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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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.	41-0760000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
475 L'Enfant Plaza, S.W. Washington, D.C.	20260
(Address of principal executive offices)	(ZIP Code)

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

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

Indicate by check mark whether the registrant 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 August 8, 2008
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

United States Postal Service
Statements of Operations

	Three Months Ended		Nine Months Ended	
	June 30,	June 30,	June 30,	June 30,
(Dollars in millions)	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating revenue	$ 17,910	$ 18,347	$ 57,195	$ 56,261
Operating expenses:				
Compensation and benefits	13,014	13,187	40,289	40,897
Retiree health benefits	1,855	1,787	5,546	8,295
Transportation	1,722	1,548	5,272	4,925
Other	2,424	2,315	7,213	6,953
Total operating expenses	19,015	18,837	58,320	61,070
Loss from operations	**(1,105)**	**(490)**	**(1,125)**	**(4,809)**
Interest and investment income	10	38	25	152
Interest expense	(3)	(1)	(33)	(6)
Net loss	**$ (1,098)**	**$ (453)**	**$ (1,133)**	**$ (4,663)**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	June 30, 2008	September 30, 2007
	(unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	$ 1,045	$ 899
Receivables:		
Foreign countries	529	425
U.S. government	143	155
Other	168	223
Receivables before allowances	840	803
Less allowances	46	44
Total receivables, net	794	759
Supplies, advances and prepayments	135	201
Total Current Assets	**1,974**	**1,859**
Property and Equipment, at Cost:		
Buildings	21,964	21,591
Equipment	21,625	21,060
Land	2,942	2,914
Leasehold improvements	888	842
	47,419	46,407
Less allowances for depreciation and amortization	25,708	24,688
	21,711	21,719
Construction in progress	1,611	1,877
Total Property and Equipment, Net	**23,322**	**23,596**
Other Long-Term Assets		
Appropriations Receivable - Revenue Forgone	362	392
Advances and prepayments	38	-
Total Long-Term Assets	**400**	**392**
Total Assets	**$ 25,696**	**$ 25,847**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Capital

(Dollars in millions)		June 30, 2008		September 30, 2007
		(unaudited)		
Liabilities and Net Capital				
Current Liabilities:				
Compensation and benefits	$	2,235	$	3,571
Retiree health benefits		4,200		-
Payables and accrued expenses:				
Trade payables and accrued expenses		1,152		1,523
Foreign countries		609		452
U.S. government		93		111
Total payables and accrued expenses		1,854		2,086
Customer deposit accounts		1,422		1,499
Deferred revenue - prepaid postage		1,590		1,142
Outstanding postal money orders		785		847
Prepaid box rent and other deferred revenue		516		434
Debt		1,461		4,200
Total Current Liabilities		**14,063**		**13,779**
Noncurrent Liabilities:				
Workers' compensation costs		7,668		6,800
Employees' accumulated leave		2,228		2,129
Deferred appropriation and other revenue		544		591
Long-term portion capital lease obligations		598		618
Deferred gains on sales of property		312		341
Contingent liabilities and other		282		455
Total Noncurrent Liabilities		**11,632**		**10,934**
Total Liabilities		**25,695**		**24,713**
Net Capital				
Capital contributions of the U.S. government		3,034		3,034
Deficit since 1971 reorganization		**(3,033)**		**(1,900)**
Total Net Capital		**1**		**1,134**
Total Liabilities and Net Capital	$	**25,696**	$	**25,847**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Changes in Net Capital

(Dollars in millions)	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital
Balance, September 30, 2007 (audited)	$ 3,034	$ (1,900)	$ 1,134
Net Loss - Nine months Ended June 30, 2008 (unaudited)	-	(1,133)	(1,133)
Balance, June 30, 2008 (unaudited)	$ 3,034	$ (3,033)	$ 1

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Statements of Cash Flows

(Dollars in millions)	Nine Months Ended June 30, 2008 (unaudited)	Nine Months Ended June 30, 2007 (unaudited)
Cash flows from operating activities:		
Net loss	$ (1,133)	$ (4,663)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,731	1,588
Loss on disposals of property and equipment, net	29	7
Decrease in appropriations receivable revenue foregone	30	-
Increase in noncurrent workers' compensation liability	868	1,043
Increase in employees' accumulated leave	99	79
(Increase) decrease in noncurrent deferred appropriation and other revenue	(2)	1
Increase in long-term advances and prepayments	(38)	-
(Decrease) increase in other noncurrent liabilities	(173)	140
Changes in current assets and liabilities:		
Receivables, net	(35)	57
Supplies, advances and prepayments	66	57
Compensation and benefits	(1,336)	(1,019)
Retiree health benefits	4,200	4,050
Payables and accrued expenses	(234)	(426)
Customer deposit accounts	(77)	(94)
Deferred revenue-prepaid postage	448	55
Outstanding postal money orders	(62)	(14)
Prepaid box rent and other deferred revenue	30	23
Net cash provided by operating activities	4,411	884
Cash flows from investing activities:		
Decrease in restricted cash	-	2,958
Purchase of property and equipment	(1,508)	(1,803)
Proceeds from deferred building sales	23	180
Proceeds from sales of property and equipment	22	61
Net cash (used in) provided by investing activities	(1,463)	1,396
Cash flows from financing activities:		
Payments on debt, net	(2,739)	(2,100)
Payments for capital lease obligations, net	(18)	(21)
U.S. government appropriations - expensed	(45)	(60)
Net cash used in financing activities	(2,802)	(2,181)
Net increase in cash and cash equivalents	146	99
Cash and cash equivalents at beginning of year	899	997
Cash and cash equivalents at end of period	$ 1,045	$ 1,096

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 and nine months ended June 30, 2008 and 2007, and our financial position as of June 30, 2008 (unaudited) and September 30, 2007. 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 2007 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 2008 and 2007. 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.

In Quarter III of the current year, we changed the model used to estimate the deferred liability for prepaid postage for stamps. The introduction of the Forever Stamp in April 2007, combined with the May 2008 price increase, resulted in a change in consumer behavior regarding the purchase and usage of stamps that was not measurable using the prior estimation techniques. As such, we developed a new approach that more accurately captures trends in stamp usage. We have determined that the change in the estimation model is a change in accounting estimate under GAAP. As such, the impact of the change is recorded in Quarter III, 2008 in accordance with Financial Accounting Standards Statement (FAS) 154. The new model calculated an increase in the deferred revenue-prepaid postage liability of $451 million, $230 million of which is considered a cumulative change in estimate and $221 million of which is attributable to changes in consumer behavior during the quarter. As a result, the third quarter net loss is $1,098 million as compared to the $868 million it would have been without the change in accounting estimate. Based on our stamp sales forecast for the fourth quarter, we anticipate that the deferred revenue-prepaid postage liability balance calculated under the new model will decrease approximately $126 million by September 30, 2008. The change in consumer behavior does not allow us to calculate a meaningful liability balance under the old model.

Certain comparative prior year amounts in the interim financial statements and accompanying notes have been restated to conform to the current year presentation. This was required due to the adoption of interim financial reporting in accordance with Securities and Exchange Commission regulations, as mandated by the Postal Accountability and Enhancement Act, P.L. 109-435. These restatements consisted primarily of refinements to our interim accrual estimations for liabilities such as workers' compensation, accrued employee leave, and deferred revenue for prepaid postage, resulting in a decrease in the net loss for the three months ended June 30, 2007 of $206 million and a net increase in our net loss of $194 million for the nine months ended June 30, 2007 from what was previously reported. The changes to the interim results do not affect the financial statements reported in our 2007 Annual Report for the entirety of fiscal year 2007.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments necessary to fairly present our financial position as of June 30, 2008, the results of our operations for the three and nine months ended June 30, 2008 and 2007 and cash flows for the nine months ended June 30, 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, 2008.

Note 2 – Debt and Related Interest

As of June 30, 2008, our debt consisted of $1,461 million in short-term debt outstanding with the Federal Financing Bank compared with $4,200 million outstanding at September 30, 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 $3 million in Quarter III, 2008 compared to $1 million in the same period last year. For the nine months ended June 30, 2008 interest expense was $33 million, compared to $6 million for the same period in 2007. Our interest expense consists of interest on borrowings and other interest expense.

Cash paid for interest was $3 million in Quarter III, 2008 compared to $1 million for Quarter III, 2007. For the nine months ended June 30, 2008 cash paid for interest was $34 million, compared to $4 million for the same period in 2007.

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 nine months ended June 30, 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 our 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 III of this year we added new capital commitments of $646 million. Our June 30, 2008 balance of resources on order for capital items was $2,495 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 millons)		June 30, 2008
		(unaudited)
Mail Processing Equipment	$	1,441
Postal Support Equipment		171
Building Improvements		464
Construction and Building Purchase		356
Retail Equipment		34
Vehicles		29
Total	$	2,495

Capital Lease Obligations (Dollars in millions)		June 30, 2008
		(unaudited)
2008	$	26
2009		102
2010		98
2011		96
2012		98
After 2012		615
Total Lease Obligations	$	1,035
Less: Interest		391
Total Capital Lease Obligations	$	644
Less: Short-term portion of capital lease		46
Long-term Portion of Capital Lease	$	598

EXPENSE COMMITMENTS, RESOURCES ON ORDER

At June 30, 2008, we estimate our commitments for expense resources on order to be $5,366 million. As of June 30, 2008 our future minimum lease payments for all non-cancelable operating leases and our obligation for retiree health benefits are shown below.

Expense Resources on Order (Dollars in millons)		June 30, 2008
		(unaudited)
Operational Contracts	$	5,268
Inventory Contracts		54
Research and Development Contracts		44
Total	$	5,366

Postal Service Retiree Health Benefit Fund Commitment (Dollars in millions)		P.L. 109-435 Requirement
2008	$	5,600
2009		5,400
2010		5,500
2011		5,500
2012		5,600
After 2012		22,800
Total Postal Service Retiree Health Benefit Fund Commitment	$	50,400

Operating Leases (Dollars in millions)		June 30, 2008
		(unaudited)
2008	$	640
2009		784
2010		762
2011		703
2012		632
After 2012		5,323
Total Lease Obligations	$	8,844

Rental expense on operating leases is in the following table:

Rental Expense	Three Months Ended June 30,				Nine Months Ended June 30,			
(Dollars in millions)		2008		2007		2008		2007
		(unaudited)		(unaudited)		(unaudited)		(unaudited)
Non-cancelable real estate leases including related taxes	$	235	$	225	$	728	$	701
Facilities leased from GSA subject to 120-day cancellation		11		12		32		34
Equipment and other short-term rentals		60		66		213		187
Total Rental Expense	$	306	$	303	$	973	$	922

Note 5 – Contingent Liabilities

Contingent Liabilities (Dollars in millions)		June 30, 2008		September 30, 2007
		(unaudited)		(audited)
Labor Cases	$	348	$	526
Tort Cases		42		39
Environmental Cases		40		40
Equal Employment Opportunity Cases		27		57
Contractual Cases		7		14
Total	$	464	$	676

Contingent liabilities consist mainly of claims and suits resulting from labor claims, equal employment opportunity claims, 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 payout 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.

We believe that adequate provision has been made for probable liabilities from claims and suits. The current portion of this liability at June 30, 2008 was $210 million and $248 million at September 30, 2007 and is included on the balance sheets under the heading trade payables and accrued expenses. The long-term portion of this liability at June 30, 2008 was $254 million. At September 30, 2007 the long-term liability was $428 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 estimate a reasonable range of potential losses could be up to $1,125 million, if any. In accordance with GAAP, 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 III, 2008 and 17% in Quarter III in 2007. We paid the remaining employee health care expense, which was $1,333 million in Quarter III, 2008, compared to $1,350 million in Quarter III, 2007. For the nine months ended June 30, 2008, current employee health costs were $4,039 million compared to $4,056 million in the same period last year.

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. 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 2008, the required contribution to the PSRHBF is $5,600 million, which is expensed at the rate of $1,400 million per quarter. During Quarter III we expensed $1,855 million for retiree health benefits; $455 million was for retiree health benefit invoices from OPM for current retirees and $1,400 million for the PSRHBF. For the same period last year, we expensed $1,787 million for retiree health benefits; $437 million for retiree benefits invoices and $1,350 million for the PSRHBF. Year-to-date total expenses for retiree benefits were $5,546 million; $1,346 million for retiree benefits invoiced by OPM for current retirees and $4,200 million for the PSRHBF. For the nine months ended June 30, 2007, retiree benefits were $8,295 million; $1,287 million for retiree benefits invoiced by OPM for current retirees and $7,008 million for the PSRHBF. The majority of the decrease of the year-to-date amount compared to the prior year relates to $2,958 million which was held in escrow at September 30, 2006 and was expensed in Quarter I of 2007 due to the passage of P.L.109-435.

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. The TSP is 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 to pay the benefits of postal retirees. This provision was effective October 14, 2006. We continue to make employer contributions for current FERS employees. Retirement expense for Quarter III, 2008 was $1,456 million, compared to $1,417 million for the same period last year, and is recorded in compensation and benefits expense. Year-to-date, our expense was $4,414 million compared to $4,311 million in the same period last year.

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Note 8 – Workers' Compensation

We pay for workers' compensation costs under a program administered by the Department of Labor (DOL). These costs include employees' medical expenses, payments for continuation of wages and DOL administrative fees. We record these costs as an operating expense under compensation and benefits. Our expense for workers' compensation was $364 million during Quarter III of 2008, compared to $308 million for the same period last year. For the first nine months of the fiscal year, workers' compensation expense was $932 million, compared to $1,078 million for the same period in 2007.

During the last quarter of 2007, with the assistance of an outside actuary, we changed the actuarial valuation techniques and the inflation and discount rates used in estimating our workers' compensation liability. The actuarial valuation techniques and all assumptions used in valuing the workers' compensation liability at June 30, 2008 are consistent with those used at September 30, 2007. As discussed in Note 1, the liability for June 30, 2007 was adjusted from the balance previously presented. We used the same actuarial valuation techniques that were used at September 30, 2007 and June 30, 2008 in our estimate of the June 30, 2007 balance; however, we used the inflation and discount rates that were in effect at that time. This resulted in an increase of $33 million in workers' compensation expense in Quarter III, 2007 and $254 million for the nine months ended June 30, 2007 from what was previously reported.

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 III, 2008, we recognized $22 million including imputed interest in revenue for revenue forgone appropriations, compared to $21 million during the same period last year. For the first nine months of the fiscal year, revenue forgone was $67 million, compared to $64 million for the same period in 2007.

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 nine-month period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008. This report should be read in conjunction with our 2007 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 2008 and fiscal year 2007.

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 12% of operating revenue.

Our primary lines of service are First-Class Mail and Standard Mail, which together account for about 94% of volume. Priority Mail, International Mail, Express Mail, Periodicals and Package Services are other significant services provided. 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 controlled by the independent Postal Regulatory Commission (PRC).

Our mailing and shipping services are sold through nearly 36,500 post offices, stations, branches, contract postal units, a large network of consignees and on-line at www.usps.com. We deliver mail to almost 149 million city, rural, Post Office box and highway delivery points. We conduct operations primarily in the domestic market, with international operations representing approximately 3% of operating revenue.

We operate and manage an 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 of and structure of expense incurrence within our 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. Almost 90% 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, beginning with the quarter ended December 31, 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.

Additional disclosures on our organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, Strategic Transformation Plan 2006–2010 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 our Board of Governors. Note 2 to the financial statements in the 2007 Annual Report contains a summary of our significant accounting policies.

We recognize revenue when services are rendered. Because we collect payment in advance of services being performed, we estimate a liability for those yet-to-be-performed services. This liability is classified as *deferred revenue-prepaid postage* on our balance sheets. In Quarter III of the current year, we changed the model used to estimate the deferred revenue for prepaid postage for stamps. This update was made necessary because the introduction of the Forever Stamp in April 2007, combined with the May 2008 price increase resulted in a change in consumer behavior regarding the purchase and usage of stamps that was not measurable using our prior estimation techniques. We developed a new approach that more accurately captures trends in stamp usage. The change to a new estimation model is considered a change in accounting estimate under GAAP.

As required by GAAP, the impact of the change is recorded in Quarter III, 2008. In the Quarter, we increased the deferred revenue-prepaid postage liability by $451 million, $230 million of which is considered a cumulative change in estimate and $221 million of which is attributable to changes in consumer behavior during the current quarter. As a result, the third quarter net loss is $1,098 million as compared to the $868 million it would have been without the change in accounting estimate. Based on our stamp sales forecast for the fourth quarter, we anticipate that the deferred revenue-prepaid postage liability balance calculated under the new model will decrease by approximately $126 million by September 30, 2008. For further information, see Note 1 to the financial statements.

Results of Operations

As more fully described in Note 1, Basis of Presentation, in the Financial Information section, certain comparative interim financial statements have been restated to conform to the current year presentation. In Quarter III we had an operating loss of $1,105 million compared to an operating loss of $490 million for Quarter III of last year. For the nine months ended June 30, 2008 we had an operating loss of $1,125 million compared to an operating loss of $4,809 million for the same period in 2007, which included $2,958 million to expense funds contributed to the new Postal Service Retiree Health Benefit Fund (PSRHBF) that were previously held in escrow. Without the one-time payment the 2007 operating loss would have been $1,851 million or $726 million more than the $1,125 million recorded for 2008. Operating margins decreased from (2.7%) in Quarter III of 2007 to (6.2%) in Quarter III of 2008. Year-to-date, operating margins increased to (2.0%) in 2008 from (8.5%) in 2007.

Key Operating Statistics		Three Months Ended June 30,			Nine Months Ended June 30,	
(Dollars in millions)		2008	2007		2008	2007
Operating Revenue		$ 17,910	$ 18,347		$ 57,195	$ 56,261
Operating Loss		$ (1,105)	$ (490)		$ (1,125)	$ (4,809)
Net Loss		$ (1,098)	$ (453)		$ (1,133)	$ (4,663)
Operating Margin		-6.2%	-2.7%		-2.0%	-8.5%
Average Volume per day* (millions of pieces)		630	667		684	718

* Based upon Delivery days.

As explained more fully later in the revenue and volume section of this report, the slowdown in the U.S. economy has had a large impact on our Quarter III operating revenue. Quarter III operating revenue was $17,910 million, compared to $18,347 million in Quarter III of last year, a decrease of $437 million or 2.4%, in spite of a 7.6% average price increase in May 2007 and 2.9% average price increase in May 2008, both of which helped boost this quarter's results. The revenue decrease for the quarter was driven primarily by a decrease in mail volume and changes to the mail mix toward lower priced options.

Year-to-date, operating revenue was $57,195 million, compared to $56,261 million for the same period last year, an increase of $934 million or 1.7%. Revenue increased due to the price changes implemented in May 2007 and May 2008. However, the revenue increase was less than the average price increase as volume dropped in all major mailing categories except International Mail. Average daily volume decreased 4.7%.

Quarter III operating expenses were $19,015 million, compared to $18,837 million in the corresponding quarter of last year, an increase of $178 million or 0.9%. The increase in operating expenses was driven by increases in transportation expense of $174 million, retiree health benefits of $68 million and other expense of $109 million. These expense increases were partially offset by a decrease in compensation and benefits expense of $173 million.

Year-to-date operating expenses were $58,320 million compared to $61,070 million in the same period last year. The decrease of $2,750 million was due primarily to a one-time expense of $2,958 million incurred in Quarter I, 2007, when funds held in escrow were designated to be used to fund the PSRHBF.

Year-to-date, compensation and benefits expense decreased by $608 million compared to the same period last year. The decrease in compensation and benefits was almost entirely offset by transportation expenses, which increased by $347 million, and other operating expenses, which increased $260 million compared to the nine months ended June 30, 2007.

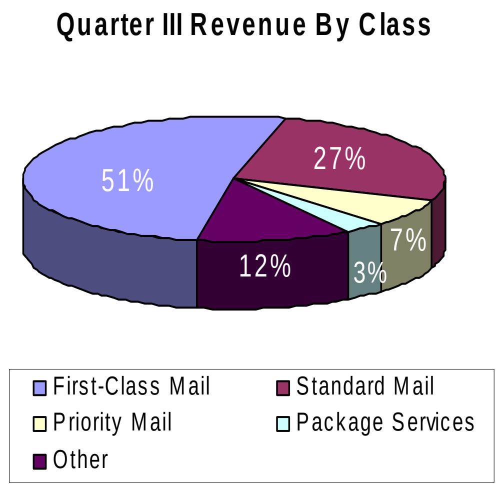
Revenue and Volume

Prices for most mailing services increased by an average of 2.9% on May 12 of this year. 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 slowdown has adversely affected all classes of domestic mail. The downturn of the housing market and related credit crisis has severely impacted both First-Class Mail and Standard Mail. The weakened U.S. economy and lower retail sales have also reduced demand for Express, Priority and Package Services products.

Revenue (Dollars in millions)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Nine Months Ended June 30, 2008	Nine Months Ended June 30, 2007
First-Class Mail	$ 9,139	$ 9,329	$ 28,614	$ 28,377
Standard Mail	4,810	4,971	15,642	15,503
Priority Mail	1,289	1,257	4,240	3,990
Package Services	534	526	1,821	1,742
Periodicals	574	543	1,740	1,626
International	591	522	1,827	1,534
Express Mail	225	248	685	717
Other *	748	951	2,626	2,772
Operating Revenue	$ 17,910	$ 18,347	$ 57,195	$ 56,261
Interest Income	10	38	25	152
Total Revenue	$ 17,920	$ 18,385	$ 57,220	$ 56,413

* Included in the "Other" category are special service revenue and other income.



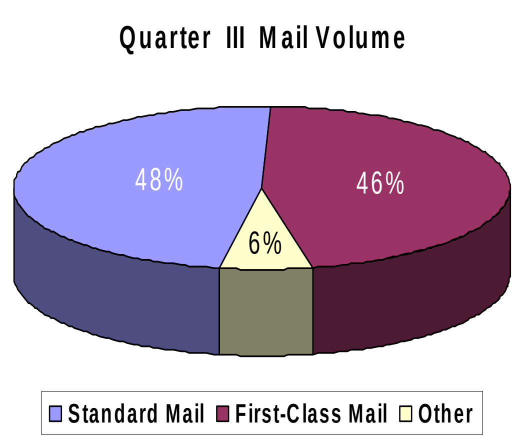
Mailing Services

For the nine months ended June 30, 2008, First-Class Mail and Standard Mail, which make up 94% of volume, decreased by almost 6 billion pieces or 3.9% compared to the same period last year. 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. However, due to the May 2008 and May 2007 price increases, revenue for First-Class Mail and Standard Mail increased $376 million or 0.9% during the same time period. In addition, revenue was favorably impacted by two additional retail days in the first three quarters of FY 2008. The Internal Revenue Service mailings to alert tax payers to the Economic Stimulus package payments this year also benefited revenue. Official government mail increased $51 million in Quarter III and $87 million for the nine months ended June 30, 2008 compared to the same period last year.

First-Class Mail revenue decreased $190 million or 2.0% in Quarter III on a volume decline of 1.3 billion pieces or 5.5%, compared to the same period last year. Single-piece First-Class letters declined 1 billion 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, technology is the primary driver 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. Year-to-date First-Class Mail revenue increased $237 million or 0.8% despite a volume decrease of 3 billion pieces or 4.2%. This included a decline of 2.2 billion pieces or 7.2% in single-piece First-Class letters.

Mail Volume by Type (Pieces in millions)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Nine Months Ended June 30, 2008	Nine Months Ended June 30, 2007
First-Class Mail	22,294	23,590	70,311	73,356
Standard Mail	23,222	24,584	75,415	78,286
Priority Mail	202	215	661	696
Package Services	252	259	850	880
Periodicals	2,191	2,265	6,550	6,696
International	206	196	651	648
Express Mail	12	14	37	42
Other *	158	264	758	914
Total	48,537	51,387	155,233	161,518

* Postal Service mailing volume and free matter for the blind included in the "Other" category.



Standard Mail revenue decreased $161 million or 3.2% in Quarter III, on a volume decrease of 1.4 billion pieces, or 5.5% compared to the same period last year. Revenue was further restrained by a 3.3% 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 economic slow down, particularly in the financial services sector. Both Regular Automation Presort and Regular Enhanced Carrier Route (ECR) revenues and volumes showed significant decreases. Regular Automation Presort revenue decreased $92 million or 3.2% while volume decreased 706 million pieces or 5.4%. ECR mail revenue decreased $95 million or 7.1% on a volume decrease of 776 million pieces or 10.2%. Year-to-date, Standard Mail revenue is up by $139 million or 0.9% due to increased prices, despite a volume decrease of 2.9 billion pieces or 3.7%.

Revenue from Periodicals increased $31 million or 5.7% in Quarter III compared to the same period last year due to the price increase. However, volume decreased 74 million pieces or 3.3% in the third quarter compared to the same period last year. Periodicals volume is trending downward over the long term, reflecting trends in reading behavior. Year-to-date, Periodicals revenue increased $114 million or 7.0% while volume declined 146 million pieces or 2.2%.

Shipping Services

Priority Mail revenue increased $32 million or 2.5% in Quarter III compared to the same period last year. The revenue increase is the result of price increases in mid-May 2007 and 2008, and a 2.0% increase in average weight per piece. The revenue increase was tempered by a volume decrease of 13 million pieces or 6.0%. Priority Mail revenue increased for the fifth consecutive quarter, on the strength of the May 2007 and May 2008 price increases. Volume has declined in each of those quarters. Because it is a price sensitive product, higher prices result in lower volumes. Year-to-date, Priority Mail revenue is $250 million or 6.3% higher than the same period last year on volume that is 5.0% or 35 million pieces lower.

Package Services revenue increased $8 million or 1.5% in Quarter III compared to the third quarter of 2007. Package Services volume decreased 7 million pieces or 2.7% in the same period. The reduction in volume in the package industry is a reflection of the slow down in the U.S. economy. Year-to-date Package Services volume is 30 million pieces or 3.4% lower while revenue is $79 million or 4.5% higher than the same period last year.

Domestic Express Mail revenue fell by 9.3% or $23 million in Quarter III compared to the same period last year. Volume fell by 2 million pieces or 14.3%. These declines are a function of a weaker economy and the sensitivity of Express Mail customers to higher prices. Express Mail is our most price-sensitive product. Year-to-date, Express Mail revenue is $32 million or 4.5% less than the same period last year on a volume decrease of 5 million pieces or 11.9%.

International Mail

International Mail has benefited from the weaker U.S. dollar that has made U.S. products cheaper abroad, thereby stimulating exports. Revenue from International Mail increased $69 million or 13.2% in Quarter III compared to the same period last year. Priority Mail International was the strong performer within International Mail. Priority Mail International revenue increased $54 million or 40.4% on a volume increase of almost 1 million pieces or 13.8%. The increase was due, in part, to the elimination of the lower priced Global Economy service in May 2007. Year-to-date, total International Mail revenue is up $293 million or 19.1% over the same period last year, led by Priority Mail International, which increased $167 million or 40.5%, on a volume increase of 2 million pieces or 11.6%.

Other Revenue

Other revenue, which includes domestic additional services, international additional services and non-mail revenue decreased $203 million or 21.3% in Quarter III compared to the same quarter last year. The main driver is a $230 million one-time accounting charge to increase estimated deferred revenue from prepaid postage, as discussed in Note 1 to the Financial Statements. Additional services revenue increased $54 million on stronger delivery receipts services fees (such as signature confirmation, delivery confirmation, etc.), while the fees from passport applications fell $26 million. Year-to-date, other revenue decreased $146 million or 5.3% driven by the change in accounting estimate. In addition to the change in estimate, delivery receipt services increased $66 million and post office box rentals increased $42 million. These increases were offset by a decline in passport application fees of $49 million.

Additional 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 III was $13,014 million, $173 million less than the prior year amount of $13,187 million, a decrease of 1.3%. Year-to-date, compensation and benefits expense of $40,289 million was $608 million or 1.5% lower than the prior year amount of $40,897 million. The Quarter III decrease primarily reflects reductions in work hours. The year-to-date reduction reflects not only lower work hours but also lower estimated workers' compensation costs, relative to the same period last year.

Compensation expense decreased by $247 million or 2.5% in Quarter III compared to the same period last year. This is due to initiatives to restrain work hours and overtime implemented in response to the volume decreases noted previously. In addition, new labor agreements implemented in 2007 allowed for an increase in lower-cost transitional employee hours, which allowed overtime hours and overall labor rates to be lowered. This tempered some of the effect of the contractual wage increases that took effect in November 2007 and Cost of Living Allowance (COLA) that went into effect in March 2008.

Compensation and Benefits Expenses	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2008	2007	2008	2007
Compensation	$ 9,764	$ 10,011	$ 30,591	$ 31,137
Retirement	1,456	1,417	4,414	4,311
Health Benefits	1,333	1,350	4,039	4,056
Workers' Compensation	364	308	932	1,078
Other	97	101	313	315
Total	$ 13,014	$ 13,187	$ 40,289	$ 40,897

Compensation expense decreased $546 million or 1.8% in the first nine months of 2008 compared to the same period last year. Due to the initiatives previously discussed, the decrease in compensation expense reflects the reduction in work hours during the first nine months of 2008 as discussed in more detail in the following paragraph.

WORK HOURS

In addition to labor and benefit rates, work hours are a major driver of compensation and benefits expense. A change in work hours is usually created by a change in workload, a change in productivity, or both. The two major workload factors that impact operations are changes in mail volume and changes in the number of delivery points. The impact of lower mail volume, as discussed previously, and a sharp focus on reducing overtime hours helped total work hour usage decline 16 million hours or 4.6% in Quarter III. Mail processing work hours were reduced by almost 7 million hours; customer service and retail work hours declined by over 4.5 million hours and city delivery hours were reduced by over 3.5 million hours compared to the same period last year. Rural delivery work hours also declined by almost 1 million hours due, in part, to recently implemented route evaluations, which incorporated declines in volume. This is the first time in over 18 quarters in which rural hours declined.

Work Hour Analysis	Work Hours Three Months Ended June 30,		Work Hours Nine Months Ended June 30,	
(Work hours in thousands)	2008	2007	2008	2007
City Delivery	111,851	115,452	342,343	348,762
Mail Processing	69,796	76,409	225,618	241,656
Customer Services & Retail	53,502	58,162	165,987	178,582
Rural Delivery	47,170	48,065	142,942	141,806
Other, including Plant, Vehicle Services, Operational Support, Postmasters & Administration	55,526	56,082	166,288	166,961
Total	337,845	354,170	1,043,178	1,077,767

Year-to-date, total work hour usage declined almost 35 million hours, or 3.2%, from the comparable period last year despite two additional delivery days. The decrease in work hours resulted from lower mail volume and the initiatives discussed above. The work hour reductions for the quarter and year-to-date are primarily reductions in overtime usage. Mail processing, customer service and city delivery all experienced decreases in work hour usage. With a 2.0% increase in rural delivery points, rural delivery had, as expected, an increase in work hours.

EMPLOYEE COMPLEMENT

Employee complement was reduced by 5,540 during Quarter III. The number of career employees at the end of the quarter was 669,372. This represents a reduction of 16,816 employees or 2.5% from the same quarter last year, mainly through attrition.

RETIREMENT EXPENSE – CURRENT EMPLOYEES

Retirement expense remains a significant portion of total operating expenses. During Quarter III, retirement expense for the CSRS, Dual/CSRS and FERS plans was $1,456 million compared to $1,417 million for the same period last year, an increase of $39 million or 2.8%. For the nine months ended June 30, 2008, retirement expense was $4,414 million compared to $4,311 million in the same period last year, an increase of $103 million or 2.4%. The Quarter III increase is due to higher salaries as compared to the prior year. The year-to-date increase is attributable to higher average salary rates and to the larger number of FERS employees who were working in the first two quarters of the year as compared to the prior year.

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). The workers' compensation liability and expense accruals are estimated using an actuarial model based on the historical payments, date of injury, frequency and severity of the injury, the trend of our experience with such an injury and other factors. As discussed in Note 8 to the interim financial statements and in our 2007 Annual Report, we changed inflation and discount rates in 2007 to reflect updated expectations.

Workers' compensation expense for Quarter III was $364 million, compared to $308 million for the same period last year. Much of the increase in the Quarter III, 2008 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 all compensation claimants on the rolls. For the nine months ended June 30, 2008, workers' compensation expense was $932 million compared to $1,078 million for the nine months ended June 30, 2007. The year-to-date decrease is attributable to changes in inflation and discount rate assumptions that were adopted in Quarter III 2007. See Note 8 for details.

Two significant drivers of Workers' Compensation expense are the number of claims reported and the cost per claim. In Quarter III we experienced an increase in the number of medical claim payments of 972 or 0.8%, and an increase in the number of compensation claim payments of 974 or 2.1% compared to the same period last year. Year-to-date, we experienced an increase in medical claim payments of 15,219 or 4.6%, and an increase in compensation claim payments of 3,771 or 2.8% compared to the first nine months of 2007.

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 timeliness with which they are reported and processed, 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, thus 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.

RETIREE HEALTH BENEFITS

Retiree Health Benefits	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2008	2007	2008	2007
Retiree Health Benefits	$ 455	$ 437	$ 1,346	$ 1,287
P.L. 109-435 Scheduled Payment to PSRHBF	1,400	1,350	4,200	7,008
Total	$ 1,855	$ 1,787	$ 5,546	$ 8,295

Health benefit expenses for retirees were $1,855 million for Quarter III, compared to $1,787 million in the same period last year. Year-to-date, retiree health benefits were $5,546 million, as compared to $8,295 million for the same period in 2007. This year-to-date decrease of $2,749 million was primarily due to the expense recognition of the one-time escrow transfer in Quarter I, 2007 results, as required by P.L.109-435. Without the impact of this one-time item, retiree health benefit expenses would have increased by $209 million for the nine months ended June 30, 2008, compared to the same period last year. This is due primarily to a $150 million increase in payments scheduled for the PSRHBF and $59 million attributable to a higher number of retirees participating in the plan.

P.L.109-435 includes a ten-year, $55,800 million, payment schedule that requires payment of $5,600 million into the PSRHBF by September 30, 2008. We are expensing the $5,600 million in equal amounts throughout the year, at a rate of $1,400 million per quarter. In 2007, we expensed $5,400 million at the rate of $1,350 million per quarter. See Note 6, *Health Benefits Programs,* and Note 7, *Retirement Programs* in the Financial Information section for further discussion of this accounting treatment.

Under the FEHBP, the OPM charges us for the cost of our retirees currently participating in the plan. The major drivers of retiree health benefits expense are the number of current participants on the rolls and premium costs. As of June 30, 2008, we had approximately 451,000 participants on the rolls, an increase of about 2,000 compared to the same period last year.

Operating Expenses – Transportation

Transportation expenses were $1,722 million, an increase of $174 million, or 11.2% for Quarter III compared to the same period last year. Transportation costs are largely made up of highway and air transportation. Expenses for transportation increased by $347 million or 7.0% for the first nine months of the year compared to the same period last year.

Transportation Expense	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2008	2007	2008	2007
Highway Transportation	$ 857	$ 770	$ 2,640	$ 2,359
Air Transportation	761	714	2,324	2,299
Other Transportation	104	64	308	267
Total	$ 1,722	$ 1,548	$ 5,272	$ 4,925

Highway transportation expenses of $857 million in Quarter III increased by $87 million or 11.3% over the same quarter last year. The higher highway expenses are driven by increases in fuel prices, contract labor rates, and a shift of transportation mode from air to surface. Year-to-date, highway transportation expenses increased $281 million or 11.9% over the same period last year. Gasoline prices have increased approximately 39% over the past year, with a gallon of gas costing, on average, $4.10 at the end of June 2008 vs. $2.96 a year ago. Diesel fuel, which is used by most of our highway contractors as well as the larger trucks in our vehicle fleet, was an average of $4.65 per gallon at the end of June 2008 vs. $2.93 per gallon a year ago, an increase of 59%.

Air transportation expenses of $761 million in Quarter III increased by $47 million or 6.6% from the same quarter last year. Domestic air transportation expense increased $15 million compared to the same period last year, driven by fuel costs. Lower volumes and the greater use of surface transportation moderated the expense increase. International air transportation expenses increased $32 million compared to Quarter III 2007, due to the shift from surface to air delivery, resulting from the elimination of the Global Economy service offering, and also slight increases in volume and weight.

For the nine months ended June 30, 2008, air transportation increased $25 million or 1.1%. Year-to-date domestic air transportation expense decreased $86 million while international air transportation expense increased $111 million. The decrease in domestic air is primarily due to a decrease in holiday peak air expenses of $98 million compared to the same period last year and, as mentioned above, due to the greater use of surface transportation and mail volume decreases. The mail volume decrease equates to a decline in capacity requirements of 216 million pounds. As expected, this was partially offset by higher fuel costs. As noted above, the $111 million increase in international air transportation is due to the shift from surface to air products on the international side, slight increases in volume, and a 1.7% increase in the weight of international pieces.

Foreign Postal Transaction fees are the main driver in other transportation expense and have increased $47 million compared to Quarter III 2007. Year-to-date foreign postal transaction fees increased $50 million compared to the same period last year.

Operating Expenses – Other Operating Expenses

Other operating expenses of $2,424 million for Quarter III were $109 million or 4.7% higher than last year's comparable quarter. This was driven by a $46 million or 23% increase in vehicle maintenance services. Vehicle maintenance services reflect both higher fuel costs and increased maintenance on our aging fleet. Information technology and communications expenses increased $25 million or 17%. These increases were partially offset by a decrease of $13 million in contingent liability expenses compared to the same period last year.

Other Operating Expenses	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in millions)	2008	2007	2008	2007
Supplies and Services	$ 624	$ 627	$ 1,928	$ 1,898
Depreciation and Amortization	564	552	1,731	1,589
Rent and Utilities	429	408	1,313	1,268
Vehicle Maintenance Service	244	198	678	567
Information Technology and Communications	171	146	475	459
Rural Carrier Equipment Maintenance Allowance	127	112	384	355
Other	265	272	704	817
Total	$ 2,424	$ 2,315	$ 7,213	$ 6,953

For the nine months ended June 30, 2008, other operating expenses increased $260 million or 3.7% compared to the same period last year. The increase was driven primarily by depreciation and amortization expenses which increased $142 million or 8.9%. This reflects new equipment and buildings placed into service within the last twelve months. Vehicle maintenance service increased by $111 million or 20% over the same period last year, driven mainly by the same factors mentioned in the previous paragraph. The decrease in other expense primarily reflects a decrease of $142 million in contingent liability expense as compared to the prior year. New litigation filed against us dropped and a favorable outcome in one of the cases we had previously accrued for were the driving factors of the lower contingent liability expense.

Productivity

Total Factor Productivity (TFP) measures the change in the relationship between outputs or workload, and the resources used in producing these outputs. Each of these two major components of TFP is made up of three primary categories. Workload consists of weighted mail volume, miscellaneous output and the expanding delivery network. Resource inputs include labor, capital and materials.

In Quarter III, TFP decreased by 1.1% compared to the same period last year. Although resource usage decreased by 2.6% in the quarter, workload decreased more rapidly, by 3.7%. The workload reduction was driven primarily by a 6.4% decrease in weighted mail volume due to declines in all mail classes. The most significant declines impacting weighted mail volume were in First-Class single-piece letters, Standard Mail, and Priority Mail. Delivery point workload increased 1.0% compared to the same period last year. Miscellaneous output, which represents 5% of workload, increased 1.9% compared to the same period last year.

On the resource usage side, labor usage decreased 4.7% compared to the same period last year. Labor represents 77% of total resource usage. Materials usage increased 3.5%, driven primarily by transportation. Materials usage represents 18% of total resource usage. Capital resource usage, which represents the remaining 5% of total resource usage, was 7.1% higher in Quarter III, 2008 compared to the same period last year.

Year-to-date, TFP decreased by 0.4% compared to the first nine months of 2007. Workload decreased by 2.5% during this period, driven by a 4.4% decrease in weighted mail volume. This was partially offset by the 1.2% growth in delivery point workload. The decrease in weighted mail volume was due primarily to the significant volume decreases in First-Class single-piece letters.

Total Factor Productivity	Three Months Ended June 30,		Nine Months Ended June 30,	
% Change from Prior Year	2008	2007	2008	2007
Workload	-3.7%	-0.3%	-2.5%	0.3%
Resource Usage	-2.6%	-2.1%	-2.1%	-1.2%
Total Factor Productivity	-1.1%	1.8%	-0.4%	1.4%

Total resource usage for the first nine months of 2008 decreased by 2.1% compared to the first nine months of 2007. Labor decreased 3.4%, capital usage increased 8.0%, and materials input increased by 0.5%.

Cash Flow from Operating Activities

Cash flow from operating activities was $4,411 million, $3,527 million higher than the level through Quarter III last year. Cash flow from operating activities was greatly impacted during the nine-month period ended June 30, 2007 by changes to compensation and benefits driven by the passage of P.L.109-435 and the need to accrue and pay $2,958 million to the Postal Service Retiree Health Benefits Fund (PSRHBF). No such payment was required in 2008. Cash flows were also higher in 2008 due to the price increases in May 2007 and May 2008. Cash flows through Quarter III were negatively impacted by payments made to employees resulting from labor contract and grievance settlements, primarily in Quarter I.

Cash Flow from Investing Activities

Purchases of property and equipment for the nine months ended June 30, 2008, were $1,508 million, a $295 million decrease from the $1,803 million of property and equipment purchased during the same period last year. During Quarter III last year, $2,958 million held in escrow as restricted cash, was transferred to the Postal Service Retiree Health Benefits Fund (PSRHBF).

Cash Flow from Financing Activities

We used the net cash flow from operations, after paying for capital investments, to pay down debt. We repaid debt, net of borrowing, of $2,739 million and $2,100 million through Quarter III of 2008 and 2007, respectively.

Cash and cash equivalents on June 30, 2008, were $1,045 million, $146 million higher than the September 30, 2007 balance of $899 million.

Liquidity

We believe that existing cash and cash equivalents, cash flow from operations, and the availability of financing, are adequate to meet current and foreseeable future working capital and capital expenditure needs.

Interest Expense

Interest expense of $3 million for Quarter III, 2008 was $2 million higher compared to the same period last year. Year-to-date interest expense for 2008 was $33 million compared to $6 million in the same period of 2007. The increase was due to the higher level of outstanding debt we had entering this fiscal year and the higher average debt balance we carried through Quarter III compared to the same period last year.

Service and Performance

Management monitors several key statistics to determine performance against service standards and monitor public perception of our service.

EXTERNAL FIRST-CLASS MAIL MEASUREMENT (EXFC)

The EXFC is an independently-administered system that provides an external measure of collection box to mailbox delivery performance. Although not a system-wide measurement of all First-Class Mail performance, EXFC continuously tests a panel of 463 3-digit ZIP Code areas selected on the basis of geographic and volume density, thereby providing a measure of service performance from the customer's point of view.

EXFC scores continue to improve on the record levels established in Quarter II, 2008 with all three levels of service standards establishing new records in Quarter III, 2008. Overnight and two-day service each improved one percentage point above the Quarter II levels, while three-day service improved two percentage points. In addition, 13 postal districts were 98% on-time for overnight deliveries. Compared to Quarter III, 2007, overnight delivery scores increased to 97% from 96%, 2-day service scores improved to 95% compared to 93% in 2007, and 3-day scores improved to 94% from 91%.

External First-Class Mail Measurement (EXFC)	Percent Meeting Standard	
Service Standard	Qtr III 2008	Qtr III 2007
Overnight	97%	96%
Two-Day	95%	93%
Three-Day	94%	91%

CUSTOMER SATISFACTION MEASUREMENT (CSM)

CSM is an independently-administered survey that provides an external measure of customer satisfaction with postal products and services. In Quarter III of 2008, customer satisfaction remained consistent, with 92% of customers rating service excellent, very good or good, the same score as a year ago. In 2008, for the fourth 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

The Postal Service is operating in a very challenging business environment and competition in the shipping industry is intense. Even our mailing services are subject to competition for advertising and communication dollars and are captive to changes in general economic growth. We are also operating under a new law in which price changes for the services that generate approximately 90 percent of our revenues are capped at the rate of inflation. At the same time, the new law provides us with pricing and product flexibility – tools that are intended to make us more competitive. In response to these challenges and opportunities, we are in the process of adjusting the organizational and product management structure to better position the Postal Service to compete in today's marketplace.

Organizationally, we are bringing together product management, product development and commercial sales in a new Shipping and Mailing Services division. A new Customer Relations division will centralize key consumer and business customer relationships, external and internal communications and integrate pricing regulation into a single unit. These organizational realignments will increase our effectiveness and enhance the value and attractiveness for existing customers and new ones. Finally, we are consolidating all Intelligent Mail Barcode (IMB) activities under the Chief Operating Officer to focus on execution in the coming years, as the IMB will become the technical foundation of future operations. This management realignment will position us to capitalize on the opportunities created by the new law and for growth when the economic environment improves.

Revenue Outlook

There are clear signs that the mailing and shipping industries have been adversely impacted by the U.S. economy. We potentially face a prolonged period of slow growth coupled with the threat of stagflation. This more pessimistic outlook is driven by the rise of commodity prices for food, oil and raw materials. The rise in prices of these commodities is expected to continue for another year, bringing increased inflationary pressures to bear on the economy, according to Global Insight. Anticipated Gross Domestic Product (GDP) growth for 2008 has improved to 2.1%. However, Global Insight now projects 2009 growth of only 0.5% for the year, with declining GDP in Quarters I and II of Fiscal Year 2009.

The restrained near-term outlook for the Postal Service is directly tied to the pessimistic outlook for the American economy in general. A healthy U.S. economy is the cornerstone of the fiscal well being of the Postal Service.

Mail volume generally declines during times of economic slowdowns and increases as economic growth returns. The weaker economy has affected operations through the first three quarters of 2008. The fourth quarter will likely also see shrinking volumes. Revenue has grown over this period of volume declines due to price increases. Modest revenue growth is anticipated in 2009 and beyond as postal prices are now, for the most part, tied to increases in the Consumer Price Index (CPI) by the Postal Accountability and Enhancement Act of 2006. A slight decrease in total volume in 2009 is expected before returning to modest growth in 2010.

We anticipate the poor revenue performance in Quarter III to continue for the rest of 2008. Year-over-year revenue growth for the remainder of the year will be positively impacted by the May 2008 price increases; however this will be offset by slow economic growth and volatility in the financial services and related industries, which we expect to continue to negatively affect revenue and volume. Although we have implemented additional cost reductions, it will continue to be difficult to offset revenue shortfalls with equal or greater expense reductions, especially if fuel prices remain at their current high levels and inflation in other sectors of the economy continues to increase.

In addition to the cyclical economic pressures noted above, the continued growth of people's use of technology negatively impacts mail volume and revenue as on-line bill payments continue to increase in popularity and advertising dollars shift from traditional sources such as newspapers, magazines and direct mail.

The trends that have led to lower mail volume are not expected to change in the near future. June marked the sixth straight month that U.S. payrolls declined, and U.S. employment is expected to decline by an additional 0.5% in 2009. Real retail sales are expected to have positive growth of only 0.3% in 2008, primarily due to increases in food and fuel and decline by 0.6% in 2009. Real gross domestic investment spending is expected to decline by 6.0% in 2008, followed by a decline of 5.0% in 2009. The continued slowdown in the housing market and the related financial crisis will likely continue until at least mid-2009. Oil prices are also expected to remain high until mid-2009, pressuring both business and consumer spending and, consequently, economic growth. According to a recent Group Publisher's Report by TNS Media Intelligence, magazine ad pages have declined across the board for the first four months of 2008 and we predict that this decline will continue well into fiscal year 2009. In addition, based on Internet Advertising Bureau and PricewaterhouseCoopers' findings, Internet advertising is expected to have double-digit percent increases into the middle of the next decade. Because of these factors, mail volume is expected to decline in the short-term before returning to positive growth with the revival of the U.S. economy.

Product Initiatives - Shipping Services

We have several new product initiatives to better position the Postal Service in the marketplace. These initiatives are designed to make us more competitive and boost revenues.

Utilizing the flexibility provided by the new law to offer tailored contracts to customers, we have negotiated, or are in the process of, negotiating new agreements with more competitive terms for our large business customers. For example, in May 2008, we entered into an agreement with DHL, a unit of Deutsche Post AG, to take on business representing 2.4% of DHL's current U.S. volume.

We can offer competitive pricing and better serve our business customers because the Postal Service can leverage our unmatched existing mail and package delivery infrastructure. We are also focusing our sales force to target niche markets such as small businesses and the retail returns sector, focusing on smaller packages. In addition, our prices on shipping products do not include the double-digit fuel surcharges that our competitors impose.

We are expanding the range of our Express Mail guaranteed overnight network to include even more ZIP Code destinations, and providing additional scanning as Express Mail moves through the network, providing customers with the enhanced tracking information they are requesting.

Express Mail pricing has also been improved. Prices are no longer priced based on weight alone. Instead, we offer both flat-rate envelopes and boxes and zone-based prices determined by weight and distance. This is consistent with standard industry practices. On average, Express Mail prices increased 3% in May 2008 with larger increases for heavier pieces and pieces destined for Zones 5 through 8 (mail transported more than 600 miles), which are more costly to transport and deliver.

Priority Mail retail prices increased by 6% on average in May 2008, which is in line with the rest of the shipping industry. The price increases ranged from 0 to 10 percent depending on weight and distance, with the higher increases for relatively heavy pieces and for those that are transported relatively long distances.

For the first time ever, we now offer commercial-based or volume-related price incentives for Express Mail, Priority Mail and other shipping services. Customers purchasing these services online or through corporate accounts enjoy pricing below retail levels, and they can earn additional rebates when volume exceeds certain minimum thresholds. These innovative pricing incentives should make our products more attractive to all shippers, especially small businesses, in today's competitive market.

Although these initiatives are expected to considerably enhance the competitiveness and growth prospects of our shipping services, it is important to consider that shipping services make up a relatively small portion of our revenues. As discussed above, mailing services revenues are tied closely to growth in the overall U.S. economy and are subject to technological pressures. Consequently, the outlook for these revenues is more guarded.

Expense Outlook

The continued weakness in the economy and its downward impact on revenue requires continued vigilance on costs. We expect to realize a reduction of more than 40 million work hours this fiscal year, through complement reductions via attrition as well as reduced overtime usage.

Many of our expenses are also tied to price inflation in the general economy. For example, our labor agreements with bargaining unit employees include provisions for semi-annual cost of living adjustments (COLAs). Because of increasing inflation in the economy, the next cost of living adjustment for our approximately 600,000 bargaining unit employees is expected to have an impact of $80-100 million in the fourth quarter of fiscal 2008, with a carryover impact into fiscal 2009 of approximately $1 billion. Although the Postal Service is taking steps to address this and other cost pressures, it is likely these wage rate increases will have a significant adverse impact on our financial performance in the upcoming quarters.

Fuel prices also directly impact our costs. Year-to-date, fuel costs have increased by more than $400 million over the same period last year. We do not anticipate any significant reductions to fuel prices in the upcoming quarter.

Legislation Update

Contracting Legislation

Legislation that places limitations on our ability to contract out postal activities continues to gain support in the House with the regular addition of new co-sponsors. Similar legislation was introduced in the Senate last year. These bills have been referred to the appropriate House and Senate committees for review. If passed, this legislation would impact our ability to achieve cost savings due to the lack of flexibility that it would impose on our hiring practices. Although there has been no action on these bills during the current quarter, it remains high on the watch list as one of the issues to track because of its potential impact on our ability to achieve cost savings.

Medicare – HR 6331 (P.L. 110-275)

On July 15, 2008, the President signed P.L. 110-275, *The Medicare Improvements for Patients and Providers Act of 2008*. This law reduces the reimbursement rate for mail order durable medical equipment, which could provide an incentive to consumers to visit retail suppliers to obtain this equipment rather than receiving it through the mail. The bill addresses concerns about the manner in which the competitive bidding process required by the Medicare Modernization Act is being implemented. However, the delay in the competitive bidding program is being financed by the creation of a financial disincentive to use the mail for the delivery of certain categories of durable medical equipment. These changes could have a potential annual negative revenue impact of approximately $40 million.

Non-foreign Cost of Living Adjustment

The Non-Foreign Area Retirement Equity Assurance Act (S. 3013), was approved by the Committee on Homeland Security and Governmental Affairs on June 25, 2008. The bill is awaiting consideration by the full Senate. A comparable bill was introduced in the House. HR 6516 was referred to the House Oversight and Government Reform and House Veterans' Affairs Committees.

S. 3013 was introduced to address non-foreign cost-of-living adjustment (TCOLA) issues. The TCOLA was established in 1948 and was originally intended to serve as an incentive for Federal and Postal employees to move to U.S. territories of Alaska, Hawaii, Guam and the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. The TCOLA, which is not taxable, has been capped as a 25% of pay benefit. There are roughly 8,300 Postal employees currently receiving the TCOLA. As originally drafted, S. 3013 would replace TCOLA with locality pay for all employees, including Postal employees. Locality pay currently applies to only to Federal General Schedule employees in the 48 continental United States and our Office of Inspector General and Inspection Service employees.

We strongly opposed the statutory imposition of locality pay on our employees. As originally drafted, our costs would have risen by roughly $8.5 million annually in increased employer contributions to retirement, Social Security, Thrift Savings Plan, and life insurance; long-term retirement obligations would increase by more than $660 million.

S. 3013 was amended during Committee consideration to ensure that our employees in TCOLA areas do not receive locality pay. Rather, those employees will continue to receive a TCOLA benefit that is pegged to the locality pay percentage in effect for that area. That benefit will be allowed to rise above 25%. Upon enactment of S. 3013, employees in Alaska will see an immediate increase in their TCOLA payment to roughly 27%. Employees in the other TCOLA areas will continue to receive the payment that was in place as of December 31, 2008.

Sick Leave Credit for FERS Employees

The House added a provision to the Family Smoking Prevention and Tobacco Control Act, HR 1108, that would give FERS employees credit for unused sick leave in their retirement annuity calculations. Under the measure, FERS employees who retire within three years of the bill's enactment would receive credit for 75 percent of their sick leave. After three years, they would get credit for all their unused sick leave. Employees covered by the Federal Employees Retirement System would get the same credit for their unused sick leave toward their retirement annuities as do their colleagues in the Civil Service Retirement System, under the bill passed by the House.

Currently, employees who retire under CSRS have their unused sick leave added to their time-in-service computation, which increases the value of their retirement annuity. For instance, an employee with 1,055 hours of unused sick leave would get an additional six months tacked onto their time-in-service for retirement purposes.

A similar tobacco bill is pending in the Senate and includes no such provision concerning unused sick leave for FERS employees. The fate of measure will likely be decided in a House-Senate conference after the Senate passes its version of the bill.

At this time we can not calculate the impact of this bill on either the Postal Service's over funded FERS fund balance or what it might mean to future FERS contribution rates.

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 do not use 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 2007 Annual Report, Financial Section Part II, Item 7A-*Quantitative and Qualitative Disclosures about Market Risk*.

Item 4 – Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the Postmaster General, and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its 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 Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of June 30, 2008. Based on the foregoing, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2008.

There have been no changes in our internal control over financial reporting (as defined by Rule 13a-15(f)) that occurred during the period covered by the report 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 2007 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
10.1	Employment Contract of new President of Shipping & Mailing Services as of June 30, 2008.
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: August 8, 2008

/s/ H. Glen Walker

H. Glen Walker
Chief Financial Officer and Executive Vice President

Date: August 8, 2008

Exhibit 10.1

Employment Agreement for Mr. Robert F. Bernstock
President - Shipping, Mailing Services Division

AGREEMENT FOR RECRUITMENT AND RETENTION INCENTIVES

The following shall constitute an agreement between the United States Postal Service ("Postal Service") and Robert F. Bernstock for the payment of recruitment and retention incentives.

1. As a recruitment incentive, and in order to induce Mr. Bernstock to accept the position of President, Shipping and Mailing Services, the Postal Service shall provide him with an individual payment of $85,000, less required withholding and deductions. Mr. Bernstock shall be entitled to receive this payment within sixty calendar days after June 30, 2008, on the condition that he is employed by the Postal Service at the time payment is due. In the event Mr. Bernstock does not remain employed by the Postal Service through June 30, 2009 for any reason, he shall, within fourteen calendar days after he ceases to be employed by the Postal Service, refund to the Postal Service a prorated portion of the $85,000 payment that he received for the purpose of inducing him to accept the position of President, Shipping and Mailing Services, less any applicable deductions. In the event Mr. Bernstock is required to refund any monies to the Postal Service pursuant to this paragraph of this agreement, the fractional amount of the incentive payment that he shall be entitled to retain shall be equal to the fraction created by dividing by twelve the number of full calendar months that Mr. Bernstock was employed by the Postal Service. In the event any amounts to be refunded to the Postal Service pursuant to this paragraph of this agreement have been deferred pursuant to paragraph 3 of this agreement, Mr. Bernstock hereby relinquishes any right to such deferred amounts.

2. As a retention incentive, and in order to induce Mr. Bernstock to remain in the position of President, Shipping and Mailing Services, or in any successor position, at least through June 30, 2010, the Postal Service shall provide him with an individual payment of $85,000, less required withholding and deductions. Mr. Bernstock shall be entitled to receive this payment within sixty calendar days after June 30, 2009, on the condition that he is employed by the Postal Service at the time payment is due. In the event Mr. Bernstock does not remain employed by the Postal Service through June 30, 2010 for any reason, he shall, within fourteen calendar days after he ceases to be employed by the Postal Service, refund to the Postal Service a prorated portion of the $85,000 payment that he received for the purpose of inducing him to remain in his position through June 30, 2010, less any applicable deductions. In the event Mr. Bernstock is required to refund any monies to the Postal Service pursuant to this paragraph of this agreement, the fractional amount of the incentive payment that he shall be entitled to retain shall be equal to the fraction created by dividing by twelve the number of full calendar months that Mr. Bernstock was employed by the Postal Service after June 30, 2009. In the event any amounts to be refunded to the Postal Service pursuant to this paragraph of this agreement have been deferred pursuant to paragraph 3 of this agreement, Mr. Bernstock hereby relinquishes any right to such deferred amounts.

3. The parties recognize that payment of all, or a portion, of the amounts due to Mr. Bernstock pursuant to paragraphs 1 and 2 of this agreement may be required to be deferred by the limitation found at section 3686 of Title 39 of the United States Code.

4. The parties further recognize that pursuant to section 204 of Title 39 of the United States Code, Mr. Bernstock serves in his position as an officer of the Postal Service at the pleasure of the Postmaster General. Nothing in this agreement is intended to limit the authority of the Postmaster General to exercise the authority conferred upon him by section 204 of the United States Code.

5. This agreement may be amended or modified only upon the written agreement of the parties. No amendment or modification of this agreement shall be valid or effective unless in writing and executed by the parties to this agreement.

6. Mr. Bernstock represents that he has carefully read and fully understands all of the provisions of this agreement, that he is competent to execute this agreement, that his decision to execute this agreement has not been obtained by any duress, and that he freely and voluntarily enters into it.

Postal Service	Robert F. Bernstock
Date: 6/5/08	Date: 6/20/08

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: August 8, 2008

/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, H. Glen Walker, 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: August 8, 2008

/s/ H. Glen Walker
H. Glen Walker
Chief Financial Officer and Executive Vice President

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended June 30, 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: August 8, 2008 /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 June 30, 2008 (the “Report”),
I, H. Glen Walker, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: August 8, 2008 /s/ H. Glen Walker
H. Glen Walker
Chief Financial Officer and Executive Vice President