to 8,500.

RETIREMENT EXPENSE – CURRENT EMPLOYEES

During Quarter I, retirement expense for the Dual/CSRS and FERS plans was $1,512 million compared to $1,483 million for the same period last year, an increase of $29 million or 2.0%. The increase is due to higher salaries as compared to the prior year. Retirement contributions to CSRS were suspended by P.L. 109-435.

WORKERS' COMPENSATION

Our employees are covered by the Federal Employees' Compensation Act, administered by the Department of Labor's Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. However, we pay all workers' compensation claims from postal funds.

Workers' compensation expense for Quarter I was $353 million, compared to $300 million for the same period last year. The increase in the Quarter I, 2009 workers' compensation expense, relative to the same period last year, is due to a higher number of medical and compensation payments and inflationary trends in claim costs, which raised payments to most claimants on the rolls.

Two significant drivers of Workers' Compensation expense are the number of claims reported and the cost per claim. In Quarter I we experienced an increase of 458 or 2.1% in the number of compensation claims receiving payments and an increase of 1,071 or 1.7% in the number of medical claims receiving payments compared to the same period last year. The actual claim payments increased $19 million, or 7.1%, over Quarter 1, 2008. Compensation claims payments grew by $14 million or 8.1% and medical claims payments grew by $5 million or 5.3% compared to the same period last year.

On a quarterly basis, changes in the number of claims and amounts paid are highly volatile and depend on a number of factors, including, but not limited to the number, timing and severity of injuries; the number of new claims and closed claims within the period; and the amount and timing of payments made by the OWCP on our behalf. Medical and compensation claims fluctuate significantly from quarter-to-quarter, so the change in the number of paid medical and compensation claims for any quarter, compared to the same period last year, may not necessarily be representative of the results to be expected for the full year.

As discussed in Note 8, *Workers' Compensation*, in the Notes to the Financial Statements, we implemented a revised model for estimating our liability for workers' compensation in 2008, with the assistance of an independent actuary. The revised model is similar to that used in the independent actuarial valuation which formed the basis for the recorded liability prior to September 30, 2008.

RETIREE HEALTH BENEFITS

P.L.109-435 included a ten-year, $55,800 million payment schedule that requires payment of $5,400 million into the PSRHBF in fiscal year 2009. We are expensing the $5,400 million in equal amounts throughout the year, at a rate of $1,350 million per quarter. In 2008, we expensed $5,600 million at the rate of $1,400 million per quarter. In addition to funding the PSRHBF, the OPM charges us for the cost of our retirees currently participating in the Federal Employee Health Benefits Program (FEHBP). See Note 6, *Health Benefits Programs,* and Note 7, *Retirement Programs* in the Financial Information section for further discussion of this accounting treatment.

Retiree Health Benefits	Three Months Ended December 31,	
(Dollars in millions)	2008	2007
Employer Premium Expense	$ 464	$ 440
P.L. 109-435 Scheduled Payment to PSRHBF	1,350	1,400
Total Retiree Health Benefits	$ 1,814	$ 1,840

Health benefit expenses for retirees were $1,814 million for Quarter I, compared to $1,840 million in the same period last year. This decrease of $26 million was due to a $200 million decrease in the 2009 funding schedule requirement for the PSRHBF, of which $50 million of the reduction is reflected in the expense for Quarter I. Expenses for current retirees increased $24 million or 5.5% compared to the same period last year. The major drivers of retiree health benefits expense are the number of current participants on the rolls and premium costs of the plans they select. As of December 31, 2008, we had approximately 453,000 participants on the rolls, an increase of about 2,300 compared to the same period last year. In January, 2009, the Postmaster General requested that Congress allow the payments for current retiree health benefits premiums be paid from the PSRHBF. See Legislative Outlook later in this report for a full discussion of the request.

Operating Expenses – Transportation

Transportation expenses were $1,750 million, a decrease of $92 million, or 5% for Quarter I, 2009 compared to $1,842 million in the same period last year. Transportation costs are largely made up of highway and air transportation.

Highway transportation expenses of $867 million in Quarter I decreased by $50 million or 5.5% compared to the same quarter last year. The lower highway expenses resulted from decreases in fuel prices and a reduction in contracted miles driven of 4.2 million miles or 0.26% for Quarter I, 2009. Diesel fuel, which makes up 93% of the fuel purchased for highway contracts, cost an average of $2.93 per gallon during Quarter I, 2009 vs. $3.26 per gallon during Quarter I, 2008, a decrease of 10%. Gasoline prices decreased approximately 24% compared to the same quarter last year, with a gallon of gas costing, on average, $2.25 during Quarter I, 2009 vs. $2.96 during Quarter I, 2008.

Transportation Expense (Dollars in millions)	Three Months Ended December 31, 2008	2007
Highway Transportation	$ 867	$ 917
Air Transportation	777	823
Other Transportation	106	102
Total Transportation Expense	$ 1,750	$ 1,842

Air transportation expenses of $777 million in Quarter I, decreased by $46 million or 5.6% from $823 million in the same quarter last year as a result of the lower mail volumes discussed previously.

International air transportation expenses decreased $51 million compared to Quarter I, 2008. International air expense is comprised of civilian air, military air transportation, net of reimbursement and foreign postal transaction fees. The $51 million decrease was comprised of a $32 million reduction in civilian and military mail transportation expense driven by lower volumes and $18 million in lower foreign postal transaction fees.

Operating Expenses – Other Operating Expense

Other operating expenses of $2,254 million for Quarter I were $104 million or 4.4% lower than last year's comparable quarter expense of $2,358 million. This was driven by an $82 million or 13.1% decrease in supplies and services due to decreases in the purchase of small equipment and lower utilization of professional services. Depreciation decreased $27 million or 4.5% while information technology and communications expenses decreased $32 million or 18.9%. These decreases were partially offset by increases of $21 million in rent and utilities expenses and $15 million in rural carrier equipment maintenance allowances compared to the same period last year.

Other Operating Expenses (Dollars in millions)	Three Months Ended December 31, 2008	2007
Supplies and Services	$ 545	$ 627
Depreciation and Amortization	570	597
Rent and Utilities	440	419
Vehicle Maintenance Service	196	208
Information Technology and Communications	137	169
Rural Carrier Equipment Maintenance Allowance	130	115
Other	236	223
Total Other Operating Expenses	$ 2,254	$ 2,358

Productivity

The Postal Service uses a single indicator called total factor productivity (TFP) to calculate efficiency. TFP measures the change in the relationship between outputs (workload processed) and inputs (resource usage) over a period of time. Workload consists of weighted mail volume, miscellaneous output, and the expanding delivery network. Resources consist of labor, materials (including transportation), and deployed capital assets. Workload minus resources used equals TFP.

Total Factor Productivity	Three Months Ended December 31,	
% Change from Prior Year	2008	2007
Workload	-6.6%	-1.6%
Resource Usage	-6.3%	-2.1%
Total Factor Productivity	-0.3%	0.5%

In Quarter I, TFP decreased 0.3%, as the 6.3% decline in aggregate resource usage was not quite enough to offset the 6.6% decline in aggregate workload. The decline in aggregate workload was driven by the steep volume decline, and the 0.9% growth over last year in the number of delivery points had little impact to moderate the overall workload decline.

On the resource side, the aggregate 6.3% decline was driven by a 6.9% decrease in dollar weighted labor inputs, driven by the reduction of 27 million workhours. The decline in resource usage can also be attributed to a 6.0% decline in materials usage, due to cost reduction efforts to reduce supplies, services, and other non-personnel related items.

Cash Flow from Operating Activities

Cash flow from operating activities was $915 million; $668 million lower than the level through Quarter I last year. Cash flows through Quarter I were negatively impacted by the net loss for the quarter, driven mostly by the decline in revenues.

Cash Flow from Investing Activities

Purchases of property and equipment for the three months ended December 31, 2008, were $630 million, an $101 million increase from the $529 million of property and equipment purchased during the same period last year. The increase was due to payments for construction, building purchases, building improvements, and mail processing equipment committed in prior years.

Cash Flow from Financing Activities

We used the net cash flow from operations, after paying for capital investments, along with cash on hand, to pay down debt. We repaid debt, net of borrowing, of $735 million and $984 million through Quarter I of 2009 and 2008, respectively.

Cash and cash equivalents on December 31, 2008, were $959 million, $473 million lower than the September 30, 2008 balance of $1,432 million.

Liquidity

We have had significant losses in 2007, 2008 and through the three months ended December 31, 2008, attributable to declining revenues due to the volume declines and to higher operating costs primarily related to higher retiree health benefit costs and COLAs, as well as record fuel prices for a substantial period in 2008. We have managed our liquidity during this time through a series of cost reduction initiatives and increased borrowings. However, we are statutorily limited to net annual increases of $3 billion in our debt and our total debt cannot exceed $15 billion. For 2009, we are subject to an absolute debt ceiling of $10.2 billion, a $3 billion increase from the September 30, 2008 debt balance of $7.2 billion.

According to the National Bureau of Economic Research, we are 13 months into economic recession. Many economists expect it to be one of the longest and deepest recessions, since the Great Depression. Real GDP declined at a rate of 3.8% in our Quarter I, ended December 31, 2008. This is the worst single quarter performance since 1982.

The Postal Service and mailing industry have been severely affected by this widespread financial crisis. Since peaking at 213 billion pieces in 2006, mail volume dropped to 203 billion in 2008, and is expected to drop a further 12 billion to 15 billion pieces in 2009. A drop of this magnitude is unprecedented in Postal Service history. It is anticipated that, despite the effects of price increases in May 2008, and January and May 2009, revenues will decline in 2009 compared to 2008. This would be the first year-over-year decline since 1946. In Quarter I, revenue was $1.3 billion below the level of one year prior.

Additionally, beginning in 2007, the Postal Service assumed a new requirement to make annual payments into the PSRHBF of between $5.4 billion and $5.8 billion (See Note 6). Expenses in 2009 are also being pressured by record cost-of-living allowances (COLA), called for by our contracts with postal labor unions.

The impacts of the severe recession, the annual PSRHBF payment, and record COLA are placing unprecedented strains on our cash flow. Without aggressive action it is possible that we could experience a net loss substantially higher than the $2.8 billion net loss we incurred in 2008. Although not considered a probable outcome at this time, if our loss in 2009 exceeds approximately $5 billion we could have cash needs in excess of the cash provided from operations and our borrowing capacity for 2009.

To meet this challenge, the Postal Service has taken a number of actions.

In 2008, the Postal Service initiated $2.2 billion in projected annual cost reductions, which included a reduction of 50 million workhours. We have targeted $5.9 billion in total potential cost reductions in 2009 and 2010. In Quarter I, 2009, we used 27 million fewer workhours than the same period last year. We have targeted the elimination of 100 million workhours this year, doubling last year's success.

Working with the National Association of Letter Carriers, we recently concluded an interim agreement that establishes a new process for evaluating and adjusting delivery routes, resulting in a quickly implemented one-time adjustment to reflect workload loss. The accelerated route adjustment process, which was negotiated late in calendar year 2008, will be implemented this year. Ultimately, it will involve the evaluation of as many as 90,000 city delivery routes and help us to achieve the workhour reduction targets.

We are in the process of reducing the authorized staffing complement at national headquarters by 15%. We are taking similar actions in the field, reducing authorized complement at our nine Area offices by 19%.

We are also continuing to pursue efforts to consolidate some excess capacity in our mail-processing and transportation networks while protecting service. This will allow us to maximize operational efficiency and capitalize on the economies of scale associated with advances in automated mail processing.

Other cost-containment efforts include freezing the salaries of all Postal Service officers and executives at 2008 pay levels, reducing travel budgets, and placing a halt on the construction of new postal facilities. The limited facilities funds that are now available will be directed only to those sites with the most critical needs.

Some of these cost-reduction efforts require that time-consuming processes be followed. While we are working to capture as much savings as possible in 2009, some of these efforts may not be realized until late 2009 and 2010.

We have also taken steps to build our business. We realigned our organizational structure in 2008, creating a new Mailing and Shipping Service division that will help us bring new products to market more quickly and effectively.

We have created a number of price and volume incentives that promotes volume growth for large and medium shippers. Following last year's decision by DHL to reduce its United States operations, we initiated an aggressive outreach effort to make the Postal Service the shipper of choice for former DHL customers. We are also creating a dedicated sales force that will exclusively promote our expedited shipping services.

Although the Postal Service is working on a number of fronts to reduce costs and increase revenues, more may be required. Accordingly, the Postal Service has requested that Congress permit payment of health benefits for current retirees from the $32 billion already deposited in the PSRHBF. This would reduce cash outlays for this fiscal year by approximately $2 billion.

It is also possible that six-day delivery may simply prove to be unaffordable. Should this possibility be realized it could become necessary to temporarily reduce mail delivery to only five days a week. This would be done by suspending delivery on the lightest volume days during certain periods of the year when volume is traditionally lower due to the seasonal nature of our business. Toward this end, the Postal Service has requested that Congress remove the annual appropriation bill rider, first added in 1983, that effectively requires the Postal Service to deliver mail six days each week. Any reductions in delivery frequency would be taken under the direction of our Board of Governors and only when absolutely warranted by financial circumstances. Were we to do so, we would make every effort to maximize the benefits to our customers while minimizing any disruption to businesses and households.

These actions and possible actions are intended to conserve cash in response to deterioration in the economy, particularly the mailing industry, to ensure adequate liquidity throughout the period from December 31, 2008 to September 30, 2009. However, the full effect of these actions may not be realized until 2010. We are committed to exploring all of the initiatives discussed above because there is no assurance that economic conditions will improve within that time frame or that mail volumes will return to previous levels once the economy does improve. Our ability to generate sufficient cash flows are substantially dependent on the successful execution of many of the actions referred to above.

Interest Expense

Interest expense of $10 million for Quarter I, 2009 was $12 million less than $22 million in the same period last year due to the lower interest rates charged by the Federal Financing Bank.

Service and Performance

The Postal Service has measured service performance from the customer perspective since the early 1990s. This type of measurement sets the stage for improvement through increased focus on performance and the monitoring of transparent results. Through consultation with the Postal Regulatory Commission, we have developed and implemented modern service standards and the requirements for new or expanded measurement processes. The service performance information and results are available at www.usps.com.

CUSTOMER SATISFACTION MEASUREMENT (CSM)

CSM is an independently-administered survey that provides an external, independent measure of customer satisfaction with postal products and services. In Quarter I of 2009, residential customer satisfaction improved, with 93% of customers rating their service as excellent, very good or good, a one percentage point improvement over the same period last year. In 2009, for the fifth year in a row, the respected Ponemon Institute rated the Postal Service as the most trusted government agency and one of the ten most-trusted organizations in the nation – public or private.

Outlook

A financially healthy Postal Service is dependent upon a healthy U.S. economy. The global economy is in the most severe synchronized global downturn of recent times. The U.S. economy has been in recession since late calendar year 2007 and the recession continues to deepen. Most economists agree that the contraction in GDP will continue during the first half of calendar year 2009 with bottoming occurring in the second half of the year. While some aspects of the economy are expected to marginally improve during the second half of calendar year 2009, widespread economic recovery will not occur until at least calendar year 2010.

The housing market continues to be a major drag on the economy. The holiday shopping season was the weakest in decades for retailers, with consumer spending dropping 3.5% during Quarter I. The combination of the weak housing market, the drop in real consumption continuing the retail slump, and the loss of 2.6 million jobs in calendar 2008 dim any hope for a quick economic recovery.

Retail sales, employment, and investment spending are all significant indicators of mail demand. All three of these indicators are projected to significantly decrease in 2009. Even if the anticipated fiscal-stimulus package is successful in bolstering the economy, we do not anticipate any volume growth in 2010.

Revenue Outlook

Quarter I revenue underperformed expectations by $1 billion. Based on results from the first quarter, we have revised our projections and now anticipate a volume decline of 12 billion to 15 billion pieces of mail for 2009. We anticipate revenue this fiscal year will be lower than in FY 2008. If so, that will be the first-year-over year decline in revenue since 1946. We anticipate a small economic rebound in 2010; however, this will translate into little, if any volume growth, and any revenue growth will be primarily due to the May 2009 price increases. The Postal Service is not unique in this weak revenue performance, rather we are a reflection of the economy in general.

The Postal Service and mailing industry are adversely affected by a widespread financial crisis, which has resulted in a severe recession. Many economist expect that the recession will likely last at least into Quarter III before there is a weak recovery. The fallout of the financial crisis for the mail business has led to double-digit declines in mortgage and credit card advertising mail to households.

While GDP is the traditional measure of the health of the economy, other factors are even more significant to mail volume. Consumer spending is the engine of advertising mail volume. The decline in real consumer spending is the most severe in three decades. Declines in employment in conjunction with the household loss of $8 trillion in net worth since the summer of 2007, have curbed consumer spending. A lack of domestic investment prevents job creation. Retail sales have declined by 9.8% over the last 12 months and gross private domestic investment is at its lowest level in four years.

The current shifts in the economy are so extreme that the reliability of predictive models is lessened. However, the trends that have led to lower mail volume are not expected to change in the near future. Employment has fallen in each of the last 12 months, according to the Bureau of Labor Statistics, with 2.4 million fewer jobs in that time frame. Additionally, the rate of decline in employment is accelerating, with a combined decrease of 1.1 million jobs in November and December alone. Payrolls are expected to continue to fall for another year, with the largest job losses expected during Quarters I and II. The outlook for capital investment is equally bleak with recovery anticipated in the same time frame. Businesses are cutting back sharply on both equipment spending and nonresidential construction.

The Postal Service implemented a previously-announced price increase for Shipping Services on January 18, 2009. The move to annual January price changes for Shipping Services is consistent with industry-wide practice in the package delivery sector. In addition, we have previously announced our intent to raise Mailing Services prices in mid-May, 2009. The PRC recently released its calculation of the 12-month average change in the Consumer Price Index-Urban (CPI-U). This sets a ceiling on the amount by which the Postal Service may increase prices. The December value for the price cap is set at 3.8%. Accordingly, the Postal Service may request price adjustments of up to 3.8% for each class of mailing services, subject to review by the PRC. The increases in prices for Shipping Services and Mailing Services are factored into the current revenue outlook for the remainder of 2009.

Taken together, these factors portend a year-over-year drop in revenues for the first time since 1946.

Expense Outlook

Management has identified cost reduction opportunities of more than 100 million work hours and reduced internally allocated budgets throughout the organization. We are working to capture as many of these cost reduction opportunities as possible this fiscal year without negatively affecting service to our customers; however, the speed and severity of the economic downturn makes it difficult to cut costs as quickly as revenues deteriorate without downsizing the existing processing and transportation network. Although we are working aggressively, some cost reduction opportunities will not be fully realized until FY 2010, particularly those related to the adjustments of city delivery and rural delivery routes. Additionally, our mail processing and transportation networks have a predominantly fixed cost structure that is not quickly sensitive to changes in volume, along with a delivery network that continues to expand, although at a slower rate than during the period of rapid growth in housing starts experienced earlier this decade.

Although CPI price inflation turned negative over the last quarter, a large portion of our costs had already been determined by contractual commitments and legal obligations. For example, our labor agreements with bargaining unit employees include provisions for semi-annual COLAs tied to changes in the Consumer Price Index – Urban and Clerical Workers (CPI-W). The last COLA was based on the change in the CPI-W between January 2008 and that index's peak in July 2008, and it went into effect on August 30. We estimate that its FY 2009 impact will be nearly $1 billion, a 1.2% increase in total expenses. The current decline in the CPI-W eliminated any additional COLA increase based on the January 2009 index, and current projections do not foresee an additional COLA increase based on the July 2009 index. Meanwhile, health insurance premiums for current employees and retirees under the FEHBP are increasing. In January 2009 the retiree health benefit billing increased by 6.5%, primarily as a result of the OPM premium increases announced in late September.

On the positive side, we are currently benefiting from the sharp decline in energy prices. If crude oil prices were to remain at current levels for the rest of the fiscal year, our savings would be substantial. However, the extreme volatility of energy prices makes this an uncertain prospect.

If current revenue and volume trends continue, we could experience a net loss of approximately $6 billion or more this fiscal year without the most aggressive cost reduction efforts in our history to take costs out of our system. A loss in excess of $5 billion would exhaust our annual borrowing capacity and could erode our cash balance. In the worst case, we would be forced to make some very difficult choices to maintain an adequate level of cash. These could include a temporary reduction in mail delivery from current service levels, reducing post office hours and / or furloughing non-bargaining employees. In order to alleviate this possibility, we have requested Congress permit the payment of health benefit premiums for current retirees from the PSRHBF. This would reduce expenses and cash outlays by approximately $2 billion in 2009.

Legislation

Legislative Outlook:
Postal Service Retiree Health Benefits

On January 6, 2009, Representatives John McHugh (R-NY) and Danny Davis (D-IL) introduced H.R. 22, a bill to amend Title 5 of U.S. Code, to allow the Postal Service to pay its share of contributions for annuitants' health benefits out of the Postal Service Retiree Health Benefits Fund. The bill embodies a proposal submitted by the Postal Service to permit the PSRHBF to pay premiums for health benefits of current Postal Service retirees prior to the date established by P.L.109-435. The bill has been referred to the House Committee on Oversight and Government Reform.

On January 28, 2009, the Postmaster General testified before the subcommittee on Federal Financial Management, Government Information, Federal Services and International Security of the Committee on Homeland Security and Government Affairs of the U.S. Senate. In his testimony, the Postmaster General suggests that to address the Postal Service's immediate financial distress, Congress could amend PL 109-435 to leave the ten-year payment stream intact, but allow the Postal Service to pay its retiree health premiums out of the trust fund, rather than make separate monthly payments to OPM. This would accelerate a provision in PL 109-435, which states that after 2016, premium payments would no longer be paid separately, but would be drawn from the PSRHBF. Since April 2007 the Postal

Service had directly contributed or transferred over $31 billion into the PSRHBF. At September 30, 2008, the trust fund had a balance of over $32 billion.

This change would reduce 2009 expenses by approximately $2 billion, if applied retroactively to the beginning of the year. It could also reduce the amount of funds the Postal Service will need to borrow from the Treasury for the sole purpose of depositing those funds into the PSRHBF.

On February 3, 2009 Senator Tom Carper filed an amendment to H.R. 1 to permit the PSRHBF to pay premiums for health benefits of current Postal Service retirees for a two year period, from October 1, 2008 through September 30, 2010. After September 30, 2010, the payment of premiums for health benefits of current Postal Service retirees would again be the responsibility of the Postal Service as originally stated in P.L.109-435. As of the filing date of this report the amendment has not been brought before the Senate for a vote.

Legislative Update

Do Not Mail (State Legislation)

Activity continues at the state level on Do Not Mail legislation. In December 2008, the San Francisco Board of Supervisors referred action on a non-binding resolution to one of the Board's committees to consider urging the California State Legislature to establish a Do Not Mail registry. The committee will review the matter and is expected to deliberate further on the matter in 2009, with a recommendation back to the full Board of Supervisors for consideration. In other state activity, the sponsor of a Do Not Mail bill in New Jersey on December 8, 2008, withdrew from consideration her bill, which was to establish a "no mail" list for New Jersey residents.

Appropriations

Thus far, Congress has funded the government with a continuing resolution that runs through March 6, 2009. This measure provides $29 million to the Postal Service for the revenue forgone reimbursement but is silent on the free mail funding. The House and Senate Appropriation Committee funding measures (H7323 and S3260, respectively) provide $83 million for free mail, but delay the availability of these funds until October 1, 2009. It is likely that these bills will be rolled into an omnibus funding measure to taken up by Congress early in 2009.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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

We have not used derivative commodity or financial instruments, such as hedging, 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.

See our 2008 Annual Report, Financial Section Part II, Item 7A-*Quantitative and Qualitative Disclosures about Market Risk*.

Item 4 – Controls and Procedures

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

Disclosure Controls

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our quarterly and annual reports is recorded, processed, summarized, and reported within the time frames specified by P.L. 109-435, and that this information is accumulated and communicated to our management, including the Postmaster General and Acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we were required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of management, including the Postmaster General and Acting Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of December 31, 2008. Based on the foregoing, the Postmaster General and Acting Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2008.

Internal Controls

There have been no changes during the period covered by this report in our internal control over financial reporting or in other factors 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

None.

Item 1A – Risk Factors

There were no material changes from the risks previously disclosed in our 2008 Annual Report.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable to the United States Postal Service. As an “independent establishment of the executive branch of the United States government”, we do not issue stock or other securities.

Item 3 – Defaults Upon Senior Securities

Not applicable to the United States Postal Service. As an “independent establishment of the executive branch of the United States government”, we do not issue stock or other securities.

Item 4 – Submission of Matters to a Vote of Security Holders

Not applicable to the United States Postal Service. As an “independent establishment of the executive branch of the United States government”, we do not issue stock or other securities.

Item 5 – Other Information

None.

Item 6 – Exhibits

Exhibit Number	Description of Exhibit
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/ John E. Potter

John E. Potter
Postmaster General and Chief Executive Officer

Date: February 6, 2009

/s/ Lynn Malcolm

Lynn Malcolm
Acting Chief Financial Officer

Date: February 6, 2009

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, John E. Potter, 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-15e and 15d-15e) 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. 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

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

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

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls 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 a significant role in the Postal Service’s internal control over financial reporting.

Date: February 6, 2009

/s/ John E. Potter
John E. Potter
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, Lynn Malcolm, 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-15e and 15d-15e) 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. 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

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

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

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls 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 a significant role in the Postal Service's internal control over financial reporting.

Date: February 6, 2009

/s/ Lynn Malcolm
Lynn Malcolm
Acting Chief Financial Officer

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 December 31, 2008, (the “Report”), I, John E. Potter, 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: February 6, 2009

/s/ John E. Potter
John E. Potter
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 December 31, 2008 (the "Report"),I, Lynn Malcolm, 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: February 6, 2009

/s/ Lynn Malcolm
Lynn Malcolm
Acting Chief Financial Officer