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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2007 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:

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Not Applicable ☑

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

Common Stock	Outstanding Shares at February 8, 2008
No Common Stock,	N/A

United States Postal Service
Quarterly Financial Report Index

United States Postal Service
Statements of Operations

(Dollars in millions)	Three Months Ended December 31, 2007 (unaudited)	Three Months Ended December 31, 2006 (unaudited)
Operating revenue	$ 20,369	$ 19,637
Operating expenses:		
Compensation and benefits	13,643	13,910
Retiree health benefits	1,840	4,732
Transportation	1,842	1,844
Other	2,358	2,170
Total operating expenses	19,683	22,656
Income (Loss) from operations	**686**	**(3,019)**
Interest and investment income	8	52
Interest expense	(22)	(4)
Net Income (Loss)	**$ 672**	**$ (2,971)**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	December 31, 2007 (unaudited)	September 30, 2007 (audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 965	$ 899
Receivables:		
Foreign countries	478	425
U.S. government	108	155
Other	251	223
Receivables before allowances	837	803
Less allowances	45	44
Total receivables, net	792	759
Supplies, advances and prepayments	153	201
Total Current Assets	**1,910**	**1,859**
Appropriations Receivable - Revenue Forgone	**392**	**392**
Property and Equipment, at Cost:		
Buildings	21,738	21,591
Equipment	21,323	21,060
Land	2,926	2,914
Leasehold improvements	893	842
	46,880	46,407
Less allowances for depreciation and amortization	24,978	24,688
	21,902	21,719
Construction in progress	1,621	1,877
Total Property and Equipment, Net	**23,523**	**23,596**
Total Assets	**$ 25,825**	**$ 25,847**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Capital

(Dollars in millions)	December 31, 2007 (unaudited)	September 30, 2007 (audited)
Liabilities and Net Capital		
Current Liabilities:		
Compensation and benefits	$ 2,401	$ 3,565
Retiree health benefits	1,406	6
Payables and accrued expenses:		
Trade payables and accrued expenses	1,198	1,523
Foreign countries	505	452
U.S. government	88	111
Total payables and accrued expenses	1,791	2,086
Customer deposit accounts	1,571	1,499
Deferred revenue - prepaid postage	1,160	1,142
Outstanding postal money orders	800	847
Prepaid box rent and other deferred revenue	428	434
Debt	3,215	4,200
Total Current Liabilities	**12,772**	**13,779**
Noncurrent Liabilities:		
Workers' compensation costs	7,088	6,800
Employees' accumulated leave	2,209	2,129
Deferred appropriation and other revenue	575	591
Long-term portion capital lease obligations	619	618
Deferred gains on sales of property	348	341
Contingent liabilities and other	408	455
Total Noncurrent Liabilities	**11,247**	**10,934**
Total Liabilities	**24,019**	**24,713**
Net Capital		
Capital contributions of the U.S. government	3,034	3,034
Deficit since reorganization	**(1,228)**	**(1,900)**
Total Net Capital	**1,806**	**1,134**
Total Liabilities and Net Capital	**$ 25,825**	**$ 25,847**

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Changes in Net Capital

(Dollars in millions)		Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital
Balance, September 30, 2007	(audited)	$ 3,034	$ (1,900)	$ 1,134
Net Income - Three months Ended December 31, 2007	(unaudited)	-	672	672
Balance, December 31, 2007	(unaudited)	$ 3,034	$ (1,228)	$ 1,806

See accompanying notes to the financial statements (unaudited)

United States Postal Service
Statements of Cash Flows

(Dollars in millions)	Three Months Ended December 31, 2007 (unaudited)	Three Months Ended December 31, 2006 (unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 672	$ (2,971)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	597	514
Loss (Gain) on disposals of property and equipment, net	3	(19)
Increase in workers' compensation liability	288	437
Increase in employees accumulated leave	80	112
Decrease in noncurrent deferred appropriations and other revenue	(1)	-
(Decrease) increase in other noncurrent liabilities	(47)	9
Changes in current assets and liabilities:		
Receivables, net	(33)	(185)
Supplies, advances and prepayments	48	39
Compensation and benefits	(1,164)	(700)
Retiree health benefits	1,400	4,303
Payables and accrued expenses	(296)	(252)
Customer deposit accounts	72	37
Deferred revenue-prepaid postage	18	26
Outstanding postal money orders	(47)	(19)
Prepaid box rent and other deferred revenue	(6)	(21)
Net cash provided by operating activities	1,584	1,310
Cash flows from investing activities:		
Purchase of property and equipment	(529)	(484)
Proceeds from deferred building sale	7	-
Proceeds from sales of property and equipment	2	16
Net cash used in investing activities	(520)	(468)
Cash flows from financing activities:		
Payments on debt	(985)	(1,525)
Issuance of (payments for) capital lease obligations, net	2	(13)
U.S. government appropriations - expensed	(15)	(9)
Net cash used in financing activities	(998)	(1,547)
Net increase (decrease) in cash and cash equivalents	66	(705)
Cash and cash equivalents at beginning of year	899	997
Cash and cash equivalents at end of period	$ 965	$ 292

See accompanying notes to the financial statements (unaudited)

Item 1 – Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

These interim financial statements reflect the unaudited results of operations of the United States Postal Service for the three months ended December 31, 2007 and 2006, and our financial position as of December 31, 2007 (unaudited) and September 30, 2007. The interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and should be read in conjunction with the significant accounting policies and other disclosures in our 2007 Annual Report. As in the Annual Report, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal year 2008 and fiscal year 2007. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from estimates.

Certain comparative prior year amounts in the interim financial statements and accompanying notes have been restated to conform to the current year presentation. This was required due to the adoption of interim financial reporting in accordance with Securities and Exchange Commission regulations, as mandated by the Postal Accountability and Enhancement Act, P.L. 109-435. These restatements consisted primarily of refinements to accrual estimations for liabilities such as workers' compensation and deferred revenue for prepaid postage and resulted in an increase in the net loss for Quarter I, 2007 of $239 million from what was previously reported. The changes to the quarterly results do not affect the net loss reported in our 2007 Annual Report for the entirety of fiscal year 2007.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments necessary to fairly present our financial position as of December 31, 2007, the results of our operations for the three months ended December 31, 2007 and 2006 and cash flows for the three months ended December 31, 2007 and 2006. Operating results for the three-month period ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008.

Note 2 – Public Law 109-435 (P.L. 109-435), Postal Accountability and Enhancement Act

P.L.109-435, enacted December 20, 2006, made significant reforms in the governance of the Postal Service and significantly altered some of our financial responsibilities, particularly in respect to the funding of Civil Service Retirement System (CSRS) benefits and retiree health benefits. The legislation does not change our parent-subsidiary type relationship as an independent establishment of the U.S. government. Our employees and retirees continue to participate in all federally-sponsored retirement and health benefit plans. The U.S. government determines the extent and nature of these employee benefits and the funding requirements of these plans. Therefore, we continue to account for our participation in U.S. government sponsored health benefit and retirement plans using multi-employer plan accounting rules in accordance with Financial Accounting Standards Board Statement (FAS) 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* and FAS 87, *Employers' Accounting for Pensions*.

P.L.109-435 established the Postal Service Retiree Health Benefits Fund (PSRHBF). The PSRHBF, which is held by the U.S. Treasury and controlled by Office of Personnel Management (OPM), will be used, commencing in 2017, to pay our share of the health insurance premiums for current and future Postal Service retirees. Beginning in 2007 we were required to make payments into the PSRHBF. The payment schedule in the law requires us to pay on average, $5.6 billion per year into the fund for ten years, beginning in 2007. This is in addition to our regularly allocated cost of premiums for current retirees. After these payments are complete, 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 provide sufficient balance in the fund by September 30, 2056, to pay our share of the health insurance premiums for retired Postal Service employees. In Quarter I we expensed $1,400 million, representing one-fourth of the required $5.6 billion 2008 payment. We will expense the same amount in each subsequent quarter of 2008. We expensed $1,350 million during Quarter 1, 2007. See Note 7, *Health Benefits Programs* and Note 8, *Retirement Programs,* for further discussion of this accounting treatment.

Note 3 – Debt and Related Interest

As of December 31, 2007, our debt consisted of $3,215 million in short-term debt outstanding with the Federal Financing Bank compared with $4,200 million outstanding at September 30, 2007.

We continue to maintain two credit lines with the Federal Financing Bank. One credit line enables us to draw up to $3.4 billion with two days notice. The other credit line enables us to draw up to $600 million on the same business day that funds are requested. In addition, we can also use a series of other notes with varying provisions to draw upon with two days notice.

Interest expense was $22 million in Quarter I, 2008 compared to $4 million in the same period last year. Our interest expense consists of interest on borrowing and other interest expense.

Cash paid for interest was $19 million in Quarter I, 2008 compared to $3 million for Quarter I, 2007.

Note 4 – Property and Equipment

We record property and equipment at cost, including the interest we pay on the money we borrow to pay for the construction of major capital additions. We had no interest capitalized or material impaired assets during the three months ended December 31, 2007 and 2006.

Note 5 – 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 lease obligations for buildings, contracts for normal operational expense items, inventory and research and development contracts.

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

CAPITAL COMMITMENTS, EXPENDITURES, RESOURCES ON ORDER

In Quarter I of this year we added new capital commitments of $300 million and our December 31, 2007 balance of resources on order for capital items was $2,336 million. The schedules presented below reflect our capital resources on order and our future minimum lease payments for all non-cancelable capital leases.

Capital Resources on Order (Dollars in millions)		December 31, 2007
Mail Processing Equipment	$	1,321
Postal Support Equipment		246
Building Improvements		486
Construction and Building Purchase		235
Retail Equipment		38
Vehicles		10
Total	$	2,336

Capital Lease Obligations (Dollars in millions)		December 31, 2007
2008	$	77
2009		101
2010		98
2011		96
2012		98
After 2012		614
Total Lease Obligations	$	1,084
Less: Interest		420
Total Capital Lease Obligations	$	664
Less: Short-term portion of capital lease		45
Long-term Portion of Capital Lease	$	619

EXPENSE COMMITMENTS, RESOURCES ON ORDER

At December 31, 2007, we estimate our expense resources on order to be $5,722 million. Our future minimum lease payments for all non-cancelable operating lease obligations, our obligation for retiree health benefits, and our rental expense on operating leases are also shown below.

Expense Resources on Order (Dollars in millions)		December 31, 2007
Operational Contracts	$	5,611
Inventory Contracts		61
Research and Development Contracts		50
Total	$	5,722

Operating Leases (Dollars in millions)		December 31, 2007
2008	$	586
2009		753
2010		715
2011		656
2012		588
After 2012		5,132
Total Lease Obligations	$	8,430

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

Our rental expense on operating leases is shown in the following table:

Rental Expense (Dollars in millions)	Three Months Ended December 31,			
		2007		2006
Non-cancelable real estate leases including related taxes	$	243	$	236
Facilities leased from GSA subject to 120-day notice of cancellation		9		11
Equipment and other short-term rentals		79		54
Total Rental Expense	$	331	$	301

Note 6 – Contingent Liabilities

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

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

We believe that adequate provision has been made for probable liabilities from claims and suits. The current portion of this liability at December 31, 2007 is $214 million and $248 million at September 30, 2007 and is included on the balance sheets under the heading trade payables and accrued expenses. The long-term portion of this liability at December 31, 2007 was $378 million. At September 30, 2007 the long-term liability was $428 million. These are accrued under the heading contingent liabilities and other in our balance sheets.

Contingent Liabilities (Dollars in millions)	December 31, 2007	September 30, 2007
	(unaudited)	(audited)
Labor Cases	$ 494	$ 526
Equal Employment Opportunity Cases	10	57
Tort Cases	41	39
Environmental Cases	40	40
Contractual Cases	7	14
Total	$ 592	$ 676

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, if any. No provisions for these are included in our interim financial statements.

Note 7 – Health Benefits Programs

Current Employees

Substantially all of our employees are covered by the Federal Employees' Health Benefits Program (FEHBP). OPM administers the program and allocates the cost of the program to the various participating government agency employers. We cannot direct the costs, benefits, or funding requirements of the federally-sponsored plan and therefore account for these costs using multiemployer plan accounting rules.

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 our employees. Our employees paid approximately 17% of the premium costs in Quarter I, 2008 and Quarter I, 2007. We paid the remainder of employee health care expense, which was $1,357 million in Quarter I, 2008, compared to $1,348 million in Quarter 1, 2007.

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 retire on or after July 1, 1971. However, we do not include the costs attributable to federal civil service before that date.

With passage of P.L.109-435, we continue to make monthly payments to OPM for our share of premiums for our retirees due to FEHBP. Additionally, at the end of the fiscal year we make payments into the new PSRHBF held by the U.S. Treasury and controlled by OPM. For 2008, the required contribution to the fund is $5,600 million, which we are expensing at the rate of $1,400 million per quarter. During Quarter I we expensed $1,840 million for retiree health benefits: $440 million was for retiree health benefits invoices from OPM for current retirees and $1,400 million for the PSRHBF. For the same period last year we expensed $424 million for retiree benefits and $1,350 million for the PSRHBF. Also with the passage of *Public Law 109-435*, we expensed $2,958 million in Quarter I of 2007 held in escrow as of September 30, 2006.

Note 8 – Retirement Programs

PENSION PROGRAMS

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

The following table reflects our contributions for retirement compared to last year:

Retirement Contribution (Percentage)	December 31, 2007	2006
CSRS Employer	-	-
CSRS Employee	7.0	7.0
Dual CSRS Employer	-	-
Dual CSRS Employee	0.8	0.8
FERS Employer	11.2	11.2
FERS Employee	0.8	0.8

P.L.109-435 suspends our employer contribution to CSRS that would otherwise be required under Title 5, Section 8334(a) (1), of the United States Code until 2017. At that time OPM will determine whether additional funding is required to pay the benefits of postal retirees. This provision was effective October 14, 2006. We continue to make employer contributions for FERS employees. As a result, our retirement expense for Quarter I, 2008 was $1,483 million, compared to $1,469 million for the same period last year and is recorded in compensation and benefits expense.

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Note 9 – Workers' Compensation

We pay for workers' compensation costs under a program administered by the Department of Labor (DOL). These costs include employees' medical expenses, payments for continuation of wages and DOL administrative fees. We record these costs as an operating expense under compensation and benefits. Our quarterly expense for workers' compensation was $300 million during Quarter I, 2008, compared to $470 million for the same period last year.

During the last quarter of 2007, with the assistance of an outside actuary, we changed the actuarial valuation techniques and inflation and discount rates used in estimating our workers' compensation liability. The actuarial valuation techniques and all assumptions used in valuing the workers' compensation liability at December 31, 2007 are consistent with those used at September 30, 2007. In revaluing the liability for December 31, 2006, we used the same actuarial valuation techniques that were used at September 30, 2007 and December 31, 2007, however we used the inflation and discount rates that were in effect at that time. This resulted in an increase of $195 million in workers' compensation expense in Quarter I, 2007 from what was previously reported.

Note 10 – Revenue Forgone

Revenue forgone is an appropriation which covers our cost of providing free and reduced rate mailing service to groups designated by Congress. During Quarter I, 2008, we recognized $16 million in revenue for revenue forgone appropriations, compared to $15 million during the same period last year.

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

Cautionary Statements

The *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report include statements representing our expectations about our business and financial results. These may be affected by risks and uncertainties we discuss here and in our Annual Report, such as economic conditions, regulatory and legislative changes, changes in actuarial assumptions, trends we know about, trends we anticipate and trends we believe are relevant to future operations. Some of these factors may cause our actual results to differ materially from those contemplated. Operating results for the three-month period ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008. This report should be read in conjunction with our 2007 Annual Report. As in the Annual Report, all references to years, unless otherwise stated, refer to our fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal year 2008 and fiscal year 2007.

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 that are required to prepare the financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The three critical accounting policies that we believe are either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to our interim financial statements are those relating to workers' compensation costs, deferred revenue for prepaid postage, and contingent liabilities. Management discusses the development and selection of these critical accounting policies and estimates with the Audit and Finance Committee of our Board of Governors and with our independent public accounting firm. In addition, Note 2 to the financial statements in our 2007 Annual Report contains a summary of our significant accounting policies.

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 we are not dependent upon a single customer or small group of customers. No single customer represents more than 2% of our revenue.

Our primary lines of service are First-Class Mail and Standard Mail, which together account for about 94% of our volume. Priority Mail, International Mail, Express Mail, Periodicals and Package Services are other significant services we provide. We serve individual and commercial customers throughout the nation. Our services compete for business in the communications, distribution and delivery, advertising and retail markets. The rates and fees for our services are subject to a regulatory review process controlled by the independent Postal Regulatory Commission (PRC).

Our mailing services are sold through our nearly 37,000 Post Offices, stations, branches, contract postal units, our website www.usps.com and a large network of consignees. We deliver mail to over 148 million city, rural, Post Office box and highway delivery points. We conduct our operations primarily in the domestic market, with international operations representing less than 3% of our total revenue.

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

Our 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. Over 85% of our career employees are covered by collective bargaining agreements.

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

We are not a reporting company under the Securities Exchange Act of 1934, as amended, and we are not subject to regulation by the Securities and Exchange Commission (SEC). However, beginning with the quarter ended December 31, 2007 we are required under P.L.109-435 to file with the Postal Regulatory Commission (PRC) certain financial reports containing information prescribed by the SEC under section 13 of the Securities Exchange Act of 1934. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K.

Additional disclosures on our organization and finances, including our Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, Strategic Transformation Plan 2006–2010 and the Comprehensive Statement on Postal Operations may be found on our website at www.usps.com. Information on our website is not incorporated by reference in this document.

Results of Operations

As more fully described in Note 1, Basis of Presentation, in the Financial Information section, certain comparative interim financial statements have been restated to conform to the current year presentation. In Quarter I we had net income of $672 million compared to net loss of $2,971 million for Quarter I of last year.

Quarter I operating revenue was $20,369 million, compared to $19,637 million in Quarter I of last year, an increase of $732 million or 3.7%. The revenue increase for the quarter was driven primarily by the rate change implemented in May 2007.

Quarter I operating expenses were $19,683 million, compared to $22,656 million in the corresponding quarter of last year, a decrease of $2,973 million or 13.1%. The decrease in operating expenses was largely driven by a decrease in retiree health benefits of $2,892 million. In Quarter I, 2007 we had a one-time expense of $2,958 million, when the funds previously held in escrow were transferred to the new Postal Service Retiree Health Benefit Fund (PSRHBF).
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As discussed later in this section, compensation and benefits expense decreased by $267 million and transportation expenses decreased by $2 million in Quarter I, 2008 compared to the same period last year. All other operating expenses increased $188 million compared to the same period last year.

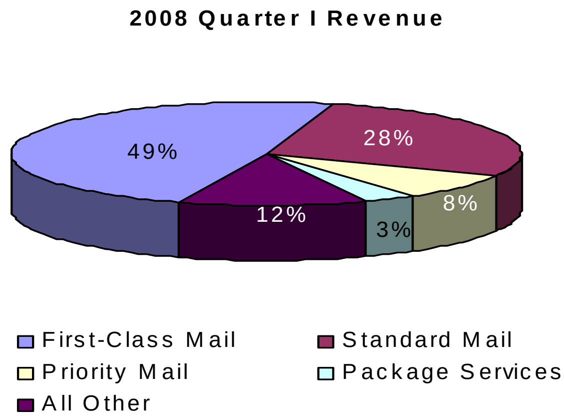
Revenue and Volume

In May 2007, postal rates increased by an average of 7.6%. As expected, this increase resulted in stronger revenues at the expense of a slight loss in volume. Some classes of mail and other services received increases more or less than 7.6%.

Revenue (Dollars in millions)	Three Months Ended December 31, 2007		Three Months Ended December 31, 2006		Pct ** Change
First-Class Mail	$	9,907	$	9,719	1.9%
Standard Mail		5,743		5,543	3.6%
Priority Mail		1,588		1,478	7.4%
Package Services		694		659	5.3%
Periodicals		604		546	10.5%
International		667		561	18.7%
Express Mail		237		238	-0.5%
Other *		929		893	4.6%
Operating Revenue	$	20,369	$	19,637	3.7%
Interest Income		8		52	-84.6%
Total Revenue	$	20,377	$	19,689	3.5%

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

** Note: Percentages are calculated based on unrounded numbers.



First-Class Mail revenue increased $188 million or 1.9%, in Quarter I on a volume decline of 1.0 billion pieces or 3.9% compared to the same period last year. Single-piece First-Class letters and cards continued its long-term decline, decreasing by 787 million pieces or 6.6% for the quarter to 11.9 billion pieces. Automation presort cards remain the largest growth area within First-Class Mail. However, this category represents only 3.5% of First-Class mail volume. Presort cards grew by 25 million pieces or 2.7% to 932 million pieces. Revenue per piece for First-Class Mail increased by 5.8% during Quarter I, 2008 compared to the same period last year. While rate increases contribute to the decrease in First-Class mail volume, technology is also a significant long-term driver behind the continued decline in this mail class. We believe that a technology-driven single-piece First-Class letters decline will continue into the foreseeable future. The weakness in volume is also attributable to the sluggish economy in general and the credit squeeze in the financial sector in particular. We have seen a noticeable decline in mailings from our financial service sector customers. However First-Class Mail demand, taken as a whole, is still relatively inelastic and the May 2007 rate increase is expected to result in higher revenue for the year.

Standard Mail revenue grew $200 million or 3.6% in Quarter I on a mail volume decrease of 2.6% or 749 million pieces compared to the same period last year. This is the second quarterly decline in the last three quarters. Standard Mail volume had grown for 13 consecutive quarters before these declines. We anticipated that Standard Mail volume would decline in Quarter I, due to the impact of the rate increase. Automation presort was once again the largest growth rate category with an increase of 3.6% or 602 million pieces for a revenue increase of $276 million. Enhanced carrier route (ECR) mail volume decreased by 1.4 billion pieces or 13.4% while revenue decreased $133 million or 7.3%. These volume shifts are the result of the elimination of basic ECR automation letters which now qualify for regular letter automation rates. Standard Mail volume was also affected by the weak economy and a decline in mailings from our financial service sector customers.

Priority Mail revenue increased $110 million or 7.4% in Quarter I compared to the same period last year. The revenue increase was partially offset by a volume reduction caused by the May 2007 rate increase. Priority Mail volume has decreased in each of the last four quarters after an extended period of growth. During Quarter I, Priority Mail volume decreased by 12 million pieces or 4.9%.

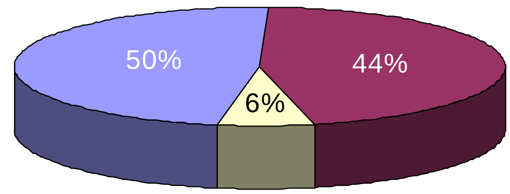
Package Services revenue increased $35 million or 5.3% in Quarter I compared to the first quarter of 2007. Volume decreased 11 million pieces or 3.4% in Quarter I compared to Quarter I, 2007. A 1.3% decrease in the average weight of a piece of our Package Services products was an additional restraint on revenue growth.

Mail Volume by Type (Pieces in millions)	Three Months Ended December 31, 2007	2006	Pct ** Change
First-Class Mail	24,363	25,347	-3.9%
Standard Mail	27,662	28,411	-2.6%
Priority Mail	240	252	-4.9%
Package Services	318	329	-3.4%
Periodicals	2,202	2,177	1.2%
International	243	245	-0.9%
Express Mail	12	14	-10.9%
Other *	354	328	7.9%
Total	55,394	57,103	-3.0%

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

**Note: Percentages are calculated based on unrounded numbers.

2008 Quarter I Mail Volume



The volume and rate changes for Periodicals resulted in an increase in revenue of $58 million or 10.5% compared to the same period last year. Periodical Mail volume increased 25 million pieces or 1.2% in the first quarter compared to the same period last year. This reversed four quarters of volume declines in this product. Periodicals volume is trending downward over the long term however, reflecting overall subscription trends.

Revenue from International Mail increased $106 million or 18.7% in Quarter I compared to the same period last year. International Mail volume decreased 0.9% or 2 million pieces. The large rise in revenue is a result of rate increases and the elimination of International Economy Mail. The elimination of this mail class resulted in migration to higher priced alternatives. We anticipate the effect of this change will continue through Quarter II and a portion of Quarter III. International Mail is also benefiting from strong growth in exports caused by the declining value of the U.S. dollar.

Express Mail revenue declined by $1 million or 0.5% in Quarter I compared to the same period last year. During the first quarter, Express Mail volumes decreased by 2 million pieces or 10.9%.

As authorized by the P.L. 109-435, a price increase is planned for May 2008. Under the law, increases for each class of mailing services may not exceed increases in the Consumer Price Index (CPI-U) of the prior twelve months. At the current time, it is estimated that increases for individual mail classes will be limited to 2.9%, representing the growth in the most recent CPI-U from December 2006 to December 2007 as computed using the averaging method approved by the PRC. This mechanism is intended to provide rate predictability for our mailers and hold postage rates to the rate of inflation. Postal customers will likely see smaller but more frequent rate increases in the future.

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

Compensation and benefits expense for Quarter I was $13,643 million, $267 million less than the prior year amount of $13,910 million, a decrease of 1.9%. The decrease primarily reflects a reduction in work hours and lower estimated workers' compensation costs for Quarter I, relative to the same period last year. Our cost of providing health benefits to current employees increased by $9 million over the same quarter last year.

Compensation and Benefits Expenses (Dollars in millions)	Three Months Ended December 31, 2007	2006
Compensation	$ 10,394	$ 10,509
Retirement	1,483	1,469
Health Benefits	1,357	1,348
Workers' Compensation	300	470
Other	109	114
Total	$ 13,643	$ 13,910

WAGES

Wages decreased by $181 million or 1.7% in Quarter I compared to same period last year. This is due to management initiatives, primarily pertaining to work hours and overtime, implemented in response to the volume decreases noted previously. Effective November 2007, bargaining unit employees received pay increases ranging from 1.2% to 1.8%. In addition, eligible bargaining unit employees received annualized COLA increases of $686 per employee, effective September 2007. New labor agreements allowed for increased transitional employee hours allowing overtime hours and casual employee hours to be lowered. This tempered some of the effect of the wage increases.

WORK HOURS

In addition to labor and benefit rates, work hours are a major driver of our compensation and benefits expense. A change in work hours is usually created by a change in workload, a change in productivity, or both. The two major workload factors that impact our operations are changes in mail volume and changes in the number of delivery points. In Quarter I, mail volume decreased by 3.0%, while we added 1.7 million new delivery points, compared to the same quarter last year. The impact of management initiatives and a focus on reducing overtime hours has helped total work hour usage decline 10.5 million hours or 2.8%. Mail processing work hours were reduced by almost 5 million; customer service and retail work hours declined by over 4 million and city delivery hours by almost 2 million compared to the same period last year. As the number of rural delivery points continues to grow, rural work hours and the corresponding salaries and benefits continue to grow as well.

Work Hour Analysis	Work Hours Three Months Ended December 31,		Pct
	2007	2006	Change
	(Work Hours in thousands)		
City Delivery	116,850	118,391	-1.3%
Mail Processing	81,692	86,630	-5.7%
Customer Services & Retail	57,477	61,720	-6.9%
Rural Delivery	47,115	46,615	1.1%
Other, including Plant, Vehicle Services, Operational Support, Postmasters & Administration	55,362	55,612	-0.4%
Total	358,496	368,968	-2.8%

EMPLOYEE COMPLEMENT

Employee complement was reduced by 3,749 during Quarter I. The total number of career employees at the end of the quarter was 681,013. This represents a reduction of 13,329 employees from the same quarter last year, all through attrition.

RETIREMENT EXPENSE – CURRENT EMPLOYEES

Retirement expenses remain a significant portion of our total operating expenses. During Quarter I, our retirement expense for the CSRS, Dual/CSRS and FERS plans was $1,483 million compared to $1,469 million for the same period last year. This was $14 million more the same period last year, or 1.0%.

WORKERS' COMPENSATION

Our employees are covered by the Federal Employees' Compensation Act, administered by the Department of Labor's Office of Workers' Compensation Programs (OWCP). The workers' compensation liability and expense accruals are estimated using an actuarial model based on the number of cases, severity of the injury, the age of the injured employee, the trend of our experience with such an injury and other factors. As discussed in Note 9 to the financial statements and in our 2007 Annual Report, we changed actuarial valuation techniques and inflation and discount rates in Quarter IV, 2007.

The primary drivers for our Workers' Compensation expense are the number of claims reported and the cost per claim. In Quarter I of 2008 we experienced an increase in paid medical claims of 8,662, or 8.3%, and an increase in paid compensation claims of 1,283 or 2.8% compared to Quarter I of 2007. A factor driving the increase in paid medical claims in Quarter I, 2008 compared to the same period last year is the number of medical examinations that are being done as part of a program that helps our employees return to full duty or find alternative types of work. While increasing medical claims in the short-term, this initiative will yield long-term benefits for both us and our employees.

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 and the timeliness with which they are reported and processed, and the amount and timing of payments made by the OWCP on our behalf. Medical claims, in particular, fluctuate significantly from quarter-to-quarter, thus the 8.3% increase in the number of paid medical claims in Quarter I, 2008 compared to the same period last year is not necessarily indicative of an adverse trend. Workers' compensation expense for Quarter I was $300 million compared to the same period last year at $470 million. Much of the decrease in the Quarter I, 2008 workers' compensation expense, relative to the same period last year is attributable to changes in inflation and discount rate assumptions, compared to those used in Quarter I, 2007.

RETIREE HEALTH BENEFITS

Health benefit expenses for our retirees were $1,840 million for the Quarter I compared to $4,732 million in the same period last year. This decrease of $2,892 million was primarily due to the inclusion of the one-time escrow transfer expense in Quarter I, 2007 results, as required by P.L. 109-435. Without the impact of this one-time item, retiree health benefit expenses would have increased by $66 million.

P.L.109-435 includes a ten-year payment schedule that requires that we pay $5.6 billion into the PSRHBF by September 30, 2008. We are expensing the $5.6 billion in equal amounts during each quarter throughout the year, at a rate of $1,400 million per quarter. See Note 2, *Public Law 109-435,* Note 7, *Health Benefits Programs,* and Note 8, *Retirement Programs* in the Financial Information section for further discussion of this accounting treatment.

Retiree Health Benefits (Dollars in millions)	Three Months Ended December 31, 2007	2006
Employer Premium Expense	$ 440	$ 424
P.L. 109-435 Scheduled Payment to PSRHBF	1,400	1,350
Transfer of 2006 Escrow to PSRHBF	-	2,958
Total	$ 1,840	$ 4,732

Under the FEHBP, the OPM charges us for the cost of our retirees currently participating in the plan. The major drivers of Retiree Health Benefits expense are the number of current participants on the rolls and premium costs. As of December 31, 2007, we had approximately 450,000 participants on the rolls, an increase of about 3,000 over the same period last year.

Operating Expenses – Transportation

Transportation expenses were $1,842 million, a decrease of $2 million, or 0.1% for Quarter I compared to the same period last year. Transportation costs are largely made up of highway and air transportation.

Transportation Expense (Dollars in millions)	Three Months Ended December 31, 2007	2006
Highway Transportation	$ 917	$ 842
Air Transportation	823	893
Other Transportation	102	109
Total	$ 1,842	$ 1,844

Highway transportation expenses of $917 million in Quarter I increased by $75 million or 8.9% over the same quarter last year. The increase was driven by greater utilization of the surface network for regular and holiday peak service. Increased contract wages, increased miles driven and higher fuel costs contributed $51 million to the additional expenses.

Air transportation expenses of $823 million in Quarter I decreased by $70 million or 7.8% from the same quarter last year. This was driven by decreases in the utilization of domestic air and cargo carriers which led to a decrease in expenses of $23 million. Holiday peak air expenses decreased $99 million compared to the same period last year due to the greater use of surface transportation and mail volume decreases. These decreases were offset by an increase in International air expenses of $35 million compared to Quarter I, 2007. This variance is largely attributed to the mode shift from ocean to air created by the elimination of International Economy Mail.

Operating Expenses – Other Operating Expenses

Other operating expenses of $2,358 million for Quarter I were $188 million or 8.7% higher than last year's comparable quarter. More than 40% or $83 million of the increase is related to depreciation and amortization expense which reflects the new equipment and buildings placed into service within the last twelve months. Vehicle maintenance and supplies and services increased a combined $82 million over the same period last year and reflect increases in the price of fuel and other supplies.

Other Operating Expenses (Dollars in millions)	Three Months Ended December 31, 2007	 2006
Supplies and Services	$ 627	$ 590
Depreciation and Amortization	597	514
Rent and Utilities	419	410
Vehicle Maintenance Service	208	163
Information Technology and Communications	169	159
Rural Carrier Equipment Maintenance Allowance	115	117
Other	223	217
Total	$ 2,358	$ 2,170

Productivity

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

In Quarter I, TFP increased by 0.5% compared to the same period last year. Although workload decreased by 1.6% in the quarter, resource usage decreased by 2.1%. A decline in resource usage component has a positive effect on TFP. The workload reduction was driven primarily by a 3.2% decrease in weighted mail volume due to declines in all mail classes except Periodicals. The most significant declines in weighted mail volume were in First-Class single-piece letters at 6.4% and First-Class single-piece cards at 16.8%. Weighted mail volume represents 65% of total workload. The 1.4% increase in miscellaneous output (special services) was significant, but not sufficient to offset the decline in weighted mail volume. Delivery points increased 1.3% compared to the same period last year.

On the resource usage side, labor usage decreased 2.8% compared to the same period last year. Labor represents 77% of total resource usage. Materials usage decreased 1.3%. Transportation usage contributed a reduction of 2.2%, to the change in materials usage. Air transportation usage declined 3.9% and highway transportation usage increased an offsetting 1.8%. Non-transportation material usage added 0.8%, partially offsetting the impact from decline in transportation usage. Supplies, contractual computer services and vehicle supplies were the primary drivers of the increase in non-transportation usage in Quarter I, 2008. Materials usage represents 18% of total resource usage. Capital resource usage was 6.5% higher in Quarter I, 2008 compared to the same period last year. The main driver for this was owned capital usage which increased 6.0%.

Cash Flow from Operating Activities

Aided by higher revenues resulting from the May 2007 general rate increase, cash flow from operating activities was $1,584 million, $274 million higher than the level for the first quarter last year. Operating cash flows during the first quarter benefit from the fact that accruals occur for the funding of retiree health benefits required by P.L. 109-435 and for workers' compensation costs, but payments are not made until the fourth quarter. The compensation and benefits liability decreased by $1,164 million this quarter versus a decline for the same quarter last year of $700 million. Cash flows during the quarter were negatively impacted by payments made to union employees resulting from labor contract settlements. Expenses for wage increases had been accrued since the expiration of these contracts.

Cash Flow from Investing Activities

Purchases of Property and Equipment for the period ended December 31, 2007 were $529 million this year, a $45 million increase over the $484 million of property and equipment purchased last year.

Cash Flow from Financing Activities

We used the net cash flow from operations, after paying for capital investments, to pay down debt. We repaid debt, net of borrowing, of $985 million and $1,525 million during the Quarter I of 2008 and 2007, respectively.

Cash and cash equivalents on December 31, 2007 were $965 million, $66 million higher than the September 30, 2007 balance.

Liquidity

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

Interest Expense

Interest expense of $22 million was $18 million higher for the Quarter I, 2008 compared to last year. This was due to the higher level of outstanding debt we had entering this fiscal year and the higher average debt balance we carried throughout the quarter compared to the same period last year.

Service and Performance

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

EXTERNAL FIRST-CLASS MAIL MEASUREMENT (EXFC)

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

Our EXFC scores improved to record levels in Quarter I, 2008. Compared to Quarter I, 2007, overnight delivery scores increased to 96% from 95%, 2-day service scores improved to 93% compared to 91% in 2007, and 3-day scores improved to 88% from 86%.

CUSTOMER SATISFACTION MEASUREMENT (CSM)

CSM is an independently administered survey of customer opinions of key areas of service to customers. In Quarter I of 2008, customer satisfaction remained constant, with 92% of our customers rating our service excellent, very good or good, the same score as a year ago.

Outlook

REVENUE OUTLOOK

The strong Gross Domestic Product (GDP) in Quarters III and IV of FY 2007 resulted in a stronger economy for all of FY 2007 than originally projected. FY 2007 Quarter IV GDP was revised upward to an impressive 4.9% from 3.9%. That revision was largely from stronger inventory accumulation. The impact of the subprime mortgage credit crisis began to be felt in Quarter I and will drag economic growth down throughout FY 2008. Preliminary numbers indicate that real GDP growth was 0.6% in Quarter I, a significant slowdown from Quarter IV's 4.9% rate. With the residential mortgage crisis, credit crunch and high oil prices already affecting the economy, mail volume, particularly from the financial services sector, has been weaker than expected. The outlook for meeting our revenue goals for the remainder of 2008 continues to be challenging. Global Insight, an economic, financial analysis and forecasting firm, predicts full year real GDP growth will be less than 2%.

We plan to increase prices for most mailing services by an average of 2.9% in May of this year. Under the law, increases for each class of mailing services cannot exceed increases in the Consumer Price Index of the past twelve months. Growth in the CPI-U for the twelve months ending December 2007 was 2.9%, as computed using the averaging method approved by the PRC. This mechanism is intended to provide for rate predictability for our mailers and hold postage rates to the rate of inflation, and allow our customers to better plan for these predicable rate increases in the future.

Subsequent to the end of Quarter I the following price and mail classification activity occurred which should add additional revenue for the remainder of the year.

Priority Mail Large-Flat-Rate Box: Governors' Decision No. 08-01: On January 17, 2008 the Governors provided notice to the PRC that they were establishing prices for a new, larger (approximately ½ cubic foot) Priority Mail flat-rate box. The larger flat-rate box will be offered at four prices (domestic mail destined to most ZIP Codes, domestic mail destined to APO/FPO ZIP Codes, international mail destined to Mexico and Canada, and international mail destined to all other countries). The Governors set an implementation date of March 3, 2008.

Express Mail Sunday Premium: Governors' Decision No. 08-02: On January 17, 2008, the Governors provided notice to the PRC that they were establishing a premium of $12.50, in addition to current rates, for guaranteed delivery of non-manifest Express Mail pieces on Sundays and holidays. The Governors set an implementation date of March 3, 2008.

Premium Forwarding Service: Docket No. MC2007-3: On July 31, 2007 the Postal Service filed a request with the PRC proposing to convert Premium Forwarding Service (PFS) from an experimental to a permanent offering. PFS is designed for residential customers who want to receive substantially all of their mail at a temporary domestic address via Priority Mail, rather than piece-by-piece through temporary forwarding. The PRC issued a recommended decision on January 7, 2008, recommending the requested classification and fees. The Governors approved this recommendation and set an implementation date of March 2, 2008.

EXPENSE OUTLOOK

With the Quarter I decline in work hour usage, we are on track to reduce work hours for the eighth year out of the last nine. We are committed to a continued focus on reducing both work hours and overtime hours. The recent weakness in the economy and the related revenue weakness require continued vigilance on costs. Should the revenue weakness experienced in Quarter I continue for the remainder of the year, it will prove increasingly difficult to reduce workhours at the same pace.

Many of our expenses are also tied to price inflation in the general economy that is outside our control. For example, wage rates for the majority of our unionized personnel are linked to the CPI-U via semi-annual COLAs. Health care premiums are negotiated by OPM and generally increase annually. Fuel prices also directly impact our costs. Continued volatility in fuel prices adds to the challenge of projecting our expenses.

LEGISLATION UPDATE

P.L. 109-435 divides our services into two broad categories: market-dominant (herein referred to as "mailing services") and competitive (herein referred to as "shipping services"). Future rate increases for mailing services will be subject to a price cap based on the CPI-U. Shipping services will have greater pricing flexibility. We have also been given greater flexibility to change our product offerings.

The Mail Classification Schedule, a proposed version of which was filed with the PRC on September 24, 2007, divides mail into mailing services or shipping services categories, establishes which types of mail constitute separate products, and presents a brief description of each product. The new regulations allow us to make certain classification changes much more easily than under the previous system, which enhances overall ratemaking flexibility.

P.L. 109-435 also required certain reports from other government agencies. Following are updates to activities required under the new law.

P.L. 109-435 included provisions relating to competitive products, codified in Section 2011 of Title 39. Included in Section 2011 are requirements regarding the establishment of accounting practices and principles for competitive products. The law called for the Secretary of the Treasury, in consultation with the Postal Service and an independent, certified public accounting firm and other advisors as the Secretary considered appropriate, to develop recommendations regarding—

> *(i) the accounting practices and principles that should be followed by the Postal Service with the objectives of—*
>
> > *(I) identifying and valuing the assets and liabilities of the Postal Service associated with providing competitive products, including the capital and operating costs incurred by the Postal Service in providing such competitive products; and*
> >
> > *(II) subject to subsection (e)(5), preventing the subsidization of such products by market-dominant products; and*
>
> *(ii) the substantive and procedural rules that should be followed in determining the assumed Federal income tax on competitive products income of the Postal Service for any year (within the meaning of section 3634).*

The PRC is to issue final rules for accounting and to provide for the submission of annual and other periodic reports, not later than 12 months after Treasury's recommendations are submitted, or by a later date if both the PRC and Postal Service agree.

On December 19, 2007, the Department of the Treasury submitted its recommendations to the PRC. The following summarizes the Treasury's recommendations:

> The current USPS economic cost attribution system should be modified so that the currently estimated class and subclass costs are remapped and attributed to the competitive products as defined by the PRC. Once remapped, product cost assignment should then be made consistent with the current USPS attribution rules and processes for marginal and incremental costs.
>
> To enable a practical solution to be developed that could be validated by third parties, a theoretical or "on paper only" enterprise – USPS Competitive—should be analytically created by assigning to it an appropriate share of all USPS costs.
>
> The volume-variable or marginal product costs currently reported by the USPS cost system should be used – after the product definition modification required by P.L. 109-435 – to ensure that the competitive products cover their attributable costs. The reported incremental costs should be used to ensure that cross-subsidization of the competitive products by market-dominant products is not occurring.
>
> When the costs of the universal service obligation have been reliably determined and subjected to third-party validation, the PRC should make any adjustments it deems necessary to the Postal Service's institutional cost assignment approach.
>
> The current USPS cost accounting system should be modified so that all of the costs for USPS's two lines of business (Market-Dominant and Competitive) can be assigned using cost drivers that capture the causal relationship between the lines of business and their applicable business costs. The remaining unassigned costs should be treated as institutional costs and an appropriate percentage of these institutional costs, which should be defined by the PRC by regulation, should be covered by the theoretical competitive enterprise.
>
> Subject to USPS system modifications to accommodate the new product definitions, the revenue numbers from the existing USPS financial systems should be used as a basis for both reporting the financial profits and the taxable profits of the USPS competitive theoretical enterprise.
>
> A theoretical USPS competitive enterprise income statement should be developed. The revenues should be derived from the current USPS revenue system and process as modified to reflect the new definitions of

competitive products. The costs should be the outcome of applying the above-proposed cost accounting approaches.

The USPS should calculate the competitive products' assumed federal income tax using a simplified approach, preferably using a published, regularly updated, tax rate.

To ensure compliance with P.L. 109-435 provisions and subsequent PRC clarification and direction for their implementation, USPS should provide sufficient accounting and financial statements of operations reporting and supporting information for the theoretical USPS Competitive enterprise. The information prepared and reported should be subject to sufficient independent review to ensure that it is fairly stated in all material respects, either in relation to the basic financial statements as a whole or on a stand-alone basis.

The entire report is available on the PRC website, www.prc.gov.

The PRC has requested public input on the recommendations. At this time, any potential costs and/or savings in implementing these recommendations are unknown.

P.L. 109-435 also included a requirement for the Federal Trade Commission (FTC) to prepare and submit to the President, Congress and the PRC a comprehensive report identifying federal and state laws that apply differently to the Postal Service with respect to competitive products and to private companies providing similar products. The report was required to include recommendations for bringing legal differences to an end, and in the interim, to account for the net economic effects provided by those laws. The PRC is to take into account the FTC's recommendations, and subsequent events that affect the continuing validity of the estimate of net economic effect in developing or revising competitive product regulations.

The FTC released its report on January 16, 2008. It is available on the FTC's website at http://www.ftc.gov.

In the report, the FTC concludes that the unique legal status of the Postal Service "*likely provides it with a net competitive disadvantage versus private carriers.*" According to the FTC, this status as a federal governmental entity imposes legal and political restraints on our operations that reduce efficiencies in providing competitive products. The FTC analysis shows that the economic burdens resulting from rules that restrict our ability to manage our labor force plus constraints upon our optimizing the operations network increased our costs to provide competitive products by an estimated $330 million to $782 million in FY2006. However, the FTC report also found that our unique federal governmental entity status also permits us to avoid certain costs. The Postal Service is exempt from certain state and local taxes and licensing requirements and also benefits from preferential interest rates on debt. The value of these subsidies to our competitive products operations was estimated to range from $39 million to $117 million in FY2006. In summary, the FTC finds that "*from a market-wide perspective, the federally-imposed restrictions that impose economic burdens on the USPS and the implicit subsidies that provide the USPS an economic advantage should be viewed as two distortions that compound each other and negatively affect the provision of competitive mail products.*"

According to the FTC, legal constraints cause us to use more resources to provide our services, but the higher costs are partially hidden from consumers by our legal advantages. The FTC report also concludes that "*Congress may wish to consider acting to reduce the constraints on the USPS's competitive products operations. Elimination of these constraints, especially with respect to the ability to manage labor costs and configure its network, would help the USPS to reduce its costs of providing competitive products. Not only would this action reduce the economic burdens associated with USPS production of competitive products, but it also may enhance competition and consumer welfare by making the USPS a more efficient competitor.*"

APPROPRIATIONS

On December 26, 2007, the President signed into law H.R. 2764, the *Consolidated Appropriations Act for Fiscal Year 2008*. For us, the measure provides $118 million of reimbursements for mail services provided for free or at reduced rates to groups designated by Congress. Of this amount $29 million is provided pursuant to the provisions of the Revenue Forgone Reform Act of 1993, and $89 million is provided for free mail for the blind and overseas voters. The $89 million will not be available until October 1, 2008.

Additionally, report language directs us not to go forward with the implementation of six planned Area Mail Processing Facilities (AMP) until the Government Accountability Office evaluates two Postal Service reports required by P.L. 109-435 and reports its findings to the Appropriations Committees.

ENERGY POLICY ACT AMENDMENT/ENERGY LEGISLATION

On December 19, 2007, the President signed into law *the Energy Independence and Security* Act (P.L. 110-40).

P.L. 110-40 includes several provisions affecting federal agencies, including the Postal Service. While it does provide for a waiver process, P.L. 110-40 requires a mandatory reduction in petroleum consumption by federal fleets as well as an increase in alternative fuel consumption. Each agency has to develop a plan to meet petroleum reduction goals through a number of methods including: use of alternative fuels, more fuel efficient vehicles, vehicle substitution, increasing vehicle load factors, decreasing vehicle miles traveled, and decreasing fleet size.

P.L. 110-40 also revises the Energy Policy Act to require that light duty vehicles acquired by federal agencies, including us, be low greenhouse gas light duty vehicles. It is unclear how this provision will interact with the existing alternate fuel vehicles provisions in the Energy Policy Act that may not meet the low greenhouse gas standard.

The law also amends a section of the National Energy Conservation Policy Act to require reduction in energy use in federal buildings by two percent per year from 2006 to 2015, for a total reduction of 30 percent. This provision is also applicable to us.

The law modifies energy management standards for new buildings to require agencies to ensure that large capital “energy investments” in existing buildings use the most energy efficient systems that are life-cycle cost effective. We currently follow these standards pursuant to existing provisions that require adherence to these requirements to the maximum extent practicable.

We are working with the Energy Department and other federal agencies to determine how provisions of P.L. 110-40 will be implemented. At this time, the potential costs and/or savings are unknown.

On January 28, 2008, the President signed into law *the National Defense Authorization Act of 2008* (P.L. 110-181), which contains the language that the Postal Service has sought to provide flexibility to purchase hybrid vehicles. This law allows federal/postal fleets to use an expanded definition of alternative fuel vehicles (AFV) and allow a broader array of vehicles to qualify as AFVs than before. The provision expands the alternative fuel vehicle definition to include the following additional types of vehicles: new qualified fuel cell vehicles, new advance lean burn technology motor vehicles, and new qualified hybrid motor vehicles. It also allows the inclusion of any other type of fuel that the Environmental Protection Agency (EPA) Administrator demonstrates to the Department of Energy Secretary would achieve a significant reduction in petroleum consumption. This would allow the Postal Service to potentially demonstrate, for example, that certain diesel technology could allow the Postal Service to reduce its overall consumption of petroleum.

CONTRACTING LEGISLATION

During 2007, legislation was introduced in the House and Senate that would place limitations on our ability to contract out delivery of mail and other postal activities. These bills have been referred to the appropriate House and Senate committees for review. Should such legislation be enacted, it would place significant restraints on our ability to achieve cost reductions by eliminating or limiting alternatives to manage the growth in our personnel costs.

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 of primarily exposure to changes in prices for diesel fuel, unleaded gasoline and aircraft fuel for transportation of the mail, and fuel for heating facilities. We have foreign currency risk related to the settlement of terminal dues and transit fees with foreign postal administrations for international mail.

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

See our 2007 Annual Report, Financial Section Part II, Item 7A-*Quantitative and Qualitative Disclosures about Market Risk*.

Item 4 – Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the Postmaster General, and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2007. Based on the foregoing, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2007.

There have been no changes in our internal control over financial reporting (as defined by Rule 13a-15(f)) that occurred during the period covered by the report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1 – Legal proceedings

None.

Item 1A – Risk Factors

There were no material changes from the risks previously disclosed in our 2007 Annual Report.

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

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

Item 3 – Defaults Upon Senior Securities

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

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

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

Item 5 – Other Information

None.

Item 6 – Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

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

Date: February 11, 2008

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

Date: February 11, 2008

Exhibit 31.1

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

I, John E. Potter, certify that:

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

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

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

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

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

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

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

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

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

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

Date: February 11, 2008

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

Exhibit 31.2

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

I, H. Glen Walker, certify that:

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

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

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

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

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

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

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

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

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

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

Date: February 11, 2008

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

Exhibit 32.1

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended December 31, 2007 as filed with the Postal Regulatory Commission on the date hereof (the "Report"), I, John E. Potter, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: February 11, 2008

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

Exhibit 32.2

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

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended December 31, 2007 as filed with the Postal Regulatory Commission on the date hereof (the “Report”), I, H. Glen Walker, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

Dated: February 11, 2008

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