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, 2012 OR**

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

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant 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 as of May 10, 2012
No Common Stock	N/A

United States Postal Service
Quarterly Financial Report Index

Part I

Part II

Part I

Item 1 – Financial Statements

United States Postal Service
Statements of Operations
(Unaudited)

	Three Months ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
Operating revenue	$ 16,227	$ 16,234	$ 33,904	$ 34,111
Operating expenses				
Compensation and benefits	11,698	11,863	24,184	24,529
Retiree health benefits	3,712	1,996	7,392	3,948
Workers' compensation	24	630	769	198
Transportation	1,678	1,552	3,444	3,213
Other	2,252	2,385	4,498	4,705
Total operating expenses	19,364	18,426	40,287	36,593
Loss from operations	**(3,137)**	**(2,192)**	**(6,383)**	**(2,482)**
Interest and investment income	6	7	12	13
Interest expense	(46)	(43)	(93)	(88)
Net loss	**$ (3,177)**	**$ (2,228)**	**$ (6,464)**	**$ (2,557)**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Assets

(Dollars in millions)	March 31, 2012	September 30, 2011
	(Unaudited)	(Audited)
Current Assets		
Cash and cash equivalents	$ 818	$ 1,488
Receivables:		
Foreign countries	592	669
U.S. Government	105	154
Other	221	255
Receivables before allowances	918	1,078
Less: Allowances	39	37
Total receivables, net	879	1,041
Supplies, advances and prepayments	154	120
Total Current Assets	**1,851**	**2,649**
Noncurrent Assets		
Property and equipment, at cost:		
Buildings	24,398	24,263
Equipment	20,282	20,409
Land	2,933	2,952
Leasehold improvements	1,152	1,112
	48,765	48,736
Less: Allowances for depreciation and amortization	29,637	29,023
	19,128	19,713
Construction in progress	511	624
Total property and equipment, net	19,639	20,337
Other assets - principally revenue forgone receivable	375	427
Total Noncurrent Assets	**20,014**	**20,764**
Total Assets	$ **21,865**	$ **23,413**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Balance Sheets - Liabilities and Net Deficiency

(Dollars in millions)	March 31, 2012	September 30, 2011
	(Unaudited)	(Audited)
Current Liabilities		
Compensation and benefits	$ 1,700	$ 2,338
Retiree health benefits	6,149	7
Workers' compensation	1,304	1,255
Payables and accrued expenses:		
Trade payables and accrued expenses	906	1,041
Foreign countries	649	652
U.S. government	111	119
Total payables and accrued expenses	1,666	1,812
Deferred revenue-prepaid postage	3,868	3,497
Customer deposit accounts	1,283	1,386
Outstanding postal money orders	753	688
Prepaid box rent and other deferred revenue	499	502
Short-term portion of debt	7,446	7,500
Total Current Liabilities	**24,668**	**18,985**
Noncurrent Liabilities		
Workers' compensation costs	13,319	13,887
Employees' accumulated leave	1,983	2,082
Deferred appropriation and other revenue	293	326
Long-term portion capital lease obligations	437	460
Deferred gains on sales of property	316	345
Contingent liabilities and other	753	768
Long-term portion of debt	5,500	5,500
Total Noncurrent Liabilities	**22,601**	**23,368**
Total Liabilities	**47,269**	**42,353**
Net Deficiency		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	(28,536)	(22,072)
Total Net Deficiency	**(25,404)**	**(18,940)**
Total Liabilities and Net Deficiency	**$ 21,865**	**$ 23,413**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Changes in Net Deficiency
(Unaudited)

(Dollars in millions)	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2010	$ 3,132	$ (17,005)	$ (13,873)
Net loss	-	(2,557)	(2,557)
Balance, March 31, 2011	**$ 3,132**	**$ (19,562)**	**$ (16,430)**
Balance, September 30, 2011	$ 3,132	$ (22,072)	$ (18,940)
Net loss	-	(6,464)	(6,464)
Balance, March 31, 2012	**$ 3,132**	**$ (28,536)**	**$ (25,404)**

See accompanying notes to the financial statements. (unaudited)

United States Postal Service
Statements of Cash Flows
(Unaudited)

(Dollars in millions)	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Cash flows from operating activities:		
Net loss	$ (6,464)	$ (2,557)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	1,070	1,150
Gain on disposals of property and equipment, net	(17)	(30)
Increase in other assets - primarily appropriations receivable revenue forgone	27	21
Decrease in noncurrent workers' compensation liability	(568)	(1,005)
Decrease in noncurrent employees accumulated leave	(99)	(58)
Decrease in noncurrent deferred appropriations and other revenue	(2)	(1)
(Decrease) increase in other noncurrent liabilities	(15)	46
Changes in current assets and liabilities:		
Receivables, net	147	(90)
Supplies, advances and prepayments	(34)	(22)
Compensation and benefits	(638)	2
Retiree health benefits	6,142	2,750
Workers' compensation	49	100
Payables and accrued expenses	(146)	(188)
Customer deposit accounts	(103)	(90)
Deferred revenue-prepaid postage	371	630
Outstanding postal money orders	65	44
Prepaid box rent and other deferred revenue	(10)	(10)
Net cash (used in) provided by operating activities	(225)	692
Cash flows from investing activities:		
Purchases of property and equipment	(418)	(589)
Proceeds from sales of property and equipment	81	49
Net cash used in investing activities	(337)	(540)
Cash flows from financing activities:		
Issuance of notes payable	2,500	2,500
Payments on notes payable	(2,500)	(2,400)
Net change in revolving credit line	(54)	(444)
Payments on capital lease obligations	(23)	(26)
U.S. government appropriations - expensed	(31)	(32)
Net cash used in financing activities	(108)	(402)
Net decrease in cash and cash equivalents	(670)	(250)
Cash and cash equivalents at beginning of year	1,488	1,161
Cash and cash equivalents at end of period	**$ 818**	**$ 911**
Supplemental cash flow disclosures:		
Interest paid	$ 92	$ 90

See accompanying notes to the financial statements. (unaudited)

Notes to Financial Statements (Unaudited)

Note 1 – Basis of Presentation

The interim financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial statements and, accordingly, do not include all the information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with the significant accounting policies and other disclosures in the Annual Report on Form 10-K for the year ended September 30, 2011. As in the Annual Report on Form 10-K, all references to years are to the fiscal year beginning October 1 and ending September 30, unless otherwise stated. All references to quarters, unless otherwise indicated, are to quarters within fiscal years 2012 and 2011.

In Quarter II, 2012, the Postal Service improved the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. The Postal Service has obtained new information regarding our customer's retention and usage habits of stamps. This enabled us to update our estimate of stamps that will never be used for mailing. As a result of this enhancement, deferred revenue-prepaid postage was decreased by $59 million. The change was accounted for as a change in accounting estimate, and was therefore reflected in operating results as an increase to revenue in Quarter II, 2012.

Certain prior year amounts related to compensation and benefits as well as other operating expenses have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported operating losses and net losses.

In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments (including normal recurring adjustments) necessary to fairly present the financial position of the Postal Service as of March 31, 2012, and the results of operations and cash flows for the three and six months ended March 31, 2012, and 2011. Operating results for the three and six month periods ended March 31, 2012, are not necessarily indicative of the results that may be expected for 2012. Subsequent events have been evaluated through May 10, 2012, the date the Postal Service filed its Form 10-Q for the quarter ended March 31, 2012, with the Postal Regulatory Commission (PRC).

The Postal Service has significant transactions with other U.S. Government agencies, as disclosed throughout this report. In addition to the amounts disclosed, deferred revenue of $32 million at March 31, 2012, and $39 million at September 30, 2011, related to government deposits are included in the Balance Sheets in "Customer Deposit Accounts".

Note 2 – Liquidity

SUMMARY OF PROJECTED CASH SHORTFALL

The Postal Service continues to suffer from a severe lack of liquidity caused by over $25 billion of cumulative net losses in the past five fiscal years which included $21 billion of Congressionally-mandated payments for prefunding retiree health benefits. During those five years, the Postal Service's debt has increased by nearly $11 billion to finance the losses and prefunding payments.

The trend of losses continues this year as the Postal Service had net losses of $3,177 million and $6,464 million for the three and six months ended March 31, 2012. In addition, it had $818 million of total cash and $2.1 billion of remaining borrowing capacity on its $15 billion debt facility at March 31, 2012.

Current financial projections indicate that the Postal Service will not be able to make the required $5.5 billion prefunding payment for retiree health benefits currently due by August 1, 2012, or the required $5.6 billion prefunding payment for retiree health benefits that is due by September 30, 2012. Additionally, even without making the $11.1 billion of scheduled Postal Service Retiree Health Benefit Fund (PSRHBF) payments in the fourth quarter of 2012, current projections indicate that the Postal Service will have a precariously low level of cash and liquidity at September 30, 2012. This position will worsen in October of 2012, when the Postal Service is required to make its annual payment of approximately $1.3 billion to the Department of Labor (DOL) for workers' compensation, in addition to paying its normal operating expenses.

Revenue forecasting in the current economic environment is subject to significant uncertainties. The Postal Service's Integrated Financial Plan for 2012 anticipated a reduction in mail revenue of approximately $1.7 billion, as compared to 2011. Mail volume and revenue tend to fluctuate based in part on the performance of the overall economy. Thus far in 2012, Postal Service revenues have been stronger than anticipated. However, revenues for the first six months of 2012 are still down compared to last year; with significant weakness in First-Class and Standard Mail. Economic reports continue to show mixed results for the year to date. Because of the uncertain economy, it is possible that mail volume, and therefore revenue for the remainder of 2012, could decrease at a rate greater or less than initial projections.

To address its long-term financial challenges, the Postal Service has developed a comprehensive plan, known as the *Plan to Profitability*, to return to profitability and repay its debt. The Postal Service is aggressively pursuing new revenue streams and reducing costs in areas within its control. The Postal Service has proposed legislative changes to Congress that are needed to provide it with the legal authority to implement some of the cost reduction measures specified in its plan. Legislation has been introduced in both houses of Congress and a bill has been passed by the Senate. The bill passed by the Senate, although representing a positive step, does not contain all the authority necessary to implement all required cost reduction measures. Given the vital role that the Postal Service plays in the U.S. economy, the Postal Service is hopeful that Congress will take the steps needed to enact legislative changes on a timely basis that will enable it to return to financial stability.

In the short-term, should unforeseen circumstances leave the Postal Service with an unsustainable liquidity position, it would consider emergency measures to ensure that mail deliveries continue. These measures could require that the Postal Service prioritize payments to its employees and suppliers ahead of those to the Federal Government. Additionally, the Postal Service continues to seek a refund of the overfunding of its Federal Employees' Retirement System (FERS) retirement plan, which currently amounts to approximately $11 billion, as those funds would help resolve its short-term liquidity risks.

POSTAL INITIATIVES UNDERTAKEN TO IMPROVE LIQUIDITY

The Postal Service has removed nearly $14 billion from its annual cost base during the past five fiscal years. To address its long-term financial challenges, the Postal Service has developed a comprehensive plan to reduce its annual operational expenses by an additional $22.5 billion by 2016, return to profitability, and repay its debt. This *Plan to Profitability* was communicated to the public in February 2012. Many of the strategies that the Postal Service is aggressively pursuing are currently within its control. These include improving the efficiency of the mail processing network, adopting retail and delivery cost reduction and productivity initiatives, increasing revenue generation and reducing workforce costs, especially those related to health benefits. Certain parts of the plan, such as transitioning to a five-day per week delivery schedule and resolving the prefunding of retiree health benefits, require enactment of legislation.

Management is pursuing the reduction of the size of the Postal Service's mail sortation and transportation network. In response to declining mail volumes and to increase productivity, the Postal Service has already consolidated over 200 mail processing facilities in the past five years. In order to enable continued reductions in the postal infrastructure, service standards for First-Class Mail and Periodical Mail would be revised with overnight service for certain First-Class Mail being eliminated. These service standard changes would allow for an expanded operating window and thus more efficient use of existing mail processing equipment and transportation capacity, and the Postal Service would eliminate the need for many of its currently under-utilized processing operations. It is anticipated that mail processing operations will be eliminated in additional locations after service standards are changed. Reforms to retail operations will continue and will expand access in both rural and urban areas.

On May 9, 2012, the U.S. Postal Service announced an alternative strategy to preserve the Post Offices serving rural America while providing a framework to achieve significant cost savings. This modified strategy will allow Post Offices to remain operational with modified window hours and will also allow the towns to retain their zip codes. At the same time, a voluntary retirement incentive to approximately 21,000 postmasters was announced. Using this new approach, the Postal Service estimates that the savings potential related to Post Office changes will be as great as those expected in the previously announced *Plan to Profitability*.

Along with the operational changes discussed above, the Postal Service is seeking to reduce workload and staffing. The Postal Service projects that a further reduction from the current levels of the equivalent of 155,000 full-time career employees by 2016 will be necessary to properly align staffing levels with projected mail volume. It is expected that this will be achieved largely through attrition, as half of the career employees are eligible for retirement or early retirement.

Another component to the *Plan to Profitability* is revenue management. The Postal Service continues to implement innovative new products and services seeking to generate new revenue and to prevent existing revenue streams from migrating to electronic alternatives. New revenue streams include Every Door Direct Mail, Additional Flat Rate Shipping products, gopost and return services. An enhanced suite of mailing and shipping services tailored to the needs of small business owners was released during Quarter II, 2012. Existing products and online services have been enhanced with "ease of use" in mind in an effort to grow business. However, it is not possible to achieve financial stability through revenue initiatives alone, without a fundamental change in the business model.

As mentioned above, portions of the *Plan to Profitability* require targeted legislative changes. One of the legislative changes sought by the Postal Service is authorization to transition to a five-day per week delivery schedule. The Postal Service is also seeking legislation directing the return of the overfunding of the FERS. The Office of Personnel Management (OPM) has determined that the amount of overfunding stood at $10.9 billion as of September 2010, and OPM has projected that it increased by an additional $500 million during 2011. Although the refund would not be a recurring annual savings in the *Plan to Profitability*, the return of the FERS overfunding would provide vital cash flow to help ease the current liquidity difficulties.

Additionally, the *Plan to Profitability* includes a proposal for a Postal Service-sponsored health care program independent of other federal health insurance programs. Establishing a Postal Service-sponsored health care program represents the largest part of the *Plan to Profitability's* savings, accounting for over $7 billion of projected annual savings. The plan includes the elimination of the retiree health benefit prefunding obligation established in the *Postal Service Accountability and Enhancement Act of 2006*, which would save the Postal Service billions of dollars annually through 2016. The plan also proposes to transfer current retirees into the Postal Service-sponsored health care program. The Postal Service plan is expected to be more cost effective, is forecasted to reduce health care costs significantly, and will result in equivalent or better coverage for the vast majority of retirees and current employees.

MITIGATING CIRCUMSTANCES

The Postal Service's status as an independent establishment of the executive branch, which does not receive tax dollars for its operations, presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. Despite falling mail volume, the Postal Service is still widely recognized as the provider of an essential service to the American economy and for its importance in the $1 trillion mailing industry. There are a wide variety of potential legislative remedies that could resolve the short-term liquidity concerns. Therefore, it is unlikely that, in the event of a cash shortfall, the Federal Government would cause or allow the Postal Service to significantly curtail or cease operations.

More than a dozen different postal reform-related bills have been introduced in Congress in the past year, in addition to a plan proposed by the Administration to the Joint Select Committee on Deficit Reduction. On April 25, 2012, the Senate passed S. 1789, the *21st Century Postal Service Act of 2012,* which includes provisions to provide a refund of the Postal Service's FERS overfunding, permits five-day mail in two years, reduces funding of PSRHBF, but also restricts service standard changes. A House bill H.R. 2309, the *Postal Reform Act of 2011* has not yet progressed out of committee. No individual bill proposed or passed in either the House or Senate contains all the necessary components to ensure the long-term financial viability of the Postal Service. The Postal Service continues to inform the Administration, Congress, the Postal Regulatory Commission (PRC), and other stakeholders of the immediate and longer-term financial issues the Postal Service faces and the legislative changes that would help ensure sufficient liquidity for the future. Given the vital part the Postal Service plays in the U.S. economy, the Postal Service is hopeful that Congress will enact, and the President will sign, legislation which will mitigate the Postal Service's short-term financial challenges and provide it with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requested adjustments to the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2012, or at all.

Note 3 – Debt

Debt payable to the Federal Financing Bank (FFB), a government-owned corporation under the general supervision of the Secretary of the Treasury, consisted of the following at March 31, 2012 and September 30, 2011:

Indebtedness to Federal Financing Bank
(Dollars in millions)

Maturity	Debt Type	March 31, 2012 Balance (Unaudited)	March 31, 2012 Rate (Unaudited)	September 30, 2011 Balance (Audited)	September 30, 2011 Rate (Audited)
Fixed rate notes - short term					
October 20, 2011	Fixed rate-payable at maturity	$ -	- %	$ 1,300	0.338 %
November 17, 2011	Fixed rate-payable at maturity	-	-	1,200	0.201
April 26, 2012	Fixed rate-payable at maturity	500	0.186	-	-
November 15, 2012	Fixed rate-payable at maturity	1,300	0.227	-	-
Fixed rate notes - long term					
January 31, 2014	Fixed rate-payable at maturity	300	2.035	300	2.035
May 2, 2016	Fixed rate-payable at maturity	300	2.844	300	2.844
November 15, 2018	Fixed rate-payable at maturity	500	3.048	500	3.048
February 15, 2019	Fixed rate-payable at maturity	700	3.296	700	3.296
May 15, 2019	Fixed rate-payable at maturity	1,000	3.704	1,000	3.704
May 15, 2019	Fixed rate-payable at maturity	500	3.513	500	3.513
August 16, 2021	Fixed rate-payable at maturity	1,000	2.066	1,000	2.066
May 17, 2038	Fixed rate-payable at maturity	200	3.770	200	3.770
February 15, 2039	Fixed rate-payable at maturity	1,000	3.790	1,000	3.790
Floating rate notes and revolving credit line - short term					
December 15, 2011	Floating rate	-	-	700	0.135
June 15, 2012	Floating rate	300	0.207	300	0.135
June 15, 2012	Floating rate	800	0.207	800	0.135
December 14, 2012	Floating rate[1]	700	0.216	-	-
October 15, 2012	Floating rate[2]	700	0.157	-	-
	Short-term revolving credit line	2,800	0.176	3,200	0.125
	Overnight revolving credit line	346	0.176		
Total debt		**$ 12,946**		**$ 13,000**	
Current portion of debt		**$ 7,446**		**$ 7,500**	
Long-term portion of debt		**$ 5,500**		**$ 5,500**	

[1] Floating Rate Note — Repurchasable at par on each interest rate reset date and the interest rate resets on June 14, 2012 and September 14, 2012.

[2] Floating Rate Note — Repurchasable at par on each interest rate reset date and the interest rate resets on April 15, 2012 and July 15, 2012.

The Postal Service has two credit lines with the FFB, both of which are available until May 2013. One, a short-term credit line, enables it to draw up to $3,400 million with two days prior notice. Borrowings under this credit line are typically on an overnight basis, but can have a maximum term of up to one year. The second credit facility, which only allows for borrowings on an overnight basis, enables borrowings of up to $600 million on the same business day that funds are requested. In addition, the Postal Service can use a series of other notes with varying provisions to draw upon with two days prior notice. These credit facilities and note arrangements provide the flexibility to borrow short- or long-term, using fixed- or floating-rate notes. Fixed-rate notes can be either callable or non-callable at the option of the Postal Service. Debt, all of which is unsecured and not subject to sinking fund requirements, can be repaid at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the Treasury Security market at the time of repayment.

The Postal Service is limited by statute to net annual debt increases of $3 billion. Total debt cannot exceed $15 billion. For 2012, the amount of any additional borrowing is constrained by the total debt ceiling limitation of $15 billion, a $2 billion increase over the September 30, 2011 balance of $13 billion.

Scheduled principal repayments, exclusive of capital leases, as of March 31, 2012, are as follows:

Scheduled Debt Principal Repayments - By Fiscal Year

(Dollars in millions)

		(Unaudited)
2012	**$**	**4,746**
2013		**2,700**
2014		**300**
2015		**-**
2016		**300**
After 2016		**4,900**
Total Debt	**$**	**12,946**

Note 4 – Property and Equipment

Property and equipment are recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions. Interest capitalized during the three and six month periods ended March 31, 2012 and 2011 was not significant. Property and equipment are depreciated over estimated useful lives that range from 3 to 40 years, except for buildings with historic status, which are depreciated over 75 years, using the straight-line method.

Assets classified as held for sale of $87 million as of March 31, 2012, and $58 million as of September 30, 2011, are included on the Balance Sheets in “Land” and “Buildings”. Impairment charges for the three and six month periods ended March 31, 2012, were $1 million and $28 million, respectively, as compared to $10 million and $15 million, for the three and six month periods ended March 31, 2011, respectively.

In September 2011, the Postal Service announced plans to realign its mail processing, delivery, and retail networks. See Note 2 - *Liquidity* for details. As a result, an initial assessment was performed on both the real estate and equipment associated with the proposed realignment efforts to determine if any impairment should be recognized. As of March 31, 2012, final decisions regarding the potential closure of any specific site(s) have not been made. Once final decisions are made, further determination of impairments, if any, will be made by management. Accordingly, there are no related impairment charges in the current period or any periods presented in these statements related to these plans.

Note 5 – Leases and Other Commitments

Leases

At March 31, 2012, the future minimum payments on non-cancelable operating and capital leases were as follows:

Lease Obligations (Dollars in millions)		Operating		Capital
(Unaudited)				
2012	$	386	$	50
2013		714		97
2014		655		92
2015		597		89
2016		528		86
After 2016		4,178		291
Total Lease Obligations	$	7,058	$	705
Less: Interest				212
Total Capital Lease Obligations				493
Less: Current Portion of Capital Lease Obligations				56
Long-term portion of Capital Lease Obligations			$	437

The current portion of the capital lease obligation is included in "Trade payables and accrued expenses" on the Balance Sheets.

Rent expense for the three and six month periods ended March 31, 2012 and 2011, was as follows:

Rental Expense	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)		2012		2011		2012		2011
(Unaudited)								
Non-cancelable real estate leases including related taxes	$	249	$	245	$	487	$	496
Facilities leased from GSA* subject to 120-day cancellation		10		11		20		21
Equipment and other short-term rentals		45		40		90		74
Total Rental Expense	$	304	$	296	$	597	$	591

*General Services Administration

Capital Commitments

At March 31, 2012, commitments to acquire capital assets were $532 million, compared to $881 million at September 30, 2011, as summarized in the following table:

Capital Commitments	As of			
(Dollars in millions)		March 31, 2012		September 30, 2011
		(Unaudited)		(Audited)
Mail Processing Equipment	$	327	$	481
Building Improvements, Construction, and Building Purchase		191		320
Postal Support Equipment		9		75
Vehicles		5		5
Total Capital Commitments	$	532	$	881

Note 6 – Contingent Liabilities

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

Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Each quarter, any pre-existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates. This evaluation of cases resulted in an increase to the liability of $3 million for the six months ended March 31, 2012. The table summarizes contingent liabilities provided for in the Postal Service's financial statements as of the dates indicated.

Contingent Liabilities (Dollars in millions)		March 31, 2012		September 30, 2011
		(Unaudited)		(Audited)
Labor - Employment	$	664	$	662
Environmental		48		48
Tort		41		39
Contractual		12		13
Total Contingent Liabilities	$	765	$	762

As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's (EEOC) Office of Federal Operations certified a class action case against the Postal Service in a matter captioned McConnell v. Donahoe (first instituted in 2006), with the class consisting of all permanent rehabilitation employees and limited duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to the present. The Postal Service used the NRP to ensure that its records were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities. The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount on behalf of a yet unidentified population of employees. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, then an adverse ruling could have a material impact on the Postal Service. However, the Postal Service disputes the claims asserted in this class action case and is vigorously contesting the matter. There was no material change in the status of this case during the six months ended March 31, 2012.

Based on currently available information, adequate provision has been made for probable losses arising from claims and suits. The current portion of this liability of $65 million at March 31, 2012, and $72 million as of September 30, 2011, is included on the Balance Sheets in "Trade payables and accrued expenses". The long-term portion of this liability was $700 million at March 31, 2012, and $690 million at September 30, 2011, and is included on the Balance Sheets in "Contingent liabilities and other".

In addition to the amounts accrued in the financial statements, the Postal Service also has claims and lawsuits which it deems reasonably possible of an unfavorable outcome which range from $900 million to $1.1 billion at March 31, 2012. No provisions for these reasonably possible losses are accrued or included in the financial statements.

Note 7 – Health Benefits Programs

CURRENT EMPLOYEES HEALTH BENEFITS

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 participating government agency employers. The Postal Service cannot direct the costs, benefits, or funding requirements of the plan and, therefore, accounts for program expenses using accounting standards for multiemployer plans. The Postal Service portion of the cost is based on the weighted-average premium cost of the various employee coverage choices and the specific coverage choices made by current employees. Employees paid approximately 22% of the premium costs in the three months ended March 31, 2012. For the six months ended March 31, 2012 and 2011, employees paid approximately 22% and 21% of premium costs, respectively while the Postal Service paid the remaining employee health care expense amounts. The employer share of health care expense was $1,303 million and $1,296 million in Quarter II, 2012 and 2011, respectively. For the six months ended March 31, 2012, and 2011, the employer share of health care expense was $2,610 million, and $2,595 million, respectively. These expenses are included in “Compensation and benefits” in the Statements of Operations.

RETIREE HEALTH BENEFITS

Employees who participate in the FEHBP for at least the five years immediately before retirement may participate in the FEHBP during retirement. The Postal Service is 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. Costs attributable to federal civil service before that date are not included.

Because the Postal Service cannot direct the costs, benefits or funding requirements for the federally-sponsored plan, it accounts for these retiree costs using accounting standards for multiemployer plans and records expense in the year which payments are due to OPM.

In addition to payments to OPM for the Postal Service share of FEHBP retiree premiums, the *Postal Accountability and Enhancement Act*, Public Law 109-435 (P.L. 109-435) as amended, established the Postal Service Retiree Health Benefit Fund (PSRHBF), which requires prefunding of retiree health benefit premiums from 2007 through 2016. The current schedule of these remaining prefunding payments is as follows:

Postal Service Retiree Health Benefit Fund Commitment (Dollars in millions)	P.L. 109-435 Requirement
	(Unaudited)
2012	$ 11,100
2013	5,600
2014	5,700
2015	5,700
After 2015	5,800
Total Postal Service Retiree Health Benefit Fund Commitment	$ 33,900

Although P.L. 109-435 includes a ten year, $55,800 million payment prefunding schedule that dictates the amounts and timing of payments through 2016, the amounts to be paid and the timing of the payments can be changed at any time with the passage of a new law, or amendment of the existing law. On October 1, 2009, P.L. 111-68, *Continuing Appropriations Resolution, 2010,* decreased the scheduled payment in 2009 by $4.0 billion — from $5.4 billion to $1.4 billion. This law affected only the payment scheduled in 2009 and did not change any future payment requirements. On September 30, 2011, P.L. 112-33, *Continuing Appropriations Act, 2012,* changed the required PSRHBF payment of $5.5 billion scheduled to be due by September 30, 2011, to be due by October 4, 2011. This was then changed again by five subsequent laws. P.L. 112-74, *Consolidated Appropriations Act, 2012*, the most recent law affecting the PSRHBF payment, changed the due date of the $5.5 billion originally due September 30, 2011 to August 1, 2012. As a result, the total required PSRHBF payment in 2012 is $11.1 billion: $5.5

billion due by August 1, 2012, and $5.6 billion due by September 30, 2012. To date, no legislative changes have altered the payment requirements for the original $5.6 billion due by September 30, 2012, or for the 2013 to 2016 scheduled payments. As a result of these legislative changes, the Postal Service is accruing the $5.5 billion payment due by August 1, 2012, in equal amounts over ten months and the $5.6 billion due by September 30, 2012, in equal amounts throughout the year. The Postal Service has asked Congress to resolve the retiree health benefits prefunding for 2012 and future years. There can be no assurance that Congress will restructure any of the scheduled payments.

Under existing law, commencing in 2017, the PSRHBF will be used to pay the Postal Service's share of health insurance premiums for current and future Postal Service retirees. Also in 2017, the Postal Service will be required to fund the actuarially determined normal cost of providing retiree health benefits for current employees.

The law also requires that, not later than 2017, OPM must perform an actuarial valuation to determine if additional payments to the PSRHBF are required. If OPM determines that additional payments are required, it will design an amortization schedule to fully fund any remaining liability by September 30, 2056.

The Postal Service has contributed $38 billion to the PSRHBF from inception to date. These funds, which are invested by OPM, earn interest at rates between 2% and 5%. The PSRHBF balance, as calculated by OPM at the last valuation date of September 30, 2011, was $44.1 billion. For further details, see the Annual Report on Form 10-K for the year ended September 30, 2011.

Retiree Health Benefits	**Three Months Ended March 31,**		**Six Months Ended March 31,**	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
(Unaudited)				
Employer Premium Expense	**$ 662**	**$ 621**	**$ 1,292**	**$ 1,198**
P.L. 109-435 Payment to PSRHBF	**3,050**	**1,375**	**6,100**	**2,750**
Total Retiree Health Benefit Expense	**$ 3,712**	**$ 1,996**	**$ 7,392**	**$ 3,948**

Total retiree health benefits expense was $3,712 million and $1,996 million for the three months ended March 31, 2012 and 2011, respectively. For the six months ended March 31, 2012 and 2011, total retiree health benefits expense was $7,392 million, and $3,948 million, respectively. These costs which are reflected as "Retiree health benefits" in the Statement of Operations consists of payments to OPM for the Postal Service share of FEHBP retiree premiums currently being paid plus prefunding payments to the PSRHBF for current employees who will retire in the future.

Employer premium expense for retiree health benefits expense for the three months ended March 31, 2012 and 2011 was $662 million and $621 million, respectively. For the six months ended March 31, 2012 and 2011, employer premium expense for retiree health benefits expense was $1,292 million, and $1,198 million, respectively.

The Postal Service recognized $3,050 million and $1,375 million of PSRHBF expense for the three months ended March 31, 2012 and 2011, respectively. PSRHBF expense for the six months ended March 31, 2012 and 2011, was $6,100 million, and $2,750 million, respectively. Because the amounts to be paid into the PSRHBF are set by legislation, the Postal Service retiree health expense may represent more or less than the full cost of the benefits earned by Postal Service employees.

Note 8 – Retirement Programs

Employees participate in one of three defined benefit 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.

EMPLOYEE/EMPLOYER CONTRIBUTIONS

P.L. 109-435 suspends until 2017 the employer contributions 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 benefit of postal CSRS retirees.

As required by law, the Postal Service contribution rate was 11.9% of base salary for current FERS employees for the three and six months ended March 31, 2012 and 11.7% of base salary for FERS employees for the three and six months ended March 31, 2011. The Postal Service is required to contribute to the TSP a minimum of 1% per year of the basic pay of employees covered by this system, and is also required to match a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of an employee's contribution of between 3% and 5% of basic pay.

The Postal Service has overfunded its FERS obligations by $10.9 billion at September 30, 2010, the latest actual data available. OPM's most recent calculation shows that the FERS surplus was projected to have grown to $11.4 billion by September 30, 2011. In June 2011, to conserve cash and avoid an interruption of mail service, the Postal Service ceased making employer contributions to FERS. The Postal Service resumed the regular biweekly payments for FERS employer's contributions and remitted all previously withheld payments in December 2011, including the $911 million accrued at September 30, 2011. The Postal Service continues to seek a refund of the overfunded balance.

Retirement expense was $1,453 million and $1,461 million for the three months ended March 31, 2012 and 2011, respectively. For the six months ended March 31, 2012 and 2011, retirement expense was $2,936 million, and $2,954 million, respectively. Retirement expense is recorded in "Compensation and benefits" in the Statements of Operations.

Note 9 – Workers' Compensation

Postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the DOL's Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. However, the Postal Service annually reimburses the DOL for all workers' compensation benefits paid to or on behalf of employees, and pays an administrative fee to the DOL. The law does not permit the Postal Service to settle claims or to contest claims, both of which are allowed for private sector employers. The law also does not allow the Postal Service to administer its own workers compensation program.

An estimation model that combines four generally accepted actuarial valuation techniques is used to project future claim payments based upon currently open claims and past claim payment experience.

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the reporting period. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The liability for claims arising more than 10 years ago is determined by an independent actuary. Because the FECA benefit structure allows payments superior to benefits available under normal federal retirement, the payments will, in some cases, be for the rest of the lives of the claimants.

To record the liability and annual expense, an estimate is made of the amount of funding that would need to be invested at current interest rates in order to fully fund all estimated future payments. Inflation and discount (interest) rates are updated as of the date of the financial statements to determine the present value of the workers' compensation liability at fair value in accordance with GAAP. The impact of changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in operating expenses.

The estimation of the liability is highly sensitive to changes in inflation and discount rates. The inflation and discount rates used to estimate the workers' compensation liability and related expense are shown in the following table.

Workers' Compensation Liability Inflation and Discount Rates	Quarter Ended March 31, 2012	September 30, 2011	March 31, 2011	September 30, 2010
(Unaudited)				
Compensation Claims Liability:				
Discount Rate	2.6%	2.3%	3.7%	2.9%
Wage Inflation	2.9%	2.9%	2.9%	2.9%
Medical Claims Liability:				
Discount Rate	2.7%	2.4%	3.8%	3.0%
Medical Inflation	8.6%	8.6%	7.9%	7.4%

An increase of 1% in the discount rate would decrease the March 31, 2012 liability and Quarter II, 2012 expense by approximately $1.5 billion. A decrease of 1% in the discount rate would increase the March 31, 2012 liability and Quarter II, 2012 expense by approximately $1.8 billion.

At March 31, 2012, the present value of the liability for future workers' compensation payments was $14,623 million, compared to $15,142 million at September 30, 2011, a decrease of $519 million. The annual payment to the DOL of $1,255 million was made in October 2011. The current portion of this liability was $1,304 million at March 31, 2012, compared to $1,255 million at September 30, 2011, an increase of $49 million. These amounts are accrued under "Workers' compensation costs" on the Balance Sheets.

Workers' compensation expense, including the impact of changes in the discount rates, for the three- and six-month periods ended March 31, 2012 and 2011 was as follows:

Workers' Compensation Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2012	2011	2012	2011
(unaudited)				
Impact of Discount Rate Changes	$ (599)	$ (209)	$ (511)	$ (1,029)
Actuarial valuation of new cases and revaluation of existing cases	607	824	1,247	1,196
Administrative Fee	16	15	33	31
Total Workers' Compensation Expense	$ 24	$ 630	$ 769	$ 198

Note 10 – Fair Value Measurements

The Postal Service estimates that the carrying value of current assets and liabilities approximates fair values. The Postal Service also has non-current financial instruments, such as the long-term portion of debt (see Note 3-*Debt*) and long-term receivables (see Note 11-*Revenue Forgone*), that must be measured for disclosure purposes on a recurring basis under authoritative accounting literature in GAAP. The Postal Service also applies these requirements to various non-recurring measurements of financial and non-financial assets and liabilities, such as the impairment of property and equipment. Measurement of assets and liabilities at fair value is performed using inputs from the following three levels of the fair value hierarchy as defined in the authoritative literature:

- Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities as of the balance sheet date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, observable data, other than quoted market prices, for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived from, or corroborated by, observable market data.
- Level 3 inputs include unobservable data that reflect current assumptions about the judgments and estimates that market participants would use when pricing the asset or liability. These inputs are based on the best information available, including internal data.

Because no active market exists for the debt with the FFB, the fair value of the noncurrent portion of these notes has been estimated using prices provided by the FFB, a Level 3 input.

The fair value of revenue forgone has been estimated using the income method and discount rates on similar assets, such as noncurrent U.S. Treasury securities that have a similar maturity, a level 2 input.

The carrying values and the fair values of noncurrent assets and liabilities that qualify as financial instruments in accordance with the accounting literature are as indicated in the table below:

Fair Value of Long-Term Financial Assets and Liabilities (Dollars in millions)	March 31, 2012 Carrying Amount	March 31, 2012 Fair Value	September 30, 2011 Carrying Amount	September 30, 2011 Fair Value
	(Unaudited)		(Audited)	
Revenue Forgone	$ 373	$ 496	$ 393	$ 540
Total Long-Term Financial Assets	373	496	393	540
Long-Term Portion of Debt	5,500	5,985	5,500	6,148
Total Long-Term Financial Liabilities	$ 5,500	$ 5,985	$ 5,500	$ 6,148

The above table is presented for disclosure purposes only. The Postal Service has not recorded a charge or credit to its operations for the differences between carrying and fair values of the above assets and liabilities.

The reconciliation of the fair values of the noncurrent portion of debt calculated using level 3 inputs is below:

Reconciliation of Fair Value of Level 3 Instruments (Dollars in millions)	(Unaudited)
Debt	
Balance at September 30, 2011	$ 6,148
New Indebtedness	-
Repayment of Debt	-
Unrealized Gain	(163)
Balance at March 31, 2012	$ 5,985

For the quarter ended March 31, 2012, there were no significant transfers between Level 1 and Level 2 assets or liabilities.

Non-financial assets, such as property and equipment, are measured at fair value when there is an indicator of impairment or when a decision is made to dispose of an asset, and recorded at fair value only when impairment is recognized. Independent appraisals, adjusted for estimated selling costs, are used to determine the fair value of non-financial assets deemed impaired or being held for sale. Independent third party appraisals are deemed Level 2 inputs as defined above. See Note 4–*Property and Equipment* for details on impairments.

Note 11 – Revenue Forgone

Revenue forgone is an appropriation that is intended to reimburse the Postal Service for the annual cost of statutorily-required free and reduced rate mailing services to specified groups. It also includes amounts authorized in the *Revenue Forgone Act of 1993* for services performed and revenue forgone for the years 1991 through 1998, which is scheduled to be reimbursed at a rate of $29 million each year from 1993 through 2035.

For the three months ended March 31, 2012, the Postal Service recognized revenue of $13 million, including $6 million of imputed interest income from these appropriations, compared to $24 million, including $6 million of imputed interest, for the three months ended March 31, 2011. For the six months ended March 31, 2012, the Postal Service recognized $26 million of such revenue, including $12 million of imputed interest, compared to revenue of $50 million, including $12 million of imputed interest, for the same period in 2011.

As the result of the passage of P.L. 112-10, *Department of Defense and Full-Year Continuing Appropriations Act, 2011,* effective April 15, 2011, the Postal Service received only $12 million of the scheduled $29 million of the 2011 amount due under the *Revenue Forgone Reform Act of 1993.* As the result of the passage of P.L. 112-74, *Consolidated Appropriations Act 2012*, effective December 23, 2011, the Postal Service will not receive any of the scheduled $29 million of the 2012 amount due. There was no impact to the 2011 or 2012 statement of operations because the revenue was previously recognized upon the enactment of the *Revenue Forgone Act of 1993* and the impact of P.L. 112-10 and P.L. 112-74 only represents a change in the timing of the funding but not a change to the requirement for reimbursement. The unfunded amounts will be included as part of the 2013 and 2014 appropriations requests. There has been no final legislation enacted regarding the 2013 appropriation requests.

The related amount of the receivable was $419 million at March 31, 2012, and $467 million at September 30, 2011. The current portion of this receivable was $46 million at March 31, 2012, and $74 million at September 30, 2011, and is recorded under “Receivables – U.S. Government” on the Balance Sheets.

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

Cautionary Statements

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project," or other similar terminology. These statements reflect current expectations regarding future events and operating performance as of the date of this report. These forward-looking statements involve a number of risks and uncertainties.

Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this report include statements representing expectations about the United States Postal Service business and financial results. These may be affected by risks and uncertainties discussed here and in the Annual Report on Form 10-K for the year ended September 30, 2011, such as, but not limited to, effectiveness of operating initiatives; rate of electronic diversion; changes in laws and regulations; costs and delays associated with new regulations imposed by the Postal Regulatory Commission (PRC) or other regulatory bodies; the amount of required prefunding payments to the Postal Service Retiree Health Benefits Fund (PSRHBF); success in advertising and promotional efforts; changes in national and local business and economic conditions, including their impact on consumer and business confidence; fluctuations in currency exchange and interest rates; labor and other operating costs; oil, fuel, and other transportation costs; the effects of war and terrorist activities; competition, including pricing and marketing initiatives and new service offerings by our competitors; consumer preferences or perceptions concerning our service offerings; spending patterns and demographic trends; availability of qualified personnel; severe weather conditions; labor relations, particularly the results of collective bargaining; effects of legal claims; cost and deployment of capital; and changes in applicable accounting policies and practices. The foregoing list of important factors is not all-inclusive. Some of these and other factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Operating results for the three- and six-month periods ended March 31, 2012, are not necessarily indicative of the results to be expected for the year ending September 30, 2012. This report should be read in conjunction with the United States Postal Service Annual Report on Form 10-K for the year ended September 30, 2011. As in that report, all references to years, unless otherwise stated, refer to the fiscal year beginning October 1 and ending September 30. All references to quarters, unless otherwise noted, refer to quarters within fiscal years 2012 and 2011.

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). Nine independent Governors are appointed by the President of the United States with the advice and consent of the Senate. The Postmaster General, who is appointed by the independent Board members, also serves on the Board, as does the Deputy Postmaster General, who is appointed by the independent Board members and the 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 service, prices do not vary unreasonably by customer for the level of service provided. However, P.L. 109-435 provides greater flexibility in the pricing of Shipping Services, as discussed below.

We serve individual and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the nation and, as a result, 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 1.5% of operating revenue.

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 certain Package Services. Price increases for these services are subject to a price cap by class of mail 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 and are commonly referred to as "Shipping Services". Prices and fees are subject to a review process by the Board and by the independent PRC.

Despite the legal classifications of postal services into market-dominant and competitive, the market dominant Package Services, First-Class Mail Parcels and Standard Mail Parcels are more reflective of our competitive services and the manner by which we manage our business. In the management of the business and throughout this document, competitive services which include the market-dominant Package Services, First-Class Mail Parcels and Standard Mail Parcels are referred to as "Shipping Services plus Market Dominant packages". Market-dominant services without packages and parcels are referred to as "Mailing Services without Market Dominant packages".

Mailing and Shipping Services are sold through a network of approximately 31,000 postal-managed Post Offices, stations, and branches, plus thousands of contract postal units, community post offices, Village Post Offices, retail establishments that sell postage stamps and other services, and our website, http://*www.usps.com*. Mail deliveries are made to over 151 million city, rural, Post Office box, and highway delivery points. Operations are conducted primarily in the domestic market, with international sales representing approximately 4% of total revenue.

In December 2011, Oxford Strategic Consulting named USPS the best postal service within the world's top 20 largest economies for access to services, resource efficiency and public trust after their comprehensive review of the performance of universal postal service providers. The report found that the Postal Service delivers nearly double the number of letters per employee as its closest ranking global competitor.

We operate and manage a very extensive and integrated retail, distribution, transportation and delivery network. As such, the physical infrastructure and labor force are not, with limited exceptions, dedicated to individual business lines. 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 conforms to the management and structure of expense incurrence within the organization.

The labor force is primarily represented by the American Postal Workers Union (APWU), National Rural Letter Carriers Association (NRLCA), National Postal Mail Handlers Union (NPMHU), and National Association of Letter Carriers (NALC). More than 85% of career employees are covered by collective bargaining agreements. The current contract with the APWU became effective May 23, 2011 and extends through May 20, 2015. The NRLCA contract expired on November 20, 2010. The NPMHU and NALC contracts expired on November 20, 2011. If agreements are not reached during negotiations, a federal mediator is appointed, unless the parties agree otherwise. Impasses in collective bargaining negotiations may ultimately be resolved through arbitration. We have reached an impasse in negotiations with the NRLCA. We and the NRLCA have agreed to bypass mediation and move directly to interest arbitration. Interest arbitration hearings between the parties began on December 5, 2011 and have not yet concluded. We have also reached an impasse in negotiations with the NPMHU and NALC. We and the NALC are proceeding towards interest arbitration. We and the NPMHU are in mediation. By law, we consult with management organizations representing most of the employees not covered by collective bargaining agreements. Consultation with the postmaster organizations is ongoing as of the publication of this report. We and the National Association of Postal Supervisors (NAPS) are scheduled for fact-finding procedures in June.

We participate in federal employee benefit programs for retirement, health and workers' compensation benefits. Under P.L. 109-435, we are obligated to fully fund the established health and retirement benefits of current retirees and current postal employees who have not yet retired. To accomplish this, the law established the Postal Service Retiree Health Benefits Fund (PSRHBF) and requires that we make annual prefunding payments of between $5.6 billion and $11.1 billion into the PSRHBF between 2012 and 2016. These amounts are in addition to the $38 billion contributed from 2007 through 2010 and in addition to the premiums paid for the health benefits of current retirees. No contribution was made to the PSRHBF in 2011 because the payment was rescheduled by Congress.

The Postal Service is not a reporting company under the Securities Exchange Act of 1934, as amended, and is not subject to regulation by the Securities and Exchange Commission (SEC). However, it is required under P.L.109-435 to file with the PRC certain financial reports containing information prescribed by the SEC under Section 13 of the Securities Exchange Act of 1934. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, which are available at *http://about.usps.com/who-we-are/financials/welcome.htm*. The Postal Service is required by law and regulations to disclose operational and financial information well beyond what the law requires of other government agencies and most private sector companies.

Pursuant to Title 39 and PRC regulations, additional disclosures on the organization and finances, including Cost and Revenue Analysis reports, Revenue, Pieces, and Weight reports, financial and strategic plans, and the *Comprehensive Statement on Postal Operations* are filed with the PRC and may also be found online at http://about.usps.com. Information on the website is not incorporated by reference into this document.

Critical Accounting Judgments and Estimates

The preparation of financial statements in accordance with United States (U.S.) generally accepted accounting principles (GAAP) requires management to make significant judgments and estimates to develop certain 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 accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large organization. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report on Form 10-K for the year ended September 30, 2011. Management discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board.

In Quarter II, 2012, the Postal Service improved the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. The Postal Service has obtained new information regarding our customer's retention and usage habits of stamps. This enabled us to update our estimate of stamps that will never be used for mailing. As a result of this enhancement, deferred revenue-prepaid postage was decreased by $59 million. The change was accounted for as a change in accounting estimate, and was therefore reflected in operating results as an increase to revenue in Quarter II, 2012.

Recent Accounting Pronouncements

New Accounting Standards

There were no accounting standards adopted during the six months ended March 31, 2012, that had a material impact on our financial statements.

Standards Issued But Not Yet Effective

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-09, to Accounting Standards Codification (ASC) No. 715-80: *Compensation-*

Retirement Benefits-Multiemployer Plans which outlines new required disclosures about an organization's involvement in those plans. The amendments are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. Retrospective application of the new disclosures will also be required. We will be adopting the new rules beginning with our Annual Report on Form 10-K for the year ending September 30, 2012.

Results of Operations

For the three months ended March 31, 2012, operating revenue was $16,227 million, compared to $16,234 million for the three months ended March 31, 2011, a decrease of $7 million. For the six months ended March 31, 2012, and 2011, operating revenue was $33,904 million, and $34,111, respectively, a decrease of $207 million, or 0.6%.

Our net losses were $3,177 million for the three months ended March 31, 2012, compared to net losses of $2,228 million for the same period last year, an increase of $949 million, or 42.6%. For the six months ended March 31, 2012, our net losses were $6,464 million, compared to net losses of $2,557 million for the six months ended March 31, 2011, an increase of $3,907 million, or 152.8%.

Although significant efforts continue to be made to increase revenues and contain controllable costs to offset declining volume, the accrual of the large PSRHBF prefunding requirement, increasing fuel costs, and legally-required continuation of six-days-per-week delivery have adversely affected our financial results.

Key Operating Statistics	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars and mail volume per day in millions)		2012		2011		2012		2011
Operating Revenue	$	16,227	$	16,234	$	33,904	$	34,111
PSRHBF Expense	$	3,050	$	1,375	$	6,100	$	2,750
Loss from Operations	$	(3,137)	$	(2,192)	$	(6,383)	$	(2,482)
Net Loss	$	(3,177)	$	(2,228)	$	(6,464)	$	(2,557)
Total Mail Volume		39,474		41,160		83,222		87,696
Average Mail Volume per day		526		554		555		586

As explained further in the Revenue and Volume section below, we are making efforts to offset decreases in revenue and volume in recent years due to the migration of First-Class Mail to electronic alternatives. Through the introduction of new service offerings and better educational marketing information, we are showing customers new ways mail can be used with current technologies. We continue to encourage mailers to try new products and services that can add value to their mail and connect with customers in a more individualized way. Products and services, such as Every Door Direct Mail, Click n' Ship, Business Connect and ePostage, offer new ways of doing business with us. Customers are also increasingly using free package pickup during carrier route deliveries.

For the three months ended March 31, 2012, Shipping Services plus Market Dominant packages revenue of $3,463 million increased $408 million, or 13.4%, on a volume increase of 74 million pieces, or 8.7%, compared to the same period last year. For the six months ended March 31, 2012, revenue in this same category was $7,269 million, an increase of $677 million, or 10.3%, as compared to the same six months last year. Higher consumer spending, higher e-commerce retail sales plus increased marketing efforts drove much of the growth in Shipping Services and package revenue and volume.

However, these increases were not enough to offset the declines in Mailing Services. Revenue from Mailing Services without Market Dominant packages totaled $12,764 million, a decrease of $415 million, or 3.1%, and volume totaled 38,547 million pieces, a decrease of 4.4%, for the three months ended March 31, 2012. For the six months ended March 31, 2012, total Mailing Services revenue without Market Dominant packages was $26,635 million, a decrease of $884 million or 3.2%.

Operating expenses were $19,364 million for the three months ended March 31, 2012, compared to $18,426 million for the same period last year, an increase of $938 million, or 5.1%, driven by expenses accrued for the legally mandated prefunding PSRHBF payments scheduled to be paid in Quarter IV, 2012. Without the accrual for the prefunding, operating expenses would have decreased by $737 million.

As described in *Note 7 – Health Benefits Programs*, the PSRHBF payment of $5.5 billion scheduled to be due by September 30, 2011, was rescheduled to be due by August 1, 2012, resulting in two payments due in 2012: $5.5 billion changed to be due by August 1, 2012, plus the originally scheduled $5.6 billion due by September 30, 2012. Including the accruals for PSRHBF prepayments of $3,050 million for the three months ended March 31, 2012, and $1,375 million for the same period last year, total retiree health benefit costs were $3,712 million for the three months ended March 31, 2012, compared to $1,996 million for the same period last year. For the six months ended March 31, 2012, PSRHBF prepayment accruals were $6,100 million, compared to $2,750 million for the same period last year. Total retiree health benefit costs were $7,392 million for the six months ended March 31, 2012, compared to $3,948 million for the six months ended March 31, 2011. Note that, while no PSRHBF prepayments were made in 2011, during the first three quarters of the year the expense was ratably accrued. This was reversed in Quarter IV, 2011, when the prepayment due by September 30, 2011, was changed by Congress ultimately to be due by August 1, 2012.

For the three months ended March 31, 2012, compensation and benefits expense decreased by $165 million, or 1.4%, compared to the same period last year due primarily to a decrease in work hours. Workers' compensation expenses were $24 million for the three months ended March 31, 2012, compared to $630 million for the same period ended March 31, 2011. The $606 million decrease was driven primarily by the large impact of discount rate changes that occurred in Quarter II, 2012. Transportation expenses increased by $126 million, or 8.1%, due to rising fuel costs, while other expenses decreased by $133 million, or 5.6%, for the three months ended March 31, 2012.

For the six months ended March 31, 2012, operating expenses were $40,287 million, compared to $36,593 million, an increase of $3,694 million, or 10.1%. Compensation and benefits expense decreased by $345 million, or 1.4%, primarily due to a work hour reduction of 13.9 million hours, or 2.4%. Retiree health benefits premiums expense increased $94 million, or 7.8%, and the required accrual for prefunding of the PSRHBF also increased $3,350 million, or 121.8%, as compared to the same period last year. Workers' compensation expenses increased $571 million reflecting the impact of changing interest rates. Transportation expenses increased by $231 million, or 7.2%, due to rising fuel costs. Other expenses decreased by $207 million, or 4.4%.

As discussed above, included in our total expenses and net losses are items related to legislative mandates for the funding of the PSRHBF and discount rate changes affecting our workers' compensation liability. PSRHBF payments are legally mandated by P.L. 109-435 which dictates the amounts to be paid and the timing of the payments through 2016. These payments can be changed at any time with the passage of a new law, or amendment of the existing law. Discount rates are updated quarterly, based on prevailing market rates for a basket of Treasury securities with maturities corresponding to the expected duration of the future cash payments for workers' compensation. Although these rate changes increase the workers' compensation expenses during periods of falling interest rates, or reduce expenses when rates rise, they do not impact actual cash outflows.

Because these factors are not subject to management's control, we believe that analyzing operating results without the impact of these items provides a more meaningful insight into operations. The table below illustrates the loss from business activities when these factors are not considered, and reconciles this amount to our GAAP net loss.

(Loss) Income before Impact of PSRHBF Expense and Discount Rate Changes	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)		2012		2011		2012		2011
Net Loss	$	(3,177)	$	(2,228)	$	(6,464)	$	(2,557)
Impact of:								
PSRHBF Expense		3,050		1,375		6,100		2,750
Discount Rate Changes on Workers' Compensation		(599)		(209)		(511)		(1,029)
(Loss) Income before Impact of PSRHBF Expense and Discount Rate Changes	$	(726)	$	(1,062)	$	(875)	$	(836)

Without the impact of these non-controllable factors, the net loss would have been $726 million for the quarter ended March 31, 2012, compared to a net loss of $1,062 million for the quarter ended March 31, 2011. For the six months ended March 31, 2012, the net loss would have been $875 million compared to a net loss of $836 million for the six months ended March 31, 2011.

Revenue and Volume

Reclassification of Certain Revenue and Volume Data

Periodic reclassifications and expansions of services between Market Dominant and Competitive Products, which require approval from the PRC, are necessary to rationalize product offerings and address the limitations in our Market Dominant category, such as price caps based on the Consumer Price Index (CPI). The additional flexibility provided in Competitive Products allows us to better offer services that meet customer needs, to increase business for the Postal Service, and to allow us to price our products and services competitively within the market that we operate.

In order to facilitate a comparison of year over year mailing and shipping revenue and volume results, First-Class Mail Parcels, Standard Mail Parcels as well as Package Services currently categorized as Market Dominant products by the PRC for regulatory purposes will be discussed in the next section below in combination with Shipping Services. This total grouping is referred to as “Shipping Services plus Market Dominant packages”. The remainder of the Market Dominant category will be referred to as “Mailing Services”. This not only provides a better comparison, it is also more reflective of the way we manage our business.

In Quarter I, 2012, with the concurrence of the PRC, we reclassified certain light weight commercial parcels previously classified in Mailing Services as First-Class Mail Parcels to the newly created First-Class Package Services in Shipping Services. In addition, in Quarter II, certain Standard Mail parcels were reclassified to Parcel Select in the Shipping Services category.

Summary of Revenue and Volume Results

Revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail. Historically, the more significant factor has been cyclical changes in the rate of economic growth. However, currently the more significant factor is the rate that relevant new technology has been introduced and accepted into the market place and has supplanted the role of traditional hard-copy mail. In addition, revenue is also constrained by laws and regulations restricting the types of products and services we can offer and by our ability to implement products and services at the speed of the market.

The recession that began in the fall of 2007 and its lingering effects, accompanied by the acceptance and growth of major new technological platforms, has changed how the internet and mobile communication technologies are used by businesses and consumers. This has had a significant negative impact on some of our traditional sources of revenue. These two factors simultaneously impacted the Postal Service, as the recession accelerated the shift to electronic communication alternatives.

Between 2008 and 2010, the American economy experienced its worst economic downturn since the Great Depression, and mail volume fell precipitously. The recovery from the recession has been slow and uneven. To date, consumer spending and business investment have not provided the growth stimulus necessary to return mail volumes in the current period to levels approaching the levels the Postal Service experienced in the mid-2000s. Due to the long-term impact of technological change, discussed above, we do not anticipate volume ever returning to these levels. In fact, we anticipate that volume will, for the most part, decrease for the foreseeable future.

For the six months ending March 31, 2012, Postal Service revenues have been somewhat stronger than anticipated, although still below the comparable period last year. Gross domestic product (GDP) grew a modest 2.2% in the three months ended March 31, 2012, with a decreasing but still high unemployment rate of more than 8%. Although Mailing Services' revenues for the first six months of 2012 are down compared to last year; Shipping Services have shown strong growth thus far in 2012. In addition, in the quarter ended March 31, 2012, there are promising signs of growth in certain lines of business such as packages. Despite these promising results, overall revenue has decreased in comparison to the same period last year.

In April 2011, we increased prices for Mailing Services by an average of 1.7%. It was the first increase in Mailing Services prices in almost two years. In addition, prices for Shipping Services increased by an average of 3.6% in January 2011. On January 22, 2012, we increased Mailing Services prices an average of 2.1%, and increased Shipping Services prices an average of 4.6%.

However, these price increases were not enough to offset the continuing impact that technology has had on how customers use the mail. Volume and revenue continue to be lost to electronic alternatives, and are not expected to return because the movement constitutes a fundamental and permanent change in mail use by households and businesses. Technological change has had an especially negative effect on our First-Class Mail revenues as yearly First-Class Mail revenue in 2011 declined more than 16% on a volume decline of 24% from the 2007 revenue peak.

As discussed below, First-Class Mail revenue dropped another 3.0% in the first six months of 2012. The nature of the recent recession, which saw traditional media lag in the overall economic recovery, as well as technological change, have also negatively impacted Standard Mail. Standard Mail revenue, not including Standard Mail packages, declined 5.1% in the first six months of 2012. Advertisers have become more selective in targeting their mailings and have more platforms from which to choose, which negatively impacts mail volume.

New technology, however, has helped us grow our Shipping Services businesses. Shipping Services revenue plus Market Dominant parcels and packages increased 10.3% for the six months ended March 31, 2012, compared to 2011. However, because Shipping Services plus Market Dominant packages represents approximately 20% of our total revenues, these increases cannot fully offset the declines in total Mailing Services revenue.

As a result, despite the growth and success of our Shipping Services plus Market Dominant packages, revenues from these services were not large enough to overcome the decline in Mailing Services as seen below. Moreover, unlike a private-sector business, the Postal Service is restricted by law from taking certain steps, such as entering new lines of business that might generate additional revenue to help offset the decline in First-Class Mail revenue. In short, there currently is no foreseen revenue growth solution that would completely resolve our financial problems.

MAILING SERVICES

Revenue of $12,764 million from Mailing Services without Market Dominant packages, decreased by $415 million, or 3.1%, for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, on a volume decrease of 1,760 million pieces. This revenue reduction reflects the continued decline in First-Class Mail and a decline in Standard Mail in Quarter II. For the six months ended March 31, 2012, revenue of $26,635 million from Mailing Services without Market Dominant packages decreased by $884 million, or 3.2%, from the comparable 2011 period.

Mailing Services Revenue (Dollars in millions)	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011		Six Months Ended March 31, 2012		Six Months Ended March 31, 2011	
First-Class Mail[1]	$	7,596	$	7,736	$	15,664	$	16,150
First-Class Mail Parcels		172		305		358		640
Standard Mail[2]		3,958		4,082		8,451		8,908
Standard Mail Parcels		55		151		253		321
Periodicals		436		443		880		923
Package Services		406		403		859		850
Other Mailing Services[3]		774		918		1,640		1,538
Total Mailing Services Revenue	$	13,397	$	14,038	$	28,105	$	29,330
Less Market Dominant packages:								
FCM Parcels		172		305		358		640
Standard Mail Parcels		55		151		253		321
Package Services		406		403		859		850
Total Mailing Services Revenue without Market Dominant packages	$	12,764	$	13,179	$	26,635	$	27,519

[1] Excludes First Class Mail (FCM) Parcels

[2] Excludes Standard Mail (SM) Parcels

[3] Includes Certified Mail, Return Receipts, PO Boxes, Insurance, Other Ancillary Fees.

Note: *The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year. These reclassifications did not impact total mail revenue for the prior year.*

In recent years, there have been fundamental changes in the way businesses and consumers use the mail. Correspondence mail has long been a declining part of mail volume. With the availability of inexpensive telephone service, e-mail, and other internet-based forms of communication such as e-cards and social networking, the declining trend in correspondence mail will not be reversed. Customer usage of postal services continues to shift away from transactions, correspondence, and Periodicals Mail. For the three months ended March 31, 2012, combined First-Class Mail and Standard Mail excluding First-Class Mail parcels and Standard Mail parcels, which represents approximately 93% of our total mail volume, decreased 1,685 million pieces, or 4.4%, compared to the same period last year, with an associated drop in revenue of $264 million, or 2.2%. For the six month period ended March 31, 2012, combined First-Class Mail and Standard Mail revenue decreased $943 million, or 3.8%, on a volume decrease of 4,430 million pieces, or 5.4%, over the same period last year.

Mailing Services Volume (Pieces in millions)	**Three Months Ended March 31, 2012**	**2011**	**Six Months Ended March 31, 2012**	**2011**
First-Class Mail[1]	**17,677**	**18,464**	**36,621**	**38,339**
First-Class Mail Parcels	**75**	**156**	**165**	**325**
Standard Mail[2]	**19,086**	**19,984**	**40,944**	**43,656**
Standard Mail Parcels	**59**	**177**	**273**	**377**
Periodicals	**1,682**	**1,747**	**3,410**	**3,593**
Package Services	**166**	**168**	**344**	**356**
Other Mailing Services[3]	**102**	**112**	**274**	**275**
Total Mailing Services Volume	**38,847**	**40,808**	**82,031**	**86,921**
Less Market Dominant packages:				
FCM Parcels	**75**	**156**	**165**	**325**
Standard Mail Parcels	**59**	**177**	**273**	**377**
Package Services	**166**	**168**	**344**	**356**
Total Mailing Services Volume without Market Dominant packages	**38,547**	**40,307**	**81,249**	**85,863**

[1] Excludes FCM Parcels

[2] Excludes Standard Mail (SM) Parcels

[3] Includes Certified Mail, Return Receipts, PO Boxes, Insurance, Other Ancillary Fees.

Note: *Prior year balances have been restated to conform to the current year's presentation.*

Single-piece First-Class letter revenue declined $238 million, or 8.8%, for the quarter, compared to the same period last year on a volume decline of 10.3%. Year-to-date single piece First-Class letter revenue declined $538 million, or 9.0%, on a volume decline of 9.8%. The largest contributing factor to this decline was the fundamental change in the way businesses and consumers use the mail, the continuing migration away from First-Class Mail toward electronic alternatives. This trend is expected to continue.

Standard Mail revenue of $3,958 million decreased $124 million, or 3.0%, in the three months ended March 31, 2012, as volume decreased 898 million pieces, or 4.5%, compared to the three months ended March 31, 2011. For the six month period ended March 31, 2012, Standard Mail revenue of $8,451 million decreased $457 million, or 5.1%, on a volume decline of 2,712 million pieces, or 6.2%, compared to the first six months of 2011. Standard Mail volumes were significantly impacted by the decline in advertising spending resulting from the recent recession and also by the continued muted growth of the economy. In addition, advertisers continue to become more sophisticated in the targeting of their mailings and utilizing alternative media, which also offsets some potential volume growth.

Revenue from Periodicals decreased $7 million, or 1.6%, in the three months ended March 31, 2012, compared to the same period last year. For the three months ended March 31, 2012, the average per piece weights for Periodicals decreased by 2.7%, compared to the same period last year. Year-to-date Periodicals revenue decreased $43 million, or 4.7%, compared to the same period last year. Periodicals continue to be depressed by trends in reading behavior and shifts of advertising away from print. The three months ended March 31, 2012, continued to see E-readers and similar electronic devices becoming increasingly popular with the public.

SHIPPING SERVICES

Total revenue of $3,463 million from Shipping Services plus Market Dominant packages increased $408 million, or 13.4%, for the three months ended March 31, 2012, compared to the same period last year, as volume increased 74 million pieces, or 8.7%. Year-to-date revenue from Shipping Services plus Market Dominant packages increased $677 million, or 10.3%, on a volume increase of 140 million pieces, or 7.6%.

Shipping Services Revenue (Dollars in millions)		Three Months Ended March 31, 2012		2011		Six Months Ended March 31, 2012		2011
Priority Mail	$	1,431	$	1,342	$	3,139	$	2,985
First Class Package Service[1]		202		0		407		0
Parcel Select Services[2]		365		155		647		368
Express Mail		199		198		401		404
International Mail		455		403		948		862
Other Shipping Services Revenue[3]		178		98		257		162
Total Shipping Services Revenue	$	2,830	$	2,196	$	5,799	$	4,781
Plus Market Dominant packages:								
FCM Parcels[1]		172		305		358		640
Standard Mail Parcels[2]		55		151		253		321
Package Services		406		403		859		850
Total Shipping Services Revenue plus Market Dominant packages	$	3,463	$	3,055	$	7,269	$	6,592

[1] For comparative analytics, First Class Package Service and First Class Mail Parcels should be combined.

[2] For comparative analytics, Parcel Select Services and Standard Mail Parcels should be combined. Parcel Select Services includes Parcel Select Returns.

[3] Other Shipping Services Revenue includes shipping and mailing supplies, premium forwarding services, greeting cards, and nonpostal services and fees.

Note: *The totals for certain mail categories for the prior year have been reclassified to better reflect classifications used in the current year. These reclassifications did not impact total mail revenue for the prior year.*

Shipping Services Volume (Pieces in millions)	Three Months Ended March 31, 2012	2011	Six Months Ended March 31, 2012	2011
Priority Mail	200	189	431	414
First Class Package Service[1]	95	0	194	0
Parcel Select Services[2]	252	84	398	197
Express Mail	10	10	20	20
International Mail	70	69	148	144
Total Shipping Services Volume	627	352	1,191	775
Plus Market Dominant packages:				
FCM Parcels[1]	75	156	165	325
Standard Mail Parcels[2]	59	177	273	377
Package Services	166	168	344	356
Total Shipping Services Volume plus Market Dominant packages	927	853	1,973	1,833

[1] For comparative analytics, First Class Package Service and First Class Mail Parcels should be combined.

[2] For comparative analytics, Parcel Select Services and Standard Mail Parcels should be combined.

Note: Prior year balances have been restated to conform to the current year's presentation.

Priority Mail, which represented 41% of our total Shipping Services revenue, increased $89 million, or 6.6%, for the three months ended March 31, 2012, compared to the same period last year. Year-to-date Priority Mail revenue increased $154 million, or 5.2%, compared to the six months ended March 31, 2011. Priority Mail Flat Rate advertising campaigns continued to contribute to increased revenues in that category. Initially launched in May 2009, this campaign reinforces the message that the Postal Service is a convenient, simpler solution for shipping.

The combined First-Class Package Service and FCM parcels generated revenue of $374 million and $765 million for the three and six months ended March 31, 2012 respectively. This was an increase of $69 million or 22.6%, and a $125 million, or 19.5%, for the three and six months ended March 31, 2012, respectively. The combined volume increased 14 million pieces, or 9.0%, and 34 million pieces, or 10.5%, for the three and six months ended March 31, 2012, respectively. First-Class Package Service and FCM Parcels performed especially well as a result of management's continued emphasis on package service options. The strong growth in these combined services from the prior year reflects the consumer's response to a product that provides a high level of service at a reasonable price.

Together Parcel Select Services, including Parcel Returns, of $365 million plus the Standard Mail Parcels of $55 million totaled $420 million for the three months ended March 31, 2012, an increase of $114 million, or 37.3%. For the six months ended March 31, 2012, the combined services totaled $900 million, an increase of $211 million, or 30.6%, over the same period of the prior year.

Package Services revenue of $406 million increased $3 million, or 0.7%, for the three months ended March 31, 2012, compared to the three months ended March 31, 2011. However, volume decreased 2 million pieces, or 1.2%. Year-to-date Package Services revenue increased $9 million, or 1.1%, as volume decreased 12 million pieces, or 3.4%, compared to the same period last year.

International mail shipping services revenues for the three months ended March 31, 2012, and 2011, were $455 million, and $403 million, respectively. Year-to-date International mail shipping services revenues were $948 million, an increase of $86 million, or 10.0%, over the six months ended March 31, 2011. A newly designed price information tool for Express and Priority Mail International that gives customers on-the-spot price comparisons helped boost this category.

Detailed data on Mailing Services product volume and revenue may be found in the Quarterly Revenue, Pieces and Weight reports on *http://about.usps.com/who-we-are/financials/welcome.htm*.

Operating Expenses – Compensation and Benefits

COMPENSATION AND BENEFITS

Compensation and benefits expense in Quarter II, 2012, was $11,698 million, a $165 million, or 1.4% decrease as compared to Quarter II, 2011. Compensation expense decreased by $179 million, or 2.0%, in Quarter II, 2012, compared to the same period last year. This was primarily due to a reduction in work hours of 5.4 million, or 2.0%. Retirement expense decreased $8 million or 0.5%, as compared to Quarter II, 2011. These savings were partially offset by an increase of $7 million, or 0.5%, in health benefits expense of $1,303 million and an increase of $15 million, or 18.5%, in other compensation of $96 million in Quarter II, 2012 as compared to the same period last year.

Compensation and Benefits Expense	Three Months Ended March 31,		Six Months Ended March 31,	
(Dollars in millions)	2012	2011	2012	2011
Compensation	$ 8,846	$ 9,025	$ 18,434	$ 18,772
Retirement	1,453	1,461	2,936	2,953
Health Benefits	1,303	1,296	2,610	2,595
Other	96	81	204	209
Total Compensation & Benefits	$ 11,698	$ 11,863	$ 24,184	$ 24,529

Year-to-date compensation and benefits expense was $24,184 million, a $345 million, or 1.4%, decrease compared to the six months ended March 31, 2011. Year-to-date compensation expense decreased $338 million, or 1.8%, from the same period last year as a result of a 13.9 million, or 2.4%, reduction in work hours used. Retirement expense of $2,936 million decreased $17 million, or 0.6%, for the six months ended March 31, 2012, as compared to the same period last year. Health benefits expense of $2,610 million for the six months ended March 31, 2012, increased $15 million, or 0.6%, when compared to the same period last year.

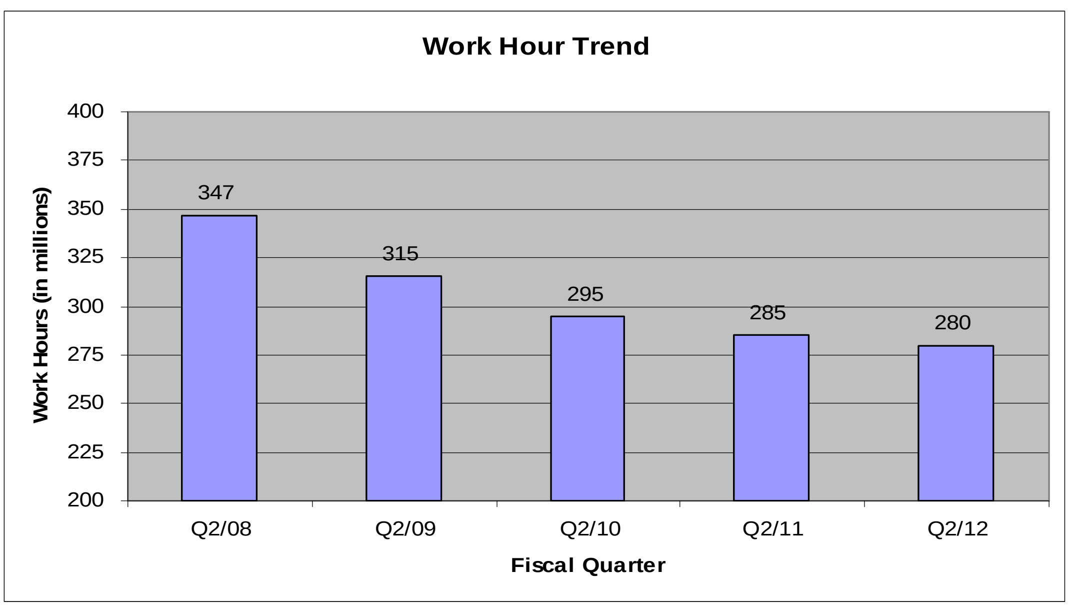
WORK HOURS

The Postal Service reduced work hours in the quarter ended March 31, 2012, by 5.4 million hours, or 2.0%, compared to the same period last year. Cumulative year-to-date work hour reduction, compared to the same six month period last year, totals 13.9 million hours, or 2.4%. This represents a reduction of approximately 7,877 full time equivalent employees.

Work Hours	Three Months Ended March 31,		Six Months Ended March 31,	
(Hours in Thousands)	2012	2011	2012	2011
City Delivery	96,727	98,724	196,526	201,487
Mail Processing	52,631	53,499	109,567	111,862
Customer Services Operations	36,311	37,636	73,837	77,206
Rural Delivery	43,750	43,286	88,495	87,779
Postmasters	14,465	14,627	28,743	29,292
Other, including Retail, Plant, Vehicle Services, Operational Support, & Administration	35,906	37,450	71,316	74,722
Total	279,790	285,222	568,484	582,348

Since 2000, we have increased our efficiency and removed 491 million work hours from our cost base. At our current average hourly compensation and benefit rate, this equates to annual savings of approximately $21 billion.

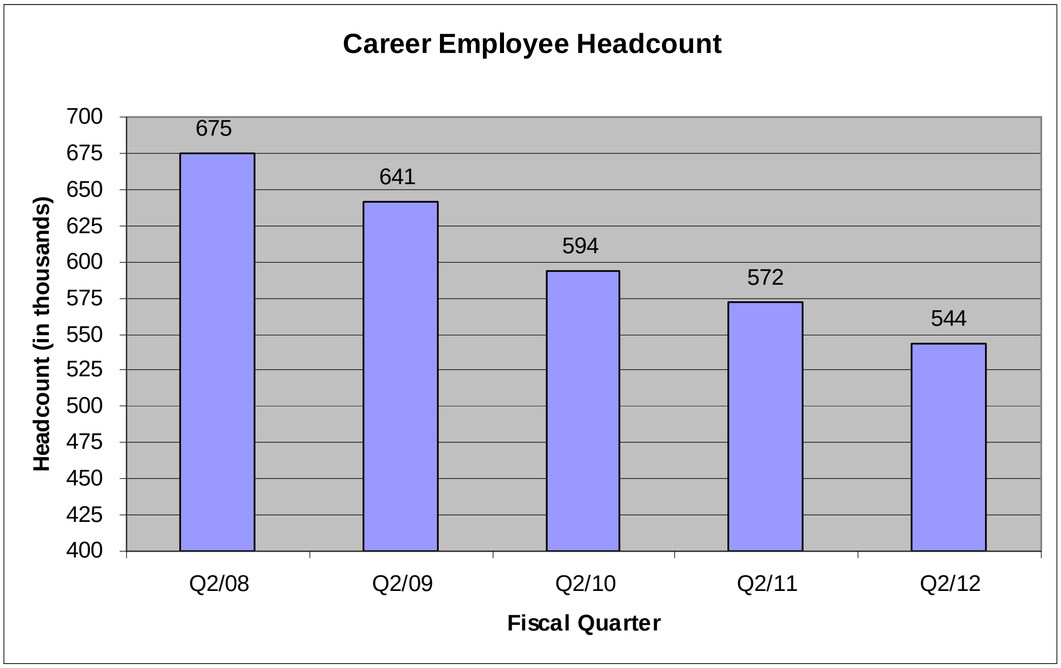
The following chart illustrates our second quarter work hour usage since 2008:



EMPLOYEE WORKFORCE

The total number of employees at March 31, 2012, was approximately 640,000, of which approximately 544,000 were career employees. There has been a cumulative reduction of approximately 244,000 career employees since September 30, 2000, which includes a reduction of 6,500 career employees during the three months ended March 31, 2012. Career employees have decreased by approximately 28,000 since March 31, 2011. These reductions have been accomplished primarily through attrition and separation incentives to retire or resign.

The following graph depicts the number of Postal Service career employees as of the second quarter each year since 2008:



RETIREMENT EXPENSE AND HEALTH BENEFITS EXPENSE– CURRENT EMPLOYEE

Retirement expense was $1,453 million, compared to $1,461 million for the same period last year, a decrease of $8 million, or 0.5%. The decrease was driven by a reduction in the number of employees in the three and six month periods ended March 31, 2012. This decrease occurred despite a 0.2% OPM-mandated increase in the employer contribution rate for the Federal Employment Retirement System (FERS) employees. Year-to-date retirement expense was $2,936 million, compared to $2,953 million for the same period last year, a decrease of $17 million, or 0.6%. The rate increased to 11.9% of eligible payroll in 2012, up from 11.7% in 2011. This 0.2% increase in 2012 is in addition to a 0.5% increase that occurred in 2011.

In January 2010, the Office of Inspector General (OIG) issued a report, *The Postal Service's Share of CSRS Pension Responsibility* in which it evaluated the funding of the Postal Service's CSRS responsibility, concluding that the Postal Service had overfunded its obligation by $75 billion. At the Postal Service's request, the PRC initiated an independent actuarial review of this issue and issued a report in June 2010 in which the independent actuary determined that, although the cost allocation methodology used in 1971 was appropriate at the time, modern actuarial and accounting guidance suggest that an alternative allocation methodology would be more fair and equitable. If an updated allocation methodology were employed, the PRC's independent actuary estimated that the Postal Service may have overfunded its CSRS obligation by $50 billion to $55 billion.

On October 13, 2011, the U.S. Government Accountability Office (GAO) released its report, *Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*. While the

Postal Service appreciates the GAO's observation that reallocation of the CSRS pension surplus would not, by itself, solve the organization's financial problems, we are disappointed that the report rejects the findings of two independent actuaries. We believe the GAO report does not address the core question about whether the current allocation of costs is fair and equitable and we continue to contend that, under current law, OPM is in no way precluded from affecting a more equitable split. We also contend that a more balanced report from the GAO would contain a more objective analysis and would provide more compromise options for Congress to consider.

According to the Office of Personnel Management (OPM), the Postal Service has overfunded its FERS obligations by $10.9 billion at September 30, 2010, the latest actual data available. OPM's most recent calculation shows that the FERS surplus was projected to grow to $11.4 billion by September 30, 2011. The Postal Service continues to seek a refund of the overfunded balance which will require congressional action.

OPM and GAO agree that, using the long-term funding assumption of the CSRS Board of Actuaries, the Postal Service's portion of the FERS program was overfunded by $10.9 billion as of September 30, 2010. It is OPM's position, however, that they are currently restricted by law from authorizing the return of those funds. As a result, various legislative initiatives have been introduced to resolve the matter. See "Legislative Update" in this Form 10-Q and our Annual Report on Form 10-K for the year ended September 30, 2011.

The Postal Service's share of the health care premiums for our employees was $1,303 million, or 78%, of the total health care premium cost for the three months ended March 31, 2012, compared to $1,296 million, or 78%, for the three months ended March 31, 2011. The $7 million increase was driven by a 3.8% increase in premiums despite an approximate decrease of 28,000, or 5%, in the number of career employees. For the six months ended March 31, 2012, the Postal Service's contribution to health care premiums was $2,610 million, or 78%, of the total health care premium cost, compared to $2,595 million, or 79%, for the same period last year.

Operating Expenses – Retiree Health Benefits

P.L. 109-435 included a 10 year, $55,800 million payment prefunding schedule. However, although P.L. 109-435 dictates the amounts and timing of payments through 2016, the amounts to be paid and the timing of the payments can be changed at any time with the passage of a new law, or amendment of the existing law.

On September 30, 2011, P.L. 112-33, *Continuing Appropriations Act, 2012,* changed the required PSRHBF payment of $5.5 billion previously scheduled to be due by September 30, 2011, to be due by October 4, 2011. This date was then changed by a number of laws subsequently passed. The most recent law affecting the PSRHBF payment, P.L. 112-74, *Consolidated Appropriations Act, 2012*, changed the due date to August 1, 2012. As a result, the total required PSRHBF payment in 2012 is $11.1 billion: $5.5 billion due by August 1, 2012, and $5.6 billion due by September 30, 2012. To date, no law changes have altered the payment requirements for the original $5.6 billion due by September 30, 2012, or the 2013 to 2016 scheduled payments. As a result of these legislative changes, the Postal Service is accruing the $5.5 billion payment due by August 1, 2012, in equal amounts over ten months, and the $5.6 billion due by September 30, 2012, in equal amounts throughout the year. See Note 7, *Health Benefit Programs*, for additional information.

The Postal Service has asked Congress to restructure the payment schedule for 2012 and future years. However, there can be no assurance that Congress will restructure any of the scheduled payments. As a result, and as discussed in *Note 2 – Liquidity*, we will pay our employees, our suppliers and our contract partners to ensure continued delivery of the mail, but we will be forced to default on the payment into the PSRHBF unless a legislative solution can be achieved by August 1, 2012, the due date of the first PSRHBF payment. Further, if no legislation is passed which impacts the $5.6 billion payment due by September 30, 2012, we will also be forced to default on that payment.

The components of retiree health benefits expense for the three month and six month periods ended March 31, 2012, and 2011 are as follows:

Retiree Health Benefits (Dollars in millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Employer Premium Expense	$ 662	$ 621	$ 1,292	$ 1,198
P.L. 109-435 Payment to PSRHBF	3,050	1,375	6,100	2,750
Total Retiree Health Benefit Expense	$ 3,712	$ 1,996	$ 7,392	$ 3,948

Note that, while no PSRHBF prepayments were made in 2011, during the first three quarters of the year the expense was ratably accrued. The accrual was reversed in the fourth quarter when the prepayment due by September 30, 2011, was changed to ultimately being due by August 1, 2012. Expenses for the three months ended March 31, 2012, for retiree health benefits employer premiums increased $41 million, or 6.6%, from the same period last year. For the six months ended March 31, 2012, retiree health benefits employer premiums increased $94 million, or 7.8%, from the same period last year. The major drivers of retiree health benefit employer premium expense are the number of current participants on the rolls and premium costs of the plans they select. As of March 31, 2012, there were approximately 470,000 participants, approximately the same number of participants reported at March 31, 2011. Despite nominal fluctuations in the number of plan participants, retiree health benefit premium expense increased due to an increase in the cost of premiums.

Operating Expenses – Workers' Compensation

Postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. However, we annually reimburse the DOL for all workers' compensation benefits paid to or on behalf of employees, and pay an administrative fee to DOL.

An estimation model that combines four generally accepted actuarial valuation techniques is used to project future claim payments based upon currently open claims and past claim payment experience.

A liability is recorded for the present value of estimated future payments to postal employees, or their qualified survivors, who have been injured through the end of the reporting period. The estimated total cost of a claim is based on the date of the injury, pattern of historical payments, frequency or severity of the claim-related injury or injuries, and the expected trend in future costs. The liability for claims arising more than 10 years ago is determined by an independent actuary. Because the FECA benefit structure allows payments superior to benefits available under normal federal retirement, the payments will, in some cases, be for the rest of the lives of the claimants.

To record the liability and annual expense, an estimate is made of the amount of funding that would need to be invested at current interest rates in order to fully fund all estimated future payments. Inflation and discount (interest) rates are updated as of the date of the financial statements to determine the present value of the workers' compensation liability at fair value in accordance with GAAP. The impact of changes in the discount and inflation rates is accounted for as a change in accounting estimate and included in operating expenses.

The estimation of the liability is highly sensitive to changes in inflation and discount rates. The inflation and discount rates used to estimate the workers' compensation liability and related expense are shown in the following table.

Workers' Compensation Liability Inflation and Discount Rates	March 31, 2012	Quarter Ended September 30, 2011	March 31, 2011	September 30, 2010
Compensation Claims Liability:				
Discount Rate	2.6%	2.3%	3.7%	2.9%
Wage Inflation	2.9%	2.9%	2.9%	2.9%
Medical Claims Liability:				
Discount Rate	2.7%	2.4%	3.8%	3.0%
Medical Inflation	8.6%	8.6%	7.9%	7.4%

An increase of 1% in the discount rate would decrease the March 31, 2012 liability and Quarter II, 2012 expense by approximately $1.5 billion. A decrease of 1% in the discount rate would increase the March 31, 2012 liability and Quarter II, 2012 expense by $1.8 billion.

At March 31, 2012, the present value of the liability for future workers' compensation payments was $14,623 million, compared to $15,142 million at September 30, 2011, a decrease of $519 million. In October 2011, we made payments of $1,255 million to the DOL. The current portion of the liability was $1,304 million at March 31, 2012, compared to $1,255 million at September 30, 2011.

Workers' compensation expense, including the impact of changes in the discount rates, for the three month and six month periods ended March 31, 2012, and 2011, was as follows:

Workers' Compensation Expense (Dollars in millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Impact of Discount Rate Changes	$ (599)	$ (209)	$ (511)	$ (1,029)
Actuarial valuation of new cases and revaluation of existing cases	607	824	1,247	1,196
Administrative Fee	16	15	33	31
Total Workers' Compensation Expense	$ 24	$ 630	$ 769	$ 198

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 following: 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 payments 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. In the three and six months ended March 31, 2012, the Postal Service experienced a $4 million, or 2.1%, and a $32 million, or 8.2%, increase in compensation claim payments. The increase in compensation payments for the three and six month periods ended March 31, 2012, continues to be pronounced after a reassessment of employees on light or limited duty status resulted in an increase in benefits payments to some beneficiaries. For the three months ended March 31, 2012, there was a $0.5 million, or 0.5%, increase in medical claims. However, for the six months ended March 31, 2012, there was a $13 million, or 5.7%, decrease in medical claims payments compared to the same period last year.

Operating Expenses – Transportation

Transportation expenses are primarily made up of highway, air, and international transportation costs. Transportation expenses for Quarter II, 2012, were $1,678 million, an increase of $126 million, or 8.1%, compared to $1,552 million for the same period last year. For the six months ended March 31, 2012, transportation expenses were $3,444 million, a $231 million, or 7.2%, increase from $3,213 million expense incurred during the first six months of 2011.

Transportation Expense	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)		2012		2011		2012		2011
Highway Transportation	$	846	$	834	$	1,740	$	1,696
Air Transportation		560		505		1,159		1,055
International Transportation		257		201		519		435
Other Transportation		15		12		26		27
Total Transportation Expense	$	1,678	$	1,552	$	3,444	$	3,213

In Quarter II, 2012, highway transportation expenses were $846 million, an increase of $12 million, or 1.4%, compared to expenses of $834 million in Quarter II, 2011. For the first six months of 2012, highway transportation expenses were $1,740 million, an increase of $44 million, or 2.6% over expenses of $1,696 million for the same period of the prior year. These increases are primarily attributable to increases in the cost of diesel fuel. Diesel fuel, which makes up approximately 93% of fuel purchased for highway contracts, had an average cost of $3.97 per gallon during Quarter II, 2012, compared to $3.61 per gallon in Quarter II, 2011, an increase of 10%. For the first six months of 2012, the price of diesel fuel averaged $3.92 per gallon, compared to $3.38 per gallon during the first six months of 2011, an increase of 16%.

Partially offsetting the increases in fuel costs during the first six months of 2012 was an 83 million mile, or 5%, decrease in contracted highway miles driven compared to the first six months of 2011. This is a result of continuing national and local surface transportation utilization improvement initiatives.

Air transportation expenses of $560 million for the quarter ended March 31, 2012, increased by $55 million, or 11%, from $505 million for the same quarter last year. For the six months ended March 31, 2012, air transportation expenses of $1,159 million were $104 million, or 9.9%, greater than the first six months of 2011. Similar to highway transportation, air transportation expenses were highly influenced by rising fuel prices. At the same time, however, declining volume and the shifting of some volume previously transported by air to lower-cost highway transportation has offset these increases.

International transportation expenses of $257 million for the quarter ended March 31, 2012, increased $56 million, or 27.9%, compared to last year. Expenses for the six months ended March 31, 2012, also increased $84 million, or 19.3%, compared to last year, as international foreign postal transaction rates increased, and as the ratio of packages to the less expensive First-Class Mail increased. The largest component of international transportation expense is the fee that we pay to foreign postal administrations for transportation and delivery of mail within their country. These foreign postal transaction fees represented 71% and 76% of the total international transportation expense for the six months ended March 31, 2012, and 2011, respectively.

Operating Expenses – Other Operating Expense

Other operating expenses of $2,252 million for the three months ended March 31, 2012, were $133 million, or 5.6%, less than the $2,385 million of other operating expenses for the same period last year. For the six months ended March 31, 2012, other operating expenses of $4,498 million were $207 million, or 4.4%, less than the first six months of 2011.

Other Operating Expenses	Three Months Ended March 31,				Six Months Ended March 31,			
(Dollars in millions)	2012		2011		2012		2011	
Supplies and Services	$	545	$	564	$	1,081	$	1,137
Depreciation and Amortization		525		578		1,070		1,150
Rent and Utilities		426		442		831		866
Vehicle Maintenance Service		255		250		500		472
Information Technology and Communications		172		173		310		310
Rural Carrier Equipment Maintenance Allowance		139		117		287		263
Other		190		261		419		507
Total Other Operating Expenses	$	2,252	$	2,385	$	4,498	$	4,705

For the three and six months ended March 31, 2012, decreases in depreciation of $53 million, or 9.2% and $80 million, or 7.0%, and in rent expense of $16 million or 3.6% and $35 million, or 4.0%, were driven by a freeze in non-essential capital spending and our overall efforts to reduce square footage. Reductions in supplies and services of $19 million, or 3.4%, and $56 million, or 4.9% for the three and six months ended March 31, 2012, respectively, reflect management's continued efforts to control such costs. The decrease in the other expense category of $71 million, or 27.2%, for the three months ended March 31, 2012, as compared to last year reflects the unusual write-off of postal equipment in the prior year. For the six months ended March 31, 2012, other expenses decreased $88 million, or 17.4%, as compared to last year. No such equipment write-off occurred in the current year.

These decreases were partially offset by increases in rural carrier equipment maintenance of $22 million or 18.8%, and $24 million, or 9.1%; and by increases in vehicle maintenance services of a $5 million, or 2.0%, and $28 million, or 5.9%, for the three and six months ended March 31, 2012, respectively as compared to last year. These vehicle and equipment maintenance expenses include fuel and vehicle supply parts. Fuel costs accounted for approximately 96%, and 99% of the three and six month increases, respectively, in the vehicle maintenance service category.

Liquidity and Capital Resources

CASH FLOW ACTIVITY

Cash and cash equivalents totaled $818 million at March 31, 2012, compared to $1,488 million and $911 million at September 30, 2011, and March 31, 2011, respectively. The following table provides a summary of our cash flows for the six month periods ended March 31, 2012 and 2011:

Cash Flow Statement	Six Months Ended March 31,			
(Dollars in millions)	2012		2011	
Operating activities:				
Net loss	$	(6,464)	$	(2,557)
Noncash depreciation and gains on sales		1,053		1,120
Changes in assets and liabilities		5,186		2,129
Cash (used by) provided by operating activities		(225)		692
Investing activities:				
Capital expenditures, net of proceeds		(337)		(540)
Cash used by investing activities		(337)		(540)
Financing activities:				
Net change in notes payable		-		100
Net change in revolving credit line		(54)		(444)
		(54)		(58)
Cash used by by financing activities		(108)		(402)
Net Decrease in Cash and Cash Equivalents	$	(670)	$	(250)

Operating Activities: Operating activities used $225 million of cash during the six months ended March 31, 2012, compared to $692 million of cash provided by operating activities for the six months ended March 31, 2011, a decrease of $917 million. In Quarter I, 2012, the Postal Service resumed its regular biweekly payments for FERS employer's contributions as well as the remittance of all previously withheld payments, including the $911 million accrued at September 30, 2011. Had the Postal Service not made the additional FERS contributions in Quarter I, 2012 to compensate for the funds withheld in 2011, operating cash flow for the six months ended March 31, 2012 would have been positive.

Investing Activities: Purchases of property and equipment were $418 million for the six months ended March 31, 2012, compared to $589 million in the same period last year, a decrease of $171 million or 29%, as capital spending continued to decrease in order to conserve cash. Proceeds from the sale of property and equipment for the six months ended March 31, 2012, and 2011, were $81 million, and $49 million, respectively.

Financing Activities: In addition to the cash generated by operations, we use credit lines and notes payable to the Federal Financing Bank to help fund operations. During the three months ended December 31, 2011, we issued $2,500 million in notes payable but also repaid an equal amount of notes payable during the same period. We did not issue any notes, nor make any payments on outstanding notes payable during the three month period ended March 31, 2012.

LIQUIDITY CHALLENGES

SUMMARY OF PROJECTED CASH SHORTFALL

We continue to suffer from a severe lack of liquidity caused by over $25 billion of cumulative net losses in the past five fiscal years which included $21 billion of Congressionally-mandated payments for prefunding retiree health benefits. During those five years, our debt has increased by nearly $11 billion to finance the losses and prefunding payments.

The trend of losses continues this year as we had net losses of $3,177 million and $6,464 million for the three and six months ended March 31, 2012. In addition, we had $818 million of total cash and $2.1 billion of remaining borrowing capacity on our $15 billion debt facility at March 31, 2012.

Current financial projections indicate that we will not be able to make the required $5.5 billion prefunding payment for retiree health benefits currently due by August 1, 2012, or the required $5.6 billion prefunding payment for retiree health benefits that is due by September 30, 2012. Additionally, even without making the $11.1 billion of scheduled Postal Service Retiree Health Benefit Fund (PSRHBF) payments in the fourth quarter of 2012, current projections indicate that we will have a precariously low level of cash and liquidity at September 30, 2012. This position will worsen in October of 2012, when we are required to make our annual payment of approximately $1.3 billion to the Department of Labor (DOL) for workers' compensation, in addition to paying our normal operating expenses.

Revenue forecasting in the current economic environment is subject to significant uncertainties. Our Integrated Financial Plan for 2012 anticipated a reduction in mail revenue of approximately $1.7 billion, as compared to 2011. Mail volume and revenue tend to fluctuate based in part on the performance of the overall economy. Thus far in 2012, our revenues have been stronger than anticipated. However, revenues for the first six months of 2012 are still down compared to last year; with significant weakness in First-Class and Standard Mail. Economic reports continue to show mixed results for the year to date. Because of the uncertain economy, it is possible that mail volume, and therefore revenue for the remainder of 2012, could decrease at a rate greater or less than initial projections.

To address our long-term financial challenges, we have developed a comprehensive plan, known as the *Plan to Profitability*, to return to profitability and repay our debt. We are aggressively pursuing new revenue streams and reducing costs in areas within our control. We have proposed legislative changes to Congress that are needed to provide our organization with the legal authority to implement some of the cost reduction measures specified in our plan. Legislation has been introduced in both houses of Congress and a bill has been passed by the Senate. The bill passed by the Senate, although representing a positive step, does not contain all the authority necessary to implement all required cost reduction measures. Given the vital role that the Postal Service plays in the U.S. economy, we are hopeful that Congress will take the steps needed to enact legislative changes on a timely basis that will enable us to return to financial stability.

In the short-term, should unforeseen circumstances leave us with an unsustainable liquidity position, we would consider emergency measures to ensure that mail deliveries continue. These measures could require that we prioritize payments to our employees and suppliers ahead of those to the Federal Government. Additionally, we continue to seek a refund of the overfunding of our Federal Employees' Retirement System (FERS) retirement plan, which currently amounts to approximately $11 billion, as those funds would help resolve our short-term liquidity risks.

POSTAL INITIATIVES UNDERTAKEN TO IMPROVE LIQUIDITY

We have removed nearly $14 billion from our annual cost base during the past five fiscal years. To address our long-term financial challenges, we have developed a comprehensive plan to reduce our annual operational expenses by an additional $22.5 billion by 2016, return to profitability, and repay our debt. This *Plan to Profitability* was communicated to the public in February 2012. Many of the strategies that we are aggressively pursuing are currently within our control. These include improving the efficiency of the mail processing network, adopting retail and delivery cost reduction and productivity initiatives, increasing revenue generation and reducing workforce costs, especially those related to health benefits. Certain parts of the plan, such as transitioning to a five-day per week delivery schedule and resolving the prefunding of retiree health benefits, require enactment of legislation.

Management is pursuing the reduction of the size of the Postal Service's mail sortation and transportation network. In response to declining mail volumes and to increase productivity, we have already consolidated over 200 mail processing facilities in the past five years. In order to enable continued reductions in the postal infrastructure, service standards for First-Class Mail and Periodical Mail would be revised with overnight service for certain First-Class Mail being eliminated. These service standard changes would allow for an expanded operating window and thus more efficient use of existing mail processing equipment and transportation capacity, and we would eliminate the need for many of our currently under-utilized processing operations. It is anticipated that mail processing operations will be eliminated in additional locations after service standards are changed. Reforms to retail operations will continue and will expand access in both rural and urban areas.

On May 9, 2012, we announced an alternative strategy to preserve the Post Offices serving rural America while providing a framework to achieve significant cost savings. This modified strategy will allow Post Offices to remain operational with modified window hours and will also allow the towns to retain their zip codes. At the same time, a voluntary retirement incentive to approximately 21,000 postmasters was announced. Using this new approach, we estimate that the savings potential related to Post Office changes will be as great as those expected in the previously announced *Plan to Profitability*.

Along with the operational changes discussed above, we are seeking to reduce workload and staffing. We project that a further reduction from the current levels of the equivalent of 155,000 full-time career employees by 2016 will be necessary to properly align staffing levels with projected mail volume. It is expected that this will be achieved largely through attrition, as half of our career employees are eligible for retirement or early retirement.

Another component to the *Plan to Profitability* is revenue management. We continue to implement innovative new products and services seeking to generate new revenue and to prevent existing revenue streams from migrating to electronic alternatives. New revenue streams include Every Door Direct Mail, Additional Flat Rate Shipping products, gopost and return services. An enhanced suite of mailing and shipping services tailored to the needs of small business owners was released during Quarter II, 2012. Existing products and online services have been enhanced with "ease of use" in mind in an effort to grow business. However, it is not possible to achieve financial stability through revenue initiatives alone, without a fundamental change in the business model.

As mentioned above, portions of the *Plan to Profitability* require targeted legislative changes. One of the legislative changes we seek is authorization to transition to a five-day per week delivery schedule. We are also seeking legislation directing the return of the overfunding of the FERS. The Office of Personnel Management (OPM) has determined that the amount of overfunding stood at $10.9 billion as of September 2010, and OPM has projected that it increased by an additional $500 million during 2011. Although the refund would not be a recurring annual savings in the *Plan to Profitability*, the return of the FERS overfunding would provide vital cash flow to help ease the current liquidity difficulties.

Additionally, the *Plan to Profitability* includes a proposal for a Postal Service-sponsored health care program independent of other federal health insurance programs. Establishing a Postal Service-sponsored health care program represents the largest part of the *Plan to Profitability's* savings, accounting for over $7 billion of projected annual savings. The plan includes the elimination of the retiree health benefit prefunding obligation established in the *Postal Service Accountability and Enhancement Act of 2006*, which would save us billions of dollars annually through 2016. The plan also proposes to transfer current retirees into the Postal Service-sponsored health care program. Our plan is expected to be more cost effective, is forecasted to reduce health care costs significantly, and will result in equivalent or better coverage for the vast majority of retirees and current employees.

MITIGATING CIRCUMSTANCES

Our status as an independent establishment of the executive branch, which does not receive tax dollars for our operations, presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. Despite falling mail volume, we are still widely recognized as the provider of an essential service to the American economy and for our importance in the $1 trillion mailing industry. There are a wide variety of potential legislative remedies that could resolve our short-term liquidity concerns. Therefore, it is unlikely that, in the event of a cash shortfall, the Federal Government would cause or allow us to significantly curtail or cease operations.

More than a dozen different postal reform-related bills have been introduced in Congress in the past year, in addition to a plan proposed by the Administration to the Joint Select Committee on Deficit Reduction. On April 25, 2012, the Senate passed S. 1789, the *21st Century Postal Service Act of 2012,* which includes provisions to provide a refund of the Postal Service's FERS overfunding, permits five-day mail delivery to commence in two years, reduces funding of the PSRHBF, but also restricts service standard changes. A House bill H.R. 2309, the *Postal Reform Act of 2011* has not yet progressed out of committee. No individual bill proposed or passed in either the House or Senate contains all the necessary components to ensure the long-term financial viability of the Postal Service. We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues that we face and the legislative changes that would help ensure sufficient liquidity for the future. Given the vital part the Postal Service plays in the U.S. economy, we are hopeful that Congress will enact, and the President will sign, legislation which will mitigate our short-term financial challenges and provide us with the authority to make needed changes to ensure long-term financial stability. However, there can be no assurances that the requested adjustments to the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2012, or at all.

Contractual Obligations

Our cash flow obligations as of March 31, 2012, for 2012 and future years are scheduled in the following table.

Contractual Obligations	Payments Due by Period Ending March 31				
(Dollars in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt (1)	$ 12,946	$ 4,746	$ 3,000	$ 300	$ 4,900
Interest on debt (1)	2,156	222	341	329	1,264
PSHRBF	33,900	11,100	11,300	11,500	-
Capital lease obligations	705	74	187	226	218
Operating leases	7,058	593	1,340	2,020	3,105
Capital commitments (2)	532	149	296	58	29
Purchase obligations (2)	2,223	759	1,464	-	-
Workers' compensation (3)	21,786	1,303	4,100	3,053	13,330
Employees' leave (4)	2,304	321	109	236	1,638
	$ 83,610	$ 19,267	$ 22,137	$ 17,722	$ 24,484

(1) For overnight and short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.

(2) Legally binding obligations to purchase goods or services. Capital commitments pertain to purchases of equipment, building improvements and vehicles. Purchase obligations generally pertain to items that are expensed when received or amortized over a short period of time. Capital commitments and purchase obligations are not reflected on the Balance Sheet.

(3) Assuming no new cases in future years. This amount represents the undiscounted expected workers' compensation payments. The discounted amount of $14,623 million is reflected in our Balance Sheet at March 31, 2012.

(4) Employees' leave includes annual and holiday leave.

Legal Matters and Contingent Liabilities

An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Assessing contingencies is highly subjective and requires judgments about future events. We regularly review loss contingencies to determine the adequacy of our accruals and related disclosures. The amount of the actual loss may differ significantly from these estimates. As of March 31, 2012, the material claims outstanding remains the following:

McConnell v. Donahoe: On January 14, 2010, the Equal Employment Opportunity Commission's (EEOC) Office of Federal Operations certified a class action case against the Postal Service in a matter captioned McConnell v. Donahoe, with the class consisting of all permanent rehabilitation employees and limited-duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to the present. The Postal Service used the NRP to ensure that its records were correct and that employees receiving workers' compensation benefits were placed in jobs consistent with their abilities. The case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the creation by the NRP of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount on behalf of a yet-unidentified population of employees. If the plaintiffs were able to prove their allegations in this matter and to establish the damages they assert, then an adverse ruling could have a material impact on the Postal Service. However, the Postal Service disputes the claims asserted in this class action case and is vigorously contesting the matter. See Note 6, *Contingent Liabilities*, in the Notes to the Financial Statements for additional information.

Fair Value Measurements

As required by authoritative accounting literature, certain fair value disclosures for the three months ended March 31, 2012, are contained in the Notes to the Financial Statements. We did not recognize gains as a result of valuation measurements during Quarter II, 2012. All recognized losses have been incorporated into our financial statements as of March 31, 2012. See Note 10, *Fair Value Measurements.*

Legislative Update

Our legislative update section provides ongoing insights into the legislative and policy processes that may affect the Postal Service and its operations. Please also refer to the Legislative Update contained in our Annual Report on Form 10-K for the period ending September 30, 2011.

MAJOR CONGRESSIONAL POSTAL REFORM PROPOSALS

21st CENTURY POSTAL SERVICE ACT OF 2012

On April 25, 2012, the Senate passed S. 1789, the *21st Century Postal Service Act of 2012*, as amended, on a final roll call vote of 62-37.

S. 1789 is a bipartisan bill introduced on November 2, 2011. S. 1789, as amended:

- Requires OPM to return a FERS surplus to the Postal Service for each year a surplus is calculated, with some portion of the surplus used for retirement incentives and paying the value of added service credits provided the employee retires before October 1, 2015.
- Restructures the existing pre-payment schedule for PSRHBF by cancelling the 2011 to 2017 annual payments and provides an amortized payment schedule (over 39 years) with a pre-funding goal of 80 percent of the beginning September 30, 2013.
- Enacts government-wide workers' compensation reforms.
- Maintains for three years, an overnight service standard for First-Class Mail and Periodicals whose point of origin and destination are in the same service area.
- Maintains six-day delivery for a two-year period, following enactment and allow implementation of five-day delivery only after a GAO report on the financial necessity of five-day delivery and a second PRC advisory opinion.
- Includes other provisions, such as requiring an arbitrator to consider the financial condition of the Postal Service when making decisions on collective bargaining agreements, creating service standards for access to retail services, permitting the Postal Service to offer new non-postal services, and allowing for the mailing of wine and beer.

POSTAL REFORM ACT OF 2011

On March 26, 2012, the House Rules Committee held a markup of its portion of amended legislation on H.R. 2309, the *Postal Reform Act of 2011*. The Committee approved by voice vote an Amendment in the Nature of a Substitute that would delete a provision in the bill requiring Congress to approve the disbandment of the financial oversight authority created in the bill. The bill was ordered reported favorably to the full House as amended. The amendment would:

- Make changes to House and Senate procedures for disapproval of a closure plan recommended by the Commission on Postal Reorganization (CPR), which would be created by the bill.
- Give Congress 45 days, as opposed to 30 days, to disapprove of and therefore halt implementation of a plan submitted by the advisory commission.

H.R. 2309 was introduced on June 23, 2011, and provides for reform on a variety of issues. H.R. 2309, as currently written, would:

- Create a Commission on Postal Reorganization (CPR), which would conduct proceedings regarding closures and discontinuances of the Postal infrastructure, including retail facilities, mail processing facilities, and area and district offices.
- Provide the Postal Service the authority to change delivery frequency.
- Establish a Postal Service Financial Responsibility and Management Assistance Authority, which would operate during any control period. A control period commences whenever the Postal Service has been in default to the U.S. Treasury with respect to borrowing, for a period of 30 days. The Authority would have broad powers during such control period, including assuming all of the powers of the Postal Service Board of Governors.
- Provide guidance on other issues including: modifying collective bargaining agreements, placing limitations on postal contributions to life and health insurance programs under Federal Employees Group Life Insurance (FEGLI) and FEHBP, modifying some postal rates, allowing the Postal Service to offer specific non-postal products and services, and making reforms in specific Postal Service contracting practices and provisions.

ADMINISTRATION PROPOSAL

PRESIDENT'S FISCAL YEAR 2013 BUDGET PROPOSAL

On February 13, 2012, the President released his Fiscal Year 2013 Budget Proposal, which included several recommendations related to the Postal Service. The President's proposal is one component of the budgeting process. Congress will now work to determine its own budget proposals for consideration. The President proposed a comprehensive postal reform package that would:

- Restructure Postal Service Retiree Health Benefits pre-funding to reduce near-term payments and move payments to an accruing cost basis.
- Provide the Postal Service with a refund, over two years, of a $10.9 billion surplus in FERS.
- Reduce mail delivery to five-days per week beginning in 2013.
- Allow the Postal Service to increase collaboration with state and local governments.
- Permit the Postal Service to seek a modest one-time price increase and to have more flexibility to align prices with costs within the existing price cap.

The President's budget proposal did not include funding for provisions of the Revenue Forgone Reform Act of 1993, which authorizes the Postal Service to receive $29 million annually through 2035 to reimburse the Postal Service for services provided from fiscal year 1991 through fiscal year 1998. The President's proposal is one component of the budgeting process. Congress will now work to determine its own budget proposals for consideration.

ADDITIONAL SIGNIFICANT POSTAL REFORM PROPOSALS

POSTAL SERVICE ACCOUNTABILITY ACT OF 2012

On March 29, 2012, H.R. 4335, *the Postal Service Accountability Act of 2012,* was introduced in the House. The bill would amend Title 39, U.S.C., to allow the Postal Regulatory Commission (PRC) to set aside determinations by the Postal Service to close or consolidate postal facilities that would deny essential postal services to rural areas, communities, or small towns. H.R. 4335 was referred to the House Oversight and Government Reform Committee.

POSTAL EXECUTIVE ACCOUNTABILITY ACT

On March 27, 2012, H.R. 4270, the *Postal Executive Accountability Act,* was introduced in the House. The bill would amend Title 39, U.S.C., to suspend bonus authority with respect to the Postmaster General and any other officer in a senior executive position in any year in which a postal retail facility or mail processing facility is closed. H.R. 4270 was referred to the House Oversight and Government Reform Committee.

DEFENDING QUALITY POSTAL DELIVERY FOR THE FUTURE ACT

On March 7, 2012, the H.R. 4161, the *Defending Quality Postal Delivery for the Future Act,* was as introduced in the House. The bill would require that the Postal Service not close or consolidate any postal facility located in a ZIP Code with a high rate of population growth. The bill was referred to the House Oversight and Government Reform Committee.

SECURING ANNUITIES FOR FEDERAL EMPLOYEES ACT OF 2012

On February 7, 2012, the House Oversight and Government Reform Committee held a markup of H.R. 3813, the *Securing Annuities for Federal Employees Act of 2012*, introduced on January 24, 2012. An amendment in the nature of a substitute was offered, which would alter employee contributions to both Civil Service Retirement System (CSRS) and Federal Employees' Retirement System (FERS) by increasing the contribution by 0.5 percent in calendar year 2013, and then by an additional 0.5 percent in calendar year 2014, and then by an additional 0.5 percent in calendar year 2015. The applicable employee contribution for 2015 would continue for any calendar year after 2015. The bill also provides that federal employees covered under both the CSRS and FERS may contribute any amount of their basic pay for a pay period to the Thrift Savings Plan (TSP) and may contribute any part of any payment received for accrued annual leave to the TSP. H.R. 3813 was ordered reported favorably (as amended) to the full House.

PROTECTING POST OFFICES ACT

On February 7, 2012, H.R. 3916, the *Protecting Post Offices Act* was introduced in the House. The bill would reduce the operating costs of the Postal Service, and provide for continued postal services for certain areas by preventing the closure of post offices in areas with high poverty and unemployment rates. It would also replace the current mandated PSRHBF prefunding amounts, allow the Postal Service to provide non-postal services, and provide for more flexibility in pricing for market-dominant products. H.R. 3916 was referred to the House Committee on Oversight and Government Reform.

APPROPRIATIONS

On December 23, 2011, the President of the United States (the President) signed into law H.R. 2055 (P.L. 112-74), *the Military Construction and Veterans Affairs and Related Agencies Appropriations Act, 2012*, a bill to make appropriations for military construction, the Department of Veterans Affairs, and related agencies including the Postal Service for the fiscal year ending September 30, 2012. The bill changes a $5.5 billion Postal Service Retiree Health Benefits Fund (PSRHBF) prepayment originally due by September 30, 2011, to be due by August 1, 2012. It requires that six-day delivery and rural delivery of mail shall continue at not less than the 1983 level and provides approximately $78.1 million for free and reduced rate mail. For the second straight fiscal year, the requested $29 million for revenue forgone was not fully funded.

On December 17, 2011, the President signed H.J. Res. 95 into law (P.L. 112-68), which changed the due date by which the Postal Service must prepay $5.5 billion into the PSRHBF to December 23, 2011.

On December 16, 2011, the President signed H.J. Res. 94 into law (P.L. 112-67), which changed the due date by which the Postal Service must prepay $5.5 billion into the PSRHBF to December 17, 2011.

On November 18, 2011, the President signed H.R. 2112 into law (P.L. 112-55), which changed the due date by which the Postal Service must prepay $5.5 billion into the PSRHBF to December 16, 2011.

On October 5, 2011, the President signed H.R. 2608 into law (P.L. 112-36), which changed the due date by which the Postal Service must prepay $5.5 billion into the PSRHBF to November 18, 2011.

Prior to Quarter I of 2012, the President signed H.R. 2017 into law (P.L. 112-33), which changed the due date by which the Postal Service must prepay $5.5 billion into the PSRHBF to October 4, 2011.

BOARD OF GOVERNORS NOMINATIONS

President Obama announced two nominations to the Board of Governors of the United States Postal Service. On March 9, 2012, Dr. Katherine C. Tobin was nominated to serve for a term expiring December 8, 2016. On March 27, 2012, James C. Miller, III, was nominated to serve for a term expiring December 8, 2017.

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 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 2011 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 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.

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, 2012. Based upon, and as of the date of, the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Internal Controls
There have been no changes in the Postal Service's internal controls over financial reporting during the quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

Part II

Item 1 – Legal Proceedings

For a discussion of legal proceedings affecting us, please also see the information under the caption "*Legal Matters and Contingent Liabilities*" within Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this report.

Item 1A – Risk Factors

There have been no material changes in risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2011.

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/Patrick R. Donahoe
Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Date: May 10, 2012

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President

Date: May 10, 2012

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, Patrick R. Donahoe, 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. 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

    d. 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 control 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 significant role in the Postal Service’s internal control over financial reporting.

Date: May 10, 2012

/s/Patrick R. Donahoe
Patrick R. Donahoe
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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. 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

   d. 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 control 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 significant role in the Postal Service's internal control over financial reporting.

Date: May 10, 2012

/s/Joseph Corbett
Joseph Corbett
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 March 31, 2012, (the “Report”), I, Patrick R. Donahoe, 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 10, 2012

/s/Patrick R. Donahoe
Patrick R. Donahoe
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, 2012 (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 10, 2012

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President