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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2009 OR**

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

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 May 8, 2009
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

United States Postal Service
Statements of Operations

(Dollars in millions)	Three Months Ended March 31, 2009 (unaudited)	Three Months Ended March 31, 2008 (unaudited)	Six Months Ended March 31, 2009 (unaudited)	Six Months Ended March 31, 2008 (unaudited)
Operating revenue	$ 16,938	$ 18,916	$ 36,033	$ 39,285
Operating expenses:				
Compensation and benefits	13,203	13,632	26,860	27,275
Retiree health benefits	1,846	1,851	3,660	3,691
Transportation	1,473	1,708	3,223	3,550
Other	2,318	2,431	4,572	4,789
Total operating expenses	18,840	19,622	38,315	39,305
Loss from operations	**(1,902)**	**(706)**	**(2,282)**	**(20)**
Interest and investment income	7	7	13	15
Interest expense	(10)	(8)	(20)	(30)
Net loss	**$ (1,905)**	**$ (707)**	**$ (2,289)**	**$ (35)**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	March 31, 2009	September 30, 2008
	(unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	$ 1,050	$ 1,432
Receivables:		
Foreign countries	444	450
U.S. government	159	133
Other	245	187
Receivables before allowances	848	770
Less allowances	34	41
Total receivables, net	814	729
Supplies, advances and prepayments	161	193
Total Current Assets	**2,025**	**2,354**
Property and Equipment, at Cost:		
Buildings	22,740	22,269
Equipment	21,478	21,544
Land	3,003	2,971
Leasehold improvements	897	914
	48,118	47,698
Less allowances for depreciation and amortization	26,558	25,886
	21,560	21,812
Construction in progress	1,458	1,381
Total Property and Equipment, Net	**23,018**	**23,193**
Other Assets - Principally Revenue Forgone Receivable	**413**	**439**
Total Assets	**$ 25,456**	**$ 25,986**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	March 31, 2009 (unaudited)	September 30, 2008
Liabilities and Net Deficiency		
Current Liabilities:		
Compensation and benefits	$ 3,465	$ 3,466
Retiree health benefits	2,700	-
Payables and accrued expenses:		
Trade payables and accrued expenses	963	1,246
Foreign countries	474	435
U.S. government	106	85
Total payables and accrued expenses	1,543	1,766
Deferred revenue - prepaid postage	1,732	1,689
Customer deposit accounts	1,352	1,449
Outstanding postal money orders	717	698
Prepaid box rent and other deferred revenue	450	461
Current portion of debt	3,303	7,200
Total Current Liabilities	**15,262**	**16,729**
Noncurrent Liabilities:		
Workers' compensation costs	7,605	7,003
Employees' accumulated leave	2,368	2,208
Long-term debt	2,500	-
Long-term portion capital lease obligations	576	587
Deferred appropriation and other revenue	490	525
Deferred gains on sales of property	315	312
Contingent liabilities and other	301	294
Total Noncurrent Liabilities	**14,155**	**10,929**
Total Liabilities	**29,417**	**27,658**
Net Deficiency		
Capital contributions of the U.S. government	3,034	3,034
Deficit since 1971 reorganization	**(6,995)**	**(4,706)**
Total Net Deficiency	**(3,961)**	**(1,672)**
Total Liabilities and Net Deficiency	**$ 25,456**	**$ 25,986**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Statements of Cash Flows

(Dollars in millions)	Six Months Ended March 31, 2009 (unaudited)	Six Months Ended March 31, 2008 (unaudited)
Cash flows from operating activities:		
Net loss	$ (2,289)	$ (35)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,135	1,166
Loss (gain) on impairments, disposals of property and equipment, net	25	(6)
Decrease in revenue forgone receivable	26	30
Increase in workers' compensation liability	602	544
Increase in employees accumulated leave	160	173
(Decrease) increase in noncurrent deferred appropriations and other revenue	(2)	52
Increase (decrease) in other noncurrent liabilities	7	(187)
Changes in current assets and liabilities:		
Receivables, net	(85)	(68)
Supplies, advances and prepayments	32	62
Compensation and benefits	(1)	(170)
Retiree health benefits	2,700	2,800
Payables and accrued expenses	(226)	(354)
Customer deposit accounts	(97)	(46)
Deferred revenue-prepaid postage	43	14
Outstanding postal money orders	19	(45)
Prepaid box rent and other deferred revenue	-	(14)
Net cash provided by operating activities	2,049	3,916
Cash flows from investing activities:		
Purchases of property and equipment	(998)	(986)
Proceeds from deferred building sale	4	-
Proceeds from sales of property and equipment	2	20
Net cash used in investing activities	(992)	(966)
Cash flows from financing activities:		
Issuance of notes payable	2,500	-
Payments on notes payable	(4,500)	(1,000)
Net change in revolving credit line	603	(1,897)
Payments on capital lease obligations, net	(9)	(9)
U.S. government appropriations - expensed	(33)	(29)
Net cash used in financing activities	(1,439)	(2,935)
Net (decrease) increase in cash and cash equivalents	(382)	15
Cash and cash equivalents at beginning of year	1,432	899
Cash and cash equivalents at end of period	$ 1,050	$ 914

See accompanying notes to the financial statements (unaudited)

(Dollars in millions)		Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2008		$ 3,034	$ (4,706)	$ (1,672)
Net Loss - Six months Ended March 31, 2009	(unaudited)	-	(2,289)	(2,289)
Balance, March 31, 2009	(unaudited)	$ 3,034	$ (6,995)	$ (3,961)

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

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

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

Liquidity Matters

The Postal Service incurred a net loss for the year ended September 30, 2008 of $2,806 million. We had a net loss of $2,289 million in the six months ended March 31, 2009, compared to a net loss in the same period last year of $35 million. A significant portion of the loss for the six months ended March 31, 2009 is attributed to an unprecedented decline in mail volume, which fell by 13 billion pieces, resulting in a $3,252 million or 8.3% decrease in revenue, compared to the same period in 2008. The decline in mail volume is primarily attributable to the widespread economic crisis, although the long-term trend of hard copy correspondence and transactions being diverted to electronic media continued. Continued downward pressure on mail volume is expected throughout the current fiscal year, and even with substantial cost reductions, our 2009 net loss is projected to be over $6 billion, more than double the 2008 net loss. Looking ahead to 2010, mail volume is expected to decrease another 10 billion pieces and the net loss is expected to be similar to projected net loss in 2009, despite a broad range of actions by the Postal Service in response to these unprecedented reductions in volume.

We experienced negative cash flow from operations in the previous two years. Through the six months ended March 31, 2009 cash generated from operations was $2 billion; however, we have an obligation to pay $5.4 billion into the Postal Service Retiree Health Benefit Fund (PSRHBF), as required by the Postal Accountability and Enhancement Act, P.L. 109-435 (see Note 6) by September 30, 2009. We are also required to pay approximately $1.1 billion to the Department of Labor (DOL) for Workers' Compensation in September 2009. We do not expect to generate sufficient cash flow from operations in the second half of 2009 to enable us to fully fund these obligations.

Although we can fund some of these obligations through increased debt, our annual net increase in debt is limited by statute to $3 billion. The statute limits our total outstanding debt to $15 billion. We currently project increasing net debt outstanding this year by $3 billion, but do not expect this to be sufficient to fund all our obligations. Without legislative change, described below, we project a cash shortfall of approximately $1.5 billion on September 30, 2009. If this happens, the Postal Service may be unable to pay certain obligatory payments due in September 2009. Continuing significant losses in 2010 and future years could also result in cash shortfalls that would ultimately cause the $3 billion annual borrowing limitation and overall $15 billion debt limitation to become insufficient without additional structural changes.

To meet this financial challenge, the Postal Service has, and is, undertaking a number of actions to increase efficiency, reduce costs and generate new revenue. These actions include freezing executive salaries, reducing workhours and headcount, maximizing operational efficiencies, renegotiating contracts with major suppliers, halting construction of new facilities, and initiating revenue generation efforts utilizing the increased flexibility available under P.L. 109-435. Although each of these efforts is expected to positively impact cash flow in 2009, they will not, either individually, or in the aggregate, be sufficient to offset the expected September 30, 2009 cash shortfall.

The Postal Service has also requested Congress, to restructure its payments for retiree health benefits and for the flexibility to suspend the 6 day a week delivery requirement. Retiree health benefit payments would be restructured by allowing the PSRHBF to pay current retiree health premiums from the existing $32 billion fund balance, previously contributed by the Postal Service, rather than being paid separately from the Postal Service's operating cash. This would provide a significant additional level of financial flexibility and, if applied retroactively to the beginning of 2009, could reduce the 2009 net loss by approximately $2 billion and increase cash flow by the same amount.

We do not anticipate any savings in 2009 from the ability to adjust the 6 day delivery requirement, if granted. However, it could provide additional financial relief in 2010.

Our ability to generate sufficient cash flows is substantially dependent on our ability to execute strategies to increase efficiency, reduce costs and generate revenue. Combined with increased flexibility from Congress discussed above, this will allow us to reduce our projected 2009 net loss and improve our cash position without significant diminishment of service to our customers. However, no assurance can be given that our efforts will be successful or that Congress will concur with our suggested changes and enact the requested legislation, or other legislation, in time to impact the current fiscal year.

Note 2 – Debt and Related Interest

As of March 31, 2009, debt payable to the Federal Financing Bank consisted of $5,803 million outstanding compared to $7,200 million at September 30, 2008.

We continue to maintain two credit lines with the Federal Financing Bank. One, a short-term credit line, enables us to draw up to $3,400 million with two days notice. The other, an overnight 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.

We are statutorily limited to net annual increases of $3 billion in our debt, and our total debt cannot exceed $15 billion. For 2009, we are subject to an absolute debt ceiling of $10.2 billion, a $3 billion increase from the September 30, 2008 debt balance of $7.2 billion

Interest expense was $10 million for Quarter II, 2009, compared to $8 million for the same period last year. For the six months ended March 31, 2009, interest expense was $20 million, compared to $30 million for the same period in 2008. Our interest expense consists of interest on borrowings and other interest expense.

Debt Consists of the Following: (Dollars in millions)			March 31, 2009	September 30, 2008
NOTES PAYABLE TO THE FEDERAL FINANCING BANK (FFB) *:				
Interest Rate %	Debt Type	Maturity Date		
3.790%	Fixed rate note-Payable at Maturity	February 15, 2039	$ 1,000	$ -
3.048%	Fixed rate note-Payable at Maturity	November 15, 2018	500	-
2.035%	Fixed rate note-Payable at Maturity	January 31, 2014	300	-
3.770%	Fixed rate note-Payable at Maturity	May 17, 2038	200	-
0.254%	Floating Rate Note**	Jun 15, 2043	500	-
0.145%	Short-term revolving credit line***		3,000	-
0.297%	Overnight revolving credit line***		303	-
0.297%	Short-term revolving credit line	October 1, 2008	-	2,200
0.155%	Short-term revolving credit line	December 18, 2008	-	500
0.905%	Fixed rate note-Payable at Maturity	December 11, 2008	-	2,500
0.485%	Fixed rate note-Payable at Maturity	December 18, 2008	-	2,000
			$ 5,803	$ 7,200
Less Current Portion			3,303	7,200
			$ 2,500	$ -

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

*** Floating Rate Note-Payable June 15, 2043; repurchasable at par June 15, 2009 and every September 15, December 15, March 15, and June 15 thereafter.*

**** Funds are typically borrrowed overnight. Our lines of credit extend through May 1, 2010 for these notes.*

Scheduled annual principal maturities of debt, exclusive of capital leases, for the five years subsequent to March 31, 2009 are as follows:

Debt Maturity (Dollars in millions)	March 31, 2009
2009	$ 3,303
2010	-
2011	-
2012	-
2013	-
After 2013	2,500
Total Debt	$ 5,803

Cash paid for interest was $3 million in Quarter II, compared to $12 million for Quarter II, 2008. For the six months ended March 31, cash paid for interest was $12 million, compared to $31 million for the same period in 2008.

Note 3 – Property and Equipment

We record property and equipment at cost, including the interest on the money we borrow to pay for the construction of major capital additions. No interest was capitalized during the six months ended March 31, 2009 and 2008.

In Quarter II, 2009, $20 million of property and equipment was impaired due primarily to planned closure of two facilities. Year to date, total impairments were also $20 million. There were no material impairments in 2008.

We account for asset retirement obligations (AROs) in accordance with Financial Accounting Standards Board Interpretation 47, *Accounting for Conditional Asset Removal* (FIN 47). Accruals are recorded under "Noncurrent Liabilities, Contingent liabilities, and other" on our balance sheets. No adjustments have been made to the asset retirement obligation accrued in 2009 or 2008.

Note 4 – Leases and Other Commitments

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

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

CAPITAL COMMITMENTS, EXPENDITURES, RESOURCES ON ORDER

In Quarter II of this year we added new capital commitments of $151 million compared to $455 million for the same quarter in the prior year. These largely consisted of commitments for Construction and Repair and Building Improvements of $86 million and postal support equipment of $57 million.

At March 31, 2009, the balance of resources on order for capital items was $2,059 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)		March 31, 2009
Mail Processing Equipment	$	1,244
Building Improvements		322
Construction and Building Purchase		230
Postal Support Equipment		224
Retail Equipment		34
Vehicles		5
Total	$	2,059

Capital Lease Obligations (Dollars in millions)		March 31, 2009
2009	$	51
2010		100
2011		98
2012		100
2013		94
After 2013		536
Total Lease Obligations	$	979
Less: Interest		355
Total Capital Lease Obligations	$	624
Less: Short-term portion of capital lease		48
Long-term Portion of Capital Lease	$	576

EXPENSE COMMITMENTS, RESOURCES ON ORDER

At March 31, 2009, we estimate our commitments for expense resources on order to be $5,208 million. As of March 31, 2009, our future minimum lease payments for all non-cancelable operating leases and our annual payment requirements for retiree health benefits are shown below.

Expense Resources on Order (Dollars in millons)		March 31, 2009
Operational Contracts	$	5,121
Inventory Contracts		45
Research and Development Contracts		42
Total	$	5,208

Operating Leases (Dollars in millions)		March 31, 2009
2009	$	404
2010		777
2011		736
2012		671
2013		610
After 2013		5,018
Total Lease Obligations	$	8,216

Postal Service Retiree Health Benefit Fund Commitment (see Note 6) (Dollars in millions)		P.L 109-435 Requirement
2009	$	5,400
2010		5,500
2011		5,500
2012		5,600
2013		5,600
After 2013		17,200
Total Postal Retirees Health Benefits Fund Commitment	$	44,800

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

Rental Expense	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)		2009		2008		2009		2008
Non-cancelable real estate leases including related taxes	$	250	$	250	$	497	$	493
Facilities leased from GSA subject to 120-day cancellation		11		12		21		21
Equipment and other short-term rentals		68		71		137		150
Total Rental Expense	$	329	$	333	$	655	$	664

Note 5 – Contingent Liabilities

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

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

Contingent Liabilities (Dollars in millions)		March 31, 2009		September 30, 2008
Labor Cases	$	309	$	318
Equal Employment Opportunity Cases		56		45
Environmental Cases (AROs)		40		40
Tort Cases		30		32
Contractual Cases		-		1
Total Contingent Liabilities	$	435	$	436

We believe that adequate provision has been made for probable liabilities from claims and suits. The current portion of this liability at March 31, 2009 was $191 million and $198 million at September 30, 2008 and is included on the balance sheets under the heading “Trade payables and accrued expenses”. The long-term portion of this liability at March 31, 2009 was $244 million. At September 30, 2008 the long-term liability was $238 million. These amounts are accrued under the heading “Contingent liabilities and other” on our balance sheets.

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

Note 6 – Health Benefits Programs

Current Employees

Substantially all career employees are covered by the Federal Employees' Health Benefits Program (FEHBP). The Office of Personnel Management (OPM) administers the program and allocates the cost of the program to the various participating government agency employers. Our portion of the cost is based upon the weighted average premium cost of the various employee coverage choices and the specific coverage choices made by current employees. Employees paid approximately 19% of the premium costs in Quarter II, 2009 and 18% in Quarter II in 2008. We paid the remaining employee health care expense, which was $1,331 million in Quarter II, 2009, compared to $1,349 million in Quarter II, 2008. For the six months ended March 31, 2009, current employee health costs were $2,661 million, compared to $2,706 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, which will continue to be payable through 2016. After these payments are complete, in 2017, OPM will make an actuarial valuation and determine whether any further payments into the PSRHBF are required. If further payments are required, OPM will design an amortization schedule to fully fund our liability by September 30, 2056.

For 2009, the required contribution to the PSRHBF is $5,400 million, which is expensed at the rate of $1,350 million per quarter. During Quarter II, we expensed $1,846 million for retiree health benefits; $496 million was for retiree health benefit invoices from OPM for current retirees and $1,350 million for the PSRHBF. For the same period last year, we expensed $1,851 million for retiree health benefits; $451 million for retiree benefits invoices and $1,400 million for the PSRHBF. Year-to-date total expense for retiree benefits was $3,660 million; $960 million for retiree benefits invoiced by OPM for current retirees and $2,700 for the PSRHBF. For the six months ended March 31, 2008, retiree benefits were $3,691 million; $891 million for retiree benefits invoiced by OPM for current retirees and $2,800 for the PSRHBF.

As noted in Note 1, the Postal Service has requested a change in legislation from Congress in the form of restructuring its payments for retiree health benefits premiums. Under H.R. 22 currently pending in Congress, payments for current retiree health benefit premiums would be restructured to accelerate the date at which the PSRHBF will start making payments from the $32 billion currently in the PSRHBF rather than having the Postal Service make the payments directly. The Postal Service would continue to make the legislatively required payments into the PSRHBF. As of the date of this report, Congress has not passed any legislation and retiree health benefits are being expensed in the financial statements under the original terms.

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 the Civil Service Retirement System (CSRS), the Dual CSRS/Social Security (Dual/CSRS), or the Federal Employees Retirement System (FERS), all of which are administered by OPM. Employees may also participate in the Thrift Savings Plan (TSP), which is a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board.

P.L.109-435 suspends until 2017 our employer contribution to CSRS that would otherwise have been required under Title 5, Section 8334(a) (1), of the United States Code. At that time OPM will determine whether additional funding is required for the benefits of postal retirees. We continue to make employer contributions of 11.2% of base salary for current FERS employees. Retirement expense for Quarter II, 2009 was $1,477 million, compared to $1,475 million for the same period last year, and is recorded in compensation and benefits expense. Year-to-date, retirement expense was $2,989 million, compared to $2,958 in the same period last year.

Note 8 – Workers' Compensation

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

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

Our expense for workers' compensation was $376 million for Quarter II, 2009, compared to $268 million for the same period last year. For the first half of the fiscal year, workers' compensation expense was $729 million, compared to $568 million for the same period in 2008.

Note 9 – Revenue Forgone

Revenue forgone is an appropriation which covers the statutorily required cost of providing free and reduced rate mailing service to groups designated by Congress. During Quarter II, 2009, we recognized $23 million including $6 million of imputed interest in revenue from these appropriations, compared to $22 million, including $6 million of imputed interest during the same period last year. For the first half of the year, revenue forgone was $45 million including $12 million of imputed interest, the same as the first six months of 2008.

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 six-month period ended March 31, 2009, are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. This report should be read in conjunction with our 2008 Annual Report. As in the Annual Report, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal years 2009 and 2008.

Introduction

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

We have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 3% of operating revenue. The financial services sector, which includes real estate, represents approximately 10% of operating revenue, a drop from 11.4% in 2008.

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

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

Our mailing and shipping services are sold through almost 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 more than 150 million city, rural, Post Office box and highway contract delivery points. We conduct operations primarily in the domestic market, with international mail representing approximately 3% of operating revenue.

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

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

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

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

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

Critical Accounting Estimates

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

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

Results of Operations

In Quarter II we had an operating loss of $1,902 million compared to an operating loss of $706 million for Quarter II of last year. Year-to-date, the operating loss was $2,282 million, compared to a $20 million operating loss for the same period in 2008.

As explained more fully later in the revenue and volume section of this report, the recession has had a significant adverse impact on our operating revenue. For the three months ended March 31, 2009, operating revenue was $16,938 million, compared to $18,916 million for the same period last year, a decrease of $1,978 million or 10.5%, in spite of a 2.9% average price increase in May 2008. For

Key Operating Statistics	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2009	2008	2009	2008
Operating Revenue	$ 16,938	$ 18,916	$ 36,033	$ 39,285
Operating Loss	$ (1,902)	$ (706)	$ (2,282)	$ (20)
Net Loss	$ (1,905)	$ (707)	$ (2,289)	$ (35)
Operating Margin	-11.2%	-3.7%	-6.3%	-0.1%
Average Volume per day (pieces in millions)	590	684	630	711

the six months ended March 31, 2009, operating revenues were $36,033 million, compared to $39,285 for the first six months of 2008, a reduction of $3,252 million or 8.3%. All categories of mailing and shipping services experienced volume declines in Quarter II and for the first six months of 2009 compared to the same periods last year.

Quarter II operating expenses were $18,840 million, compared to $19,622 million in the corresponding quarter of last year, a decrease of $782 million or 4.0%. During Quarter II, the decrease in operating expenses was driven by compensation and benefits which decreased $429 million or 3.1% due to initiatives implemented to reduce 32 million workhours, which resulted largely from the decline in mail volume. Transportation expenses decreased $235 million, or 13.8%, as fuel prices declined from a year earlier and utilization decreased. Other expenses decreased $113 million or 4.6%, as the Postal Service put substantial limits on spending for supplies and services.

For the first half of the year, total operating expenses were $38,315 million, a decrease of $990 million or 2.5% from the prior year. Compensation and benefits expenses for the six months ended March 31, 2009 was $415 million or 1.5% lower than the same period in 2008 and transportation expenses were $327 million or 9.2% lower due to the lower volumes and fuel prices. Other expenses decreased $217 million or 4.5%.

Revenue and Volume

Prices for most mailing services increased by an average of 2.9% on May 12, 2008. Because of pricing design considerations, some products and services received increases more or less than 2.9%. The price of a one-ounce First-Class stamp increased from 41 cents to 42 cents. Prices also changed for Standard Mail, Periodicals and Package Services. Priority Mail, Express Mail and other Shipping Services prices increased on January 18, 2009.

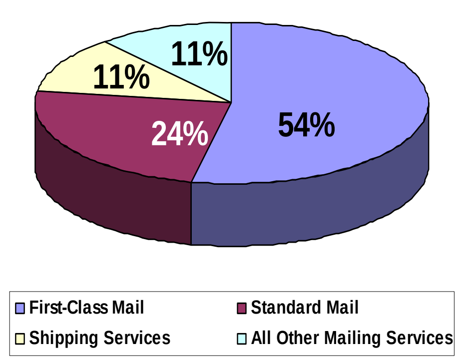
The economic recession has adversely affected all classes of mail. Quarter II was the largest single quarterly decline of total mail volume since the Postal Reorganization Act of 1971. Volume declines in Quarter I and Quarter II are the largest back-to-back declines in total mail volume since the Postal Reorganization Act, dwarfing all previous periods of decline.

The decline of both revenue and volume for each class of mail for both the current quarter and year-to-date can largely be attributed to the economy. Competition, electronic diversion and other external factors continue to impact revenue and volume performance, but those impacts have become secondary to the overall performance of the economy. No class of mail has prospered in this environment, and no class of mail has been immune from the financial turmoil. First-Class, Standard, and Package Services volumes have all fallen by 10% or more. Total mail volume fell by 14.7% in Quarter II, with an accompanying revenue decline of 10.5%.

Revenue [1]	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2009	2008	2009	2008
First-Class Mail	$ 9,023	$ 9,785	$ 18,677	$ 19,963
Standard Mail	4,102	5,090	9,229	10,834
Periodicals	497	562	1,062	1,166
Package Services	436	471	936	997
Other Mailing Services*	943	949	1,852	1,883
Total Mailing Services	$ 15,001	$ 16,857	$ 31,756	$ 34,843
Total Shipping Services	1,937	2,059	4,277	4,442
Total Operating Revenue	$ 16,938	$ 18,916	$ 36,033	$ 39,285

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

Quarter II 2009 Mail Revenue



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

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

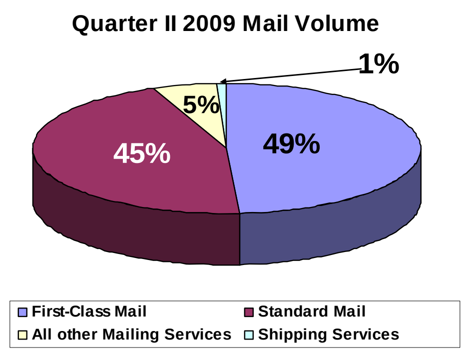
While the economy is the major culprit for the current revenue and volume contraction, electronic diversion has also played a role in the current mail volume decline and remains a long term threat for the Postal Service. For example, in Quarter II the largest decline in First-Class Mail volume came from the U.S. Treasury, mostly the Internal Revenue Service. Americans are increasingly filing their tax returns electronically, including a 16.7% increase in e-filed tax returns by self-preparers this year, compared to the same period last year. Many of these filers will also receive refunds electronically. Periodicals are also feeling the effect of electronic diversion as some publishers are completely abandoning print versions of their magazines.

MAILING SERVICES

For the quarter ended March 31, 2009, First-Class Mail and Standard Mail, which make up 94% of our volume, decreased over 7.2 billion pieces or 14.9% compared to the same period last year, with an associated drop in revenue of $1,750 million or 11.8%. For the six months ended March 31, 2009, volume decreased 12 billion pieces or 12% compared to the same period last year. Revenue decreased $2,891 million or 9.4% in the first half of 2009 compared to the same period last year. Most of this decrease can be attributed to the downturn in the economy, particularly the financial and real estate sectors, which are heavy users of the mail.

First-Class Mail revenue decreased $762 million or 7.8% in Quarter II, on a volume decline of 2.3 billion pieces or 9.9%, compared to the same period last year. Reflecting the economy, all subgroups under First-Class Mail experienced revenue and volume declines, with the exception of single-piece outbound international letters which had a minimal volume increase. Single-piece First-Class letters declined $308 million or 8.6% on a decrease of 923 million pieces or 10.9% for the quarter compared to Quarter II 2008. This is the worst quarterly decline since Postal Reorganization in 1971. 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, in this environment the economy is the primary driver behind the volume decline with technology as a secondary driver. We anticipate any positive impacts of an economic recovery on single-piece First-Class Mail may be largely offset by the continuing technology-driven decline in single-piece First-Class. For the six months ended March 31, 2009, revenue for First-Class single-piece letters was $7,108 million compared $7,727 million for the same period last year, a decline of $619 million or 8.0% on a volume decrease of 10.3%

Mail Volume [1] (Pieces in millions)	Three Months Ended March 31, 2009	2008	Six Months Ended March 31, 2009	2008
First-Class Mail	21,401	23,749	44,110	48,233
Standard Mail	19,673	24,531	44,281	52,165
Periodicals	1,990	2,159	4,115	4,361
Package Services	186	218	401	453
Other Mailing Services	203	249	349	603
Total Mailing Services	43,453	50,906	93,256	105,815
Total Shipping Services	334	398	735	846
Total Mail Volume	43,787	51,304	93,991	106,661



The severe recession in the advertising industry affects all aspects of the mailing industry, from paper producers to direct mailers. Standard Mail revenue decreased $988 million or 19.4% in Quarter II, as volume decreased almost 5 billion pieces, or 19.8% compared to the same period last year. For the first half of the year, revenue decreased $1,605 million or 14.8% from the same period last year as volume declined 7.9 billion pieces or 15.1%. Standard Mail volume has been significantly impacted by the decline in advertising spending as a result of the recession, which has spread throughout the economy. Nearly 20% of the Standard Mail revenue decline comes from 5 large customers, all of which are banks. All subgroups under Standard Mail lost both revenue and volume compared to the second quarter of last year. Standard Mail letter volume fell 20.7% or 3.8 billion pieces while revenue dropped $671 million or 19.6% in the second quarter compared to the same period last year. Standard Mail flat volume fell 17.3% or 1,011 million pieces while revenue dropped $308 million or 20.9% in the second quarter compared to the prior year. Revenue was further restrained by a 2.3% decrease in the average weight per piece. In addition to the impact of the troubled economy on Standard Mail revenues, advertisers continue to become more sophisticated in the targeting of their mailings, further reducing mail volume. While we expect advertisers to continue refining the targeting of their mailings, we anticipate a return of some portion of advertising mail when the economy improves.

Revenue from Periodicals decreased $65 million or 11.5% in Quarter II compared to the same period last year. Trends in reading behavior have been depressing this segment for years. Changing reading behavior in conjunction with the recession has pushed revenue and volume declines into double digits. The average weight per piece of Periodicals decreased by 10.4%, reflecting the decline in the number of advertising pages. Volume decreased 169 million pieces, or 7.8%, in the quarter compared to the same period last year. Year-to-date, Periodicals revenue has decreased $104 million or 8.9% versus the same period last year, on volume that is 5.6% or 246 million pieces lower.

Package Services revenue decreased $35 million or 7.5% in Quarter II compared to the second quarter of 2008. Package Services volume decreased 32 million pieces or 14.7% in the same period. The reduction in volume in the package industry reflects the overall state of the economy. All of the major package service providers were adversely affected by economic events during the second quarter. Year-to-date, Package Services volume is 52 million pieces or 11.4% lower than the same period last year while revenue is $61 million or 6.1% lower.

SHIPPING SERVICES

Shipping Services revenue decreased $122 million or 5.9% in Quarter II compared to the same period last year, as volume declined 64 million pieces or 15.9%. Year-to date, Shipping Services revenue decreased $165 million or 3.7% compared to the same period last year. Volume decreased 111 million pieces or 13.1% for the six months ended March 31, 2009, compared to the same period a year ago. All subgroups within Shipping Services experienced volume declines. Last year, a weaker dollar resulted in export opportunities. According to Global Insight, an economic forecasting and consulting firm, exports are expected to decline by 15.3% this year and imports are expected to decline by 13.8%. The withdrawal of DHL from the domestic portion of the American market has afforded opportunities for short-term growth for domestic expedited and package products, but did not meaningfully impact results for the first half of the year.

Overall, the poor revenue performance continues to show the severe effect of the economic recession in the U.S. economy.

Additional discussion on volume and revenue projections can be found in the outlook section of this report. Detailed data on Mailing Services 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 II was $13,203 million, $429 million or 3.1% less than the same period last year. Year-to-date compensation and benefits expense of $26,860 million was $415 million or 1.5% lower than the prior year amount. The Quarter II decrease primarily reflects lower compensation expense, due to the reduction in workhours, discussed later in this section, despite contractual wage increases.

Compensation and Benefits Expenses (Dollars in millions)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Compensation	$ 9,935	$ 10,433	$ 20,294	$ 20,827
Retirement	1,477	1,475	2,989	2,958
Health Benefits	1,331	1,349	2,661	2,706
Workers' Compensation	376	268	729	568
Other	84	107	187	216
Total	$ 13,203	$ 13,632	$ 26,860	$ 27,275

Compensation expense decreased by $498 million or 4.8% in Quarter II compared to the same period last year. This was due to a 9.1%, or 32 million decrease in workhours discussed on the following page. Without the impact of the 32 million workhours reduction, compensation expenses would have been approximately $1,120 million higher. This tempered the effect of the March 2008 and September 2008 Cost of Living Adjustments (COLA) which carried over to

2009. COLA payments for Quarter II were $268 million, compared to $70 million for same period last year. For the six months ending March 31, 2009, the COLA payments were $574 million compared to $128 million in the same period last year. In addition, the Postal Service contributed approximately 1% less per employee for health benefit premiums compared to the prior year.

The Postal Service has been authorized by the Office of Personnel Management (OPM) to offer voluntary early retirement (VER) to eligible employees nationwide. The VER, with no severance incentives, has been offered in four phases. The first three phases were completed by the end of Quarter II. Over 9,000 employees accepted the early retirement offer; the impact of these early retirements reduced compensation expenses by approximately $70 million in Quarter II. The fourth phase which was offered to 150,000 employees began on April 6, 2009, and retirements will occur in Quarter IV. Cost savings due to these early retirements are expected to exceed $500 million annually dependent upon the number of employees who accept the offer as part of Phase IV.

The decrease in compensation was offset by an increase in workers' compensation expense which increased $108 million or 40.3% for Quarter II 2009 compared to Quarter II 2008. Workers' Compensation expense increased $161 million or 28.3% for the six months ended March 31, 2009 compared to the prior year. See the discussion below on Workers' Compensation for further details regarding this change.

WORKHOURS

With steep mail volume declines in Quarter II, we reduced almost 32 million workhours compared to the same period last year. Overtime usage was dramatically reduced by approximately 11 million hours or 40.3% from Quarter II last year. Even though the number of delivery points increased by 1.1 million from the same period last year, workhours declined from last year's levels, due to initiatives designed to match workhours to the substantially reduced mail volume throughout the network. This was especially pronounced in the mail processing function with a drop of almost 11 million workhours. City delivery and customer service & retail functions reduced workhours by 15 million hours. In the first half of 2009, total work hour usage declined 58 million hours, or 8.3%, from the comparable period last year.

Workhours Analysis (Hours in Thousands)	Workhours Three Months Ended March 31,		Workhours Six Months Ended March 31,	
	2009	2008	2009	2008
City Delivery	105,413	113,642	216,223	230,492
Mail Processing	63,270	74,130	134,172	155,822
Customer Services & Retail	45,088	51,733	93,144	105,921
Rural Delivery	45,525	48,657	91,159	95,772
Other, including Plant, Vehicle Services, Operational Support, Postmasters & Administration	55,911	58,675	112,274	117,326
Total	315,207	346,837	646,972	705,333

EMPLOYEE COMPLEMENT

Employee complement was reduced by approximately 15,000 during Quarter II. The number of career employees at the end of the quarter was 641,348. This represents a reduction of 33,564 employees or 5% since March 31, 2008, mainly through attrition.

RETIREMENT EXPENSE – CURRENT EMPLOYEES

During Quarter II, retirement expense for the Dual/CSRS and FERS plans was $1,477 million compared to $1,475 million for the same period last year, an increase of $2 million or 0.1%. The increase is due to higher salaries as compared to the prior year, partially offset by the lower number of employees. For the six months ended March 31, 2009, our retirement expense was $2,989 million compared to $2,958 million in the same period last year, an increase of $31 million or 1.0%. Retirement contributions to CSRS were suspended by P.L. 109-435.

WORKERS' COMPENSATION

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

Workers' compensation expense for Quarter II was $376 million, compared to $268 million for the same period last year. The increase in the Quarter II, 2009 workers' compensation expense, relative to the same period last year, is due to a higher number of medical and compensation payments and inflationary trends in claim costs, which raised payments to most claimants on the rolls.

Two significant drivers of Workers' Compensation expense are the number of claims receiving payments and the cost per claim. In Quarter II we experienced an increase of 572 or 2.2% in the number of compensation claims receiving payments and an increase of 1,701 or 2.1% in the number of medical claims receiving payments compared to the same period last year. The actual claim payments increased $52 million, or 10.7%, over Quarter II, 2008. The compensation claims payments grew by $28 million or 9.3% and medical claims payments grew by $24 million or 13.0% compared to the same period last year.

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

For the first half of the fiscal year, workers' compensation expense was $729 million, compared to $568 million for the same period in 2008. Part of the difference from prior year can be attributed to a timing difference. In 2008, Quarter III expenses increased significantly compared to Quarter II.

RETIREE HEALTH BENEFITS

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

Retiree Health Benefits (Dollars in millions)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Retiree Health Benefits	$ 496	$ 451	$ 960	$ 891
P.L. 109-435 Scheduled Payment to PSRHBF	1,350	1,400	2,700	2,800
Total	$ 1,846	$ 1,851	$ 3,660	$ 3,691

Health benefit expenses for retirees were $1,846 million for Quarter II, compared to $1,851 million in the same period last year. Expenses for current retirees increased $45 million or 10% compared to the same period last year. Year-to-date, retiree health benefits were $3,660 million compared to $3,691 for the same period in 2008. This reduction is due to a $100 million decrease in the 2009 funding schedule requirement for the PSRHBF offset by a $69 million increase in premium payments for current retirees. The major drivers of retiree health benefits expense are the number of current participants on the rolls and premium costs of the plans they select. As of March 31, 2009, there were approximately 455,000 participants on the rolls, an increase of about 5,000 compared to the same period last year.

In January, 2009, the Postmaster General requested that Congress allow the payments for current retiree health benefits premiums be paid from the $32 billion already in the PSRHBF. See the Legislation section later in this report for a full discussion of the request.

Operating Expenses – Transportation

Transportation expenses were $1,473 million, a decrease of $235 million, or 13.8% for Quarter II, 2009 compared to $1,708 million in the same period last year. Transportation costs are largely made up of highway and air transportation. For the first half of the year, our expenses for transportation decreased by $327 million or 9.2% when compared to the same period last year.

Transportation Expense (Dollars in millions)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Highway Transportation	$ 732	$ 865	$ 1,599	$ 1,782
Air Transportation	646	740	1,423	1,563
Other Transportation	95	103	201	205
Total	$ 1,473	$ 1,708	$ 3,223	$ 3,550

Highway transportation expenses of $732 million in Quarter II decreased by $133 million or 15.4% compared to $865 million the same quarter last year. Year-to-date, highway transportation expenses decreased $183 million or 10.3% over the same period last year. The lower highway expenses resulted from decreases in fuel prices and a reduction of 13.5 million contracted miles driven or 0.9% for Quarter II, 2009. Diesel fuel, which makes up 93% of the fuel purchased for highway contracts, cost an average of $2.19 per gallon during Quarter II, 2009 vs. $3.55 per gallon during Quarter II, 2008, a decrease of 38.4%. Gasoline prices decreased approximately 39.2% compared to the same quarter last year, with a gallon of gas costing, on average, $1.90 during Quarter II, 2009 vs. $3.12 during Quarter II, 2008.

Air transportation expenses of $646 million in Quarter II, decreased by $94 million or 12.7% from $740 million in the same quarter last year, as a result of the lower mail volumes discussed previously. For the six months ended March 31, 2009, air transportation was $1,423 million compared to $1,563 million for the same period last year, a decrease of $140 million or 9.0%.

Domestic air expense decreased $101 million or 17.3% compared to the same quarter last year. For the six months ending March 31, 2009, domestic air was $1,103 million, compared to $1,199 million or 8% lower for the same period last year. This decrease was due largely to lower fuel costs and volumes. International air transportation expenses increased $7 million compared to Quarter II, 2008. International air expense is comprised of civilian air, military air transportation (net of reimbursements), and foreign postal transaction fees. Civilian air transportation and foreign postal transactions decreased by $11 million and $9 million, respectively driven by lower volumes while net military mail transportation expense increased by $27 million. For the six months ended March 31, 2009, international air decreased $44 million, which included a $28 million decrease in foreign postal transactions fees compared to the same period last year.

Operating Expenses – Other Operating Expense

Other operating expenses for Quarter II were $113 million or 4.6% lower than last year's comparable quarter. The decrease is attributable to a reduction of $81 million or 12.0% in supplies and services due to decreases in purchases of small equipment and lower utilization of professional and advertising services. In addition, vehicle maintenance services decreased $45 million or 19.9% due primarily to lower fuel costs when compared to the previous year. Information Technology (IT) and Communications expenses increased $46 million or 34.1% primarily due to an increase in professional services managed by the IT function, increased licensing costs for corporate software, and higher technology support costs compared to the same quarter last year.

Other Operating Expenses (Dollars in millions)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Supplies and Services	$ 596	$ 677	$ 1,141	$ 1,304
Depreciation and Amortization	565	570	1,135	1,166
Rent and Utilities	462	465	902	884
Vehicle Maintenance Service	181	226	377	434
Information Technology and Communications	181	135	318	304
Rural Carrier Equipment Maintenance Allowance	134	143	264	257
Other	199	215	435	440
Total Other Operating Expenses	$ 2,318	$ 2,431	$ 4,572	$ 4,789

For the six months ended March 31, 2009, other operating expenses were $217 million or 4.5% lower than the same period last year. This was driven by a decrease in supplies and services of $163 million or 12.5% for the reasons noted above. Depreciation decreased $31 million or 2.7% while vehicle maintenance service decreased $57 million or 13.1%. As noted for the quarter, the year-to date reduction in vehicle maintenance services is also due primarily to lower fuel prices. These decreases were partially offset by increases of $18 million in rent and utilities expenses, $14 million in IT and communications expenses and $7 million in rural carrier equipment maintenance allowances compared to the same period last year.

Productivity

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

Total Factor Productivity	Three Months Ended March 31,		Six Months Ended March 31,	
% Change from Prior Year	2009	2008	2009	2008
Workload	-10.1%	-2.4%	-8.2%	-2.0%
Resource Usage	-8.1%	-1.5%	-7.2%	-1.8%
Total Factor Productivity	-2.0%	-0.9%	-1.0%	-0.2%

In Quarter II, TFP decreased 2.0%, as the 8.1% decline in aggregate resource usage was not enough to offset the 10.1% decline in aggregate workload. The decline in aggregate workload was driven by the steep volume decline, and the 0.8% growth over last year in the number of delivery points had little impact to moderate the overall workload decline.

With respect to resource usage, the aggregate 8.1% decline was driven by an 8.6% decrease in dollar-weighted labor inputs, driven by the reduction of 32 million workhours. The decline in resource usage can also be attributed to a 7.7% decline in materials usage, due to cost reduction efforts to reduce supplies, services, and other non-personnel related items.

Year-to-date, TFP decreased 1.0% compared to the first six months of 2008. Workload decreased 8.2% during this period, driven by a 12.8% decrease in weighted mail volume. This was partially offset by the 0.9% 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 resource usage for the first six months of 2009 decreased 7.2% compared to the first six months of 2008. Labor decreased 7.7%, capital usage decreased 0.9%, and materials input decreased by 6.9%.

Liquidity and Capital Resources

Cash

The Postal Service's principal sources of liquidity are cash from operations, cash on hand, and cash from the long-term and short-term financing agreements with the Federal Financing Bank. Cash and cash equivalents on March 31, 2009, were $1,050 million, $382 million lower than the September 30, 2008 balance of $1,432 million.

Debt

As of March 31, 2009, debt with the Federal Financing Bank consisted of $5,803 million compared to $1,303 million at March 31, 2008, and $7,200 million outstanding at September 30, 2008. In Quarter II, we borrowed $2,000 million of long-term fixed-rate debt; $1,200 million for 30 years, $500 million for 10 years; $300 million for 5 years. We also borrowed $500 million in floating-rate debt that can be repaid at par every three months. The balance of our debt consisted of credit line borrowing. In 2008, all borrowings were short-term.

We are statutorily limited to net annual increases of $3 billion in our debt and our total debt cannot exceed $15 billion. For 2009, we are subject to an absolute debt ceiling of $10.2 billion, a $3 billion increase from the September 30, 2008 debt balance of $7.2 billion

Interest expense of $10 million for Quarter II, 2009 was $2 million more than $8 million in the same period last year. Lower interest rates on short-term debt were offset by the higher long-term notes obtained in Quarter II. For the six months ended March 31, 2009, interest expense was $20 million compared to $30 million for the same period of 2008. Lower interest expense year-to-date is the result of lower interest rates for the majority of 2009.

The following table summarizes the Postal Service's long-term debt as of March 31, 2009, and the timing of scheduled interest payments and maturities.

Payments Due on Long-term Debt, by Year

(Dollars in millions)	2009	Years 1 to 3	Years 4 to 5	More than 5 Years	Total
Long-term debt	$ -	$ -	$ 300	$ 2,200	$ 2,500
Interest on long-term debt	27	204	133	1,216	1,580
	$ 27	$ 204	$ 433	$ 3,416	$ 4,080

Cash Flow Activity

Cash flow from operating activities was $2,049 million; $1,867 million lower than the level through Quarter II last year. Cash flows through Quarter II were negatively impacted by the net loss for the first half of the year, driven mostly by the decline in revenues.

Purchases of property and equipment for the six months ended March 31, 2009, were $998 million, a $12 million increase from the $986 million of property and equipment purchased during the same period last year. The increase was due to payments committed in prior years.

We used the net cash flow from operations, after paying for capital investments, along with cash on hand, to pay down debt. We repaid debt, net of borrowing, of $1,397 million and $2,897 million through Quarter II of 2009 and 2008, respectively. Typically, debt is relatively lower at the quarter ends but higher at year end due to worker's compensation and retiree health benefits payments due on September 30.

Liquidity Outlook

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

According to the National Bureau of Economic Research, we are 16 months into an economic recession. Many economists expect it to be one of the longest and deepest recessions since the Great Depression. Real GDP declined at a rate of 6.3% in our Quarter I 2009 and 6.1% in our Quarter II 2009.

The Postal Service and mailing industry have been severely affected by this widespread financial crisis, although mail volumes have also suffered due to a long-term trend of hard copy correspondence and transactions being diverted to electronic media. Since peaking at 213 billion pieces in 2006, mail volume dropped to 203 billion in 2008, and is expected to drop a further 20 billion — 25 billion pieces in 2009 and another 10 billion pieces in 2010. A drop of this magnitude is unprecedented in Postal Service history. It is anticipated that, despite the effects of price increases in 2008 and 2009, revenues will decline in 2009 by more than $6 billion, compared to 2008. This would be the first year-over-year decline since 1946. In Quarter II, revenue was $1,978 million lower than the prior year. Year-to-date operating revenue was $3,252 million below the comparable level of 2008. Revenue is expected to continue to decrease into 2010.

Additionally, beginning in 2007, the Postal Service was required to make annual payments into the PSRHBF of between $5.4 billion and $5.8 billion (See Note 6). Expenses in 2009 are also being pressured by record COLAs, called for by our contracts with postal labor unions.

The impacts of the severe recession, the annual PSRHBF payment, and record COLA are placing unprecedented strains on our cash flow. We anticipate a net loss of over $6 billion in 2009. The 2010 net loss is projected to be comparable to the projected 2009 net loss. Our projected loss in 2009 of over $6 billion means we will have a cash shortfall at year end.

In response to this challenge, the Postal Service has taken a number of other actions to reduce cash outflows and increase cash inflows.

In 2008, the Postal Service achieved $2.2 billion in annual cost reductions, which included a reduction of 50 million workhours. We have targeted $5.9 billion in total cost reductions in 2009. For the six months ended March 31, 2009, we used 58 million fewer workhours than the same period last year. We have targeted the elimination of 100 million workhours this year, doubling last year's success.

Working with the National Association of Letter Carriers, we recently concluded an interim agreement that establishes a new process for evaluating and adjusting city delivery routes, resulting in a quickly implemented procedure to reflect workload reduction. The accelerated route adjustment process covers all city delivery letter routes and will be implemented during calendar year 2009. Ultimately, it will involve two separate evaluations of approximately 150,000 city delivery routes and help us to achieve workhour reduction targets.

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

We are also continuing to pursue efforts to consolidate some excess capacity in our mail-processing and transportation networks without adversely impacting service. This will allow us to maximize operational efficiency and capitalize on the economies of scale associated with advances in automated mail processing.

In Quarter II 2009, the Postal Service initiated an effort to reduce the cost of existing contracts. The goal of this initiative is to reduce contract costs by $1.3 billion by the end of 2011. This effort is an important part of the organization's plan to reduce non-personnel costs by 10 percent over this year and next.

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

Some cost-reduction efforts require that time-consuming legally or contractually-mandated processes be followed. While we are working to capture as much savings as possible in 2009, many of these efforts may not realize significant savings until late 2009 or 2010.

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

We have created a number of price and volume incentives to promote volume growth for large and medium shippers. These include an incentive program for saturation mailers and a summer sale for Standard Mail that is currently under review by the Postal Regulatory Commission. Following last year's decision by DHL to reduce its United States operations, we initiated an aggressive outreach effort to make the Postal Service the shipper of choice for former DHL customers. We are also creating a dedicated sales force that will exclusively promote our expedited shipping services.

These actions are intended to conserve cash and generate revenue in response to deterioration in the economy, particularly the mailing industry. However, the full effect of these actions may not be realized until 2010. We are committed to exploring all of the initiatives discussed above because there is no assurance that economic conditions will improve within that time frame or that mail volumes will return to previous levels once the economy does improve. Although each of the actions discussed above is expected to positively impact cash flow in 2009 and 2010, they will not, either individually or in the aggregate, be sufficient to offset the expected September 30, 2009 cash shortfall.

In recent years, we have funded some of our obligations through increased debt. Our annual increase in debt is limited by statute to $3 billion and total outstanding debt to $15 billion. Our debt will reach a high point in September, when we are required to make a workers' compensation payment of approximately $1.1 billion and the retiree health benefit payment to the PSRHBF of $5.4 billion. We currently project increasing our net debt outstanding this year by $3 billion but do not expect this to be sufficient to fund our year-end cash requirements.

Because the efforts that can be undertaken by the Postal Service without adversely impacting service to our customers are expected to be insufficient to avoid a cash shortfall on September 30, 2009, we have asked Congress to consider two changes to the laws governing the Postal Service.

As discussed in the Legislation section, the Postal Service has requested that Congress permit payment of health benefit premiums for current retirees from the $32 billion already deposited in the PSRHBF. This would reduce cash outlays for this fiscal year by approximately $2 billion.

We must also better match our network and fixed costs to current and expected volumes to allow us to continue to deliver high quality service at affordable prices to the American public, while regaining our financial stability and positioning for future cost-effective service. Recognizing the public service aspect of our operations, we plan to seek the legislative flexibility to change from six day a week to five day a week delivery. The Postal Service has requested that Congress remove the annual appropriation bill rider, first added in 1983, that effectively requires the Postal Service to deliver mail six days each week. Any reductions in delivery frequency would be under the direction of our Board of Governors and only when absolutely warranted by financial circumstances. Were we to do so, we would make every effort to maximize the benefits to our customers while minimizing any disruption to businesses and households. We do not anticipate being able to realize any savings in 2009 from this request, but would capture savings in future years.

We project that without legislative change we will have a cash shortfall of approximately $1.5 billion on September 30, 2009. If this happens, the Postal Service may be unable to pay certain obligatory payments due in September 2009. Continuing significant losses in 2010 and future years would ultimately cause the $15 billion debt limitation to become insufficient without additional structural changes.

Service and Performance

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

CUSTOMER SATISFACTION MEASUREMENT (CSM)

CSM is an independently-administered survey that provides an external, independent measure of customer satisfaction with postal products and services. For Quarter II 2009, 93% of residential household customers rated the overall service they received from the Postal Service as excellent, very good or good, a one percentage point increase over the same period last year. In 2009, for the fifth year in a row, the respected Ponemon Institute rated the Postal Service as the most trusted government agency. The Institute also ranked us as one of the ten most-trusted organizations in the nation - public or private.

Outlook

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

The housing market continues to be a major drag on the economy. The holiday shopping season was the weakest in decades. The estimated 1.3% second quarter gain in consumer spending would break the longest slide since 1991 and is tempered by the expectation that spending will decline by 1.5% during the third quarter. The combination of the weak housing market, the continuing retail slump, and the loss of 3.1 million jobs in calendar year 2008 plus an additional 2 million job loss for the quarter ended March 31, 2009, dim any hope for a quick economic recovery.

Retail sales, employment, and investment spending are all significant indicators of mail demand. All three of these indicators are projected by Global Insight to significantly decrease in 2009. Even if the anticipated fiscal-stimulus package is successful in bolstering the economy, we anticipate a volume decline in 2010.

Revenue Outlook

Based on results from the first two quarters of 2009 and the economic outlook from Global Insight, we have revised our projections and now anticipate a volume decline of 20 billion — 25 billion pieces of mail for 2009. The current shifts in the economy are so extreme that the reliability of predictive models is lessened. Without an unprecedented turn-around in the second half of the year, we anticipate revenue this fiscal year will be lower than in 2008. If so, that will be the first year-over-year decline in revenue since 1946. We anticipate a small economic rebound in 2010. However, this is expected to translate into little revenue growth, as volume is expected to decline an additional 10 billion pieces in 2010. Moreover, even when the economy does rebound, the Postal Service will still face electronic diversion of its core services. The Postal Service is not unique in this weak revenue performance; rather we are a reflection of the economy in general.

The Postal Service implemented a previously-announced price increase for Shipping Services on January 18, 2009. The move to annual January price changes for Shipping Services is consistent with industry-wide practice in the package delivery sector. In addition, we will raise Mailing Services prices an average of 3.8% in mid-May, 2009, consistent with the statutory guidelines embodied in P.L.109-435. The price for a one ounce first-class mail stamp will increase 2 cents to 44 cents. The increases in prices for Shipping Services and Mailing Services are factored into the current revenue outlook for the remainder of 2009.

Expense Outlook

The Postal Service has implemented a $5.9 billion cost reduction plan in an effort to mitigate the effects of the significant revenue shortfall from declining mail volumes in 2009. Savings initiatives have been implemented across the entire organization, including all operations, administrative and non-personnel expenses. These are discussed in the Liquidity section of this document.

The potential for greater cost reduction opportunities could be realized in cooperation with our unions and management associations. In addition, further savings are being discussed with Congress through public policy changes, such as restructuring funding for retiree health care premium payments. If applied retroactively to the beginning of our fiscal year, the restructuring would save approximately $2 billion in expenses and cash outflows in 2009.

Legislation

Appropriations
The President signed P.L. 111-8 on March 11, 2009, making omnibus appropriations for the remainder of the fiscal year ending September 30, 2009. For the Postal Service, the law includes $112 million for payment to the Postal Service Fund, including $29 million for repayment of revenue forgone. The law also provides that $83 million of the appropriation to fund statutorily required free mail for the blind and overseas voters not be made available until October 1, 2009. The legislative text also continues the requirement for the Postal Service to maintain six-day delivery.

Another provision in P.L. 111-8, section 5538, provides for nonreduction in pay for employees serving in the uniformed service or the National Guard. We do not expect this provision to have a material impact upon our finances.

Retiree Health Benefits
On January, 6, 2009, H.R.22 was introduced. This bill would allow the PSRHBF to pay current retirees' health benefit premiums from the existing $32 billion fund balance, previously contributed by the Postal Service. This would, if applied retroactively from the beginning of 2009, reduce 2009 expenses by approximately $2 billion. It could also reduce the amount of funds the Postal Service would need to borrow from the Treasury for the sole purpose of depositing those monies into the PSRHBF. The Postal Service is actively supporting this bill and, as of the beginning of May, the bill had approximately 293 cosponsors.

Do Not Mail (State Legislation)
Activity continues at the state level on Do Not Mail legislation. In January, two bills were introduced in the Connecticut state legislature and one was introduced in New York (A.B. 3191). One of the Connecticut bills (H.B. 5410) proposed establishing a "Do Not Mail List," while the other measure (H.B. 5413) would provide an "opt out" option for consumers. The New York measure proposed the regulation of unsolicited advertisements. All three bills were referred to committees.

During February, another bill was introduced in New York (S.B. 2132). This bill would create a statewide registry of people who do not wish to receive unsolicited direct marketing mail. The measure was referred to committee.

In March, identical bills were introduced in the Florida state legislature – one in the state Senate (S.B. 1324) and the other in the state House (H.B. 781). Each bill would establish a registry and prohibit direct mail marketers from mailing to persons on the registry. Both measures were referred to committees.

Finally, on March 31, 2009, the San Francisco Board of Supervisors voted to pass a non-binding resolution urging both the California State Legislature and the San Francisco Congressional delegation to establish a Do Not Mail registry in the state of California.

Employee Benefit Bills
On April 1, 2009, H.R. 1804, the *Federal Retirement Reform Act,* passed the House of Representatives. H.R. 1804 would give FERS workers credit for their unused sick leave when they retire, putting them on par with CSRS employees. The bill also contains provisions to enroll new employees automatically in the Thrift Savings Plan and create a Roth Individual Retirement Account option within the 401(k)-type program. H.R. 1804 also would remove rules that effectively penalize CSRS employees for working part-time at the end of their careers and allow FERS employees returning to government after a stint in the private sector to reinvest their retirement savings and claim credit for previous service. On April 28, 2009, a companion Senate bill was introduced.

Several other bills affecting federal employees were referred to the House Committee on Oversight and Government Reform. The FERS Redeposit Act, H.R. 828 allows an individual who has returned to government service and who has received a refund of retirement contributions under the Federal Employees' Retirement System (FERS) system to deposit the amount that was received, with interest, to the credit of the Civil Service Retirement and Disability Fund.

H.R. 958, referred to as the FERS Sick Leave Bill requires that the total service of a FERS employee at retirement or who dies leaving a survivor entitled to benefits must include the employee's days of unused sick leave for annuity computation. In addition, H.R.1198, the Part-Time Federal Employees Equity Act of 2009 exempts a federal employee's part-time service performed before April 7, 1986, from proration requirements for purposes of annuity computation under the Civil Service Retirement System.

Preliminary estimates indicate that these measures could cost us approximately $60 million to $100 million annually, if adopted. The value of earned but unused sick leave of our FERS employees is approximately $1 billion. Amortized over 40 years, this would be an additional expense in the range of $45 million to $80 million annually.

Change of Address

H.R. 1251 was introduced that would require a signed confirmation from customers who file a change of address (COA) request. Presently, the Postal Service processes about 45 million COA requests each year. Of this, about 32 million are customer-initiated COA requests and the rest are initiated by postal employees. Requiring a customer to visit a Post Office to sign a confirmation would add costs for the Postal Service of up to $125 million annually based on initial estimates. Such a requirement would also inconvenience customers and cause an increase in costly undeliverable-as-addressed mail from addressees who might elect not to appear in person to sign a confirmation.

Tobacco

Several bills impacting tobacco have been introduced. Among them, H.R. 1256, the *Family Smoking and Tobacco Control Act* is moving the fastest. This bill would allow the Food and Drug Administration to regulate tobacco, which could potentially include the banning of tobacco in the mail. This bill passed the House on April 2, 2009, and now moves to the Senate for consideration. The impact of the banning of tobacco products in the mail is estimated to be in the range of $35 million to $40 million annually according to a 2005 Postal Service assessment.

Contracting Out

As in previous years, legislation that would put limitations on the ability of the Postal Service to contract out mail delivery and other postal activities continues to be introduced. Recently filed was H.R. 1686, which would require the Postal Service to bargain with employee unions before entering into a contract for providing mail processing, mail handling or surface transportation of mail. If passed, this legislation would impact the Postal Service’s ability to achieve cost savings due to the lack of flexibility that it would impose. The same bill was introduced last year. Also related to this subject is H.R. 101, a resolution that expresses the sense of the House of Representatives that the Postal Service should discontinue the practice of contracting out mail delivery service. Both measures were referred to the same committee.

Delivery

A resolution, H.Res. 173, expresses the sense of the House of Representatives that the Postal Service should take all appropriate measures to ensure the continuation of six-day mail delivery service. The resolution was referred to the House Committee on Oversight and Government Reform.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

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

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

See our 2008 10-K, Financial Section Part II, Item 7A-*Quantitative and Qualitative Disclosures about Market Risk*.

Item 4 – Controls and Procedures

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

Disclosure Controls

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

We carried out an evaluation, under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of March 31, 2009. 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 March 31, 2009.

Internal Controls

There have been no changes during the period covered by this report in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1 – Legal Proceedings

None.

Item 1A – Risk Factors

See 2008 Annual Report for a list of the risk factors. The following updates those 2008 risk factors due to changes in our operating environment.

We are subject to a volatile economic environment which could reduce revenues, increase costs and otherwise place additional burdens on our operations.

The global economy is currently facing a financial crisis and severe recession, which has led to significant pressure on the Postal Service and the mailing industry generally. In this environment a number of scenarios could put severe pressure on our short- and long-term liquidity, including most importantly: economic decline greater than presently forecast that causes industry sales volume to decline to levels significantly below our current planning assumptions (i.e., for 2009, 178—183 billion pieces)

In such an event, or in response to other unanticipated circumstances, we could require additional financing. Our only option at this point would be to obtain financing which requires a change in legislation. With additional legislation the likelihood of increased scrutiny and additional reporting requirements could put further restrictions on our ability to operate efficiently.

During the past year we experienced substantial negative operating-related cash flows, and we expect that trend to continue, for the near-term. As a result of the global financial crisis and without legislative intervention, we may not be able to obtain future liquidity in amounts sufficient to enable us to pay our indebtedness and to fund our other liquidity needs in both the near- and long-term.

We are potentially subject to legislative proposals related to retirement benefits which could increase our costs and otherwise place additional burdens on our operations.

On April 1, 2009, three bills affecting federal employees passed in the House of Representatives.

The FERS Redeposit Act or H.R. 828 allows an individual who has returned to government service and who has received a refund of retirement contributions under the Federal Employees' Retirement System (FERS) system to deposit the amount that was received, with interest, to the credit of the Civil Service Retirement and Disability Fund. H.R. 958, referred to as the FERS Sick Leave Bill requires that the total service of a FERS employee at retirement or who dies leaving a survivor entitled to benefits must include the employee's days of unused sick leave for annuity computation. In addition, H.R.1198, the Part-Time Federal Employees Equity Act of 2009 exempts a federal employee's part-time service performed before April 7, 1986, from proration requirements for purposes of annuity computation under the Civil Service Retirement System.

Preliminary estimates are that these measures could cost us approximately $60 million to $100 million annually, if adopted. The value of earned but unused sick leave of our FERS employees is approximately $1 billion. Amortized over 40 years, this would be an additional expense in the range of $45 million to $80 million annually.

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 Agreement with Chief Financial Officer and Executive Vice President (incorporated by reference to Exhibit No 10.1 to the Current Report on Form 8-K filed with PRC on January 29, 2009).
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: May 6, 2009

/s/ Joseph Corbett

Joseph Corbett
Chief Financial Officer
Date: May 6, 2009

Exhibit 31.1

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

I, John E. Potter, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 6, 2009

/s/ John E. Potter
John E. Potter
Postmaster General and Chief Executive Officer

Exhibit 31.2

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

I, Joseph Corbett, certify that:

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

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

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

4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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: May 6, 2009

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended March 31, 2009, (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: May 6, 2009

/s/ John E. Potter
John E. Potter
Postmaster General and Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended March 31, 2009 (the "Report"),I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: May 6, 2009

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer