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

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended SEPTEMBER 30, 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, DC 20260
(202) 268-2000

(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☑ No ☐

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 ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ 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 the definitions 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 ☐ 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 ☑

The aggregate market value of shares of common stock held by non-affiliates at September 30, 2012, was N/A

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at November 15, 2012
No Common Stock	N/A

DOCUMENTS INCORPORATED BY REFERENCE : None

United States Postal Service

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Part I

ITEM 1 — BUSINESS

OVERVIEW

In accordance with the provisions of the *Postal Reorganization Act*, the United States Postal Service (we or the Postal Service) began operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States" with the 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 postal services to our many customers. Within each class of mail service, prices do not vary unreasonably by customer for the level of service provided. The Postal Service is governed by an eleven-member Board of Governors (the Board), of which nine members are independent Governors appointed by the President of the United States with the advice and consent of the Senate, plus the Postmaster General, who is appointed by the independent members of the Board of Governors, and the Deputy Postmaster General, who is appointed by the independent Governors and the Postmaster General.

The *Postal Accountability and Enhancement Act, Public Law 109-435* (P.L. 109-435), made further revisions to the *Postal Reorganization Act*. The Postal Service's governing statute is codified in Title 39 of the United States Code. P.L. 109-435 also created the Postal Regulatory Commission (PRC), endowing the PRC with regulatory and oversight obligations.

We serve individual and commercial customers throughout the nation, as well as internationally; competing for business in the communications, distribution, delivery, advertising, and retail markets. As a result, we have a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 2% of operating revenue.

The law divides our services into two broad categories: Market-Dominant and Competitive "products"; however, the term "services" is often used in this document for consistency with other descriptions of "services" offered by the Postal Service. Price increases for those services classified as Market-Dominant are subject to a price cap based on the Consumer Price Index — All Urban Consumers (CPI-U). The regulations for Competitive services place no upper limit on price changes but do set a price floor. Throughout this document and in the day-to-day operation of the organization, we refer to our major service categories as the following: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals, and Other. Most services in the First-Class Mail, Standard Mail, and Periodicals, are in the Market-Dominant category. Shipping and Package Services and International Mail, which are predominantly Competitive services, include, but are not limited to, First-Class and Standard Mail Parcels, Priority Mail, Express Mail, Parcel Select and Parcel Return Service, Bulk Standard Post, and Bulk International Mail. On July 20, 2012, the PRC conditionally approved the transfer of Standard Post (formerly known as Parcel Post) from Market-Dominant to Competitive.

Our services are sold through a network consisting of nearly 32,000 Post Offices, stations, and branches, plus thousands of Contract Postal Units (CPU), Community Post Offices (CPO), Village Post Offices (VPO), retail establishments that sell postage stamps and other services as a convenience to our customers, and our website, *http://www.usps.com*. Mail is delivered six days a week to more than 152 million city, rural, Post Office box, and highway delivery points.

All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters.

STRATEGY

The mission of the Postal Service is to provide secure, reliable, and affordable universal delivery service. The postal business model for delivering trusted, affordable service to the nation worked well for many years under the *Postal Reorganization Act of 1970*, which included a financial "break-even" requirement.

The enactment of P.L. 109-435 removed the "break-even" requirement and allowed the Postal Service to make a profit; however, it imposed a number of severe economic requirements. Some of those requirements include: a unique requirement to prefund retiree health benefits which is not required for other government organizations or private entities, and a price cap limited to the rate of inflation on a majority of our services. These requirements are not financially supportable by current operations. Additionally, P.L. 109-435 did not provide sufficient mechanisms to allow us to effectively manage our labor, health care, and workers' compensation costs.

Continued electronic migration, along with the recent severe economic recession and the Nation's subsequent slow recovery adversely affected postal revenue, while costs continue to escalate as a result of increasing numbers of delivery points, and increases in fuel prices and health care premiums. New technologies have altered how Americans transact business and communicate, resulting in a significant decline in the volume of First-Class Mail. The combination of these factors now threatens the financial viability of the Postal Service.

To address the new challenges, the Postal Service has taken a two-pronged approach: first, management is aggressively pursuing actions it can take within existing law to address changes in the marketplace; and second, pursuing changes to the legislative and regulatory framework surrounding the Postal Service that will restore its financial viability.

I. MANAGEMENT ACTIONS

Early in 2011, the Postmaster General outlined four key strategies for the organization:

- Become a leaner, smarter, faster organization.
- Compete for the package business.
- Strengthen our business-to-customer channel.
- Improve our customers' experience.

In February 2012, the Postal Service released a comprehensive five-year plan to achieve financial stability and repay debt. The Postal Service is aggressively pursuing new revenue streams, improving productivity and reducing costs in areas within its control. Ongoing operational initiatives instituted by the Postal Service to address declining mail volumes include significant cost reduction and efficiency improvement measures intended to right-size the organization to reflect current and future expected mail volumes. These measures include changes to Post Office operations and processing and transportation networks, as discussed below.

Become a leaner, smarter, faster organization

- Redesign the operating network, increasing the efficiency of the mail processing network, including a reduction in the number of mail processing locations and distribution plants, and the rescheduling of transportation routes.
- The Post Office Structure Plan (POSt Plan) which will keep existing Post Offices in place, but with reduced retail window hours to match customer use.
- Expand customer access to postal services through the establishment of private sector partnerships.
- Continue to increase efficiency and reduce labor costs through reductions in the employee workforce and work hours.
- Implement tools such as the Lean Six Sigma process and train employees who work in teams to find ways to reduce waste, strengthen business processes, and improve service.
- Continue leadership in the public and private sector to achieve reductions in energy costs, implement sustainable business practices, and maintain a safe working environment.

On May 9, 2012, we announced an initiative to preserve the nation's smallest Post Offices, while increasing efficiency and reducing costs, and maintaining access to our services in small communities. The Post Office Structure Plan (POSt Plan) will keep existing Post Offices in place, but with reduced retail window hours to match customer use. Approximately 13,000 rural post offices could become Part Time Post Offices (PTPO), operating with reduced hours. Access to the retail lobby and to P.O. Boxes will remain unchanged, and the town's ZIP code and community identity will be retained. Post Offices will not be closed unless a community expresses a preference for such action. Alternatives to closing existing Post Offices that will be offered to communities for consideration include:

- Reducing retail hours to match customer use, as outlined in the POSt Plan;
- Providing mail delivery service to residents and businesses in the affected community by either rural carrier or highway contract route (HCR);
- Contracting with a local business to create a Village Post Office; and
- Offering service from a nearby Post Office.

The Postal Regulatory Commission (PRC) offered a positive non-binding advisory opinion on POSt Plan in August 2012. POSt Plan will be implemented over a two-year, multi-phased approach and will not be completed until September 2014. Once implementation is completed, the Postal Service estimates savings of approximately $500 million annually.

On May 17, 2012, the Postal Service announced a modified, phased plan to continue the consolidation of its network of 461 mail processing locations. The first phase will result in up to 140 consolidations through 2013. Unless the Postal Service's circumstances change, a second phase of 89 additional consolidations is scheduled to begin in February 2014. When fully implemented, the consolidations are expected to reduce costs by $2.1 billion annually.

Compete for the package business

- Improve the tracking of packages by enhancing our scanning performance with a goal of scanning every barcode that enters our system to achieve 100 percent visibility.
- Offer simple, innovative solutions such as Flat Rate package options to make it easier for consumers and small businesses to use Postal shipping services.
- Introduce MetroPost™, a service designed to improve a customer's shopping experience in participating e-commerce sites by offering same day delivery in a metro area.
- Full implementation of Package Intercept for commercial customers to enable mailers to request a package to be returned or redirected before final delivery is made to the original address.
- Offer competitive pricing for deliveries of small packages within short-range destination zones.

Strengthen our business-to-customer channel

- Introduce new platforms and enhance existing platforms to make it easier for small businesses to develop direct mail campaigns.
- Continue to market Every Door Direct Mail (EDDM), which enables local businesses to target potential customers by carrier route.
- Continue to advertise and promote the mail, encouraging businesses to use the mail as a key means of communication.
- Promote commercial customer access via the online Business Customer Gateway (BCG) at USPS.com to the USPS Package Intercept service. At the mailer's request, mail pieces are intercepted at the initial destination delivery unit and redirected.

Improve our customers' experience

- Increase convenience for customers with enhanced online offerings available through USPS.com.
- Offer innovative mobile applications to enable customers to shop online, locate a Post Office, find a ZIP code, schedule a next-day free package pickup, order expedited shipping supplies, submit a request to hold mail, scan package barcodes, and use our track-and-confirm tool.
- Offer customers convenience by increasing access to our products and services through the introduction of Village Post Offices and by increasing the number of partnerships with third-party retailers, thereby reducing customer dependence on traditional Post Offices.
- Maintain our position as a secure and well-respected service provider, which, in a digital world where privacy and security are sometimes threatened, is becoming more important.

II. LEGISLATIVE AND REGULATORY CHANGES

The business environment has changed so dramatically in recent years that the significant operational changes undertaken by management will not, by themselves, be sufficient to ensure long-term financial stability for the organization. Therefore, in addition to the actions stated above, the Postal Service requested that Congress enact legislation focusing on the following areas:

- Resolve the mandate to prefund retiree health benefits and/or enable the Postal Service to provide healthcare benefits to its employees and retirees independent of the federal healthcare system.
- Return the overfunding of the Postal Service's obligation to the Federal Employees Retirement System (FERS). The Office of the Inspector General (OIG) has determined that if Postal Service specific assumptions were used in estimating the FERS obligation, the surplus would be much greater than the $2.6 billion calculated by OPM as of September 30, 2011.
- Allow the Postal Service to determine delivery frequency.
- Allow the Postal Service to offer non-postal products and services.
- Develop a more streamlined governance model for the Postal Service that would allow for quicker pricing and product decisions than exist within the current regulatory framework.
- Instruct arbitrators that during labor negotiations, they must take into account the financial condition of the Postal Service when rendering decisions.

The Postal Service has proposed legislative changes to Congress that are needed to provide it with the legal authority to implement certain measures to increase efficiency and further reduce costs. On April 25, 2012, the Senate passed S. 1789, the *21st Century Postal Service Act of 2012,* which includes provisions to refund the Postal Service's FERS overfunding, permit five-day mail delivery after two years (under certain conditions), and reduce funding of PSRHBF, but also restricts service standard changes. House bill H.R. 2309, the *Postal Reform Act of 2011* is out of committee but has not yet reached the floor for a full House vote. No individual bill proposed or passed in either the House or Senate contains all the components or authority necessary to implement all aspects of our plan to increase productivity, to generate cost savings and ultimately to ensure the long-term financial viability of the Postal Service.

To effectively and quickly implement change requires continuing, unprecedented innovation and collaboration from all stakeholders. 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 provide financial stability. Given the vital role that the Postal Service plays in the U.S. economy, the Postal Service is requesting that Congress expeditiously take the steps needed to enact legislative changes that will enable it to return to financial stability.

SEGMENTS

Although the law divides our services into Market-Dominant and Competitive categories, and revenue is monitored by mail classes and shapes, we operate one fully integrated network, which is one segment throughout the United States, its possessions and territories. Revenue from international operations represents less than 5% of total revenue.

SERVICES

The Postal Service is the only organization in the country that has the workforce, network infrastructure, and logistical capability to deliver to every business and residence in the U.S. and its territories. We are the centerpiece of the U.S. mailing industry, providing a wide variety of services to meet almost any mailing and shipping need. Our services are described in more detail below.

First-Class Mail — Offered for letters and postcards, or any flat advertisement or merchandise up to 13 ounces destined for either domestic or international delivery. Personal correspondence, handwritten or typewritten letters, bills or statements of account, and payments must be mailed via First-Class Mail, Express Mail, or Priority Mail.

Standard Mail — Offered for any item, including advertisements and merchandise weighing less than 16 ounces, that is not required to be sent using First-Class Mail. Standard Mail is typically used for direct advertising to multiple delivery addresses. Content restrictions apply for authorized nonprofit mailers. Every Door Direct Mail (EDDM), a Standard Mail product, enables customers to prepare direct mailings without addresses for distribution to all residential or all business and residential customers on individual carrier routes.

Shipping and Packages include the following services:

First-Class Packages — Includes First-Class Package Service which is a shipping option for high-volume shippers of packages that weigh under one pound. Also includes First-Class Mail parcels under which we ship boxes, thick envelopes, or tubes of 13 ounces or less.

Package Services — Offered for any merchandise or printed matter weighing up to 70 pounds. These services include Bound Printed Matter, Library Mail, and Media Mail.

Express Mail — Includes domestic and international offerings. This primarily overnight, money-back guaranteed service includes tracking, proof of delivery, and basic insurance up to $100. Delivery is offered to most U.S. destinations and is available 365 days a year. A surcharge is added for Sunday and holiday delivery. Express Mail Flat Rate envelopes are available for shipments to any location in the United States. Commercial Base and Commercial Plus pricing is available for customers meeting certain volume thresholds. Express Mail International offers fast delivery service to over 190 countries with guaranteed service to select destinations using Global Express Guaranteed.

Priority Mail — Offered as a service both within the U.S. and to numerous destinations abroad. The domestic offering is a 2–3 day nonguaranteed delivery service that is typically used to send documents, gifts, and merchandise. Priority Mail Flat Rate boxes and envelopes are available for shipments at fixed prices. Commercial Base and Commercial Plus pricing is available for customers meeting certain volume thresholds. Priority Mail Regional Rate Boxes offer zone pricing to reduce costs. Commercial cubic pricing is available for Priority Mail parcels. Priority Mail International provides customers with a reliable and economical means of sending items weighing up to 70 pounds to over 190 countries and territories worldwide.

Parcels — Parcel Select, Parcel Return, and Standard Mail Parcel Services provide commercial customers with an economical means of shipping packages. By taking advantage of the "first mile and last mile" strengths of the Postal Service, Parcel Select saves customers money by entering packages into the postal network closer to their ultimate destination. Parcel Select Regional Ground is a low-cost regional service for high-volume customers who ship small packages up to five pounds for zones 1–8. Parcel Return Service provides a service to commercial customers allowing them to easily and economically retrieve packages returned by their customers. Parcel Select and Parcel Return Services allow us to partner with privately owned delivery services to serve our respective customers' needs.

International — Offered for mail service and the shipping market with individual customer contracts, agreements with other postal administrations, and streamlined product offerings tailored to the needs of businesses and consumers. Express Mail International (EMI) provides reliable delivery within 3 to 5 business days on average and Priority Mail International (PMI) offers delivery within 6 to 10 business days on average to over 190 countries. Global Express Guaranteed (GXG) is the premium international shipping option that offers reliable date-certain delivery in 1 to 3 business days to over 190 countries, with a money-back guarantee.

Periodicals — Offered for newspaper, magazine, and newsletter distribution. This service requires prior authorization by the Postal Service.

Other includes the following services:

Post Office Boxes — Provides customers an additional method for mail delivery that is private and convenient.

Money Orders — A special service offering a safe, convenient, and economical alternative to sending cash through the mail or for the payment of bills. They can be purchased at most Post Offices or from any rural route carrier and can be sent within the U.S. and to some foreign countries. Postal money orders are available for any amount up to $1,000. Money orders can be cashed at most Post Offices or can be deposited or negotiated at financial institutions. The Postal Service will replace postal money orders that have been damaged, lost, or stolen.

Extra Services — Offered for a variety of enhancements that add value, provide added security, proof of delivery, or loss recovery. Examples of these services include: Certified Mail, Registered Mail, Delivery Confirmation, Signature Confirmation, Adult Signature, and Insurance up to $5,000 available online, at Post Offices or at Automated Postal Centers.

Details on the Postal Service's revenue and volume are found in Item 7, *Management's Discussion and Analysis of Financial Condition* and *Results of Operations* and in the Operating Statistics table immediately following the Notes to the Financial Statements.

PRICING AND CLASSIFICATION ACTIVITY

P.L. 109-435 classifies 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 parcel 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, Parcel Select and Parcel Return Service, Bulk Standard Post, and some types of International Mail have greater pricing flexibility and are commonly referred to as "Shipping and Package Services". New pricing for Market-Dominant and Competitive services will go into effect January 27, 2013, at an average overall price increase of 4%, pending the compliance review of the PRC.

Postal Service prices for Market-Dominant services are set by the Board of Governors and reviewed by the PRC for legal compliance. We have provided, and anticipate continuing to provide, at least 90 days advance notice of new prices for Market-Dominant services. There was a 1.7% price increase for Market-Dominant services in April 2011; and a January 2012 price increase averaging 2.1%. The price of a one-ounce First-Class Mail stamp is currently $0.45 after increasing from $0.44 in January 2012. New pricing for all Market-Dominant services will go into effect on January 27, 2013 at an average increase of 2.6%, pending the compliance review of the PRC. The price of a one-ounce First-Class Mail stamp will increase to $0.46 at that time. A First-Class Mail Global Forever Stamp will be available for the first time in early 2013.

Prices for Competitive services, by law, must cover costs attributable to each product, as well as an appropriate share of the institutional costs of the Postal Service. The required share of institutional costs to be covered by Competitive market services as determined by the PRC is 5.5% of total institutional costs. By law, changes in prices for our Competitive market services must be announced at least 30 days prior to the implementation date. Prices for these Competitive market services – including Express Mail, Global Express Guaranteed, Express Mail International, Priority Mail, Priority Mail International, Parcel Select, and Parcel Return Service – increased an average of 3.6% in January 2011, and again in January 2012 at an average rate of 4.6%. New pricing for Competitive market services will go into effect on January 27, 2013 at an average increase of 9%.

We offer contract prices, rebates, online price reductions, and other incentives to encourage customers to increase their volumes and in turn increase Postal revenue.

Reclassification of Certain Postal Services

Periodic reclassifications and expansions of services from Market-Dominant to Competitive services, which require approval from the PRC, are necessary to rationalize service offerings, as the Market-Dominant category has constraints, such as price caps based on the Consumer Price Index (CPI). In other words, the additional flexibility provided in Competitive services 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 markets in which we operate. The Postal Service's Competitive services generally include most of our shipping, package, and expedited delivery services.

In Quarter I, 2012, with the approval of the PRC, we reclassified certain lightweight commercial parcels previously classified in Market-Dominant as First-Class Mail Parcels. These parcels are now classified as First-Class Package Services and included in Competitive services. In addition, certain Post Office Box services were reclassified from Market-Dominant to Competitive. In Quarter II, Standard Mail parcels used for the fulfillment of customer orders were reclassified as part of Parcel Select which is a Competitive service. There were no new reclassifications in Quarter III or IV. On July 20, 2012, the PRC conditionally approved the transfer of Standard Post (formerly Parcel Post) from Market-Dominant to Competitive, effective January 27, 2013. On September 10, 2012, the PRC approved the transfer of First-Class Package International Service from Market-Dominant to Competitive, also effective January 27, 2013.

While there are distinct legal and regulatory classifications of postal services known as either Market-Dominant or Competitive, Postal Service management utilizes the following broad service categories to evaluate performance and manage the business: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals, and Other. Throughout this document, operational measurements and financial data, such as revenue and volume, will be reported utilizing these categories.

INTELLECTUAL PROPERTY

We own intellectual property that includes trademarks, service marks, patents, copyrights, trade secrets, and other proprietary information and routinely generate intellectual property in the course of developing and improving systems, services, and operations. While legal protection for intellectual property and proprietary information is significant to our success, the knowledge, ability, and experience of our employees and the timeliness and quality of service we provide are more significant.

SEASONAL OPERATIONS

Mail volume and revenue are historically greatest in the first quarter of our fiscal year, which includes the fall holiday mailing season, and lowest during the spring and summer, the third and fourth quarters of the fiscal year. In years which a general election occurs, direct mail may be heavily used by political organizations to reach their targeted audiences thereby temporarily increasing volumes during the months preceding an election.

CUSTOMERS

We have a very diverse customer base and are not dependent on a single customer or small group of customers. No single customer represents more than 2% of operating revenue, although advertising mail, in general, accounts for more than half of our volume.

GOVERNMENT CONTRACTS

No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. Government.

COMPETITION

A wide variety of communications media compete for the same types of transactions and communications that historically were conducted using Mailing Services. These competitors include, but are not limited to, newspapers, telecommunications, television, e-mail, social networking, and electronic funds transfers. Our shipping and package business competes on the basis of the breadth of our service network, convenience, reliability, and economy of the service provided. The package and express delivery businesses are intensely competitive and are likely to remain so. The primary competitors of shipping and package services are FedEx Corporation and United Parcel Service.

RESEARCH AND DEVELOPMENT

We operate a research and development facility in Virginia for design, development, and testing of postal equipment and operating systems, and also contract with independent suppliers to conduct research activities. While research and development activities are important to our business, these expenditures are not material.

ENVIRONMENTAL MATTERS

We are not aware of any federal, state, or local environmental laws or regulations that would materially affect our financial results or competitive position, or result in material capital expenditures. However, the effect of possible future environmental legislation or regulations on operations cannot be predicted. Any new laws or regulations that regulate greenhouse gas emissions into the environment may increase our operating costs. The costs that we believe may increase as a result of any new environmental laws or regulations could include: diesel fuel, unleaded gasoline, the cost of retrofitting existing vehicles, and other petroleum-related products.

EMPLOYEES

At September 30, 2012, we had approximately 528,000 career employees and 101,000 non-career employees, substantially all of whom reside in the U.S.

More than 85% of career employees are covered by collective bargaining agreements. The labor force is primarily represented by the American Postal Workers Union (APWU), National Association of Letter Carriers (NALC), National Postal Mail Handlers Union (NPMHU), and National Rural Letter Carriers' Association (NRLCA). The current contract with the APWU became effective May 23, 2011, and extends through May 20, 2015. An Interest Arbitration Award was issued on July 3, 2012, resulting in a new NRLCA contract. The term of the contract is November 10, 2010 through May 20, 2015. The NALC and NPMHU contracts expired on November 20, 2011. We reached an impasse in negotiations with the NALC and the NPMHU, as agreements with both unions were not reached during negotiations. Impasses in collective bargaining negotiations may ultimately be resolved through arbitration. We are proceeding with interest arbitration with both unions, having commenced this process in August 2012.

By law, the Postal Service must consult with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide non-bargaining unit employees in the field with an opportunity to participate directly in the planning, development, and implementation of certain programs and policies that affect them. We recently completed the consultation processes with the National Association of Postal Supervisors (NAPS), representing supervisory and managerial employees, and with the National Association of Postmasters of the United States (NAPUS) and the National League of Postmasters of the United States (NLPM), representing postmasters.

The Postal Service participates in federal employee benefit programs as provided by statute for retirement, health, and workers' compensation benefits.

AVAILABLE INFORMATION

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*.

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, the *Annual Report to Congress* 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 in this report. 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.

We make available on our website, free of charge, copies of our recent annual reports, quarterly reports, and current reports as soon as reasonably practicable after they are filed with or provided to the PRC. Requests for copies may also be sent to the following address:

Corporate Communications
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260-3100

Part I

ITEM 1A — RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows. Here, we provide a broad overview of the chief external factors that influence, and in some cases govern, operations and financial results, briefly discussing their specific impacts in 2012 as well as their anticipated near-term effects. The remainder of this report, notably the sections entitled “Business” and “Management's Discussion and Analysis of Financial Condition and Results of Operations,” provides a further understanding of the risks and uncertainties we confront.

Adverse changes in the economy directly impact our business, negatively affecting results of operations.

The global economy may impact our business and financial condition in ways that we currently cannot predict. The demand for postal services is heavily influenced by the economy. The U.S. national unemployment rate has remained high, decreasing from 9.1% in September 2011 to 7.8% in September 2012. U.S. Gross Domestic Product (GDP) real growth rates have continued their trend of steady, but slow growth. GDP real growth was 2.3% for the year ended September 30, 2012, up from 1.6% for the year ended September 30, 2011. The high unemployment rate, along with continued weakness in housing prices and lackluster economic growth, continue to adversely impact consumer confidence, raising economic risk significantly. These uncertain economic conditions are expected to have a continuing adverse impact on retail sales, investment, consumer spending, consumer confidence, and ultimately the use of the mail. Negative trends in these areas continue to depress the demand for postal services. The threat of significant federal tax increases and federal government spending reductions beginning in January 2013 has further increased economic uncertainty, affecting both consumer and business spending. In addition, as we continue to grow our international business, the health of the global economy increasingly affects us. The European debt crisis took on added significance in 2012 as international economic growth slowed in response to decreased economic output from the region. To the extent that the U.S. and other countries continue to experience slow economic growth, our business, financial position, and results of operations will continue to be adversely impacted.

Even with some regulatory and legislative changes, our ability to generate sufficient cash flows from current and future management actions to increase efficiency, reduce costs, and generate revenue may not be sufficient to meet all of our financial obligations.

The Postal Service continues to suffer from a severe lack of liquidity. In the past six years, since the enactment of the congressionally mandated prefunding, we have incurred $41 billion of net losses, including $32 billion of expenses for prefunding to the PSRHBF. While we were not able to pay the $11.1 billion of prefunding obligations in 2012 - this amount has been expensed and is reflected as a liability in our balance sheet. We have paid $21 billion of cash to the PSRHBF for prefunding over the past six years. During that time, our debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012.

Our strategies to increase efficiency and reduce costs by adjusting our network, infrastructure, and workforce, and to retain and grow revenue are currently constrained by contractual, statutory, regulatory, and political restrictions. Our competitors are not constrained by these factors to the same extent and have been able to react more quickly to the changing economic climate. The ability to generate sufficient cash flow to meet obligations is also substantially dependent on the continuance, strength, and speed of the economic recovery and the execution of operational strategies available under current law to increase efficiency and generate incremental revenue.

In February 2012, we updated our comprehensive five-year plan to achieve financial stability and repay debt. We are aggressively innovating in our product and service offerings, improving productivity and reducing costs in areas within our control. Additionally, we have proposed legislative changes to Congress that are needed to provide the Postal Service with the legal authority to implement certain additional measures to increase efficiency and cost savings. Legislation has been introduced in both houses of Congress and a bill has been passed by the Senate. Neither the bill passed in the Senate, nor the bill that has cleared committee in the House, contains the authority necessary to implement all required actions to increase productivity and cost savings. Given the vital role that the Postal Service plays in the U.S. economy, the Postal Service is requesting that Congress expeditiously take the steps needed to enact legislative changes that will enable it to return to financial stability.

During 2012, we were forced to default on the required $5.5 billion prefunding payment to the PSRHBF for retiree health benefits which was due by August 1, 2012, and the $5.6 billion payment which was due by September 30, 2012, resulting in a total default of $11.1 billion. Absent legislative change, the Postal Service will be unable to make the $5.6 billion retiree health benefits prefunding payment due by September 30, 2013. The statutory requirement establishing the prefunding payment schedule (P.L. 109-435) contains no provisions addressing a payment default. As of November 15, 2012, we have suffered no penalties or damages as a result of our inability to make these payments.

In the short-term, should circumstances leave us with insufficient liquidity beyond the nonpayment of the legally mandated prefunding PSRHBF payments, 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) as those funds would help alleviate our short-term liquidity risks. The Office of the Inspector General (OIG) has determined that if Postal Service specific assumptions were used in estimating the FERS obligation, the surplus would be much greater than the $2.6 billion calculated by OPM as of September 30, 2011, the latest actual data available.

We will continue to inform the Administration, Congress, Postal Regulatory Commission (PRC), and other stakeholders of our financial condition and outlook, and pursue legislative changes, cost reductions, and additional ways to generate revenues that will generate additional cash in 2013. Although our cost-reduction and revenue-generation initiatives are expected to positively impact cash flow, we project that they may not, in the aggregate, be sufficient to offset potential cash shortfalls, which could occur in the second half of 2013. Many of the structural reforms needed to ensure long-term viability, such as adjustments to the PSRHBF prefunding payment schedule and changes to delivery standards, can only be achieved with legislative change. There can be no assurance that Congress will enact additional legislation that will impact 2013 or future years.

We are subject to Congressional oversight and regulation by the Postal Regulatory Commission and other government agencies. We have a wide variety of stakeholders whose interests and needs are sometimes in conflict.

This is an outgrowth of our unique status as a provider of a fundamental service to the American people. We attempt to balance the interests of all parties. Efforts to be responsive to various stakeholders sometimes adversely impact the speed with which we are able to respond to changes in mail volume or other operational needs. Any limitations on our ability to take management action could adversely affect operating and financial results.

Adverse events may call into question our reputation for quality and reliability or our ability to deliver the mail, and could diminish the value of the Postal Service brand. This could potentially adversely affect our revenues and results of operations.

In their latest review of universal postal service providers, Oxford Strategic Consulting, ranked the U.S. Postal Service the best postal service within the world's top 20 largest economies for access to services, resource efficiency and public trust. The Postal Service brand represents quality and reliable service; and therefore, is a valuable asset. We use our brand extensively in sales and marketing initiatives and take care to defend and protect it.

Our financial condition and our network consolidation activities have been highly publicized. Both Congress and the Administration have offered various proposals to address some of the complex issues affecting the Postal Service. Although the approaches of various legislators and the Administration often differ, and there is a lack of consensus in many areas, the intent of all stakeholders is the same – to preserve the Postal Service and improve its overall financial health. Reports in the press regarding these discussions may result in confusion or misunderstanding by our customers regarding the future viability of the Postal Service. As a result, there is a possibility that customers may change their buying habits based upon these misperceptions. Increased usage of social media platforms including Facebook, Twitter, and YouTube have provided increased access to the public for the exchange of news and opinions regarding the Postal Service. Unfavorable publicity can be spread across these media platforms very quickly and is difficult to counteract.

Any event, whether real or perceived, that calls into question our long-term existence, our ability to deliver mail, our quality, or our reliability could diminish the value of our brand and reputation, and could adversely affect our business operations and operating results.

Our need to restructure our operations in response to declining mail volumes may result in significant costs. It is possible that the measures being considered may be insufficient to reduce our workforce and physical infrastructure to a level commensurate with lower and declining mail volumes.

Our current network optimization plans include the consolidation of certain mail processing operations, and reductions in lobby hours of many retail units, Post Offices, and other facilities. At the current time, our regular review of the carrying value of our assets has not resulted in significant impairments of our physical assets. However, future changes in business strategy, legislation, government regulations, or economic or market conditions may result in material impairment write-downs of our assets. We may, in the future, consider offering financial incentives to encourage employees to voluntarily leave the Postal Service, as has been done in the past. Such impairments, incentives, or other related costs would adversely impact our financial results in the short-term, although they would result in long-term savings. In addition, there is no assurance that the mechanisms available under existing law and contractual arrangements will be sufficient to reduce the workforce or facilities to a level that would allow a return to financial stability.

Our business and results of operations are adversely affected by electronic diversion. If we do not compete effectively with electronic communications services, or alternatively grow marketing mail and package services, or increase revenue and profit margins from other sources, this adverse impact will become more substantial over time.

Customer usage of postal services continues to shift away from transactions, correspondence, and Periodicals Mail toward advertising and Shipping Services. Advertising and Shipping Services are highly correlated with economic activity. Over the past five years, transactional mail, such as the presentment and payment of bills, has been sharply eroded by competition from electronic media, driven by some of our major mailers who actively promote the use of online services. Factors underlying this trend include growing internet access in homes, increased availability of broadband service, expansion of mobile internet access, increasing familiarity and comfort with the internet, and the growing trend by businesses to incent or require their customers to use alternatives to mail for payments and statement presentment.

Correspondence mail has long been a declining part of mail volume. With the availability of e-mail and other internet-based forms of communication such as e-cards and social networking, and inexpensive telephone service, there is little chance that the decline in correspondence mail will be reversed.

The volume of Periodicals Mail continues to decline as people increasingly use electronic media for news and information. The impact of the recession and electronic competition has amplified the steep decline in periodicals advertising.

Existing laws and regulations, including the Postal Accountability and Enhancement Act (P.L. 109-435) which became law in 2006, limit our ability to introduce new services or products, enter new markets, generate new revenue streams, or manage our cost structure, and thus grow and evolve as an important American institution.

In order to offset declining volumes and revenues caused by electronic diversion, our ability to sell new products and services in new or existing markets will be a key factor to our return to profitability. However, various laws and regulations seriously limit our ability to enter new markets and/or to provide new services and products as defined by traditional industry definitions. Without legal or regulatory changes that allow us to introduce new products or services to take advantage of our assets, including our strong network and last-mile capabilities, we may be unable to respond to consumers' changing needs and expectations. These limitations have the potential to adversely impact our results of operations and long-term financial viability.

While the Postal Accountability and Enhancement Act (P.L. 109-435) limited price increases on our Market-Dominant services to the rate of inflation, our costs are not similarly limited. Accordingly, we may not be able to increase prices sufficiently, or generate sufficient efficiency improvements, to offset increased costs. This would adversely affect our results of operations.

P.L. 109-435 limits price increases on our Market-Dominant services to the rate of inflation as measured by the CPI-U. However, our costs are not similarly limited. A large portion of our cost structure is fixed and cannot be altered expeditiously in the short run. Accordingly, we may not be able to increase prices sufficiently to offset increased costs. Because our services are provided primarily through people, postal costs are heavily concentrated in wages, and employee and retiree benefits. These costs are significantly impacted by wage inflation, health benefit premium increases, retirement and workers' compensation programs, cost-of-living allowances, and the continuous expansion of our delivery network. Some of these costs have historically tended to increase at a higher rate than inflation as measured by the CPI-U. We believe that continuing productivity improvements, by themselves, will not be sufficient to address the challenge presented by declining volumes and revenues and the regulatory price cap; nor will revenue enhancements keep pace with increased cost structures.

The contracts with the four unions: the APWU, NALC, NPMHU, and the NRLCA, which represent the majority of our employees, have historically included provisions granting COLAs, linked to the Consumer Price Index — Urban Wage Earners and Clerical Workers (CPI-W). Neither the APWU nor the NRLCA contracts called for a cost-of-living adjustment (COLA) in 2010 and 2011. They did include 2012 and 2013 COLAs; however, the 2012 COLA was deferred until 2013 when employees represented by the APWU and NRLCA will receive both years' adjustments applied to the then current wages. The NALC and NPMHU contracts are currently in the interest arbitration process. As such, it is unknown whether COLAs will continue under the arbitrated contracts, the timing of those COLAs, or the potential amounts of those COLAs. Although the CPI-W has been relatively low since its 2008 peak when it conferred annual pay increases to employees of nearly $1.1 billion, a resurgence of consumer inflation could have a significant adverse impact on our labor costs. The ability to negotiate contracts that control labor costs is essential to maintaining financial stability. Failure to do so, or an unfavorable decision by an arbitrator should we be unable to agree to terms with the unions, could have significant adverse consequences on our ability to meet financial obligations.

The estimation of the workers' compensation liability is highly influenced by interest rates, the CPI-W, and medical inflation. Increases in CPI-W and medical inflation increase the liability while interest rates have an inverse relationship. An increase of 1% in the interest rate would decrease our estimate of the liability by approximately $1.8 billion. A decrease of 1% in the interest rate would increase our estimate of the liability by approximately $2.3 billion. While these interest rate assumptions do not affect our annual cash payment to the Department of Labor (DOL), the CPI-W and medical cost increases do affect the payments made to claimants.

An unaffordable union contract arrived at either through negotiation or arbitration could have a significant adverse impact on our future results of operations.

The majority of our labor force is represented by labor unions and covered by collective bargaining agreements, primarily with the APWU, NALC, NPMHU, and the NRLCA. The agreements currently in force include provisions for mandatory cost-of-living adjustments (COLA). They also contain provisions that limit our ability to reduce the size of the labor force. Reductions in the size and cost of our labor force are necessary to offset the effects of declining volumes and revenues.

We have no assurance that we will be able to negotiate contracts with our unions that will result in a cost structure that is sustainable within current and projected future revenue levels. In addition, if our negotiations should fail and involved parties proceed to arbitration, we would be relieved of control in the collective bargaining process. Our risk rises in arbitration, as there is no current statutory mandate requiring an interest arbitrator to consider the financial health of the Postal Service in issuing an award. An unaffordable decision received in arbitration could have significant adverse consequences on our ability to meet future financial obligations.

We rely on the terms and conditions of our contracts with vendors and customers to deliver our services. These contracts are renegotiated on a routine and periodic basis. Significant changes in the costs, pricing, or terms associated with these contracts could adversely affect our business.

Our vendors and customers enter into long-term contracts with us to supply goods and services, and to procure our services. These contracts are renegotiated from time to time and to the extent that new contracts are not renewed, renewed with terms that may not sufficiently cover our costs, or which increase our costs, our financial condition may be adversely affected. While no single customer or vendor is material to the Postal Service as a whole, certain vendors and customers are significant to the delivery of certain product lines. Our ability to maintain current or improved terms in our contracts with our customers and vendors is critical to our return to profitability initiatives.

Fuel expenses are a material part of operating costs. A significant increase in fuel prices could adversely affect costs and results of operations.

We are exposed to changes in commodity prices primarily for diesel fuel, unleaded gasoline and aircraft fuel for transportation of mail, and natural gas and heating oil for facilities. The price and availability of fuel can be unpredictable and beyond our control. Unlike commercial entities, we are unable to institute fuel surcharges in our pricing model. A 1% increase in fuel costs would result in a $28 million increase in expense. We did not use derivative commodity instruments to mitigate the financial risk of changes in energy prices during the periods covered by this report.

We rely extensively on computer systems and technology to manage the delivery of mail, process transactions, summarize results and manage our business. Disruptions in both our primary and secondary (back-up) systems could harm our ability to run our business and potentially result in significant losses of revenue or additional operating costs. In addition, such disruptions could impair our reputation for reliable service, which would also adversely affect results of operations.

Our operational and administrative information systems are among the largest and most complex systems maintained by any organization in the world. Any disruption to our complex infrastructure, including those impacting the computer systems which facilitate mail handling and delivery, and customer utilized websites, could adversely impact customer service, mail volumes, and revenues, and result in significant increased cost. Any significant systems failure could cause delays in the processing and delivering of mail or result in the inability to process operational and financial data. System failures such as this could damage our reputation, resulting in loss of business and increased costs.

Due to our current cash constraints, our operational performance in the future could be at risk as a result of inadequate capital investment in transportation equipment, mail processing equipment, facilities, or information technology which are either essential to operations or to improve the quality of our services.

Failure to anticipate or react to our competition, market demands, and/or new technology due to inadequate cash reserves is a significant operational risk. Our aging facilities, equipment, and transportation fleet could inhibit our ability to be competitive in the marketplace, deliver a high-quality service, and meet the communication needs of the American public. The changes in the economic landscape in recent years have made it increasingly important for the Postal Service to invest in its operations in order to remain competitive. If our operations do not generate the liquidity we require, we may be forced to reduce, delay, or cancel investments in technology, facilities, and/or transportation equipment while our direct competitors and other businesses are pursuing advanced, competing technologies and equipment. Aging or potentially obsolete infrastructure could result in a loss of business and increased costs.

We have a substantial amount of indebtedness.

As of September 30, 2012, we had reached the statutory $15 billion debt limit. Our significant indebtedness to the Federal Financing Bank has important consequences. For example, it limits our flexibility in planning for, or reacting to changes in our organization; it places us at a competitive disadvantage compared to commercial competitors that may have less debt and which have access to the public capital markets; and it could require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thus reducing the availability of cash flow to fund working capital, capital expenditures, and other general organizational activities.

Health and pension benefit costs represent a significant expense to us.

With approximately 528,000 career employees and 471,000 annuitants and survivors participating in the Federal Employees Health Benefit Plan, our expenses relating to employee and retiree health and pension benefits are significant. We participate in federal government pension and health and benefits programs for employees and retirees, including the Federal Employees Health Benefit (FEHB) Program, the Civil Service Retirement System (CSRS), and the Federal Employees Retirement System (FERS). We have no control or influence over the benefits offered by these plans and make contributions to these plans as specified by law or contractual agreements with our unions (in the case of health benefits for most active employees). Several factors could cause us to make significantly higher future contributions to these plans; and many of these factors are beyond Postal management's control.

In addition, P.L. 111-148, the *Patient Protection and Affordable Care Act*, was passed in 2010. Because final regulations have not yet been approved, the future impact on our financial condition, results of operations, or liquidity remains unknown.

In recent years, we have experienced significant increases in retiree health benefits costs, primarily as a result of the *Postal Accountability and Enhancement Act, (P.L. 109-435)*, which obligates us to fully fund the established health benefits of current retirees and current postal employees who have not yet retired in an accelerated time frame. Additionally, we are required to continue contributing to the FERS pension program at OPM-specified rates, and may be required to contribute to the CSRS, beginning in 2017, if OPM determines that a supplemental unfunded liability payment is necessary.

At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations, or liquidity could result from our participation in these plans.

Workers' compensation insurance and claims expenses could have a material adverse effect on our business, financial condition, and results of operations.

Workers' compensation accruals are established for estimates of the expense that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Trends in actual experience and management judgments about the present and expected levels of cost per claim are significant factors in the determination of such accruals. Several other factors which are beyond Postal management's control, such as discount and inflation rates, could cause us to incur higher workers' compensation expense. In addition, our workers' compensation program is administered for us by a Federal agency, the Department of Labor (DOL). As such, we do not have the same level of control over the execution of the program that a private company has with their workers' compensation insurance provider.

We believe our estimated accruals for such claims are adequate, but if actual experience in the number of claims, and/or severity of claims for which we are retaining risk increases, required accruals could materially differ from our estimates and adversely affect our financial condition and results of operations.

The potential liability associated with existing and future litigation against us could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

We are subject to various legal proceedings and threatened legal proceedings from time to time. Any litigation, regardless of its merits, could result in substantial legal fees being incurred by us. Further, actions that have been or will be brought against us may not be resolved in our favor and, if significant monetary judgments are rendered, we may not have the ability to pay. Such disruptions, legal fees, and any losses resulting from these claims could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

A failure to protect the privacy of information we obtain from customers could damage our reputation and result in a loss of business.

We have invested in and employ a variety of technology security initiatives aimed at protecting organizational information, as well as customer information. As one of the most trusted government agencies by the American public, protecting the confidentiality of data that we obtain is paramount to us. However, should our information technology risk management not fully insulate us from a security breach or data loss, our reputation could be damaged resulting in an adverse effect on our operations and financial results.

International conflicts or terrorist activities, and the effects of these events may have adverse impacts on business operations or our financial results. In addition, we are subject to the risk of biohazards and other threats placed in the mail.

We are exposed to the impacts of terrorist activities and conflicts on the United States, global economies in general, and the transportation industry in particular. In addition, we are particularly subject to the risk of biohazards and other threats placed in the mail. Although we have implemented extensive emergency preparedness measures to keep the mail, employees and customers safe from harm due to biohazards or other threats that could be introduced into the mail, this risk cannot be completely mitigated. If new threats were to arise and measures were not sufficient to contain or mitigate the threat, services could be disrupted. This could adversely affect mail volumes and revenue, and require substantial expenditures to address the new threat, thus adversely affecting our operations and financial results.

We may be adversely impacted by the legal or regulatory responses to actual or perceived global climate change.

Concerns about climate change, particularly global warming, have resulted in significant discussions in the scientific community, domestic and international governments, and environmental organizations about the effects of greenhouse gases on the environment. These discussions could result in new laws or regulations that regulate greenhouse gas emissions into the environment and, as a result, our operating costs may increase. The costs that we believe may increase as a result of any new environmental laws or regulations could include: diesel fuel, unleaded gasoline, the cost of retrofitting existing vehicles, and other petroleum-related products, such as tires. In addition, utility costs associated with the operation of facilities may increase as a result of new environmental laws and regulations. Finally, since we also use contracted carriers to transport the mail, we anticipate that increased operating costs for these independent carriers, including increased costs resulting from new laws or regulations, may ultimately be passed through to the Postal Service.

We are also subject to risks and uncertainties that affect many other businesses, including:

- Market acceptance of new product and service initiatives;
- Adverse weather conditions or natural disasters, such as hurricanes, which can damage property and disrupt operations;
- Widespread outbreak of an illness or any other communicable disease, or any other public health crisis; and
- Changes in interest rates and foreign currency exchange rates.

ITEM 1B – UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 — PROPERTIES

REAL ESTATE

Facilities range in size from 60 square feet to 32 acres under one roof and support retail, delivery, mail processing, maintenance, administrative, and support activities.

The following table summarizes our real estate inventory and annual rent expense.

Real Estate Inventory (Actual numbers)	2012	2011
Leased Facilities	**23,998**	**24,309**
Owned Facilities	**8,606**	**8,644**
GSA / Other Government Facilities	**300**	**307**
Total Real Estate Inventory	**32,904**	**33,260**
Annual Rent Paid to Landlords (Dollars in millions)	**$ 979**	**$ 998**

USAGE OF FACILITIES

Facilities that support postal retail and delivery operations are located in virtually every community throughout the country. In addition to the 31,857 retail and delivery facilities that we operate, postal retail services are available in thousands of commercial locations owned and operated by private businesses. These include more than 3,500 Contract Postal Units, Community Post Offices, and Village Post Offices, 4,000 approved shipper locations, plus over 64,000 supermarkets, pharmacies, and other stores that sell postage stamps as a convenience to our customers.

The following types of facilities, as detailed in the table below, comprise our postal retail and delivery operations.

Postal-Managed Retail and Delivery Facilities (Actual numbers)	2012	2011
Post Offices	**26,755**	**26,927**
Classified Stations	**3,110**	**3,154**
Classified Branches	**1,407**	**1,428**
Carrier Annexes	**585**	**637**
Total Postal-Managed Retail and Delivery Facilities	**31,857**	**32,146**

The following types of facilities, as detailed in the table below, house our postal processing operations.

Processing Facilities (Actual numbers)	2012	2011
Processing and Distribution Centers	241	251
Customer Service Facilities	84	115
Network Distribution Centers	21	21
Logistics and Distribution Centers	10	10
Annexes	43	46
Surface Transfer Centers	10	10
Airmail Processing Centers	1	1
Remote Encoding Centers	2	2
International Service Centers	5	5
Total Processing Facilities	**417**	**461**

Our larger facilities primarily support mail processing operations. They process millions of pieces of mail on a daily basis and prepare them for dispatch and transportation. They may also house some of the retail and delivery operations identified under retail and delivery functions.

As part of the ongoing efforts to improve efficiency, adjust the network to lower volumes of mail, and reduce excess capacity, consolidation of operations has led to a reduction in the number of facilities that support mail processing. We are currently pursuing further consolidation of mail processing facilities. Consolidations allow for reductions in headcounts and transportation costs due to efficiencies of scale in mail processing and transportation but do not always result in a reduction in real estate. Consolidation also results in more efficient use of our mail processing facilities and equipment as well as our transportation network.

VEHICLES

The Postal Service operates one of the largest vehicle fleets in the United States, including a fleet of alternative-fuel vehicles. There were no significant vehicle purchases in 2012. Our fleet of vehicles is utilized for the types of activities as shown in the table below.

Vehicle Inventory (Actual numbers)	2012	2011
Delivery and Collection (1/2 - 2 1/2 ton)	190,897	192,088
Mail Transport (Tractors & Trailers)	5,985	6,083
Administrative	6,451	6,478
Service (Maintenance)	4,604	4,625
Inspection and Law Enforcement	2,448	2,453
Mail Transport (3 - 9 ton)	2,145	2,154
Total Vehicles	**212,530**	**213,881**

ITEM 3 — LEGAL PROCEEDINGS

We are subject to various claims and liabilities that arise in the normal course of operations. These claims generally relate to labor, tort, and contract disputes, and are regularly reviewed by management, and, where significant, by the Audit and Finance Committee of the Board of Governors and/or the full Board of Governors.

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 as McConnell v. Potter), 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, through July 1, 2011. 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.

For further discussion of the legal proceedings affecting us, please see the information under the sub-caption “Legal Matters and Contingent Liabilities” of the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this report.

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable to the United States Postal Service.

Part II

ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

ITEM 6 — SELECTED FINANCIAL DATA

See the Financial History Summary following the Notes to the Financial Statements.

ITEM 7 — 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.

The following are some of the factors that could cause actual results to differ materially from those expressed in, or underlying, forward-looking statements: 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 Retirement 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; 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; effects of legal claims; cost and deployment of capital; fluctuations in currency exchange and interest rates; and changes in applicable accounting policies and practices. The foregoing list of important factors is not all-inclusive. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with 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. Management discusses the development and selection of these accounting policies and estimates with the Audit and Finance Committee of the Board. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The three accounting policies that are considered either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to the financial statements, are those related to the recording of workers' compensation costs, deferred revenue for prepaid postage, and contingent liabilities.

Workers' compensation costs are highly sensitive to discount and inflation rates and the length of time recipients are expected to stay on the compensation rolls. However, the total annual cash payment for claims is relatively stable and predictable. The workers' compensation costs reflected on our Statement of Operations are subject to actuarial estimates of future claim payments based upon current claims and past claim payment experience. Changes in the actuarial and inflation rate estimates and discount rates can significantly impact reported results from period to period. Inflation and discount rates are updated on a quarterly basis.

The discount rate reflects the current rate at which the workers' compensation liabilities could be effectively settled at the measurement date (e.g., the end of the accounting period). In setting the discount rates, we use the current yield, as of the measurement date, on a basket of U.S. Treasury securities that is matched to the expected duration of both the medical and compensation payments.

Expected inflation in compensation claim obligations is estimated using the CPI-U as forecasted by IHS Global Insight in their quarterly report. For medical claims, we use the average rate of medical cost increases experienced by our workers' compensation claimants over the past five years as an estimate for future medical inflation.

Deferred revenue-prepaid postage is an estimate of postage that has been sold but not yet used by customers. Revenue is recognized only when services are rendered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected in the Balance Sheets as *"Deferred Revenue-Prepaid Postage."* Two categories of postage sales account for the majority of deferred revenue–prepaid postage: stamp sales and metered postage.

Stamp sales in 2012 totaled $8.1 billion. Deferred revenue on stamp sales is estimated using statistical samples of stamped mail exiting our system across the country. The estimated stamp usage is subtracted from stamp sales with the difference representing our obligation to perform future services. We reduce that obligation by recognizing a provision for stamps sold that may never be used; either through loss, damage, or collecting activity, commonly referred to as the "breakage factor."

In Quarter II, 2012, we improved the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. We obtained new information regarding our customers' stamp usage and retention habits. This enabled us to update our estimate of stamps that will never be used for mailing. As a result of this enhancement, the liability for 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.

Metered postage is primarily used by businesses. Accordingly, the deferred revenue for meters is much smaller as a percentage of annual sales than for stamps, because business customers generally manage their cash flow much more closely and purchase postage only as needed. Deferred revenue related to meters is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings allows us to derive a deferral percentage, which is applied to all postage meter receipts for the month. Metered postage receipts in September 2012 subject to deferral totaled $1.2 billion.

We also include in our estimate of deferred revenue–prepaid postage an estimate for mail that is in-transit within the postal system. We do this because the earnings process is not considered complete until mail is delivered to the customer.

The chart below details our deferred revenue-prepaid postage by category.

Deferred Revenue - Prepaid Postage (Dollars in millions)		**2012**		**2011**		**2010**
Forever Stamps	**$**	**3,253**	**$**	**2,527**	**$**	**1,323**
Non-Forever Stamps		**117**		**246**		**488**
Meters		**362**		**459**		**506**
Mail In-Transit		**259**		**247**		**254**
Other, primarily Precancelled Stamps		**23**		**18**		**13**
Total Deferred Revenue - Prepaid Postage	**$**	**4,014**	**$**	**3,497**	**$**	**2,584**

Contingent liabilities require significant judgment in estimating potential losses for legal and other claims. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. In addition, each quarter any prior claims and litigation are reviewed and, when necessary, the liability balance adjusted for resolutions or revisions to prior estimates. Estimates of loss can therefore change as individual claims develop and additional information becomes available.

Other critical estimates include retirement and health benefits costs for current retirees and current postal employees who have not yet retired as they represent a significant portion of expenses. Any change in laws or regulations affecting the amounts, timing, or administration of these benefits could have a material effect on our financial position and results of operations. We participate in the federal government pension and retiree health benefits programs, and accordingly account for these using multiemployer plans accounting rules. As such, the expense is the amount we are required to contribute.

In addition, the depreciation and amortization of capital assets over their estimated useful lives require us to make judgments about future events. Because capital assets are utilized over relatively long periods of time, we make periodic evaluations as to whether the estimated service lives remain appropriate. Changes to estimated lives may affect the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on disposal of the asset.

For further information, see Note 3, *Summary of Significant Accounting Policies*, Note 5, *Property and Equipment*, Note 7, *Contingent Liabilities,* and Note 10, *Workers' Compensation,* in the Notes to the Financial Statements*.*

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-09, Compensation-Retirement Benefits-Multiemployer Plans (Accounting Standards Codification 715-80) 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. We have adopted the new rules for the year ended September 30, 2012, and applied the disclosures for 2012 and retrospectively for the previous two years presented.

Other new pronouncements issued but not effective until after September 30, 2012, are not expected to have a material effect on our financial position or results of operations.

RESULTS OF OPERATIONS

Since peaking at 213 billion pieces in 2006, mail volume and revenues have declined each year. This trend of declining volume and revenues; primarily caused by the recession, the use of electronic media to replace hard-copy transactions and communications, increased competition from alternative delivery services, and an ongoing weak U.S. economy; continued through 2012 and is expected to continue for the foreseeable future.

Although significant efforts continue to be made to contain costs under management's control, the Postal Service has not been able to completely offset the declining revenue and non-controllable cost increases of the past few years. In addition, the impact of the legally-mandated Postal Service prefunding payments to the PSRHBF, significant workers' compensation expenses, increasing fuel costs, and the legally-required continuation of six-day-per-week delivery, in spite of declining mail volume, have adversely affected our financial results.

Key operating statistics are summarized in the following table.

Operating Statistics (Dollars & pieces in millions)		**2012**		**2011**		**2010**
Operating Revenue	$	65,223	$	65,711	$	67,052
PSRHBF Expense	$	11,100	$	-	$	5,500
Loss from Operations	$	(15,741)	$	(4,923)	$	(8,374)
Net Loss	$	(15,906)	$	(5,067)	$	(8,505)
Total Mail Volume		159,859		168,297		170,859
Average Daily Volume		528		555		563

As explained further in the Revenue and Volume section below, we are making efforts to offset continuing decreases in revenue and volume, primarily due to ongoing electronic diversion. New services and successful marketing campaigns continue to fuel growth in our Shipping and Packages business. Through the introduction of new service offerings and better educational marketing information, we are showing customers new ways that the mail can be used in conjunction with current technologies. We continue to make better use of data and technology to increase the value of mail, particularly in terms of digital tools and mobile technology. 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. However, none of these efforts is sufficient to offset the decline in First-Class Mail, our most profitable service.

In the day-to-day operation of our business, we focus our attention on those costs that are controllable by us in the short term.

Our net losses include expenses for the legally-mandated prefunding of retiree health benefits, as well as the legally-mandated participation in the federal workers' compensation program that is managed by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) and governed by Federal Employees' Compensation Act (FECA). Under FECA, many types of workers' compensation claims cannot be settled through lump-sum payments, rather, compensation must be paid over many years. This, compounded by the cost of living adjustments (COLA) granted by Federal Law to those claims, results in substantially higher costs to the Postal Service than would likely be the case if claims management decisions were made by the Postal Service. In addition to the constraints imposed due to the legally-mandated FECA program, actuarial estimations and projected cash payments that will be paid well into the future also have substantial impact on our reported liability. Future cash payments must be converted to present-day dollars, or discounted, by applying the current rates at which the liability could theoretically be settled. Discount rates can fluctuate significantly from period to period with changes in the economic and interest rate environment. Even a very small change in discount rates can have a large impact, as a 1% decrease in rates at September 30, 2012 would have resulted in a $2.3 billion increase of the liability. This can, and does, result in the GAAP workers' compensation expense varying significantly from our cash outlays.

Because the legislative mandates for prefunding of retiree health benefits and for the participation in the FECA are not subject to management's control, we believe that analyzing operating results without the impact of certain of these charges provides a more meaningful insight into current operations. In the day-to-day operation of our business, we exclude these factors from our internal financial analyses in order to direct focus onto the relevant expenses that management can control and include only those workers' compensation costs representing current year payments on behalf of postal claimants. The table below illustrates the loss from ongoing business activities when these charges are not considered, and reconciles this amount to our GAAP net loss.

Loss before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense (Dollars in millions)		2012		2011		2010
Net Loss	$	(15,906)	$	(5,067)	$	(8,505)
Impact of:						
Expense Related to the Long-term Portion of Workers' Compensation		2,356		2,382		2,421
PSRHBF expense		11,100		-		5,500
Loss before Impact of Expense Related to Long-term Portion of Workers' Compensation and PSRHBF Expense	$	(2,450)	$	(2,685)	$	(584)

Without the impact of these charges, the net loss would have been $2,450 million in 2012, $2,685 million in 2011, and $584 million in 2010.

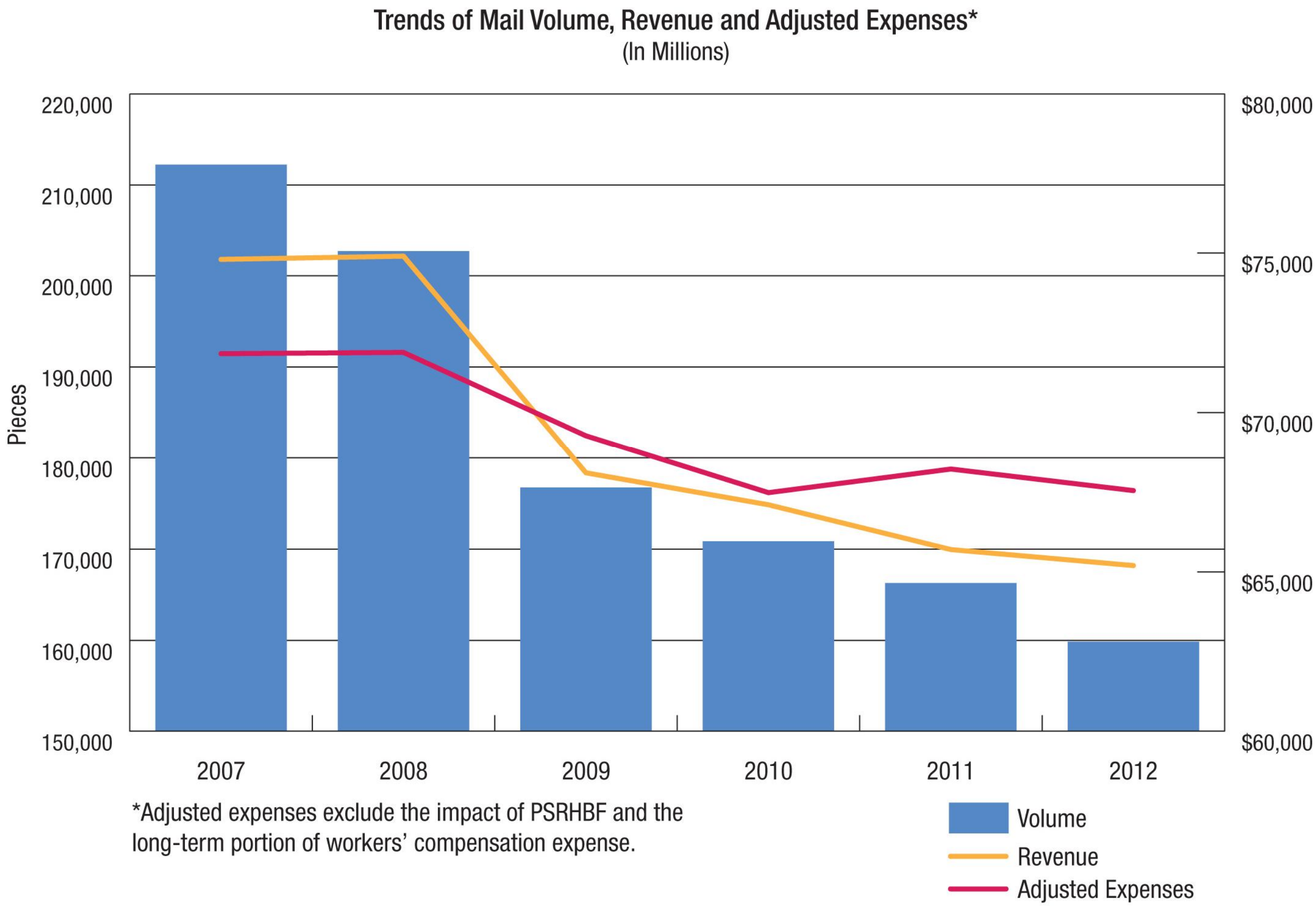
Due to the combined effects of decreasing revenue and legislatively-mandated costs, we have suffered losses in every quarter since Quarter I, 2008, except Quarter IV, 2011 and Quarter IV, 2009. These two quarters would have also shown losses if P.L. 112-33 and P.L. 111-68 had not reduced those year's retiree health benefits prefunding contributions from $5.5 billion to zero in 2011 and from $5.4 billion to $1.4 billion in 2009.

For the year ended September 30, 2012, operating revenues were $65,223 million, compared to $65,711 million in 2011, a decrease of $488 million, or 0.7%, despite average mailing price increases of 2.1% in January 2012 and 1.7% in April 2011; and shipping price increases of 4.6% and 3.6% in January 2012 and 2011, respectively.

Shipping and Packages revenue of $11,596 million increased $926 million, or 8.7%, on a volume increase of 244 million pieces, or 7.5%, compared to the same period last year. Higher consumer spending, higher e-commerce retail sales plus increased marketing efforts drove much of the growth in Shipping and Packages revenue and volume seen during 2012.

However, these increases were not enough to offset the declines in First-Class Mail and Standard Mail, our largest revenue earners which account for nearly 70% of total revenues. First-Class Mail Revenue dropped $1,163 million or 3.9% while Standard Mail decreased $747 million or 4.3%. The decline in the revenue and volume of First-Class Mail, our most profitable product, reflects the impact of the continuing increase in the utilization of electronic communication methods versus First-Class Mail. However, the rate of decline in the First-Class category did slow down in 2012 to 3.9% from 6.5% in 2011.

In response to declining First-Class Mail revenues, we have taken steps within our control to increase efficiency, decrease costs, and grow revenue from Shipping and Packages services and other sources. As discussed above, expenses related to the long-term portion of workers' compensation and legislative mandates are not within management's control and we do not include them when evaluating operational results. Day-to-day operating expenses, or adjusted expenses, excludes the impact of PSRHBF and the expense related to the long-term portion of workers' compensation. The following chart reflects the relationship of mail volume to revenue and expenses without the impact of PSRHBF and the expense related to the long-term portion of workers' compensation for the years 2007, our peak year, through 2012.



As can be seen in the above chart, these expenses have decreased every year since 2007, except for 2011. In 2011, we experienced sharp increases in benefit costs and fuel prices compared to 2010 as well as unusually high non-cash legal expenses associated with the contingent liability reevaluation process. Despite these items, we continue to be successful at improving efficiency and reducing those expenses over which management has oversight and control.

In December 2011, Oxford Strategic Consulting named our organization 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 and is more than five times as efficient as the third ranking competitor.

Operating efficiency, as measured by Total Factor Productivity (TFP), increased 1.0% in 2012 and 1.3% in 2011 compared to the previous years. This marked the eleventh year of positive TFP growth since 2000 and cumulative growth of 22.5% since 1972. Productivity gains are a result of effective workforce management, efficient use of material (supplies and services including transportation), and maximizing the return-on-capital investments (mainly automation). Work hours in 2012 decreased by 27 million, or 2.3%, despite an increase of approximately 654,500 delivery points during 2012. Mail volume declined 5.0%. In 2011, work hours were reduced by 34 million, or 2.9%, with an increase of approximately 636,500 delivery points, while overall mail volume declined 1.5%.

Operating expenses in 2012 were $80,964 million, including $11.1 billion of accrued contributions due to the PSRHBF, compared to $70,634 million in 2011, an increase of $10,330 million, or 14.6%, resulting from the law that changed the date of the scheduled $5.5 billion annual prefunding of the PSRHBF due by September 30, 2011 into 2012. Operating expense in 2011 did not include any prefunding expenses related to retiree health benefits, as the $5.5 billion previously scheduled to be paid by September 30, 2011 was changed to August 1, 2012 by the enactment of P.L. 112-33.

Transportation expenses increased $241 million, or 3.8%, from 2011 driven by higher fuel prices primarily in the first three quarters of the year. These fuel price increases more than offset decreases in mail volume and improved transportation utilization rates. In addition, retiree health benefits premium expenses for current retirees were $188 million, or 7.7%, greater in 2012 compared to 2011. Total workers' compensation expenses of $3,729 million increased by $57 million, or 1.6%, from 2011. The increase was driven by the higher costs related to new cases.

Offsetting the increases, compensation and benefits expense of $47,689 million in 2012 decreased by $621 million, or 1.3%, compared to last year, due primarily to the reduction of 27 million work hours. Other expenses decreased $635 million, or 6.5%, driven by lower expenses related to the revaluation of legal contingencies.

The net loss in 2011 was $5,067 million, compared to $8,505 million net loss in 2010. Operating revenue of $65,711 million in 2011 was $1,341 million, or 2%, less than operating revenue of $67,052 million in 2010. The volume of First-Class Mail declined in 2011 compared to 2010, while Standard Mail and Shipping and Package volume remained relatively stable. Operating expenses were $70,634 million in 2011 compared to $75,426 million in 2010, a $4,792 million, or 6.4% decrease. Due to the passage of P.L. 112-74, the most recent of several laws that changed the date of the scheduled $5.5 billion annual prefunding of the PSRHBF due by September 30, 2011 into 2012, total retiree health benefits expense decreased by $5,306 million, or 68.5%, in 2011 from 2010 as only monthly premiums, and not prefunding payments to the PSRHBF, were paid in 2011. Total operating expenses would have been $68,252 million in 2011, an increase of $747 million, or 1.1% from 2010, if the impact of the required PSRHBF prefunding payments and the long-term portion of workers' compensation expense are excluded.

Compensation and benefit expense in 2011 decreased by $599 million, or 1.2%, driven by the reduction of 34 million work hours. Total workers' compensation expenses in 2011 rose by $106 million, or 3.0% compared to 2010. Despite higher utilization rates and lower mail volume, transportation expense increased $511 million, or 8.7%, in 2011 compared to 2010 due to sharply higher fuel prices. Other expenses increased $496 million, or 5.3%.

REVENUE AND VOLUME

Reclassification of Certain Revenue and Volume Data

Periodic reclassifications and expansions of services from Market-Dominant to Competitive services, which require approval from the PRC, are necessary to rationalize service offerings and allow more flexible pricing than is possible in the Market-Dominant category, which has constraints, such as price caps based on the Consumer Price Index (CPI). In other words, the additional flexibility provided in Competitive services allows us to better offer services that meet customer needs, to increase business for the Postal Service, and to allow us to price our services competitively within the markets in which we operate.

In Quarter I, 2012, with the approval of the PRC, we reclassified certain lightweight commercial parcels previously classified in Market-Dominant as First-Class Mail Parcels. These parcels are now classified as First-Class Package Services as a Competitive service. In addition, certain Post Office Box services were reclassified from Market-Dominant to Competitive. In Quarter II, 2012, Standard Mail parcels used for the fulfillment of customer orders were reclassified as part of Parcel Select, which is a Competitive service. There were no new reclassifications in Quarter III or IV, 2012.

Prior year results have been reclassified to conform to current year presentation.

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, recently the more significant factor has been the rate that relevant new technology has been introduced and accepted in the marketplace and supplanted the role of traditional hard-copy mail. Revenue growth 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 and the speed with which we can bring them to market.

Five years after the recession that began in December 2007, its lingering economic effects, accompanied by the acceptance and growth of major new technological platforms, have had a significant negative impact on the mailing industry and many of our traditional sources of revenue. Although some changes, such as an increase in the shipment of goods purchased online were positive, the accelerated shift to electronic communication alternatives continue to present significant business challenges in 2012. These challenges are expected to continue for the foreseeable future. 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 make up for some of the decline in First-Class Mail revenue. In short, there currently is no foreseen revenue growth solution to the Postal Service's financial challenges.

To date, consumer spending and business investment since the end of the recession have not provided the growth stimulus necessary to boost mail volumes. Due to the long-term impact of technological change, discussed above, we do not anticipate volume ever returning to the levels which we experienced in the mid-2000s. In fact, we anticipate that mail volume will, for the most part, continue to decrease for the foreseeable future.

The impact of technological change has been especially pronounced on our First-Class Mail revenues, which dropped 3.9% on a volume decline of 5.3% in 2012 from 2011. Since 2007 when First-Class Mail revenue hit its peak, it has declined 21.6% on a volume decline of 27.9%. Electronic diversion is also impacting Standard Mail revenue which declined at a higher-than-expected rate of 4.4% in 2012, compared to 2011. Advertisers have become more selective in targeting their mailings and have more media platforms from which to choose, which negatively impacts mail volume.

New technology, however, has helped us grow our Shipping and Packages business. In 2012, Shipping and Packages revenue increased 8.7% to $11,596 million in 2012 from $10,670 million in 2011. New services and successful marketing campaigns fueled the growth in our package business. However, because Shipping and Packages presently represents approximately 18% of our total revenues, these increases cannot fully offset the declines in First-Class Mail revenue and volume.

Prices for Market-Dominant services, which primarily consist of First-Class Mail, Standard Mail and Periodicals, increased an average of 2.1% in January 2012, and 1.7% in April 2011. There were no Market-Dominant product price increases in 2010. Competitive services, the majority of which are Express Mail, Priority Mail, First-Class Package Mail, and Parcel Return Services, increased in price by an average of 4.6%, 3.6%, and 3.3%, in January 2012, 2011, and 2010, respectively.

REVENUE AND VOLUME

The following chart presents details of our revenues for the years ended September 30, 2012, 2011, and 2010, by each service line.

Operating Revenue by Service Line * (Dollars in millions)	2012	2011	2010
First-Class Mail [1]	**$ 28,867**	**$ 30,030**	**$ 32,111**
Standard Mail [2]	**16,428**	**17,175**	**16,728**
Shipping & Packages [3]	**11,596**	**10,670**	**10,156**
International	**2,816**	**2,585**	**2,388**
Periodicals	**1,731**	**1,821**	**1,879**
Other[4]	**3,785**	**3,430**	**3,790**
Total Operating Revenue by Service Line	**$ 65,223**	**$ 65,711**	**$ 67,052**

*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 operating revenue for the prior year.

[1] Excludes First-Class Mail Parcels.

[2] Excludes Standard Mail Parcels.

[3] Includes Priority Mail, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service, and Express Mail.

[4] Includes P.O. Box Services, Certified Mail, Return Receipts, Insurance, Other Ancillary Fees, Shipping and Mailing Supplies, and other operating revenue.

The following chart presents volumes for the years ended September 30, 2012, 2011, and 2010, by each service line.

Volume by Service Line *			
(Pieces in millions)	2012	2011	2010
First-Class Mail[1]	68,696	72,522	77,592
Standard Mail[2]	79,496	83,957	81,841
Shipping & Packages [3]	3,502	3,258	3,057
International	926	987	594
Periodicals	6,741	7,077	7,269
Other[4]	498	496	506
Total Volume by Service Line	**159,859**	**168,297**	**170,859**

*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 volume for the prior year.

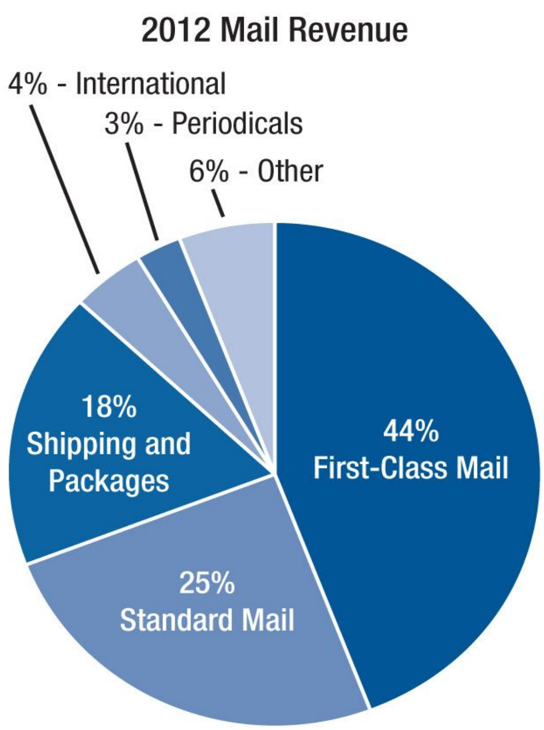
[1] Excludes First-Class Mail Parcels.

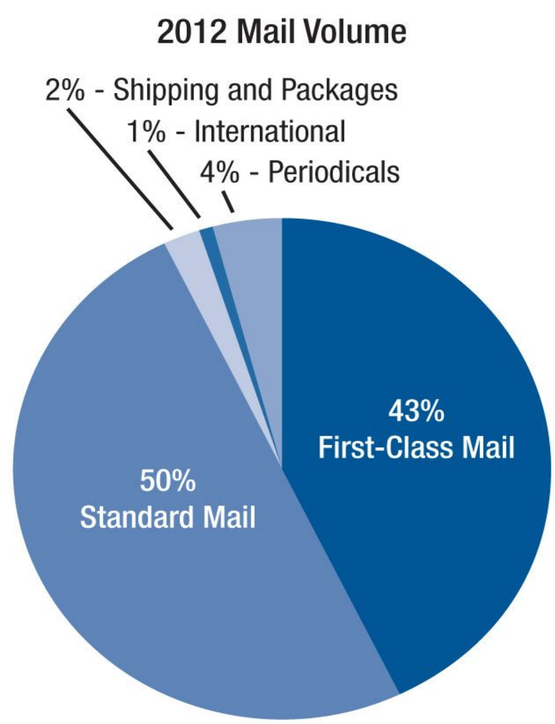
[2] Excludes Standard Mail Parcels.

[3] Includes Priority Mail, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service, and Express Mail.

[4] Includes the U.S. Postal Service's Mail and Free Mail provided to certain groups.

In 2012, despite strong growth of 8.7% for Shipping and Packages, total revenue of $65,223 million declined $488 million or 0.7% compared to total revenue of $65,711 in 2011. As can be seen from the graphs below, First-Class Mail and Standard Mail provide the vast majority of our revenues, despite trends away from hard copy to electronic media. Combined, these two categories totaled $45,295 million in 2012, and represented almost 70% of our total revenues for the year. However, by taking advantage of market changes and developing innovative services we have been able to grow our Shipping and Packages service to $11,596 million for 2012. These services now represent approximately 18% of our revenues.





First-Class Mail represents 44% of our revenues and accounts for 43% of the mail volume while Standard Mail generates 25% of revenues, but 50% of volume. Shipping and Packages generates approximately 18% of our revenues despite representing only 2% of volume.

First-Class Mail volume has been heavily impacted by recent changes in customers' desired choice of communication platforms, as noted by the approximate 30% drop from 96,936 million pieces in 2006 to 68,696 million pieces for 2012.

We anticipate that total mail volume will continue to decline in future years due to a combination of the continued decline of First-Class Mail volume and relatively flat Standard Mail volume. The expected continued decline of First-Class Mail, our most profitable product, will pose a significant challenge. To compensate for the loss of one piece of First-Class Mail, Standard Mail must increase by three pieces. Shipping and Packages, International Mail, and other categories are not expected to grow significantly enough to replace the revenue and contribution associated with the decline of First-Class Mail.

FIRST-CLASS MAIL

First-Class Mail is our most profitable service category and represents 44% of revenue. In 2012, revenue from First-Class Mail was $28,867 million, a decrease of $1,163 million, or 3.9%, from 2011. The corresponding volume decrease was 3,826 million pieces, or 5.3%. The most significant factor contributing to this decline was the continuing migration toward electronic communication and transactional alternatives.

Single-piece First-Class Mail letter and cards include correspondence, bill payments, confirmations, orders, and rebates. Revenue declined $765 million, or 6.6%, on a volume decrease of 2,122 million pieces, or 8.1%, compared to 2011, continuing a trend that has been in place for over a decade. Revenue from presorted First-Class Mail, which consists largely of bills and statements, decreased by $328 million, or 2.1%, on a volume decrease of 1,745 million pieces, or 3.9%. As already mentioned, the continued migration of hard-copy mail from traditional postal services to soft-copy electronic media is the primary driver behind the continued decline in First-Class Mail volume and revenue.

In 2011, revenue from First-Class Mail was $30,030 million, or 6.5% less than 2010, as volume decreased 5,070 million pieces, or 6.5%. Single-piece First-Class Mail letter and card revenue declined $1,298 million, or 10.1%, on a volume decrease of 3,038 million pieces, or 10.5%, compared to 2010. Revenue from presorted First-Class Mail, which consists largely of bills and statements, decreased by $487 million, or 3.0%, on a volume decrease of 1,731 million pieces, or 3.7%. As previously mentioned, the continued migration of mail from traditional postal services to electronic media is the primary driver behind the continued decline in First-Class Mail volume and revenue.

Prices of all services in the First-Class Mail category are capped at the rate of inflation because they are classified, by law, as Market-Dominant.

STANDARD MAIL

Standard Mail generates the greatest volume but represented only 25% of total revenues in 2012. Standard Mail revenue decreased $747 million, or 4.3%, in 2012 compared to 2011, on a volume decrease of 4,461 million pieces, or 5.3%. Within Standard Mail, letter volume decreased 4,434 million pieces, or 8.8%, while letter revenue decreased $728 million, or 7.5%. Standard Mail flats fell 12.4%, or 844 million pieces, while revenue dropped $261 million, or 10.5%, in 2012 compared to last year. New technology continues to help advertisers selectively target their mailings, resulting in fewer total pieces sent. However, the decline in credit card solicitations, a significant source of Standard Mail, has flattened as banks slowly come out of the recession. Although we expect that advertising mail volume will remain relatively flat because of slow economic growth, we do anticipate a nominal boost from election mail in the first quarter of 2013.

The modest improvement in the economy helped increase Standard Mail revenue by $447 million, or 2.7%, in 2011 compared to 2010, on a volume increase of 2,116 million pieces, or 2.6%. Standard Mail letter volume increased 2,285 million pieces, or 4.7%, while revenue increased $503 million, or 5.5%, in 2011 compared to 2010. The volume for Standard Mail flats fell 3.8%, or 266 million pieces, while revenue dropped $88 million, or 3.4%, in 2011. Standard Mail volume was negatively impacted in 2011 as advertisers continued to become more selective in the targeting of their mailings.

Prices of all services in the Standard Mail category are capped at the rate of inflation because they are classified, by law, as Market-Dominant.

SHIPPING AND PACKAGES

Shipping and Packages revenue continue to show strong year over year growth. Responding to the opportunity created by the growth in packages shipped for purchases made online, we have been able to capture much of the newly created volume and increase market share. Ground shipping services have proven to be very popular in e-commerce fulfillment, as companies push to keep their costs low. Revenue from First-Class Packages grew 18.7% in 2012, compared to 2011. Parcel Return and Parcel Select Services revenue increased by 27.2%, compared to 2011, as we continue to capitalize on the competitive advantage we have in providing the "last mile" service.

Key strategies driving growth in 2012 included more competitive and aggressive pricing, introduction of new services, and additional product features. In 2012, we increased our use of negotiated service agreements and were able to capture a greater number of large customers by offering competitively-priced contracts. We also took advantage of the pricing flexibility created by reclassifying certain package services from Market-Dominant to Competitive. New product introductions included the addition of a new Priority Mail Flat Rate box, new Flat Rate Express Boxes, and the new Flat Rate Padded envelope. In 2012, we introduced additional payment methods with the customers' ease of use in mind. Scan-Based Payment provides the option for customers to pay once mail is inducted into the mail stream. ePostage is a new convenient payment option that can be easily integrated into e-commerce shipping platforms. In addition, new product features such as "Package Intercept" and "Date Certain Delivery" were introduced. Package Intercept allows customers to stop and divert packages while "Date Certain Delivery" allows customers to have their packages delivered on a specific day.

The following two tables present detail revenues and volumes for Shipping and Packages for the years ended 2012, 2011, and 2010, by each service line.

Shipping & Packages Revenue *			
(Dollars in millions)	2012	2011	2010
Priority Mail	$ 5,940	$ 5,636	$ 5,455
Parcel Select, Parcel Return & Standard Parcels	1,741	1,369	1,171
Package Services	1,589	1,581	1,531
First-Class Packages [1]	1,524	1,284	1,170
Express Mail	802	800	829
Total Shipping & Packages Revenue	**$ 11,596**	**$ 10,670**	**$ 10,156**

*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 Shipping and Packages revenue for the prior year.

[1] Includes First-Class Mail Parcels and First-Class Package Services.

Shipping & Packages Volume *			
(Pieces in millions)	2012	2011	2010
Priority Mail	824	790	779
Parcel Select, Parcel Return & Standard Parcels	1,288	1,115	979
Package Services	645	675	657
First-Class Packages [1]	705	638	599
Express Mail	40	40	43
Total Shipping & Packages Volume	**3,502**	**3,258**	**3,057**

*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 Shipping & Packages volume for the prior year.

[1] Includes First-Class Mail Parcels and First-Class Package Services.

Shipping and Packages are predominantly competitive services which can be priced to reflect current market conditions although there are some Market-Dominant services subject to price caps such as First-Class Parcels and certain package services that are also included in this category. Price increases in January 2012, 2011, and 2010 positively impacted revenues. At the same time increased mailings of packages continued as consumers used the internet more often to purchase goods.

In 2012, Shipping and Packages, which includes premium services such as Priority Mail, Express Mail, and business-oriented services such as Parcel Select, and Parcel Return Services, represented less than 2.2% of volume but generated approximately 17.8% of revenue. Shipping and Packages revenue of $11,596 million increased $926 million, or 8.7%, in 2012 on a volume increase of 244 million pieces, or 7.5%.

In 2011, Shipping and Packages represented less than 2% of volume but generated approximately 16% of revenue. Shipping and Packages revenue increased by $514 million, or 5.1%, in 2011 to $10,670 million on a volume increase of 201 million pieces, or 6.6%.

Priority Mail

Priority Mail, which represented 51% of total Shipping and Packages Service revenue, increased $304 million, or 5.4%,for the year ended September 30, 2012, compared to last year. 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. In addition to offering "A Simpler Way to Ship", Priority Mail continues to offer a compelling value proposition, particularly for retail customers. E-commerce has grown at a higher rate than traditional retail sales, which has helped to boost Priority Mail revenues.

Priority Mail, which represented 53% of our total Shipping and Packages Service revenue, increased $181 million, or 3.3%, for the year ended September 30, 2011, compared to 2010. The advertising campaign, which was initially launched in May 2009, helped boost these revenues in 2011.

Parcel Services

Parcel Services which included Parcel Select revenue of $1,341 million, Parcel Returns revenue of $115 million, and Market-Dominant Standard Mail Parcels revenue of $285 million, totaled $1,741 million for 2012. This was an increase of $372 million, or 27.2%, compared to the same period of the prior year. These services showed strong volume growth of 15.5%, in 2012, but they represent one of our lowest priced services. As a result, they provide a relatively lower level of profitability than many of our other services.

In 2011, Parcel Services, which included Parcel Select of $626 million, Parcel Returns of $92 million, plus the Market-Dominant Standard Mail Parcels of $651 million totaled $1,369 million, an increase of $198 million, or 16.9%, compared to 2010. In 2011, volume on these services grew by 136 million pieces or 13.9%.

Package Services

Package Services revenue of $1,589 million increased $8 million, or 0.5%, in 2012, compared to 2011. Volume decreased 30 million pieces, or 4.4%.

Package Services revenue of $1,581 million increased $50 million, or 3.3%, in 2011, as compared to 2010. Volume increased 18 million pieces, or 2.7%. The decrease is attributed to customers moving to similarly priced services with expedited shipping times such as Priority Mail.

Because all services in this category are classified as Market-Dominant, prices for these services are capped.

First-Class Package Services

First-Class Package Services, which include the competitively priced First-Class packages and the Market-Dominant First-Class Mail Parcels generated revenue of $1,524 million for 2012. This was an increase of $240 million, or 18.7%, from the prior year. Volume increased 67 million pieces, or 10.5%, in 2012 compared to 2011. The First-Class Package Services category was newly introduced in 2012, and offers commercial customers that deal primarily with lightweight fulfillment parcels, a competitively priced, reliable option. The First-Class Package Services category as a whole performed especially well as a result of management's continued emphasis on package service options. The strong growth in these services from the prior year reflects the consumer's response to a product that provides a high level of service at a reasonable price.

First-Class Package Services in 2011 and 2010 only included the Market-Dominant First-Class Mail Parcels since the newly created competitively priced First-Class packages were not introduced until 2012. First-Class Mail Parcels generated revenue of $1,284 million for 2011. This was an increase of $114 million or 9.7%, from the prior year. The volume increased 39 million pieces, or 6.5%, in 2011 compared to 2010. First-Class Mail Parcels performed well as the demand grew because of increased online shipping.

INTERNATIONAL MAIL

International Mail revenues were $2,816 million, or 4.3%, of total revenues for 2012. This is a $231 million, or 8.9%, increase over 2011. Our online technology helps generate revenue and volume growth by simplifying the complex international mailing process and requirements for our customers. Additionally, a newly designed price information tool for Express and Priority Mail International now gives customers on-the-spot price comparisons.

International Mail revenues were $2,585 million and $2,388 million for 2011, and 2010, respectively. This was an increase in 2011 of $197 million, or 8.3%, over 2010. In 2011, International Mail revenues were 3.9% of total revenues.

PERIODICALS

Periodicals revenue decreased $90 million, or 4.9%, from $1,821 million in 2011, to $1,731 million in 2012. Periodicals volume decreased 336 million pieces, or 4.7%, to 6,741 million pieces in 2012. Trends in hard-copy reading behavior and shifts of advertising away from print have been depressing this segment for years. Periodicals are not expected to rebound as e-readers and electronic content continue to grow in popularity with the public.

In 2011, Periodicals revenue of $1,821 million decreased $58 million, or 3.1%, from $1,879 million in 2010. Periodicals volume decreased 192 million pieces, or 2.6%, to 7,077 million pieces.

OTHER

Other revenue includes Market-Dominant and Competitive ancillary services such as Certified Mail, P.O. Box services, return receipts, delivery confirmation, and shipping services. In addition, other revenue generated from miscellaneous items such as the sales of money orders, passport services, and the gain from the sale of real estate are also included in this category.

OPERATING EXPENSES

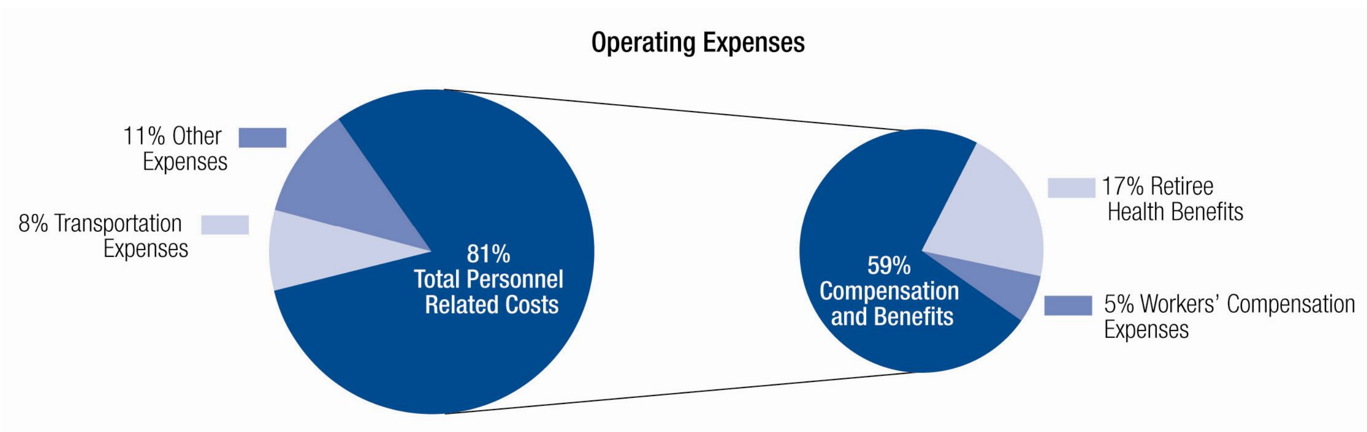
Due to the passage of P.L. 112-33 which changed the due date of the scheduled PSRHBF prefunding payment of $5.5 billion originally due by September 30, 2011 into 2012 plus the previously scheduled prefunding payment of $5.6 billion due by September 30, 2012, total operating expenses in 2012 increased by $10,330 million, or 14.6% to $80,964 million from $70,634 million in 2011. Due to the impact of this same law, total operating expenses in 2011 decreased by $4,792 million, or 6.4%, to $70,634 million compared to 2010 expenses of $75,426 million.

Operating Expenses (Dollars in millions)	2012	2011	2010
Compensation and Benefits	$ 47,689	$ 48,310	$ 48,909
Retiree Health Benefit Premiums	2,629	2,441	2,247
PSRHBF Prefunding	11,100	-	5,500
Workers' Compensation	3,729	3,672	3,566
Transportation	6,630	6,389	5,878
Other Expenses	9,187	9,822	9,326
Total Operating Expenses	$ 80,964	$ 70,634	$ 75,426

The table below illustrates the operating expenses from ongoing business activities when the impact of the required PSRHBF prefunding payments and expense related to the long-term portion of workers' compensation excluded, and reconciles this amount to our GAAP operating expenses. If excluded, operating expenses would have been $67,508 million, $68,252 million, and $67,505 million, for the years 2012, 2011, and 2010, respectively. This is a cumulative increase of less than 1% over two years in operating expenses under our control.

Operating Expense before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense (Dollars in millions)	2012	2011	2010
Operating Expenses	$ 80,964	$ 70,634	$ 75,426
Impact of:			
Expense Related to the Long-term Portion of Workers' Compensation	2,356	2,382	2,421
PSRHBF Expense	11,100	-	5,500
Operating Expense before Impact of Expense Related to the Long-term Portion of Workers' Compensation Expense and PSRHBF Expense	$ 67,508	$ 68,252	$ 67,505

Compensation and benefits expenses represented 59%, 68%, and 65%, of total operating expenses for 2012, 2011, and 2010, respectively. However, when total workers' compensation and retiree health benefits, including the legally mandated prefunding of the retiree health benefits, are added, total personnel cost increases to 81%, 77%, and 80%, of total operating expenses for 2012, 2011, and 2010, respectively.



Although many significant steps have been taken to decrease compensation and benefits costs in response to declining mail volume, these steps have generally been limited to efforts to reduce the number of employees and work hours. Many costs remain fixed and beyond the Postal Service's control. Contracts with postal unions are in effect for a fixed period of time, usually three to five years. They cannot be modified during the contract period except by mutual consent. The terms of the NRLCA contract were set by an independent arbitrator, and the contracts with the NPMHU and the NALC are currently being arbitrated. Retirement benefits are not determined by management, but rather by the federal government, and health insurance premiums, also managed by the federal government, continue to rise above the rate of inflation. In addition, the Postal Service's ability to adjust its workforce and network infrastructure is limited by contractual, statutory, regulatory and political obstacles.

COMPENSATION AND BENEFITS

Compensation and benefits expenses consist of compensation in the form of salaries and wages, future retirement benefits earned in current periods, health benefits, plus miscellaneous other expenses incurred on behalf of current employees. Over the past three years, compensation and benefits expenses have accounted for an average of 64% of total operating expenses.

The following table provides details of compensation and benefits for current employees over the past three years.

Compensation and Benefits Expenses (Dollars in millions)	2012	2011	2010
Compensation	$ 36,279	$ 36,821	$ 37,545
Retirement	5,854	5,879	5,809
Health Benefits	5,187	5,222	5,141
Other	369	388	414
Total Compensation and Benefits Expenses	$ 47,689	$ 48,310	$ 48,909

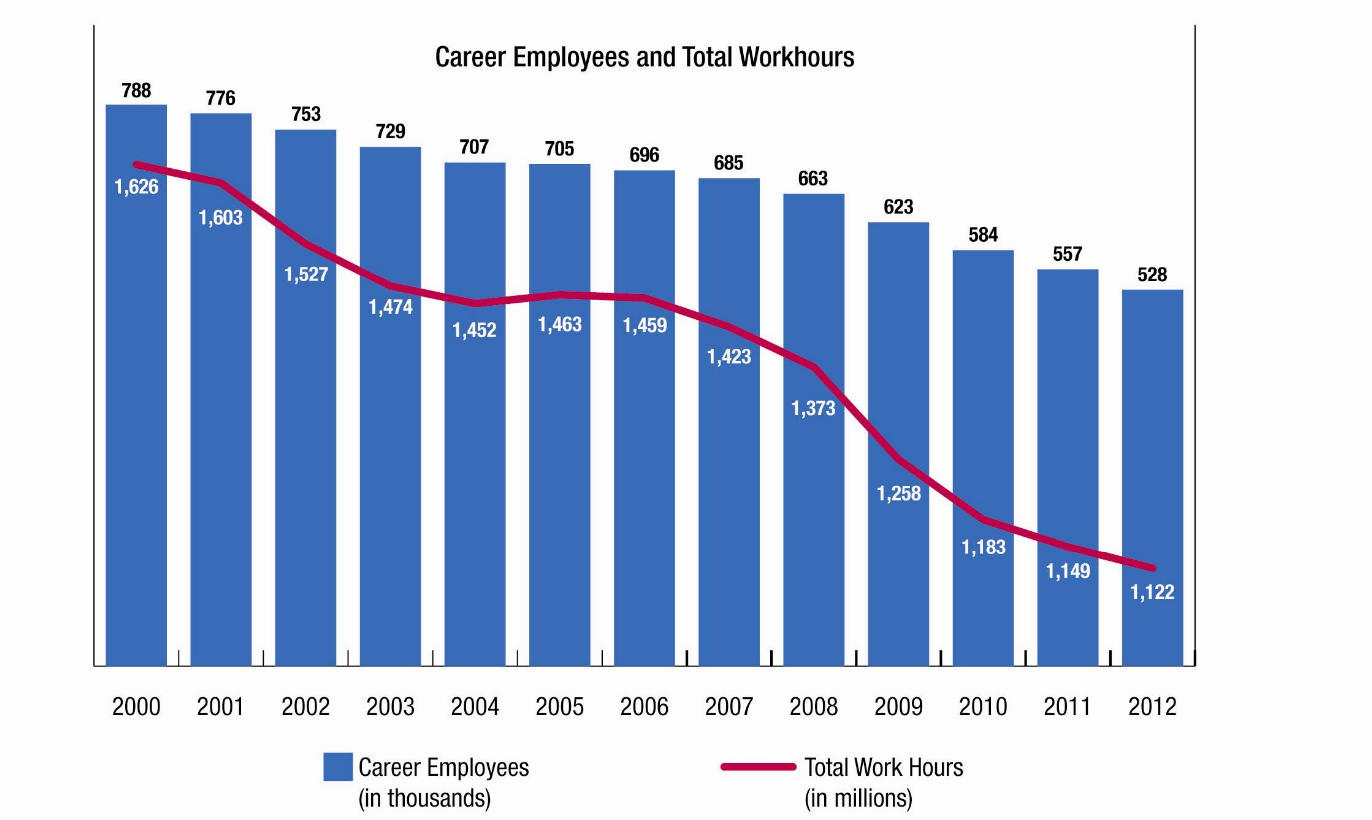
In 2012, total compensation and benefits expenses of $47,689 million declined $621 million, or 1.3%, compared to 2011, while in 2011 total compensation and benefits expenses of $48,310 million declined $599 million, or 1.2% compared to 2010. These decreases were driven by continued and consistent efforts to efficiently manage work hours, the reduction in employees and decreasing mail volume. However, as discussed in further detail in the sections below, despite year-over-year success in reducing work hours, our cost base, and most significantly, compensation expense, remains in excess of the amounts that can be supported by current and future mail volumes and related revenues. In addition, we still face the continued upward pressure from rising health care premiums, as well as compensation rates which continue to increase, albeit at a decreasing rate.

Compensation Expense

Compensation expenses in 2012 decreased by $542 million, or 1.5%, from $36,821 million in 2011 to $36,279 million. In 2011, compensation expenses decreased by $724 million, or 1.9%, from $37,545 million in 2010 to $36,821 million. These decreases were driven primarily by reductions in the number of employees, reductions in work hours, and the impact of recent changes in our labor agreements which provide more flexibility to manage our workforce, including increased utilization of non-career employees. However, partially offsetting the savings generated by the decrease in work hours in 2012 was a 0.9% increase in the average hourly pay rate. In addition, the number of overtime hours worked by employees also increased by 3.4% and 8.4% in 2012, and 2011, respectively.

The largest driver of compensation expense is the employee headcount, as it directly impacts work hours paid. The total number of employees at September 30, 2012, was approximately 629,000, of which approximately 528,000 were career employees. There has been a reduction in the total number of career employees by approximately 29,000, or 5.2%, since September 30, 2011, when the number of total career employees was approximately 557,000. In 2011, the total number of career employees decreased by 27,000 or 4.6% from 2010 when total career employees numbered 584,000. Since the end of 2008, the number of career employees has been reduced by approximately 135,000 or over 20%. These reductions have been accomplished primarily through attrition and incentives to retire or resign. The number of non-career employees increased by approximately 12,000 in 2012 as a result of the increased workforce flexibility available under the new APWU agreement.

The following graph details the decline in numbers of our career employee workforce and the decline in total work hours since 2000.



In order to encourage attrition, we have periodically offered targeted separation incentives over the past three years. Two separation incentives were offered in Quarter III, 2012: one to postmasters, with an incentive of $20,000; and one to mail handlers with an incentive of $15,000. The incentive for both programs will be payable in two installments on December 21, 2012, and on December 20, 2013. Approximately 4,275 eligible postmasters accepted the offer, with the majority leaving the Postal Service by July 31, 2012. Approximately 2,925 mail handlers accepted the incentive and left the Postal Service by August 31, 2012. In compliance with GAAP, the full estimated amount of these payments of approximately $135 million was recorded as an expense in Quarter IV, 2012, although the cash payments will be paid in future periods.

In 2011, a similar incentive of $20,000 was paid to approximately 2,000 administrative employees who elected to retire in Quarter III, 2011, totaling $40 million. In 2010, a $112 million incentive expense was incurred for approximately 7,400 APWU and NPMHU employees who elected to retire or resign from the Postal Service in Quarter I, 2010.

On October 1, 2012, the Postal Service announced a Special Incentive Offer to employees represented by the APWU. Eligible APWU employees, who want to leave under the incentive of Voluntary Early Retirement (VER), as well as those who are already retirement eligible or wish to voluntarily resign, must notify USPS on or before December 3, 2012 of their intent to participate. Most separations will be effective January 31, 2013. Incentive payments of $10,000 will be made on May 24, 2013, and $5,000 on May 23, 2014. No amounts for this incentive have been reflected in our 2012 financial statements since they occurred subsequent to September 30, 2012.

A second important and much related driver of compensation expenses are work hours. As illustrated in the chart above, work hours have been reduced in ten of the last eleven years, with only 2005 showing a slight increase. Since 2002, work hour reductions have been the single biggest contributor to the ongoing achievement of savings targets.

In 2012, total work hours of 1,122 million hours decreased by 27 million, or 2.3%, from 1,149 million work hours in 2011. Work hours in 2011 decreased by 34 million from the 2010 total. Total work hours continue to decrease despite increases in the number of delivery points, which rose by approximately 654,500 in 2012 and approximately 636,500 in 2011. The growth rate of new delivery points has slowed in recent years, compared to pre-recession levels, due to the weak economy, with lower housing starts.

Work Hours by Function (Work Hours in thousands)	2012	2011	2010
City Delivery	**389,219**	**399,010**	**408,488**
Mail Processing	**210,170**	**215,221**	**224,645**
Rural Delivery	**177,715**	**177,384**	**177,152**
Customer Service Operations	**144,309**	**150,203**	**160,621**
Postmasters	**58,429**	**59,484**	**59,609**
Other, including Vehicle Services, Plant Maintenance, Operational Support, and Administration	**142,309**	**147,535**	**152,432**
Total Work Hours	**1,122,151**	**1,148,837**	**1,182,947**

These work hour reductions were driven by continued efforts to improve efficiency and to respond to the decline in mail volume. Significant work hour reduction initiatives include network consolidation, streamlining of area and district offices, offering the previously mentioned incentives for employees to retire or resign, and adjusting delivery routes. Since 2000, we have reduced total work hours by a cumulative total of 504 million work hours, equivalent to a reduction in annual expense of $21.4 billion.

Most of the delivery point growth has been experienced by the rural delivery carriers. The decrease in Postmasters in 2012 reflects the impact of the previously discussed incentive. We continually strive to optimize the use of personnel and minimize variable costs. The challenge that remains is to reduce the fixed labor costs. This will require structural changes, many of which need legislative or regulatory approval.

We are beginning to reach the limits of the reductions that can be accomplished within the existing network structure and service standards. In an effort to aggressively address those areas over which we have the most control, as announced in September 2011, we are implementing a strategy to increase the efficiency of our mail processing network. This requires a reduction in the number of mail processing and distribution plants and the rescheduling of transportation routes. On May 17, 2012, we announced a modified, phased plan to continue the consolidation of our network of 461 mail processing locations. The first phase will result in up to 140 consolidations through 2013. There were 46 total network consolidations during 2012. Unless our circumstances change, a second phase of 89 additional consolidations is scheduled to begin in February 2014.

The Postal Service is also working to increase the efficiency and reduce the costs of its retail network, while continuing to provide a high level of service to all communities throughout America. On May 9, 2012, the Postal Service announced a strategy to preserve the Post Offices serving rural America while providing a framework to achieve significant cost savings. This strategy, called the POSt Plan, will allow Post Offices to remain operational with modified window hours and will also allow the affected towns to retain their ZIP Codes.

While the impact of network optimization and the POSt Plan on 2012 financial results is minimal, these initiatives will be major drivers of reduced work hours in future years.

Another major driver impacting compensation expense is our ability to control wage rates. Our hourly wage rate is increasing, albeit more slowly than in the past. The average hourly wage rate increases have been 0.9%, 1.0%, and 1.8% for 2012, 2011, and 2010, respectively.

More than 85% of career employees are covered by collective bargaining agreements. The contracts with the four labor unions representing the majority of our employees have traditionally included provisions granting Cost–of-Living Adjustments (COLA), which are linked to the Consumer Price Index–Urban Wage Earners and Clerical Workers (CPI-W). Under the current APWU and NRLCA contracts, employees represented by these unions, did not receive a COLA in 2010, or 2011, and 2012 COLAs were deferred until 2013 when these employees will receive both years' adjustments applied to the then current wages. Eligible employees covered by NPMHU and NALC collective bargaining agreements received an annual pay increase of approximately $980 for each employee in September 2011 with an overall annual financial impact of approximately $300 million in 2012. However, these two union contracts expired in November 2011. Future COLAs for employees represented by these unions are contingent upon the terms of future contracts currently under interest arbitration. There were no COLA increases for these employees in 2012.

Non-bargaining unit employee salary rates were frozen in 2011 and 2012. As a result, non-bargaining employees did not receive pay increases in 2012 and will not receive any increases in 2013. These employees do not receive automatic salary increases, nor do they receive COLAs or locality pay.

As a result of management's continued focus on increasing efficiency and decreasing work hours, compensation expense has dropped from $36,877 million in 2002, to $36,279 million in 2012, a decrease of $598 million, or approximately 2%. This decrease was achieved in spite of the 34% increase in the hourly compensation rate over this same period and the addition of over 12.5 million new delivery points.

RETIREMENT EXPENSE

Postal Service employees participate in one of three retirement programs of the U.S. Government, based on the starting date of employment with the federal government. These programs are the Civil Service Retirement System (CSRS), Dual CSRS/Social Security System (Dual CSRS), and the Federal Employees Retirement System (FERS). These programs are administered by the Office of Personnel Management (OPM). The funding requirements and timing of employer and employee contributions to the programs can be altered at any time with the enactment of a new law or regulation, or an amendment of existing law or regulation. See Note 8, *Retirement Benefit Plans*, in the Notes to the Financial Statements for additional information.

All expenses of the retirement programs, except for retiree health benefits, are included in compensation and benefits expense. Retirement expense for current employees consists of accrued employer contributions to FERS, the Thrift Savings Plan, and Social Security. 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. In 2017, OPM will determine whether additional funding is required for the benefit of postal CSRS retirees. As a result of P.L. 109-435, the Postal Service made no contributions to the CSRS and Dual CSRS in 2012, 2011, and 2010.

Retirement expense was 12.3%, 12.2%, and 11.9%, of total compensation and benefits expenses in 2012, 2011, and 2010, respectively. Reflecting the lower number of employees, retirement expense of $5,854 million for current employees in 2012 was $25 million, or 0.4%, less than the 2011 expense of $5,879 million. The decrease was partially offset by the increase in the required agency contribution to the FERS retirement plan, which grew to 11.9% of each employee's basic pay in 2012, from 11.7% in 2011. The 0.2% increase in the FERS contribution rate, which was mandated by OPM based on federal government-wide actuarial calculations, resulted in an additional $51 million of retirement expense in 2012 over 2011. This 0.2% increase in 2012 is in addition to the 0.5% increase we experienced in 2011. Retirement expense for current employees increased in 2011 by $70 million or 1.2% more than the 2010 expense of $5,809 million, due to the increase in the OPM-mandated agency contribution rate to the FERS retirement plan. As the number of FERS employees increase, so does our retirement expense. The percentage of employees participating in the FERS plan was 87% in 2012 compared to 85% in 2011.

OPM has not announced any changes to the 11.9% contribution rate for 2013.

P.L. 109-435 REQUIRED REPORTING

As described in Note 3, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements, we account for participation in the retirement programs of the U.S. Government under multiemployer plan accounting rules. Although the Civil Service Retirement and Disability Fund (CSRDF) is a single fund and does not maintain separate accounts for individual agencies, P.L. 109-435 requires certain disclosures regarding obligations and changes in net assets as if the funds were separate. The following information is provided by OPM and represents the most recent actual data available, which is as of September 30, 2011, with projections to September 30, 2012.

FUNDING STATUS

As required by P.L. 109-435, the Postal Service discloses OPM provided information regarding the costs and changes in obligations related to the FERS and CSRS retirement programs. We have reported this information based on OPM-provided actuarial valuations, the same valuations that are used by the Civil Service Retirement System Board of Actuaries to establish the normal cost and funding requirements for these retirement programs. The OPM actuarial valuations utilize the long-term economic assumptions established by the Civil Service Retirement System Board of Actuaries. These assumptions are not specific to the Postal Service; rather they are prepared for the Federal Government as a whole.

The Postal Service's portion of the FERS liability has been overfunded since 1992 and we have, at various times, sought either a reduction in our required payroll contributions or a refund of the overfunded balance. In June 2011, to conserve cash and avoid an interruption of mail service, we sought to apply overfunded balances to amounts currently due for employer contributions and ceased making employer contributions through November 2011. We resumed the regular biweekly FERS employer's contributions and remitted all previously withheld payments in December 2011, including $911 million accrued at September 30, 2011. We continue to seek a refund of the overfunded FERS balance.

On October 16, 2012, the OIG published its report, *Causes of the Postal Service FERS Surplus*. Based on information provided by the HayGroup, an independent actuarial firm with Postal Service expertise, the OIG found that if Postal Service-specific experience and demographic characteristics are used to estimate the liability, the OPM-estimated projected surplus of $11.4 billion as of September 30, 2011 would increase to $24.0 billion.

The OIG report explains that the Postal Service is paying more than its fair share into the Federal Employees Retirement System mainly because OPM utilizes government-wide salary increase assumptions to estimate the Postal Service's obligation. Like other agencies, the Postal Service and its employees currently contribute a total of 12.7% of payroll into FERS. But from 2001 through 2010, OPM assumed average government-wide salary growth of 4.11% per year, yet the actual increases received by the Postal Service's unionized workforce was considerably lower, ranging from 2.77 percent to 3.41% annually. In addition, more than 70% of those employees had already reached the top of their pay scales, increasing the likelihood that current assumptions "overstate future salary growth" according to the OIG.

OPM's most recent calculation estimates the FERS surplus at $2.6 billion at September 30, 2011, the latest actual data available. OPM had previously estimated that we had overfunded our FERS obligations by approximately $11.4 billion at September 30, 2011. This reduction in the estimated surplus resulted primarily from changes to economic and demographic assumptions made by OPM, as well as actual 2011 experience. OPM currently estimates the FERS surplus will grow to approximately $3.0 billion by September 30, 2012.

The Postal Service believes that, as a matter of equity, its FERS obligation should be estimated using the best available data that most accurately reflects Postal Service-specific demographics and expected pay increases. This means that, instead of using government-wide salary and demographic data to calculate the FERS surplus, which unfairly increases our present and future costs, actual Postal Service salary and demographic data should be used. The Postal Service's FERS surplus would be substantially larger if OPM calculated the liability using available postal data, as experience over the last decade clearly demonstrates that average Postal Service salary increases are significantly lower than the remainder of the federal government. The Postal Service has reduced its workforce and is exercising relentless efficiency and cost reduction programs, yet the OPM calculation inappropriately fails to credit the Postal Service for these initiatives. Instead, government-wide factors are used when the Postal Service cannot manage these costs and workforce trends, and accordingly, we will request OPM to reconsider its use of such factors.

OIG further notes that use of Postal Service-specific assumptions would likely produce a more representative and stable estimate of the FERS surplus.

Under current law, there is no mechanism for addressing a FERS surplus once it has occurred, nor is there a mechanism for appealing OPM's valuation of our FERS liability, or the normal cost percentage used to determine required contributions. However, in the event that OPM publishes new government-wide contribution percentages, then an agency may appeal to OPM to use agency-specific data, if the agency estimates that its normal cost percentage is at least 10% lower than the OPM calculation. Although legislation returning the OPM-estimated surplus, plus any future overfunding, passed the Senate it has stalled in the House. Until such a law is passed, however, the OIG report recommends that to prevent excessive surpluses from accumulating, Postal Service contribution rates be adjusted to reflect the Postal Service assumptions. Accordingly, we intend to request that OPM utilize Postal Service-specific salary and demographic assumptions in its calculations of our FERS liability and normal cost contribution percentage.

The following table provides OPM's estimation of the funded status of the CSRS and FERS programs for Postal Service participants as of September 30, 2011, and 2010, and the projected Postal Service status as of September 30, 2012.

Present Value Analysis of Retirement Programs as calculated by OPM (9/30/11 latest actual data available)
(Dollars in billions)

	Projected 2012	Actual 2011	Actual 2010
CSRS			
Actuarial Liability 9/30	$ 209.9	$ 210.8	$ 193.0
Current Fund Balance	191.2	193.0	194.6
(Unfunded) / Surplus	$ (18.7)	$ (17.8)	$ 1.6
FERS			
Actuarial Liability 9/30	$ 90.5	$ 84.0	$ 69.9
Current Fund Balance	93.5	86.6	80.8
Surplus	$ 3.0	$ 2.6	$ 10.9
	Projected 2012	**Actual 2011**	**Actual 2010**
TOTAL CSRS and FERS			
Actuarial Liability 9/30	$ 300.4	$ 294.8	$ 262.9
Current Fund Balance	284.7	279.6	275.4
(Unfunded) / Surplus	$ (15.7)	$ (15.2)	$ 12.5

NET PERIODIC COSTS

Information about the net periodic costs for the CSRS and FERS pension plans, which is prepared by OPM, is as follows:

Components of Net Periodic Costs as calculated by OPM (9/30/11 latest actual data available)
(Dollars in billions)

	Projected 2012	Actual 2011
CSRS		
Actuarial Liability as of October 1	$ 210.8	$ 193.0
+ Expected Contributions*	0.3	0.3
- Expected Benefit Disbursements	(11.9)	(10.9)
+ Interest Expense	10.7	10.8
+ Total Actuarial Loss	-	17.6
Actuarial Liability as of September 30	$ 209.9	$ 210.8
	Projected 2012	**Actual 2011**
FERS		
Actuarial Liability as of October 1	$ 84.0	$ 69.9
+ Normal Cost	3.5	3.2
- Expected Benefit Disbursements	(1.5)	(1.3)
+ Interest Expense	4.5	4.1
+ Total Actuarial Loss	-	8.1
Actuarial Liability as of September 30	$ 90.5	$ 84.0
Total Actuarial Liability as of September 30	$ 300.4	$ 294.8

* Expected contributions for CSRS consists of employee contributions only.

COST METHODS AND ASSUMPTIONS

- The actuarial cost method used to estimate the liability is Aggregate Entry Age Normal.
- Long-term economic assumptions are as follows:
  - o Rate of inflation — 3.0%.
  - o COLA —
    -Long-Term COLA —3.0% for CSRS in 2012 and 2011 and 2.4% for FERS in 2012 and 2011.
    -Actual COLA applied in 2012 — 3.6% for CSRS and 2.6% for FERS.
  - o Annual general salary increases —
    Long-Term - 3.25% in 2012 and 3.75% in 2011.
    2011 and 2012 salary increases - 0.0%.
  - o Interest rate — the long term interest rate assumptions for CSRS and FERS was 5.25% in 2012 and 5.75% in 2011.

- On June 24, 2011, USPS suspended employer's FERS contributions through November 2011. However, in Quarter I, 2012, the Postal Service resumed the regular biweekly payments for its FERS employer's contributions as well as remitted all previously withheld payments, including the $911 million which was accrued at September 30, 2011.

COMPONENTS OF NET CHANGE IN PLAN ASSETS

The following table prepared by OPM shows the components of the net change in plan assets for the CSRS and FERS programs.

Analysis of Change in Pension Net Assets as calculated by OPM (9/30/11 latest actual data available)
(Dollars in billions)

CSRS		Actual 2011		Actual 2010
Net Assets as of October 1	$	194.6	$	195.3
+ Contributions		0.4		0.4
- Benefit Disbursements		(10.9)		(10.7)
+ Investment Income		8.9		9.6
Net Assets as of September 30	$	193.0	$	194.6

Analysis of Change in Pension Net Assets as calculated by OPM (9/30/11 latest actual data available)
(Dollars in billions)

FERS		Actual 2011		Actual 2010
Net Assets as of October 1	$	80.8	$	75.2
+ Contributions		3.4		3.1
- Benefit Disbursements		(1.3)		(1.1)
+ Investment Income		3.7		3.6
Net Assets as of September 30	$	86.6	$	80.8

As noted previously, CSRDF is a single fund and does not maintain separate accounts for individual employer agencies. The actual securities of the CSRDF are not allocated separately to CSRS or FERS, or to postal and non-postal beneficiaries. The assets of the CSRDF are composed entirely of special-issue U.S. Treasury securities with maturities of up to 15 years. The long-term securities bear interest rates ranging from 1.375% to 6.5%, while the short-term securities bear interest rates of 1.250%.

The assumed rates of return on the CSRS fund balance for 2011 and 2010 were 5.75%, and the actual rates of return were 4.71% and 5.10%, respectively. For the FERS fund, the assumed rates of return for 2011 and 2010 were 5.75%, while the actual rates of return were 4.56% for 2011 and 4.77% for 2010. The projected rate of return on the CSRS and FERS fund balance for 2012 is 5.25%.

OPM estimates the contributions and benefit payments for the next five years as follows:

Projection of CSRS and FERS Contributions and Benefit Payments as calculated by OPM

(Dollars in billions)

	CSRS		FERS	
	Contributions	Total Benefit Payments	Contributions	Total Benefit Payments
2012	**$ 0.3**	**$ 11.9**	**$ 3.7**	**$ 1.4**
2013	**0.2**	**12.3**	**3.7**	**1.6**
2014	**0.2**	**12.8**	**3.7**	**1.9**
2015	**0.2**	**13.1**	**3.7**	**2.1**
2016	**0.1**	**13.5**	**3.7**	**2.4**

HEALTH BENEFITS

Postal employees and retirees may participate in the Federal Employees' Health Benefit Program (FEHBP), which is administered by OPM. The Postal Service accounts for current employee and retiree health benefit costs as an expense in the period the contribution is due. For retiree health benefits, multiemployer plan accounting rules are used.

The drivers of active employee healthcare expense are the number of employees electing coverage and the premium costs of the selected plans. On average, the Postal Service paid 78% of the premium cost in 2012 and employees paid the remainder. The average employer contribution was 79% in 2011, and 80% in 2010. We expect the Postal Service contribution to health benefit premiums to continue to decrease in the future, until they reach the average for the remainder of the federal government which is currently 72%. The total premium cost for each plan is negotiated annually by OPM with each insurance carrier. In September 2012, OPM announced average premium increases of 3.4% for calendar year 2013. Previous increases were 3.8% in 2012, 7.2% in 2011, and 8.8% in 2010.

Total employee health benefit expenses were $5,187 million in 2012, a decrease of $35 million, or 0.7%, compared to $5,222 million in 2011. The decrease in 2012 expense was driven by the reduction in the number of employees. The 2011 expense of $5,222 million was an increase of $81 million, or 1.6%, from the 2010 health benefits expense of $5,141 million due to the increase in average health premiums of 7.2% which was partially offset by the decrease in employees. Employee health benefits expense was 10.9%, 10.8%, and 10.5% of total compensation and benefits expenses in 2012, 2011, and 2010, respectively.

RETIREE HEALTH BENEFITS

Eligible employees, those with at least five consecutive years of participation in the FEHBP immediately preceding retirement, are entitled to continue to participate in FEHBP after retirement. The amount due the PSRHBF for prefunding in any given year is set by law. That amount, plus our portion of the current premium expense for retirees, is recognized as an expense when due.

P.L. 109-435 made several changes to the way we fund and report the obligation for post-retirement health benefits. The law established the PSRHBF, and initially directed that we make annual prefunding payments of between $5.4 billion to $5.8 billion per year through 2016 into this fund. Although P.L. 109-435 specifies the funding requirements through 2016, the amounts to be funded and the timing of the funding can be changed at any time with enactment of a new law or upon amendment of an existing law. No other agency that participates in FEHBP prefunds retiree health benefits for their employees.

The prefunding amount has been amended several times. On October 1, 2009, P.L. 111-68 became law and decreased the scheduled 2009 payment by $4.0 billion, from $5.4 billion to $1.4 billion. This law affected only the 2009 payment and did not change any future payment requirements. On September 30, 2011, P.L. 112-33, *Continuing Appropriations Act, 2012,* rescheduled the 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 rescheduled by a number of laws subsequently passed. The most recent law affecting the PSRHBF payment, P.L. 112-74, *Consolidated Appropriations Act, 2012*, rescheduled the due date to August 1, 2012. As a result, the total required PSRHBF payments in 2012 were $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 2013 to 2016 scheduled payments.

Because we had insufficient funds to make the payments, we were forced to default on the required $5.5 billion prefunding payment for retiree health benefits which was due by August 1, 2012, and the $5.6 billion payment which was due by September 30, 2012. Prior to the defaults, we notified key stakeholders, including the Administration and the Congress, of the imminent default. We have further advised these same stakeholders that we do not see any means by which to satisfy the future payment of $5.6 billion due by September 30, 2013. Although we defaulted on both payments in 2012, the full $11.1 billion that was due by August 1, 2012, and September 30, 2012, is recorded as an expense under “Retiree health benefits” in the Statement of Operations and as a current liability in “Retiree health benefits” on the September 30, 2012 Balance Sheet.

Current law obligates us to make additional payments of $5.6 billion in 2013, $5.7 billion in 2014 and 2015, and $5.8 billion in 2016, each due by September 30 of each respective year. To date, no law changes have addressed the original prefunding requirements for 2013 to 2016. However, given the low levels of our cash resources, we may be forced to prioritize payments to our employees and our suppliers to ensure that we continue to be able to fulfill our other statutory obligations, including our obligation to provide universal mail service to the nation (as discussed in Note 2*, Liquidity Matters* in the Notes to the Financial Statements*).* The statutory requirement establishing the payment schedule (P.L. 109-435) contains no provisions addressing a payment default. As of November 15, 2012, no penalties or adverse consequences have resulted.

Under current law, not later than 2017, OPM will conduct an actuarial valuation and determine whether any further payments into the fund are required. If additional payments are required, OPM will design an amortization schedule to fully amortize the remaining liability, if any, by 2056. Beginning in 2017, the PSRHBF will begin to pay the Postal Service’s portion of the retiree health premiums. Also beginning in 2017, we will fund the actuarially determined normal cost, plus any required amortization of the unfunded liability.

Under P.L. 109-435, OPM continues to charge us for the premiums for postal retirees participating in FEHBP, and we continue to expense these payments as they become due. This will occur until 2017. The major drivers of retiree health benefits premium costs are the number of retirees and survivors on the rolls, the mix of plans selected by retirees, the premium costs of those plans, and the apportionment of premium costs to the federal government for retiree service prior to 1971.

Retiree health benefit premium expense, which is exclusive of the expense for prefunding the PSRHBF, has increased every year. Retiree health benefits premium expense increased 7.7% in 2012, 8.6% in 2011, and 12.9% in 2010. The number of Postal Service annuitants and survivors participating in FEHBP was approximately 471,000 in 2012, compared to 469,000 in 2011, and 473,000 in 2010.

The following table shows the components of retiree health benefits expense for 2012, 2011, and 2010.

Retiree Health Benefits (Dollars in millions)	**2012**	**2011**	**2010**
Retiree Health Benefits Premiums	**$ 2,629**	**$ 2,441**	**$ 2,247**
P.L. 109-435 Payment to PSRHBF	**11,100**	**-**	**5,500**
Total Retiree Health Benefits	**$ 13,729**	**$ 2,441**	**$ 7,747**

P.L. 109-435 REQUIRED REPORTING - PSRHBF

P.L. 109-435 requires that OPM provide, and that we report, certain information concerning the obligations, costs, and funded status of the PSRHBF. The following table is based upon information provided by OPM and shows the funded status and components of net periodic costs.

Postal Service Retiree Health Benefit Fund Funded Status and Components of Net Periodic Costs as calculated by OPM *

(Dollars in millions)	2012	2011
Beginning Actuarial Liability at October 1	**$ 90,337**	**$ 91,059**
- Actuarial Gain	**(1,148)**	**(5,360)**
+ Normal Costs	**2,725**	**2,879**
+ Interest @ 4.7% and 4.9%, respectively	**4,192**	**4,200**
Subtotal Net Periodic Costs	**5,769**	**1,719**
- Premium Payments	**(2,531)**	**(2,441)**
Actuarial Liability at September 30	**93,575**	**90,337**
- Fund Balance at September 30	**(45,744)**	**(44,118)**
Unfunded Obligations at September 30	**$ 47,831**	**$ 46,219**

* The 2012 medical inflation assumption was 3.7% as of the valuation date and increases to 6.2% in 2026 before it grades down to an ultimate value of 4.4%. The 2011 medical inflation assumption was 5.5% as of the valuation date, rising to 6.4% in 2015 and grades down to an ultimate value of 4.4%.

The OPM valuation of post-retirement health liabilities and normal costs was prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 5 and SFFAS No. 33, which require the use of the aggregate entry age normal actuarial cost method.

Demographic assumptions and an interest rate assumption of 4.7% are consistent with the pension valuation assumptions, and decrements are based upon counts or numbers rather than dollars.

The normal cost, which is on a per-participant basis, is computed to increase annually by a variable medical inflation rate which is assumed to be 3.7% per annum as of the valuation date increasing to 6.2% in 2026 and then trending down to an ultimate value of 4.4%. Past-year medical inflation was assumed to be 5.7% grading down to an ultimate value of 4.4%. Normal costs are derived from the current FEHBP on-roll population with an accrual period from entry into FEHBP to assumed retirement. Entry into the FEHBP is generally later than entry into the retirement systems.

The accrued liability is equal to the total liability less future normal cost payments. The amounts used in these valuations use the same methodology and assumptions as for OPM's financial statements except that the average government share of premium payments for annuitants is substituted for annuitant medical costs less annuitant premium payments. This amount is assumed to increase at 3.7% per annum as of the valuation date rising to 6.2% in 2026 before trending down to an ultimate value of 4.4%. For current postal annuitants, the government share of premium payments is adjusted to reflect the pro-rata share of civilian service to total service for which the Postal Service is responsible. The pro-rata adjustment is made by applying calculated factors based upon actual payments that vary by the age and Medicare status of the enrollments. For active postal employees, the pro-rata share in retirement is assumed to be 93% of the total.

The following table shows the net assets of the PSRHBF:

Net Assets of Postal Service Retiree Health Benefit Fund as calculated by OPM				
(Dollars in millions)		2012		2011
Beginning Balance at October 1	$	44,118	$	42,492
Contributions and Transfers		-		-
Earnings at 3.7% and 3.8%, respectively		1,626		1,626
Net Increase		1,626		1,626
Fund Balance at September 30	$	45,744	$	44,118

The assets of the PSRHBF are comprised entirely of long-term, special-issue U.S. Treasury securities with maturities of up to 15 years. The long-term securities bear interest rates ranging from 1.375% to 5.00%. The expected rate of return was 4.7% for 2012, and 4.9% for 2011, and the actual rates of return were 3.7% for 2012, and 3.8% for 2011.

Because calculation of this liability involves several areas of judgment, estimates of the liability could vary significantly depending on the assumptions used. Utilizing the same underlying data that was used in preparing the estimate in the table above, the September 30, 2012, unfunded obligation could range from $35 billion to $63 billion, solely by varying the inflation rate by plus or minus 1%, and the 2011 unfunded obligation would range from $34 billion to $60 billion.

5-Year Projection of PSRHBF Contributions and Benefit Payments (Dollars in millions)		Contributions		Payments
2013	$	16,700	$	-
2014		5,700		-
2015		5,700		-
2016		5,800		-
2017*		N/A		N/A

* Under current law, payments from PSRHBF will not begin until the year 2017. This information is currently not available because OPM is not required to compute this information until June 30, 2017.

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 postal 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 current 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 ten years ago is determined by an independent actuary. The existing FECA benefit structure is often superior to benefits available under normal federal retirement, and these more lucrative payments will, in some cases, be for the rest of the lives of the claimants.

The liability for estimated future workers' compensation payments is recorded at its present value. 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 the balance sheet date 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 discount rates. An increase of 1% in the discount rate would decrease the September 30, 2012, liability and 2012 expense by approximately $1.8 billion. A decrease of 1% in the discount rate would increase the September 30, 2012, liability and 2012 expense by approximately $2.3 billion.

At September 30, 2012, the present value of the liability for future workers' compensation payments was $17,567 million, compared to $15,142 million at September 30, 2011, an increase of $2,425 million, or 16%. The current portion of the liability was $1,337 million at September 30, 2012. At September 30, 2011, the current portion of the liability was $1,255 million. At September 30, 2011, our liability increased $2,553 million, or 20.3%, from September 30, 2010.

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. The impact of changes in discount rates accounted for $346 million, $978 million, and $2,017 million of the 2012, 2011, and 2010 expense, respectively.

Beginning in Quarter III, 2009, we experienced a significant change in the discount rates used to estimate the workers' compensation liability. The economic recession that began in December 2007 and corresponding response by the Federal Reserve resulted in interest rates declining significantly. GAAP requires us to use discount rates based on the best available information at the measurement date. The discount rates used in estimating the present value of the workers' compensation liability have decreased every year since 2008. Since 2008, over $4 billion of the growth in the workers' compensation liability is attributable solely to the impact of discount rate changes.

The inflation and discount rates used to estimate our liability at September 30, 2012, 2011, and 2010, are shown in the following table.

Workers' Compensation Liability Inflation and Discount Rates	September 30, 2012	2011	2010
Compensation Claims Liability			
Discount Rate	2.1%	2.3%	2.9%
Wage Inflation	2.9%	2.9%	2.9%
Medical Claims Liability			
Discount Rate	2.2%	2.4%	3.0%
Medical Inflation	8.9%	8.6%	7.4%

In Quarter IV, 2012, the Postal Service enhanced the estimation process by refining the variables employed to estimate its workers' compensation liability. As a result of this enhancement, the liability for workers' compensation was increased by $361 million. This change was considered a change in accounting estimate under GAAP and, accordingly, the impact of the change was reflected in Quarter IV, 2012.

The components of workers' compensation expense are as follows:

Workers' Compensation Expense (Dollars in millions)	Years Ended September 30, 2012	2011	2010
Impact of Discount Rate Changes	$ 346	$ 978	$ 2,017
Actuarial Revaluation of Existing Cases	1,602	1,264	483
Subtotal	1,948	2,242	2,500
Costs of New Cases	1,714	1,367	1,009
Administrative Fee	67	63	57
Total Workers' Compensation Expense	$ 3,729	$ 3,672	$ 3,566

In 2012, workers' compensation expense was $3,729 million, an increase of $57 million, or 1.6%, compared to 2011. For the year ended September 30, 2012, the Postal Service experienced a $93 million, or 12.2%, increase in compensation claim payments and a $13 million, or 2.8%, decrease in medical claims payments compared to the year ended September 30, 2011.

In 2011, workers' compensation expense was $3,672 million, an increase of $106 million, or 3.0%, compared to 2010. For the year ended September 30, 2011, the Postal Service experienced a $118 million, or 18.4%, increase in compensation claim payments and a $21 million, or 4.7%, increase in medical claims payments compared to the year ended September 30, 2010. The increase in compensation payments for 2011 continued to be pronounced after a reassessment of employees on permanent rehabilitation or limited-duty status resulted in an increase in benefit payments to some beneficiaries.

As note above, we are legally-mandated to participate in the federal workers' compensation program that is managed by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) and governed by Federal Employees' Compensation Act (FECA). Under FECA, many types of workers' compensation claims cannot be settled through lump-sum payments, rather, compensation must be paid over many years. This, compounded by the cost of living adjustments (COLA) granted by Federal Law to those claims, results in substantially higher costs to the Postal Service than would likely be the case if claims management decisions were made by the Postal Service. In addition to the constraints imposed due to the legally-mandated FECA program, actuarial estimations and projected cash payments that will be paid well into the future also have substantial impact on our reported liability. Future cash payments must be converted to present-day dollars, or discounted, by applying the current rates at which the liability could theoretically be settled. Discount rates can fluctuate significantly from period to period with changes in the economic and interest rate environment. Even a very small change in discount rates can have a large impact, as a 1% decrease in rates at September 30, 2012 would have resulted in a $2.3 billion increase of the liability.

For the years shown, the table below highlights the large differences between actual claims paid on behalf of Postal Service workers' compensation obligations compared to the total recognized workers' compensation expense that includes fluctuations in discount rates, inflation rate increases, and amounts that may not be paid until well into the future.

Workers' Compensation Expense	Years Ended September 30,		
(Dollars in millions)	2012	2011	2010
Total Workers' Compensation Expense	$ 3,729	$ 3,672	$ 3,566
Claims Paid on Behalf of Postal Service's Workers' Compensation Obligations	1,373	1,290	1,145
Expense Related to the Long-Term Portion of Workers' Compensation	$ 2,356	$ 2,382	$ 2,421

TRANSPORTATION EXPENSES

Transportation expenses are primarily comprised of contracted highway, air, and international transportation costs. Transportation expenses in 2012 were $6,630 million, an increase of $241 million, or 3.8%, compared to 2011. Transportation expenses in 2011 were $6,389 million, an increase of $511 million, or 8.7%, compared to 2010.

Transportation Expenses (Dollars in millions)	2012	2011	2010
Highway	$ 3,378	$ 3,343	$ 3,205
Air	2,259	2,110	1,977
International	950	886	641
Other	43	50	55
Total Transportation Expenses	$ 6,630	$ 6,389	$ 5,878

Highway Transportation

Highway transportation expenses in 2012 were $3,378 million, an increase of $35 million, or 1.0%, from $3,343 million in 2011. Even though fuel costs are only a portion of total highway transportation expense, they are the primary driver behind the increase in 2012. Diesel fuel, which represents approximately 93% of all fuel purchased, cost an average of $3.93 per gallon during 2012, compared to $3.66 per gallon in 2011, an increase of 7.4%. Partially offsetting the increases in fuel costs in 2012 was a 3.8% decrease in highway miles driven compared to 2011, as a result of national and local surface transportation utilization improvement initiatives.

Highway transportation expenses in 2011 were $3,343 million, an increase of $138 million, or 4.3%, from 2010. Diesel fuel costs averaged $3.66 per gallon during 2011, compared to $2.89 per gallon in 2010, an increase of 26.6%. A 3.9% decrease in highway miles driven compared to 2010 helped temper the impact of the sharply higher fuel costs.

Air Transportation

Higher jet fuel costs resulted in an increase in domestic air transportation expenses of $149 million, or 7.1%, to $2,259 million in 2012 from $2,110 million in 2011. The volume of mail delivered by air grew slightly as increases in priority and package services were partially offset by decreases achieved by shifting other mail from air to ground transport.

Air transportation expenses of $2,110 million in 2011 increased $133 million, or 6.7%, compared to 2010 expenses of $1,977 million. This increase was primarily due to increased jet fuel costs in 2011.

International Transportation

Expenses that are required to transport international mail include both the physical transportation of the mail to the foreign destinations and fees payable to foreign postal administrations for the transportation of mail within their country. The largest component of international transportation expense, foreign postal transaction fees, represented 71%, 78%, and 66%, of the total international transportation expense in 2012, 2011, and 2010, respectively.

International transportation expense in 2012 totaled $950 million, a $64 million, or 7.2%, increase from $886 million in 2011. The primary driver of the increase in international expense in 2012 is attributable to payments made to civilian air carriers for rate and volume increases.

For 2011, international transportation expense of $886 million increased $245 million, or 38.2%, compared to 2010 as international foreign postal transaction rates increased, and as the ratio of packages to the less expensive First-Class Mail increased. Also in 2010, the Postal Service received a one-time benefit for the recapture of foreign postal payments required under Universal Postal Union regulation. There was no such benefit in 2011.

OTHER OPERATING EXPENSES

For 2012, other operating expenses of $9,187 million decreased $635 million, or 6.5%, compared to $9,822 million in 2011.

Other Operating Expenses (Dollars in millions)	2012	2011	2010
Supplies and Services	$ 2,263	$ 2,260	$ 2,236
Depreciation and Amortization	2,075	2,313	2,469
Rent and Utilities	1,623	1,682	1,692
Vehicle Maintenance Service	995	974	820
Information Technology and Communications	695	695	664
Rural Carrier Equipment Maint. Allowance	579	554	534
Miscellaneous Other	957	1,344	911
Total Other Operating Expenses	$ 9,187	$ 9,822	$ 9,326

In 2012, management continued its efforts to control costs and limit non-essential spending to conserve cash. Depreciation and amortization decreased $238 million, or 10.3%, compared to 2011, as capital spending has been limited in recent years. In addition, rent and utilities expense was $59 million, or 3.5%, lower than last year as the number of postal facilities and related square footage declined. Miscellaneous other operating expenses decreased by $387 million, or 28.8%, compared to last year. A significant portion of other expenses in 2011 was driven by legal expenses associated with the contingent liability reevaluation process.

These decreases were partially offset by increases in supplies and services of $3 million, or 0.1%, compared to last year. In addition, rural carrier equipment maintenance increased by $25 million, or 4.5% and vehicle maintenance services increased $21 million, or 2.2% from 2011. Fuel costs, which rose in both 2011 and 2012 accounted for 53%, and 51%, of the total vehicle maintenance service expense for 2012, and 2011, respectively.

For 2011, other operating expenses of $9,822 million increased $496 million, or 5.3%, compared to 2010. Within total other operating expenses, miscellaneous other expenses increased $433 million, or 47.5% in 2011, driven by legal expenses associated with arbitration awards and the reassessment of contingent liabilities which increased expenses by $448 million in 2011. Vehicle maintenance service expense, including fuel costs used by the carrier fleet, increased by $154 million, or 18.8%, in 2011 from 2010, primarily as a result of the previously discussed increase in fuel costs during the year. Information technology and communications expense increased by $31 million, or 4.7%, in 2011 from 2010. Supplies and services increased by $24 million, or 1.1% from 2010. These increases were offset by decreases in depreciation and amortization of $156 million, or 6.3%, compared to 2010. Rent and utilities was $10 million, or 0.6% lower in 2011 than 2010.

PRODUCTIVITY

The Postal Service is continually striving to increase efficiency by making better use of space, staffing, equipment, and transportation to process and deliver the nation's mail. Generating efficiencies has become increasingly important, given the significant reduction over the last several years in the amount of First-Class Mail. Declines in mail volume coupled with the increased electronic access to our services provided by alternate access channels such as Click-n-Ship, PC Postage, and Automated Postal Centers continue to reduce the requirement for customer service work hours. This means that continuous revaluation and right-sizing of capacity from the mail processing network is critical to managing costs.

Since 2006, the Postal Service has closed 186 facilities, removed nearly 4,000 pieces of equipment, and decreased employee complement by more than 110,000. On May 17, 2012, we announced a modified, phased plan to continue the consolidation of our network of mail processing locations. The network consolidation efforts are projected to reduce annual operating costs by approximately $2.1 billion when fully implemented.

We are also working to increase efficiency and reduce the costs of our retail network, while continuing to provide appropriate levels of service to communities throughout America. On May 9, 2012, we announced a strategy, called the POSt Plan, to preserve Post Offices serving rural America while providing a framework to achieve significant cost savings. Once implementation is completed, the Postal Service estimates savings of approximately $500 million annually.

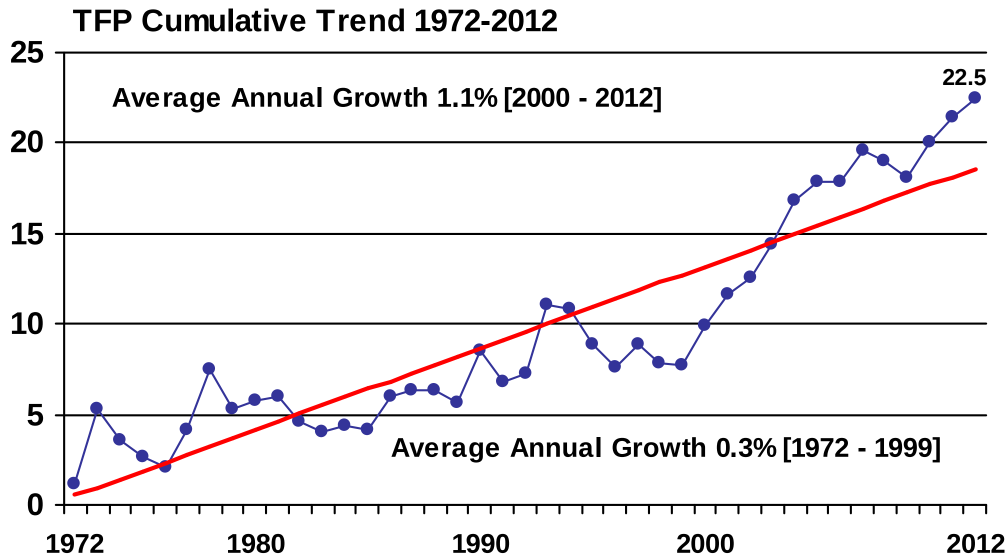
In 2012, we reduced work hours by 27 million, or 2.3%. Reductions in mail processing, delivery and retail customer service in 2012 are as follows:

- Mail processing work hour savings included approximately 5 million work hours in 2012. This was accomplished primarily through plant consolidations and continued productivity improvement.
- City delivery work hour savings included approximately 10 million work hours in 2012. This was accomplished through increased productivity and advancements in automation, mainly flats sequencing. This also allowed for the disposal of almost 1,200 postal-owned vehicles in 2012.
- An additional 12 million work hour reduction in customer service, postmasters, administrative, and maintenance operations was also realized.

Overall spending reductions in 2012, and 2011, also included decreases in capital expenditures of 41%, and 15%, respectively.

Operating efficiency, as measured by Total Factor Productivity (TFP) increased 1.0% in 2012, compared to 2011. This marks the eleventh year of positive TFP growth since 2000 with cumulative TFP growth of 22.5% since 1972. Productivity gains are a result of effective workforce management, efficient use of material (supplies, services, and transportation), and maximizing the return on capital investments (mainly automation projects).

The following graph shows the cumulative TFP trend from 1972 through 2012.



LIQUIDITY AND CAPITAL RESOURCES

SUMMARY OF PROJECTED CASH SHORTFALL

We continue to suffer from a severe lack of liquidity. The largest contributing factor has been the requirement of P.L. 109-435 to prefund our retiree health benefit obligations, a requirement not shared by other federal agencies or private sector businesses, coupled with a decline in mail volume since the 2006 peak. The prefunding requirement is in addition to paying the employers' share of the insurance premiums for our retirees, which cost $2.6 billion in 2012. In the past six years, since the enactment of the congressionally mandated prefunding, we have incurred $41 billion of net losses, including $32 billion of expenses for prefunding to the PSRHBF. While we were not able to pay the $11.1 billion of prefunding obligations in 2012 - this amount has been expensed and is reflected as a liability in our balance sheet. We have paid $21 billion of cash to the PSRHBF for prefunding over the past six years. During that time, our debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012.

During 2012, we were forced to default on the required $5.5 billion prefunding payment to the PSRHBF for retiree health benefits which was due by August 1, 2012, and the $5.6 billion payment which was due by September 30, 2012. The statutory requirement establishing the prefunding payment schedule (P.L. 109-435) contains no provisions addressing a payment default. Prior to the default, all significant stakeholders, including the Administration and Congress were notified. As of November 15, 2012, we have suffered no penalties or damages as a result of our inability to make these payments.

We ended 2012 with $2.3 billion of total cash and no remaining borrowing capacity on our $15 billion debt facility (See Note 4, *Debt,* in the Notes to the Financial Statements). The trend of losses continued this year, as we had a net loss of $15.9 billion for the year, including expenses accrued for the two legally-mandated prefunding payments for retiree health benefits totaling $11.1 billion.

Our liquidity position worsened in October of 2012, when in addition to paying our normal operating expenses, we made our annual payment of approximately $1.4 billion to reimburse the Department of Labor (DOL) for workers' compensation expenses. Although our liquidity position is projected to improve slightly for a few months during the fall mailing season, current projections indicate that we will once again have an extremely low level of liquidity in the second half of 2013.

Further, these projections indicate that we will be unable to make the required $5.6 billion prefunding payment due by September 30, 2013 and will have no ability to borrow additional funds at that date. These conditions will exist absent the legislative actions by Congress that we have requested to assist us in returning to a financially stable position.

In the short-term, should circumstances leave us with insufficient cash, we will be required to 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 as we have done in the past. Additionally, we continue to seek a refund of the overfunding of FERS as those funds would help alleviate some of our short-term liquidity risks. The OIG has determined that if Postal Service specific assumptions were used in estimating the FERS obligation, rather than government-wide averages, the surplus would be much greater.

POSTAL INITIATIVES UNDERTAKEN TO IMPROVE LIQUIDITY

We have removed nearly $15 billion from the Postal Service's annual cost base in the past six years. We will continue to improve productivity and generate cost savings as outlined in our comprehensive five-year plan, released in February 2012. This, including necessary legislative changes, will enable us to achieve financial stability and repay debt. We continue to aggressively pursue strategies within our control to increase efficiency. These measures include right-sizing the mail processing, retail, and delivery networks in order to better align them with mail volumes, pursuing new revenue streams, and reducing workforce costs.

We are implementing a strategy to increase the efficiency of our mail processing network. This requires the consolidation of a number of mail processing and distribution locations and the rescheduling of transportation routes. On May 17, 2012, we announced a modified, phased plan to continue the consolidation of our network of 461 mail processing locations. The first phase will result in up to 140 consolidations through 2013. Unless our circumstances change, a second phase of 89 additional consolidations is scheduled to begin in February 2014. When fully implemented, the consolidations are expected to reduce costs by approximately $2.1 billion annually.

We are also working to increase efficiency and reduce the costs of our retail network, while continuing to provide appropriate levels of service to communities throughout America. On May 9, 2012, we announced a strategy to preserve Post Offices serving rural America while providing a framework to achieve significant cost savings. This strategy, called the POSt Plan, will allow Post Offices to remain open with modified window hours and will also allow the affected towns to retain their ZIP codes. When fully implemented, this strategy will save approximately $500 million annually.

We continue to develop innovative new services to generate new revenue and slow the migration of existing revenue streams to electronic alternatives. Existing services and online services have been enhanced with "ease of use" in mind in an effort to grow revenues. Additionally, major advertising campaigns promote mail as a powerful way for businesses to reach and engage their customers. However, it is not possible to achieve financial stability through revenue initiatives alone without a fundamental change in the business model.

As we implement these efficiency measures, we plan to better align staffing levels with projected mail volume. It is expected that this will be achieved largely through attrition, as approximately one-half of career employees are eligible for retirement or voluntary early retirement. In 2012, two voluntary incentive separation offers were announced. Approximately 4,275 eligible postmasters accepted an incentive offer of $20,000 and approximately 2,925 eligible mail handlers accepted an incentive of $15,000. All of these employees left the Postal Service by September 30, 2012. The incentive payments will be made in December 2012 and 2013. In compliance with GAAP, the full amount of the incentive payments were recorded as an expense in Quarter IV, 2012 although the cash payments will be paid in future periods.

Additionally, we announced on October 1, 2012 a Special Incentive and Voluntary Early Retirement (VER) offer to employees represented by the APWU. Eligible full-time APWU employees must notify the Postal Service on or before December 3, 2012 of their intent to accept the incentive. Eligible part-time or nontraditional full-time APWU employees have until January 4, 2013. Separation for those employees will be effective no later than January 31, 2013 and incentive payments of $10,000 will be made on May 24, 2013, and $5,000 on May 23, 2014. Incentives for employees who are not full-time will be prorated. No amounts for these incentives have been accrued in the financial statements for the year ended September 30, 2012.

Achieving significant future cost reductions in areas that are under our control, will not be enough to return the Postal Service to a position of financially viability in the long run, without comprehensive changes to our business model. Accordingly, we have proposed legislative changes to Congress that are needed to provide the Postal Service with the legal authority to implement certain measures to increase efficiency and cost savings. Certain parts of the plan, such as transitioning to a five-day per week delivery schedule, obtaining a refund of the FERS overfunding, and resolving the prefunding of retiree health benefits are beyond the control of management and require enactment of legislation. Relevant legislation has been introduced in both houses of Congress and a bill has been passed by the Senate. If no bill is passed in the current session of Congress, then the legislative process starts anew with new bills required to be introduced when the 113th Congress begins in January 2013. Given the vital role that the Postal Service plays in the U.S. economy, we are requesting that Congress promptly take the steps needed to enact legislative changes that will enable us to return to financial stability.

A vital component of our five-year plan is the proposal that we sponsor our own health care program independent of other federal health insurance programs. A Postal Service-sponsored health care program could achieve over $7 billion of projected annual savings. The plan would allow for the elimination of the retiree health benefit prefunding obligation established in the *Postal Service Accountability and Enhancement Act of 2006*, which would save us over $5 billion dollars annually through 2016. The plan also proposes to transfer current retirees into the Postal Service-sponsored health care program, an action that requires legislation. 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 that 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. The Postal Service is widely recognized as the provider of an essential government service and is the epicenter of an almost $1 trillion mailing industry. There are 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 us to significantly curtail or cease operations.

We continue to inform the Administration, Congress, the Postal Regulatory Commission (PRC), and other stakeholders of the immediate and longer-term financial issues we face and the legislative changes that would help provide financial stability. Given the vital role we play in the U.S. economy, we are hopeful that Congress will promptly 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 requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2013, or at all.

CAPITAL INVESTMENTS

Given the financial and liquidity challenges facing the Postal Service, capital spending has been constrained below average historical levels. Since 2009, priority has been given to projects: 1) needed for safety and/or health or legal requirements; 2) required to provide service to our customers; and 3) initiatives with a high return on investment and a short payback period.

At the beginning of 2012, there were 11 major projects in progress (i.e., greater than $25 million approved capital), representing $3.1 billion in approved capital funding. During the year, three new projects were approved, which totaled $324 million in additional capital funding. A total of three projects representing $356 million in approved capital funding were completed. The year ended with eleven major open projects that amount to $3.1 billion in approved capital.

While the funding for a project is authorized in one year, the commitment or contract to purchase or build may take place over several years. By year-end, approximately $2.5 billion had been committed to these eleven open projects. Actual capital cash outlays will occur over several years. Through the end of 2012, approximately $2.3 billion has been paid for these projects.

Capital commitments as of September 30, 2012 (including the major projects mentioned above), consisting of building improvements, equipment and sustaining infrastructure investments, totaled $644 million. This is the lowest amount of capital commitments since 1988.

At the beginning of 2011, there were 14 major projects in progress, representing $3.7 billion in approved capital funding. During the year, two new projects were approved, which totaled $184 million in additional capital funding. A total of five projects representing $786 million in approved capital funding were completed. The year ended with eleven major projects in progress representing $3.1 billion in approved capital. The total capital commitments as of September 30, 2011 were $881 million.

CASH FLOW

Cash and cash equivalents totaled $2,319 million, $1,488 million and $1,161 million at September 30, 2012, 2011, 2010, respectively.

The following table provides a summary of our cash flows for the twelve month period ended September 30, 2012, 2011, and 2010.

Cash Flow Statement (Dollars in millions)	As of September 30, 2012	2011	2010
Operating activities:			
Net loss	$ (15,906)	$ (5,067)	$ (8,505)
Noncash depreciation and gains on sales	2,070	2,319	2,477
Changes in assets and liabilities	13,404	3,242	2,736
Cash (used in) provided by operating activities	(432)	494	(3,292)
Investing activities:			
Capital expenditures, net of proceeds	(557)	(1,053)	(1,323)
Cash used in investing activities	(557)	(1,053)	(1,323)
Financing activities:			
Net change in notes payable	1,200	1,200	1,600
Net change in revolving credit line	800	(200)	200
Other	(180)	(114)	(113)
Cash provided by financing activities	1,820	886	1,687
Net Increase (Decrease) in Cash and Cash Equivalents	$ 831	$ 327	$ (2,928)

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash used in operating activities was $432 million in 2012, compared to $494 million provided by operations in 2011, a year-to-year decrease in cash provided by operations of $926 million. A major factor incorporated in the net loss of $15,906 million was the $11,100 million of PSRHBF expenses that were accrued during the year but not paid. Additional significant non-cash expenses included: $2,075 million of depreciation, a $2,425 million increase in the workers' compensation liability, and a $78 million increase in other noncurrent liabilities. A significant use of cash during the year was the $911 million repayment in 2012 of the FERS employer contributions that were withheld from June 2011 through November 2011. Partially offsetting the FERS payment impact on cash flows was an increase in cash received for stamps that have not yet been used, otherwise known as deferred revenue –prepaid postage which increased by $517 million in 2012 . The remaining adjustments from net loss to cash used by operating activities net out to cash provided of $190 million.

Net cash provided by operating activities was $494 million in 2011, compared to $3,292 million used in operations during 2010, a year-to-year increase in cash provided by operations of $3,786 million. The major difference in cash flows was that for 2011, the $5,500 million payment for the PSRHBF contribution initially due in 2011 but changed to be due in 2012. The 2011 loss of $5,067 included: non-cash expenses for depreciation of $2,313 million, a $2,553 increase in the Workers' Compensation liability, and a $520 million increase in other noncurrent liabilities. Impacting cash flow in 2011 was the fact that there were 27 pay dates during the fiscal year versus the normal 26 pay dates for an estimated cash outflow impact of $1,490 million. The 27 pay date impact was partially offset by the $911 million of FERS employer contributions that were expensed in 2011, but not disbursed until 2012. During 2011, $913 million of cash was received, but classified as deferred revenue-prepaid postage. The remaining adjustments from net loss to cash provided by operating activities net out to cash used of $159 million.

Net cash used in operating activities during 2010 was $3,292 million. The net loss of $8,505 million was heavily impacted by the $5,500 million PSRHBF prefunding requirement. The net loss included non-cash adjustments of $2,469 million for depreciation and $2,456 million for the increase in Workers' Compensation liability. During 2010, $139 million of cash was received, but classified as deferred revenue-prepaid postage. The remaining adjustments from net loss to cash used by operating activities net out to cash provided of $149 million.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used by investing activities in 2012 was $557 million, compared to $1,053 million and $1,323 million in 2011, and 2010, respectively. Purchases of property and equipment in 2012 of $705 million decreased $485 million from the prior year after a $203 million decrease in 2011 from 2010. Proceeds from building sales and the sale of property and equipment totaled $148 million in 2012, compared to $137 million and $70 million in 2011, and 2010, respectively.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash provided by financing activities was $1.8 billion, $0.9 billion, and $1.7 billion in 2012, 2011, and 2010, respectively. Debt with the Federal Financing Bank (FFB) increased $2 billion, $1 billion, and $1.8 billion, in 2012, 2011, and 2010, respectively.

The following table summarizes future cash requirements as of September 30, 2012.

Contractual Obligations	Payments Due by Year				
(Dollars in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt [1]	$ 15,000	$ 9,500	$ 300	$ 300	$ 4,900
Interest on debt [1]	2,073	184	339	327	1,223
PSHRBF	33,900	16,700	11,400	5,800	-
Capital lease obligations	659	121	181	197	160
Operating leases	6,879	890	1,245	1,847	2,897
Capital commitments [2]	644	391	194	40	19
Purchase obligations [2]	1,514	1,503	10	1	-
Workers' compensation [3]	23,182	1,305	4,398	3,321	14,158
Employees' leave [4]	2,162	307	287	229	1,339
	$ 86,013	$ 30,901	$ 18,354	$ 12,062	$ 24,696

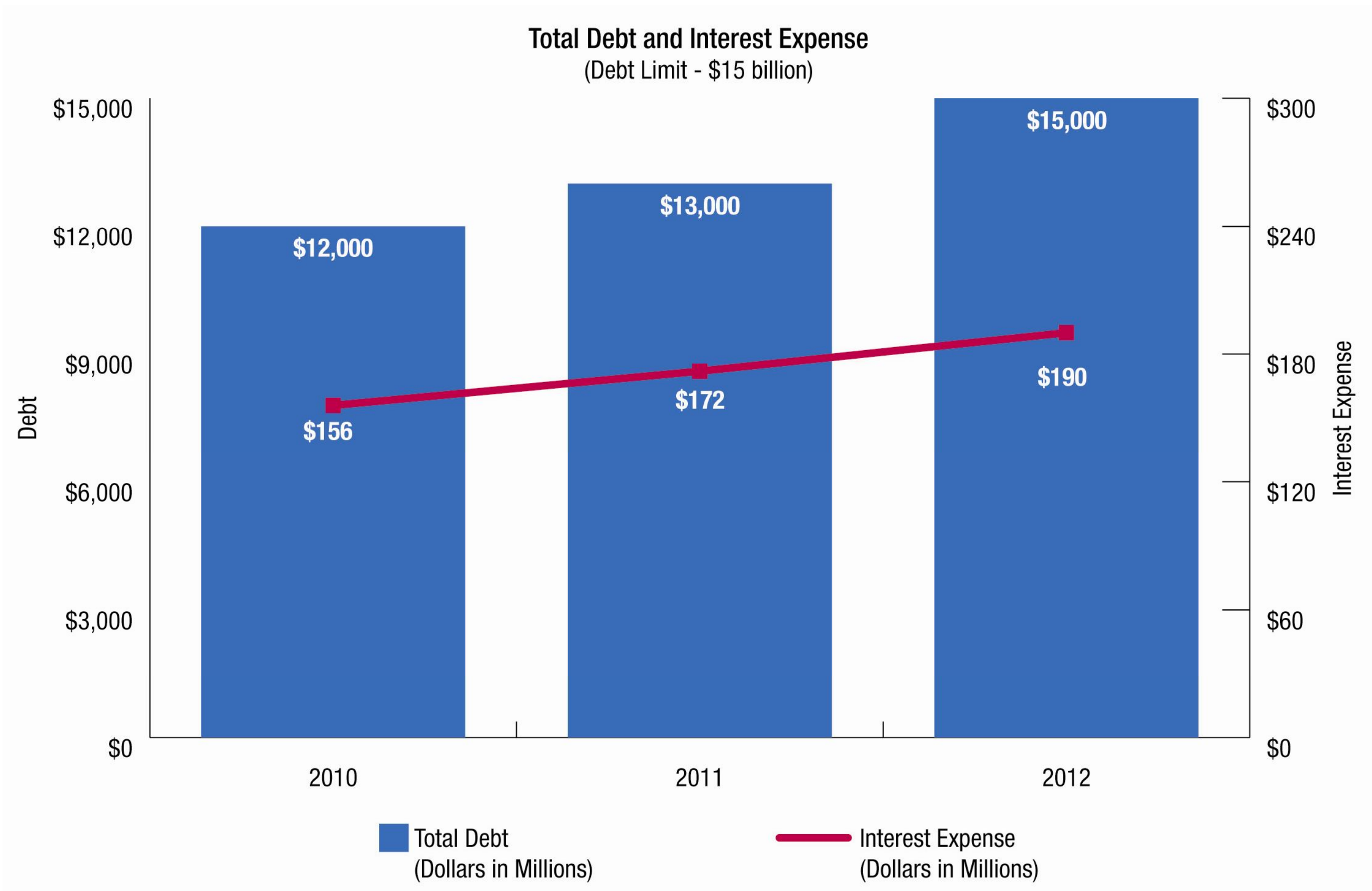
(1) For overnight and short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.
(2) Legally binding obligations to purchase goods or services. Capital commitments pertain to purchases of equipment, building improvements and vehicles. Purchase obligations 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 $17,567 million is reflected in our Balance Sheet at September 30, 2012.
(4) Employees' leave includes annual and holiday leave.

FINANCING ACTIVITIES

DEBT

As an "independent establishment of the executive branch of the Government of the United States," the Postal Service receives no tax dollars for ongoing operations, and has not received an appropriation for operational costs since 1982. We fund operations chiefly through cash generated from operations and by borrowing from the FFB.

The amount borrowed is largely determined by three major factors; the difference between: (1) cash flow from operations; (2) capital cash outlays, which include funds invested for new facilities, new automation equipment, and new services; and (3) the annual increase in debt, which is limited by statute to $3 billion. An additional determinant is our statutory debt ceiling of $15 billion. On September 30, 2012, there was $15 billion in debt outstanding, a $2 billion increase when compared to debt outstanding of $13.0 billion on September 30, 2011.



INTEREST EXPENSE

In 2012, interest expense was $190 million, an increase of $18 million, or 10.5%, compared to $172 million in 2011. Net losses for the three years ended September 30, 2012, have resulted in higher debt levels. Although long-term debt carries higher interest rates than prevailing rates for short-term debt, financing a portion of debt at fixed rates decreases our interest rate risk and interest expense volatility now and in future years. At September 30, 2012, $5.5 billion of these long-term obligations remain outstanding. Higher overall debt levels have led to higher interest expense in 2012 and 2011 versus prior years. However, short-term interest rates remained at historically low levels helping to keep total interest expense relatively low.

In 2011 and 2010, with an increasing amount of debt outstanding throughout the year, interest expense totaled $172 million and $156 million, respectively.

INTEREST AND INVESTMENT INCOME

The majority of our interest and investment income comes from the imputed interest we recognize on the funds owed to us under the *Revenue Forgone Reform Act of 1993*. Under the Act, Congress agreed to reimburse the Postal Service $1,218 million in 42 annual installments of $29 million through 2035 for services performed in prior years. Although Congress has failed to appropriate the funds for these payments in 2011 and 2012, we continue to make these appropriation requests and recognize the imputed interest due on the original amortization schedule. Imputed interest for Revenue Forgone was $23 million, $24 million, and $24 million for the years ended September 30, 2012, and 2011, 2010, respectively. See Note 12, *Revenue Forgone*, in the Notes to the Financial Statements for additional information.

When we determine that available funds exceed current needs, funds are invested with the U.S. Treasury's Bureau of Public Debt in overnight securities issued by the U.S. Treasury. Investment income was $2 million, $4 million, and $1 million, for the years ended September 30, 2012, 2011, and 2010, respectively.

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. In 2012, the material claim outstanding is 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. The class currently consists of all permanent rehabilitation employees and limited-duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to July 1, 2011. We used the NRP to ensure that our 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 us. However, we dispute the claims asserted in this class action case and are vigorously contesting the matter. See Note 7, *Contingent Liabilities*, in the Notes to the Financial Statements for additional information.

FAIR VALUE MEASUREMENTS

In 2012 and 2011, our financial statements contain fair value disclosures required by GAAP. We did not have any recognized gains as a result of these valuation measurements in these years. All recognized losses have been incorporated into our financial statements, and the unrecognized gains and losses are not considered to have a significant impact upon our operations. See Note 11, *Fair Value Measurement*, in the Notes to the Financial Statements for additional information.

LEGISLATIVE UPDATE

Appropriations and Continuing Resolutions

On September 28, 2012, the President signed into law the *Continuing Appropriations Resolution, 2013*, (P.L. 112-175). The law provides funding for the Federal government to continue operations, projects, or activities which were conducted in Fiscal Year 2012 through March 27, 2013. The Postal Service's appropriation for free mail for the blind and overseas voters remains $78.2 million. No funding was provided for the $29 million payment owed to the Postal Service under the *Revenue Forgone Reform Act of 1993*. The language requiring six-day mail delivery frequency remains in effect.

On June 26, 2012, the full House Appropriations Committee reported H.R. 6020 (H. Rept. 112-550), the *Financial Services and General Government Appropriations Bill, 2013*. On June 14, 2012, the full Senate Appropriations Committee reported S. 3301 (S. Rept. 112-177), the *Financial Services and General Government Appropriations Act, 2013*. The funding level recommended in these bills for free mail for the blind and overseas voters was $89.1 million. No funding was provided for the $29 million payment owed to the Postal Service under the *Revenue Forgone Reform Act of 1993*. The bills further directs the Postal Service to ensure continuation of the current six-day delivery schedule, and that none of the funds shall be used to consolidate or close small rural or other small Post Offices in fiscal year 2013. The Senate bill also directs that the Postal Service shall not execute, prior to FY 2014, any decisions pertaining to the closure or consolidation of specific mail processing facilities. This includes facilities that were not closed or consolidated before May 15, and facilities for which the Postal Service conducted an Area Mail Processing (AMP) study after January 1, 2006. This includes AMP studies that were either terminated or concluded that no significant cost savings or efficiencies would result. The bills now await consideration by the appropriate Congressional chambers.

Administration Proposals

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 proposed a comprehensive postal reform package that would:

- Restructure Postal Service Retiree Health Benefits prefunding 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 includes $89.1 million for free mail for the blind and overseas voters. No funding was proposed 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.

CONGRESSIONAL POSTAL REFORM PROPOSALS

The 112th Congress has introduced a number of bills that could affect the Postal Service. The following is a detailed description of two major reform bills and their current status. Also included is a list of other postal-related legislation introduced this year.

21st CENTURY POSTAL SERVICE ACT OF 2011

On April 25, 2012, the Senate passed S. 1789, the *21st Century Postal Service Act of 2011*. S. 1789 provides for reform on a variety of issues. S. 1789 would:

- Return the current FERS overpayment to the Postal Service, along with any future surpluses. The returned surplus may be used for incentive payments for retirement, or paying the value of incentives in the form of added service credits, for employees retiring before October 1, 2015. Additionally, the returned surplus may be used to pay down debt or make other payments to federal agencies, such as the workers' compensation reimbursement to DOL.
- Requires the Postal Service to offer retirement incentives to such an extent as would reasonably be expected to result in an 18% reduction in career employees by October 1, 2015.
- Restructure the existing pre-payment schedule for PSRHBF by cancelling the 2011 to 2017 annual payments and provide an amortized payment schedule with a prefunding goal of 80 percent of the total actuarial liability beginning September 30, 2013. Additionally, retiree health benefit premiums would be paid from the PSRHBF, rather than from Postal funds.
- Enact government-wide workers' compensation reforms.
- Prohibit the Postal Service from instituting five-day delivery for a two-year period following enactment of S. 1789, but allow for implementation after a GAO report on the financial necessity of five-day delivery and a second PRC advisory opinion.
- Modify existing procedures governing the Area Mail Processing (AMP) study process, particularly the public input process.
- Provide for other items, 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, beer and distilled spirits.

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 reported favorably and awaits consideration by the full House. 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.
- The substitute amendment would give Congress 45 days, as opposed to 30 days, to disapprove of and therefore halt implementation of a plan submitted by the CPR.

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 to achieve certain cost reduction targets in areas such as retail facilities, mail processing facilities, and area and district offices.
- Provide the Postal Service the authority to change to a five-day delivery frequency schedule after one year.
- Return the FERS overfunded surplus to the Postal Service.
- Establish a Postal Service Financial Responsibility and Management Assistance Authority, which would operate during any control period. A control period would commence 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 the Federal Employee Group Life Insurance (FEGLI) and the Federal Employees Health Benefit Program (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.

The House has not acted on H.R. 2309, and the bill is currently awaiting consideration.

ADDITIONAL SIGNIFICANT POSTAL LEGISLATION

MOVING AHEAD FOR PROGRESS IN THE 21ST CENTURY ACT

On July 6, 2012, the President signed into law H.R. 4348, the *Moving Ahead for Progress in the 21st Century* (MAP-21) *Act* (P.L. 112-141). H.R. 4348 provides for the establishment of a phased retirement program for qualified Federal employees. It amends Chapters 83 and 84 of Title 5, United States Code, to allow Federal employees covered under both the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) who are eligible for full-time retirement to enter phased retirement status. During phased retirement, Federal employees, including Postal Service employees, may work between 20 to 80 percent of their full-time schedule and receive a phased retirement annuity. Once the phased retiree reaches full-time retirement, they become eligible for a composite retirement annuity that includes the retirement annuity attributable to the reduced work schedule. Postal employees are exempted from a requirement to spend a minimum of 20 percent of their phased retiree work hours mentoring. Although the measure has been enacted into law, the Office of Personnel Management (OPM) has yet to promulgate the applicable rules for implementation of the law.

BOARD OF GOVERNORS NOMINATIONS HEARINGS

On June 21, 2012, the Senate Homeland Security and Governmental Affairs Committee held a hearing to examine the nominations of Dr. James C. Miller III, and Dr. Katherine C. Tobin, to the Board of Governors of the United States Postal Service. Dr. Tobin was nominated to serve for a term expiring December 8, 2016. Dr. Miller was nominated to serve for a term expiring December 8, 2017. The nominations now await consideration by the full Committee.

On July 12, 2012, the Senate Homeland Security and Governmental Affairs Committee held a hearing to examine the nomination of Stephen Crawford to the Board of Governors of the United States Postal Service. Mr. Crawford was nominated to serve for a term expiring December 8, 2015. The nomination now awaits consideration by the full Committee.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK DISCLOSURE

In the normal course of business, we are exposed to market risk from changes in commodity prices, certain foreign currency exchange rate fluctuations, and interest rates. We do not use derivative financial instruments to manage market risks. Additionally, we do not purchase or hold derivative financial instruments for speculative purposes.

FUEL COST RISK

As of September 30, 2012, we estimate that a 1% increase in fuel and natural gas costs would result in a $28 million increase in expense. We do not use derivative commodity instruments to manage the risk of changes in energy prices during the periods covered by this report.

FOREIGN EXCHANGE RISK

We are exposed to market risk arising from changes in currency exchange rates as a result of operations outside the United States. Currency exchange rate fluctuations may favorably or unfavorably impact reported earnings.

We estimate that a 1% increase or decrease in foreign exchange rates would have an insignificant impact on our financial statement due to the small percentage of our receipts and disbursements denominated in foreign currencies.

INTEREST RATE RISK

We have not used derivative financial instruments to manage risk related to interest rate fluctuations for debt instruments. However, we did issue long-term, fixed-rate debt in 2009, and again in 2011, that will mitigate exposure to rising interest rates in future years. We estimate that a 1.0% increase in interest rates would result in a $76 million increase in interest expense.

In addition, the valuation of our workers' compensation liability is highly sensitive to changes in discount (interest) rates. An increase of 1% in the interest rates assumptions would decrease the September 30, 2012, liability and 2012 expense by approximately $1.8 billion. A decrease of 1% would increase the September 30, 2012, liability and 2012 expense by approximately $2.3 billion.

LABOR CONTRACTS

As discussed in Item 1A, Risk Factors, the contracts with our four largest unions historically have included provisions granting COLAs linked to changes in the CPI-W. The current contract with the APWU became effective May 23, 2011, and extends through May 20, 2015. An Interest Arbitration Award was issued on July 3, 2012, resulting in a new NRLCA contract. The term of the contract is November 10, 2010, through May 20, 2015. The new APWU and NRLCA contracts had no COLAs for 2010, or 2011, and deferred the 2012 COLAs until 2013. Our contracts with NALC and NPMHU expired November 20, 2011. We reached an impasse in negotiations with the NALC and the NPMHU, and no agreement with either union was reached during negotiations. We are proceeding with interest arbitration with both unions, having commenced this process in August 2012. Future COLAs for employees represented by these unions are contingent upon the terms of future contracts currently under interest arbitration.

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited Statements of Operations, Balance Sheets, Statements of Changes in Net Deficiency, and Statements of Cash Flows are included in Item 15 of this report.

ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A — CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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 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 September 30, 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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Postal Service's internal controls over financial reporting during the quarter ended September 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Postal Service's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate controls over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions, providing reasonable assurance that transactions are recorded as necessary for the preparation of our financial statements, providing reasonable assurance that receipts and expenditures of assets are made in accordance with management authorization and providing reasonable assurance that unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2012.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of our internal control over financial reporting as of September 30, 2012, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited our financial statements included in this Annual Report on Form 10-K. Ernst & Young LLP's report on our internal control over financial reporting is included in this Annual Report on Form 10-K on Page 76.

ITEM 9B — OTHER INFORMATION

None

Part III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

THE POSTAL SERVICE IS GOVERNED BY AN ELEVEN MEMBER BOARD OF GOVERNORS.

The Board is composed of nine Governors appointed by the President of the United States with the advice and consent of the United States Senate, plus the Postmaster General and the Deputy Postmaster General. The six currently appointed Governors are:

Name, Age, and Term of Office	Positions and Experience
Thurgood Marshall, Jr. Chairman of the Board of Governors, Age 56	Chairman of the Board of Governors since December 2011. Partner at the law firm of Bingham McCutchen and principal with Bingham Consulting Group since 2006. Formerly served President Clinton as Assistant to the President and Cabinet Secretary. Former Director of Legislative Affairs and Deputy Counsel for Vice President Gore. Director, Corrections Corporation of America and Genesco Inc.
Governor since December 2006. Term expired December 2011, but continues to serve hold-over year which expires December 2012.	
Mickey D. Barnett Vice Chairman of the Board of Governors, Age 61	Vice Chairman of the Board of Governors since December 2011. Member of Compensation and Management Resources Committee and member, Audit and Finance Committee. Attorney in Albuquerque, New Mexico. Former member, New Mexico State Senate. Former member, Appellate Nominating Commission for the New Mexico Supreme Court of Appeals. Former Legislative Assistant to Senator Pete Domenici of New Mexico.
Governor since August 2006. Term expiring December 2013.	
Louis J. Giuliano Chairman Pro Tempore of the Board of Governors, Age 66	Past Chairman of the Board of Governors, 2010 and 2011. Vice Chairman of the Board of Governors, 2009. Chairman, Audit and Finance Committee and Operations Subcommittee, and member, Compensation and Management Resources Committee. Former Chairman of Board of Directors, President and Chief Executive Officer of ITT Corp. Senior Advisor at the Carlyle Group, and active member of the CEO Forum and the Advisory Board for the Princeton University Faith and Work Initiative.
Governor since November 2004. Term expiring December 2014.	

Name, Age, and Term of Office	Positions and Experience
James H. Bilbray, Governor, Age 74	Chairman of Governance, Regulatory and Strategic Planning Committee. Attorney at the law firm of Kaempfer Crowell Renshaw Gronauer & Fiorentino in Las Vegas, Nevada. Former member, U.S. House of Representatives from Nevada. Former member, Nevada State Senate. Former Deputy District Attorney in Clark County, Nevada. Member of 2005 Base Realignment and Closing Commission.
Governor since August 2006. Term expiring December 2015.	
Dennis J. Toner, Governor, Age 61	Member of the Audit and Finance Committee, the Operations Subcommittee, and the Governance, Regulatory and Strategic Planning Committee. Founder and principal since 2006 of Horizon Advisors, a private consulting business which provides guidance and strategic planning to private clients and non-profit organizations and maintains a professional resource network intended to advise and promote dialogue among the public, private, and non-profit sectors. Deputy Chief of Staff to then-Senator and now-Vice President Joseph Biden, Jr., 1995 to 2005.
Governor since September 2010. Term expiring December 2012.	
Ellen C. Williams, Governor, Age 55	Chairman of the Compensation and Management Resources Committee and a member of the Governance, Regulatory and Strategic Planning Committee. Owner and CEO of Capital Network, a government affairs and lobbying firm, since its establishment in 2006. Former Vice Chairman of the Kentucky Public Service Commission from 2004 to 2005. Former Commissioner of the Governor's Office for Local Development in Kentucky from 2005 to 2006. Former Chairman of the Republican Party of Kentucky from 1999 to 2004. Former executive assistant to Senator Bob Kasten.
Governor since August 2006. Term expiring December 2014.	

THE POSTAL SERVICE BOARD OF GOVERNORS HAS AN AUDIT AND FINANCE COMMITTEE.

The Audit and Finance Committee has three Governors, as follows: Governor Giuliano, Chairman, Governor Barnett, and Governor Toner. The Board of Governors has determined that Governor Giuliano qualifies as an audit committee financial expert as defined by the rules of the SEC. All Audit and Finance Committee members are independent as defined by the rules of the SEC.

THE POSTAL SERVICE BOARD OF GOVERNORS HAS A COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE.

The Compensation and Management Resources Committee, composed of Governor Williams, Chairman; Governor Barnett; and Governor Giuliano during fiscal year 2012, was responsible for making recommendations to the Governors with respect to compensation decisions.

THE POSTAL SERVICE HAS NINE EXECUTIVE OFFICERS. THESE EXECUTIVE OFFICERS ARE:

Name and Age	Positions and Experience
Patrick R. Donahoe Age 57	73rd Postmaster General and Chief Executive Officer since December 2010 and a member of the Board of Governors since April 2005. Deputy Postmaster General and Chief Operating Officer from April 2005 until December 2010. Chief Operating Officer and Executive Vice President during the years 2001 to 2005. Senior Vice President, Operations from February 2001 to September 2001.
Ronald A. Stroman Age 60	20th Deputy Postmaster General and member of the Board of Governors of the United States Postal Service since April 2, 2011. Served as Staff Director, Committee on Oversight and Government Relations at the U.S. House of Representatives, from 2009 to April, 2011. Prior to this, served as Managing Director, Office of Opportunity and Inclusiveness, U.S. General Accounting Office, from 2001 to 2009.
Megan Brennan Age 50	Chief Operating Officer and Executive Vice President since December 18, 2010. Previously, Vice President, Eastern Area Operations from December, 2006 to December, 2010, and Vice President, Northeast Area Operations from April, 2005 to December, 2006
Ellis Burgoyne Age 54	Chief Information Officer and Executive Vice President since December 2010 (except for a brief period when he was on medical leave from June 20 through September 30, 2012). Prior to that, served as Vice President, Area Operations for the Southwest Area from 2006 until 2010. Prior to that, served as Vice President, Delivery and Retail commencing in 2005 until 2006.
Joseph Corbett Age 53	Chief Financial Officer and Executive Vice President since 2009 (except for a brief period from June 20 through September 30, 2012 when he served as Acting Chief Information Officer and Executive Vice President). Founder and Managing Director of FinSol, LLC, a finance and accounting CFO services firm from 2005 to 2009. Consultant, Chief Financial Officer and Executive Vice President of BearingPoint, Inc., a U.S. government contracting, consulting, and systems integration company, from 2004 to 2005. Executive Vice President and Chief Financial Officer of Intelsat, Ltd., from 1998 to 2004 and Intelsat Controller from 1995 to 1998.
Mary Anne Gibbons Age 62	General Counsel and Executive Vice President since December 2010. Senior Vice President and General Counsel from December 2003 until December 2010. Vice President and General Counsel from 1999 to December 2003.
Nagisa Manabe Age 49	Chief Marketing and Sales Officer and Executive Vice President since May 2012. Prior to joining the Postal Service, Ms. Manabe was vice president of New Growth Platforms at the Coca Cola Company from September 2011 to May 2012. Before that, she was the vice president of Marketing for Diageo Guinness USA, the beer and malt beverage division of Diageo, a leading worldwide spirits, wine and beer company from August 2004 to April 2011.
Anthony J. Vegliante Age 61	Chief Human Resources Officer and Executive Vice President since April 2005. Vice President, Labor Relations from February 1999 to April 2005.
Paul Vogel Age 61	President, Digital Solutions since May 2012. President & Chief Marketing/Sales Officer from December 2010 to May 2012 and President, Mailing and Shipping Services from August 2010 until December 2010. Served as private sector consultant focusing on postal industry strategy and international logistics from 2009 to August 2010. Managing Director of Global Business and Senior Vice President from 2006 to 2009. Vice President, Network Operations Management prior to 2006.

CODE OF ETHICS

All Postal Service employees are required to comply with the Standards of Ethical Conduct for Employees of the Executive Branch ("Standards"). The Standards are published at 5 CFR Part 2635 and cover prohibitions and restrictions on the acceptance of gifts, conflicting financial interests, the obligation of all employees to perform their duties impartially, restrictions on the misuse of government positions, restrictions on certain outside activities, and other related ethical obligations. Postal Service employees are also covered by a set of additional restrictions that apply only to the employees of the Postal Service. These supplemental standards can be found at 5 C.F.R. Part 7001 and focus on limitations on outside employment and outside business activities that could give rise to a conflict with their official duties. The Standards of Conduct and the Supplemental Standards contain many examples to help employees identify and resolve ethical issues. New employees receive ethics training at their orientation and ethics officials provide ethics training throughout the year as required by law and as otherwise deemed appropriate. To ensure that all of our employees can receive timely and accurate ethics advice, we have established a dedicated ethics telephone helpline and an e-mail address that is managed by ethics specialists.

Certain high level employees are also subject to the Senior Financial Managers' Code of Ethics. This Code of Ethics can be found on our website at: *http://about.usps.com/who-we-are/financials/senior-financial-managers-code-of-ethics-2010.pdf.*

ITEM 11 — EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

ROLE OF THE BOARD OF GOVERNORS AND STATUTORY COMPENSATION AND BENEFITS REQUIREMENTS AND LIMITATIONS

The Board of Governors of the Postal Service establishes executive officer compensation and benefits, subject to the requirements and limitations of federal law. The Board has delegated to its Compensation and Management Resources Committee ("Compensation Committee") authority for initial review of management proposals related to compensation and benefits for executive officers. The Compensation Committee, which meets several times throughout the year, is composed solely of presidentially-appointed, Senate-confirmed Governors who are independent of postal management. The Compensation Committee makes recommendations to the full Board for their review and approval.

Federal law governing the Postal Service, set forth in Title 39 of the United States Code, provides that compensation and benefits for all officers in the Postal Service shall be comparable to the compensation and benefits paid for comparable levels of work in the private sector of the economy. The Postal Service is the second largest civilian employer in the nation, with approximately 629,000 career and non-career employees as of the end of fiscal year 2012. The Postal Service operates approximately 213,000 motor vehicles and nearly 32,000 retail units. In 2012, the Postal Service delivered 160 billion pieces of mail, almost half of the world's mail, and generated $65 billion in revenue. In 2012, the Postal Service ranked 135th in Fortune Magazine's listing of Fortune Global 500 Companies. By way of comparison, two of our largest competitors ranked 177th and 263rd on this list. If the Postal Service were listed on the Fortune 500 annual ranking of America's largest corporations, it would be ranked 42nd. The same two of our largest competitors are ranked 52nd and 70th on that list.

Even as the economy continues to be challenged, comparably sized companies typically provide their top executives with annual salaries well in excess of $1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consist of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites.

Although the law governing the Postal Service provides that executives and others should be compensated at a level comparable to the private sector, the law does not afford the Governors the tools to achieve a standard of compensation comparable to the private sector. Compensation for executive officers of the Postal Service remains significantly below that of similarly-situated senior executives in the private sector. Postal law imposes three different caps on compensation for postal employees. The first cap provides that no officer or employee may be paid compensation "at a rate in excess of the rate for level I of the Executive Schedule under section 5312 of title 5" of the United States Code. 39 U.S.C. § 1003(a). As the upper limit on federal salaries has been frozen for three years, this compensation cap has been set at $199,700 for calendar years 2010, 2011, and 2012.

With the approval of the Board, the Postal Service may develop a program to award a bonus or other reward in excess of the compensation cap discussed above, as long as this does not cause the total compensation paid to the officer in a year to “exceed the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which the bonus or award is paid.” 39 U.S.C. § 3686(a)-(b). As the Vice President’s compensation has been frozen for three years, this total compensation cap was $230,700 for calendar years 2010, 2011, and 2012. In approving any such program, the Board must determine that the bonus or award is based on a performance appraisal system that makes meaningful distinctions based on relative performance.

In addition, the Board may allow up to 12 officers or employees of the Postal Service in critical senior executive or equivalent positions to be paid total annual compensation up to “120 percent of the total annual compensation payable to the Vice President [of the United States] under [3 U.S.C. § 104] as of the end of the calendar year in which such payment is received.” 39 U.S.C. § 3686(c). Based on the Vice President’s salary for calendar years 2010, 2011, and 2012, this compensation cap was $276,840 for calendar years 2010, 2011 and 2012.

By law, postal employees, including executive officers, are entitled to participate in either the Civil Service Retirement System or Federal Employees Retirement System, depending on when their federal employment began. These retirement systems are described later in this compensation discussion and analysis. In addition, in order to remain competitive with comparable employment in private industry and other parts of the federal government, postal policy also authorizes certain additional benefits for all officers of the Postal Service, including executive officers. These include participation in the Federal Employees Health Benefits plan, paid life insurance, a periodic physical examination and parking. Other than changes required by law, the Board must authorize any increases to benefits for officers.

COMPENSATION PHILOSOPHY AND OBJECTIVES

The Board recognizes that there is a significant disconnect between the comparability requirement and the compensation caps in the law governing the Postal Service and that the various compensation caps as well do not enable the Board to provide compensation and benefits for executive officers that are fully comparable to the private sector. This is especially true given the Postal Service’s current financial challenges. The Board also recognizes that many of the compensation and benefit tools available in the private sector, such as equity ownership, are not available to the Postal Service, given its status as part of the federal government. These limitations make it difficult for the Postal Service to compete in the marketplace for executive officers and to retain current executive officers.

To attempt to achieve some level of comparability within the confines of the law, the Board has designed a compensation system that balances amounts paid as salary to executives in a given year, with the ability of the executive to earn additional compensation by meeting performance goals and objectives; a portion of this compensation may need to be deferred because of the compensation caps. In recent years, the Postal Service has faced significant financial challenges caused in part by the ongoing decline of First-Class Mail, the economy, and its business model. The Postal Service has taken significant steps, described below, to reduce costs and generate revenue. However, it has sought and continues to need comprehensive legislative change to have much greater flexibility to reduce costs, generate new revenue, and return to financial stability. The ongoing financial challenges facing the Postal Service continued to influence significantly the decisions on compensation for fiscal year 2012.

Within the confines of its legislative authority, the Board’s philosophy is that:

- There should be a strong connection between individual executive compensation and the Postal Service’s performance on a number of dimensions, including service, net income, and productivity.
- Compensation and benefits should be designed to attract and retain top organizational contributors to ensure the Postal Service has the caliber of executives who will enable it to operate at the highest levels of performance and productivity.
- Lump sum incentives should be set to motivate executives to improve performance continuously on a long-term basis and to perform above the annually-established goals and objectives. If individual performance exceeds the goals and objectives set for the year, the employee should receive additional compensation. Likewise, if overall performance falls below the annual goals and objectives, the individual should be paid less.
- A significant amount of the executive’s compensation should be at risk and the “at-risk” amount should increase as the executive’s level of responsibility increases.
- Innovation, effectiveness as an agent for change, the ability to balance day-to-day priorities and long-term strategies, and organizational value as defined by the achievement of key corporate goals and objectives should be rewarded.
- Executive compensation should be fair and equitable internally, recognizing the width and breadth of the responsibilities of the Postal Service’s executives.

- Executive success is defined by a number of factors, including financial returns, the quality of service the Postal Service provides, the results achieved by the executive's actions to enhance the organization's efficiency and overcome challenges and whether an executive met established individual goals. For these reasons, lump sum incentives may be appropriate even in years in which the Postal Service sustains financial losses. This is especially true where the Postal Service successfully introduced new revenue initiatives, stemmed revenue loss and maintained and improved service levels while significantly reducing costs.

THE COMPENSATION PROGRAM

In 2007, with the assistance of an independent consulting firm specializing in executive compensation, the Compensation Committee recommended and the Board approved a salary band for the Postmaster General to be set at the legislative salary cap. In doing so, the Board's objectives were to design a compensation program that optimized the legislative flexibility granted by the Postal Act of 2006, reduced internal pay compression, improved external marketplace competitiveness, and honored legislative constraints and existing pay ranges. For the other executive officers, the Board set pay bands based on salary relationships of comparable executive officers in the comparator external market. In general, the Board has maintained these types of pay band relationships since 2007.

When the Governors appointed the current Postmaster General, they set his salary at the legislative salary cap. Given the Postal Service's significant financial challenges when he assumed office, the current Postmaster General asked the Governors not to award him any additional compensation, beyond salary and the general types of benefits provided to postal executives. The Governors agreed.

Over the years, the Governors have authorized the Postmaster General to establish salaries for the other executive officers, within the confines of the salary ranges established by the Governors. For calendar year 2012, after reviewing recommendations from the Postmaster General and the Compensation Committee and in light of the Postal Service's financial condition, the Governors froze salary ranges and salaries.

In 2012, the Postal Service continued to employ a national performance assessment program ("NPA") to set annual performance goals and metrics that vary among executive officers and are weighted to reflect appropriately the degree to which an executive is able to influence the overall performance of the Postal Service. Annual NPA metrics and targets generally take into consideration the Postal Service's performance during the prior year and particular challenges the Postal Service expects to face during the upcoming year. The NPA places emphasis on objective, measurable performance indicators. The Governors also set individual metrics and targets for the Postmaster General and Deputy Postmaster General and authorize the Postmaster General to establish individual metrics and targets for other officers.

Generally, the Board establishes annual Pay-for-Performance (PFP) incentive opportunities to provide incentives and to reward the Postmaster General and the Deputy Postmaster General for reaching various levels of performance. The Postmaster General establishes annual PFP incentive opportunities to provide incentives and to reward the other executive officers for reaching various levels of performance. Incentive payouts are not made for a particular goal if the Postal Service or the individual fails to meet minimum acceptable performance standards. While, in some years, annual PFP incentives are paid out in cash or deferred for future payment where required due to the compensation caps, the Board determined that, in light of the Postal Service's financial condition, no performance awards would be issued for fiscal year 2012. This will be the fifth consecutive year that compensation for executive officers has been impacted by either a freeze in salary and/or a non-payment of performance lump sums.

The Postal Service has continued to use the NPA process to measure performance during fiscal year 2012 even though no associated compensation has been approved. NPA performance goals and rewards fall into several categories. These include areas that an officer may directly influence, such as service, efficiency, employee satisfaction, and productivity, as well as those that are more susceptible to being affected by general economic conditions, such as revenue generation.

The Board believes that this mix of goals has helped the Postal Service to continue to deliver high-quality service even in the face of an unsettled economy. Particularly in a troubled economy, in order to remain viable, the Postal Service must serve its customers with the highest levels of service, creativity, efficiency, and productivity. Measuring results and sharing information with executive officers on their performance is one way that the Postal Service sustains this performance.

For each goal, the Postmaster General establishes indicators identifying the type of performance that will enable the Postal Service to achieve or surpass the goal. These performance indicators are aligned at the corporate, functional, and individual levels and are weighted. The higher an individual's position is in the organization, the more his or her PFP goals will be tied to overall corporate performance. The executive officers' goals are aligned with national performance goals and linked to the overall success of the Postal Service.

Once the goals and indicators are established, executive officers are advised as to what the Postal Service expects of them in terms of performance during the year, how their performance will impact the entire Postal Service, and in years when performance incentives are authorized, the potential level of performance-based incentives they can expect depending on the Postal Service's and their individual performance. Under this program, an individual executive officer can receive a rating of Non-Contributor, Contributor, High Contributor or Exceptional Contributor, with a numerical rating within each category, depending on how the Postal Service performs on the national indicators and the individual's performance, as determined by the Postmaster General. As shown in the chart below, a rating of Non-Contributor would result from an overall numerical rating of 1 to 3. A rating of Contributor would result from a numerical score of 4 to 9. A rating of High Contributor would result from a score of 10 to 12 and a rating of Exceptional Contributor would result from a score of 13 to 15.

Overall Performance Rating

Adjective Rating	Number rating
Exceptional Contributor (EC)	13, 14, 15
High Contributor (HC)	10, 11, 12
Contributor (C)	4 to 9
Non Contributor (NC)	1, 2, 3

In years when a salary freeze is not in effect and when performance incentives are authorized, the individual executive officer's performance rating would make the officer eligible for an increase to base salary as well as a performance-based lump sum payment. Due to statutory cap limitations, increases to the maximum of the salary range for executive officers generally follow the percentage increase to the Executive Schedule for any given year. Any salary increases for executive officers are limited by these maximums and are solely performance based as determined by the Postmaster General. Lump sum incentive payments are based on the executive officer's performance rating given by the Postmaster General and multiplied by a range of 1.33% to 2.50% based on the degree to which the individual has achieved previously set individual goals and metrics. The Postmaster General's discretion on PFP incentives for executive officers in a given year is limited by the Postal Service's overall performance on NPA goals and metrics. Generally, officer performance scores must average to the Postal Service's overall NPA performance score for the fiscal year.

Salary increases, if any, are determined after the end of the fiscal year, and any new salaries become effective for the following calendar year. In making compensation decisions for fiscal year 2012, the Governors noted that management achieved very significant accomplishments in addressing the many challenges the Postal Service faced in the fiscal year.

Despite a significant continuing decline in First-Class Mail volumes over the past several years, management continued to take aggressive actions within its control to reduce costs, provide excellent service, and secure revenue. Despite declining First-Class Mail volume, package volume increased during fiscal year 2012. Management improved total factor productivity by reducing the workforce, overtime, and supplier expenses, as well as through a number of other process improvement efforts. In addition to maintaining high levels of service, management also maintained employee satisfaction, introduced a number of new products and services, increased customer satisfaction, increased customer access, and offered mailers pricing incentives to help stem the volume decline. Management continued to streamline operations, closing a number of facilities and beginning implementation of consolidations and other steps to optimize network and retail operations. The Governors also noted that the Postal Service received an unqualified opinion from its external auditors as to the effectiveness of internal controls. Finally, management also took significant actions to pursue legislative reform in areas key to the Postal Service's ability to provide universal service in the future.

Despite the many significant accomplishments of postal management during fiscal year 2012, the Governors based their decisions on compensation on the fact that the Postal Service continues to face significant financial challenges. While these financial challenges result in part from the decline in First-Class mail and the economy, the Governors noted that comprehensive legislative change is needed to enable the Postal Service to return to financial stability. The absence of legislative change has had, and will continue to have, a significant negative impact on Postal Service finances. Given the Postal Service's financial challenges, the Governors have not approved salary increases for calendar year 2013. For the same reason, the Postmaster General asked the Governors not to award him a performance incentive for fiscal year 2012. The Governors agreed. Likewise, the Postmaster General, with the approval of the Governors, did not award performance incentives for fiscal year 2012 for the other named executive officers.

Components of the executive officer compensation and benefits program are further outlined as follows.

BASE SALARY

Base salaries provide a level of financial security that is appropriate for the executive's position within the Postal Service. Within the confines of law, base salaries are scaled within pay ranges designed to be competitive with the market median. As discussed above, maximum payouts in a given year are set by federal law. Executive officer salaries are reviewed at least annually and adjusted, as appropriate, to reflect factors such as individual performance, range of responsibilities, value and contribution to the organization, and experience. However, as discussed above, the Governors decided to freeze executive officer salaries for calendar year 2013, continuing the freeze already in place.

ANNUAL INCENTIVE

Annual incentives serve as a mechanism for adjusting total compensation levels commensurate with the attainment of planned results, thereby ensuring affordability and appropriate return to the Postal Service. As discussed above, the Postal Service uses the NPA program to set annual corporate performance goals and metrics. The Governors set the goals and indicators for the Postmaster General and the Deputy Postmaster General, and the Postmaster General establishes goals and indicators for the other executive officers. The Postmaster General's and the Deputy Postmaster General's performance is determined based on the degree to which they have achieved the previously set goals and metrics. Likewise, executive officers' individual performance ratings are determined by the Postmaster General based on the degree to which the individual has achieved the previously set individual goals and metrics. As discussed above, performance incentives will not be paid for fiscal year 2012 due to the Postal Service's dire financial condition.

OTHER COMPENSATION INCENTIVES

Executive officers are also eligible for performance awards for specific activities that reflect a high degree of leadership. Only a small number of these individual awards are given out in a typical year. Fiscal year 2012 was the fifth consecutive year that compensation for officers and executives was in some way affected by a freeze. In addition, executive officers are eligible for retention and recruitment incentives designed to attract and retain highly talented and marketable individuals in key postal positions. The payment of some of these awards may be deferred, in whole or in part, due to the Postal Service's compensation limits.

RETIREMENT ANNUITIES

Officers are covered either by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both systems have a defined benefit component and a defined contribution component. CSRS and FERS service is creditable for Medicare coverage. FERS service is creditable for Social Security.

CSRS Defined Benefit: The CSRS Basic Benefit annuity is a percentage of the high-3 salary multiplied by years of service. The percentage is 1.5% for the first 5 years of service, plus 1.75% from 5 years to 10 years of service and 2% for all years of service thereafter. Optional retirement thresholds are age 55 with 30 years of service, age 60 with 20 years of service, and age 62 with 5 years of service, with a requirement of completing at least 5 years of creditable civilian service. The annuity is fully indexed to the Consumer Price Index (CPI). Disability, early retirement, deferred and survivor benefits are available.

FERS Defined Benefit: The FERS Basic Benefit annuity is 1 percent of high-3 salary per year of service, or 1.1 percent for retirement at age 62 with at least 20 years of service. Optional retirement thresholds are the Minimum Retirement Age (MRA is 55 to 57 depending on year of birth) with 30 years of service, age 60 with 20 years of service, age 62 with 5 years of service, or MRA with 10 years of service (at a reduced benefit), with a requirement of completing at least 5 years of creditable civilian service. Employees who retire at MRA with 30 years of service, or at age 60 with 20 years of service, receive a retirement supplement approximating the value of Social Security benefits attributable to federal service; this benefit is paid until age 62. Beginning at age 62, the annuity is indexed to CPI, fully when the CPI increase is 2 percent or less, at 2 percent when the CPI increase is between 2 and 3 percent, and at CPI - 1 when the CPI is at least 3 percent. Disability, early retirement, deferred and survivor benefits are available.

Defined Contribution: The Thrift Savings Plan (TSP) is similar to 401(k) plans; it has a component that mirrors traditional 401(k) plans and an option similar to Roth plans. CSRS and FERS employees may contribute up to the indexed IRS maximum ($17,000 in 2012). There is no Postal Service contribution for CSRS employees. For FERS employees, the Postal Service makes an automatic contribution of 1 percent of basic pay and a matching contribution of up to 4 percent of basic pay, for a total employer contribution of up to 5 percent of basic pay. Employees who will be at least age 50 in the year of contribution may make a separate catch-up contribution up to the indexed IRS maximum ($5,500 in 2012). TSP investment options are a government securities fund; index funds that track the Barclays Capital Aggregate Bond Index, the S&P 500, the Dow Jones U.S. Completion TSM Index, and the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) stock index; and lifecycle funds.

SUPPLEMENTAL NON-QUALIFIED DEFERRED COMPENSATION

Where appropriate and on a highly selective basis, the Postal Service offers supplemental non-qualified deferred compensation as a recruitment or retention tool.

LIFE INSURANCE

Officers are entitled to basic group life insurance coverage under the Federal Employees Group Life Insurance (FEGLI) Program in the amount of their annual basic salary, rounded up to the next $1,000, plus $2,000. If basic coverage is held, an officer will also receive an additional $10,000 coverage (Option A) and Option B coverage up to three times their salary. All premiums for Option A, Option B, and basic coverage are paid by the USPS. At their own expense, officers may elect additional Option B coverage in an amount equal to two times their salary. Also at their own expense, officers may elect Option C, family optional insurance coverage, of up to 5 multiples of $5,000 for their spouse and $2,500 for each eligible dependent child. Officers continuously covered under FEGLI for the 5 years immediately preceding retirement, or since the first opportunity, may continue coverage during retirement (if entitled to an immediate annuity). USPS pays former officers an actuarially determined lump sum to cover the cost of Option A premiums during retirement to retiring officers.

HEALTH BENEFITS

The Postal Service participates in the Federal Employees Health Benefits ("FEHB") program, which allows all career employees to enroll in one of a number of self only or self and family health benefit plans offered as part of this program. The Postal Service pays a portion of the cost of the premium for its officers and executives. Beginning in January 2012 and continuing over a three-year period, the Postal Service is increasing the percentage its officers and executives pay until the percentage matches the percentage paid by employees in the rest of the federal government. In 2012, the Postal Service's share of the premium was reduced from 100 percent to 91 percent. In 2013, the Postal Service's share of the premium will be reduced to 82 percent of the federal weighted average premium, limited to not more than 85.5 percent of the total premium for any given plan, and enrolled officers and executives will pay the balance of the premium for the plan they select.

Employees who retire with immediate entitlement to an annuity are eligible to continue FEHB coverage into retirement as long as they have participated in an FEHB plan for the five years preceding their retirement or since their first opportunity. Officers are under the same cost sharing formula as other Postal Service and Federal retirees—the Postal Service pays according to the federal premium formula, which is 72 percent of the federal weighted average premium, limited to not more than 75 percent of the total premium for any given plan, with the retiree paying the balance of the premium for the plan they select.

OTHER BENEFITS

To remain competitive with the comparator marketplace, the Postal Service also offers the following additional benefits to its executive officers: periodic physical examinations, parking, financial counseling services, employer-paid life insurance premiums, and membership in up to two airline clubs per year.

FISCAL YEAR 2012 EXECUTIVE OFFICER COMPENSATION

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Bonus ($)	Non-equity incentive plan compensation ($)	Change in pension value and Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Patrick R. Donahoe [1]	FY12	276,840	-	-	186,536	48,717	512,093
Postmaster General & CEO	FY11	271,871	-	-	81,954	30,404	384,229
	FY10	247,615	-	31,100	195,472	6,901	481,088
Joseph Corbett [2]	FY12	239,000	-	30,000	26,748	20,093	315,841
Chief Financial Officer & Executive VP	FY11	239,000	-	30,000	23,376	18,107	310,483
	FY10	236,231	-	58,600	19,950	18,901	333,682
Stephen J. Masse [2]	FY12	189,000	-	-	18,155	15,764	222,919
Acting, Chief Financial Officer & Executive VP	FY11	-	-	-	-	-	-
	FY10	-	-	-	-	-	-
Ellis A. Burgoyne [2]	FY12	230,000	-	-	273,525	6,980	510,505
Chief Information Officer & Executive VP	FY11	220,846	25,763	-	228,384	33,695	508,688
	FY10	-	-	-	-	-	-
Mary Anne Gibbons	FY12	230,000	-	-	122,792	25,878	378,670
General Counsel & Executive VP	FY11	230,000	-	-	29,159	26,877	286,036
	FY10	226,923	-	21,400	45,063	20,860	314,246
Anthony J. Vegliante	FY12	240,000	-	60,000	47,211	15,791	363,002
Chief Human Resources Officer & Executive VP	FY11	240,000	-	* 55,000	56,931	12,736	364,667
	FY10	236,923	-	37,800	101,777	9,342	385,842

Notes:

[1] Mr. Donahoe was appointed Postmaster General & CEO as of December 4, 2010. Mr. Donahoe's FY11 (prior to December 4, 2010), and FY10 data reflect compensation as the Deputy Postmaster General & COO.

[2] Mr. Corbett acted as Chief Information Officer from June 20 through September 30, 2012, Mr. Masse acted as Chief Financial Officer from June 20 through September 30, 2012, Mr. Burgoyne was on extended medical leave from June 20, 2012 through September 30, 2012.

Column (c) Salaries for executive level officers were frozen for calendar year 2012 and 2011. The salary amounts vary from FY12, FY11, and FY10 because salaries are based on the calendar year and not the fiscal year. Therefore, FY12 salary amounts include a portion of calendar year 2011 salary amounts, FY11 salary amounts include a portion of calendar year 2010 salary amounts, and FY10 salary amounts include a portion of calendar year 2009 salary amounts. Mr. Masse was not a named executive officer in FY11 or FY10 and, as such, information for these fiscal years is not reported for him. Mr. Burgoyne was not named executive officer in FY10 and, as such, information for this fiscal year is not reported for him.

Column (d) Mr. Burgoyne was paid $25,000 in FY11 as a recruitment lump-sum when he was promoted to his position as Chief Information Officer. In addition, Mr. Burgoyne was awarded $763 in his previous position as Vice President, Area Operations.

Column (e) The amounts in this column reflect the performance-based incentive compensation awarded to executive officers in prior fiscal years; as noted above, this incentive compensation was not awarded for FY12 or FY11. Pursuant to Mr. Corbett's employment contract, his non-equity incentive plan compensation includes $30,000 in deferred performance-based compensation for FY12, FY11, and FY10. Pursuant to a retention contract with the Postal Service, Mr. Vegliante was awarded a performance-based retention incentive of $60,000 for FY12 and FY11; this amount was deferred. Any *amounts that could not be paid to an executive officer due to the compensation cap or their contract were deferred for future payment. * Consistent with the correction to FY11; Mr. Vegliante was awarded $60,000 in November 2010 for the twelve-month period ending on October 31, 2011; the October 2011 portion ($5,000) was incorrectly included in the FY11 report, as it was compensation for one month of FY12 performance. $60,000 reported for FY12 includes $5,000 from October 2011 and $55,000 from November 2011 through September 2012.*

Column (f) Mr. Donahoe, Mr. Burgoyne and Mr. Vegliante participate in the Civil Service Retirement System (CSRS), which is a defined benefit plan. Mr. Corbett, Mr. Masse and Ms. Gibbons participate in the Federal Employees Retirement System (FERS), a portion of which is a defined benefit plan. The calculation of retirement annuities under CSRS and FERS is explained in the Pension Benefits table, the associated note, and in the Retirement Annuities section of the Compensation Discussion and Analysis. The amounts shown in column (f) for each of these individuals are the amounts by which the value of their annuities has increased since the end of the prior fiscal year. "Nonqualified deferred compensation earnings" is defined as above-market earnings on deferred income. There were no reportable amounts of non-qualified deferred compensation earnings for the named executive officers in FY12 or FY11, with the exception of Mr. Corbett, whose above-market earnings on deferred income were $473 in FY12 and $238 in FY11.

Column (g) For all executive officers listed, the 'All Other Compensation" category includes financial planning services, Thrift Savings Plan employer matching contribution for FERS employees, non-cash awards, parking, physical examinations, life insurance premiums paid for by the Postal Service, airline clubs, and relocation costs. Security costs valued at $40,000 for FY12 are also included for the Postmaster General.

GRANTS OF PLAN-BASED AWARDS

The following table presents information regarding potential non-equity incentive awards to the named executive officers for fiscal year 2013. Whether executive officers receive an award and, if so, the amount of an award for fiscal year 2013 will depend on the Postal Service's and the individual's performance.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
		Threshold ($)	Target ($)	Maximum ($)
(a)	(b)	(c)	(d)	(e)
Patrick R. Donahoe	October 2012	14,728	33,221	103,815
Joseph Corbett	October 2012	12,715	28,680	89,625
Stephen J. Masse	October 2012	10,055	22,680	70,875
Ellis A. Burgoyne	October 2012	12,236	27,600	86,250
Mary Anne Gibbons	October 2012	12,236	27,600	86,250
Anthony J. Vegliante	October 2012	12,768	28,800	90,000

***Note:** Columns (c)-(e). The USPS Pay-for-Performance (PFP) program relies on a 15-point scale with clearly defined and transparent corporate goals. The PFP plan target in any given year is set at a rating of 6. Incentives are not paid for any rating below or equal to 3. The maximum threshold for payment is set at a rating of 15. Individual ratings vary but the corporate score is used as the regulator. As noted above, no incentives were paid for FY 2012.*

PENSION BENEFITS

The table below shows the present value of accumulated pension benefits payable to the named executive officers.

Name	Plan name	Number of years credited service (#)	Present value of accumulated benefit ($)
(a)	(b)	(c)	(d)
Patrick R. Donahoe	CSRS Annuity	37 Years	3,526,587
Joseph Corbett	FERS Annuity	4 Years	82,093
Stephen J. Masse	FERS Annuity	3 Years	53,875
Ellis A. Burgoyne	CSRS Annuity	34 Years	2,751,360
Mary Anne Gibbons	FERS Annuity	27 Years	1,072,727
Anthony J. Vegliante	CSRS Annuity	35 Years	2,698,027

Note: All officers are eligible for CSRS or FERS retirement benefits available to career employees of the Federal Government. These benefits are described in the Retirement Annuities section of the Compensation Discussion and Analysis. The present value of the accumulated CSRS or FERS benefit represents the value of the pension over the individual's actuarial lifetime, as of September 30, 2012. Mr. Donahoe, Mr. Burgoyne and Mr. Vegliante participate in CSRS, and Mr. Corbett, Mr. Masse, and Ms. Gibbons participate in FERS. Mr. Donahoe, Ms. Gibbons and Mr. Vegliante are eligible for retirement, the calculation of which is described in the Retirement Annuities section of the Compensation Discussion and Analysis. The valuation for Mr. Corbett and Mr. Masse assumes that they have satisfied vesting requirements for retirement; however, because of their short tenure with the Postal Service, their retirement annuities have not vested.

NONQUALIFIED DEFERRED COMPENSATION

The following table presents information regarding the contributions to, and earnings on, the named executive officers' deferred compensation balances during the fiscal year ended September 30, 2012, and also shows the total deferred amounts for the named executive officers as of September 30, 2012.

Name	Executive contributions in last FY ($)	Aggregate earnings in last FY ($)	Aggregate balance at September 30, 2012 ($)
(a)	(b)	(c)	(d)
Patrick R. Donahoe	-	382	8,037
Joseph Corbett	30,000	3,236	104,744
Anthony J. Vegliante	60,000	5,470	129,503

Notes: Column (b) The amounts in this column represent amounts deferred due to the compensation cap or contract agreements. The amounts shown for Mr. Corbett and Mr. Vegliante reflect lump-sum performance retention payments required by their employment agreements which have been deferred.

Column (c) The Postal Service calculates interest on deferred compensation semi-annually at 5.0% per year for Mr. Corbett per contract, others are calculated at the Federal Long Term Rate; 4.9% in FY12. Interest is prorated from the relevant pay period of the deferral.

Column (d) The amount shown for Postmaster General Donahoe reflects a deferred FY10 PFP amount plus interest through FY12.

DIRECTOR COMPENSATION

The following table presents information regarding the compensation of the members of the Board of Governors.

Name	Fees earned or paid in cash ($)	All other compensation ($)	Total ($)
Thurgood Marshall, Jr.	36,900	-	36,900
Mickey D. Barnett	37,200	-	37,200
James H. Bilbray	39,000	-	39,000
Louis J. Giuliano	38,100	-	38,100
James C. Miller III	7,167	-	7,167
Dennis J. Toner	39,000	-	39,000
Ellen C. Williams	36,900	-	36,900

Note: Each Governor receives a basic stipend of $30,000 per year plus $300 per day for not more than 42 days of meetings each year. Governor Miller was a member of the Board during FY12 and his term ended during the fiscal year.

POTENTIAL PAYMENTS UPON TERMINATION

As described in the Compensation Discussion and Analysis, in 2009, the Postal Service entered into an employment agreement with Joseph Corbett, the Chief Financial Officer, for recruitment and retention purposes. Mr. Corbett's agreement provides for deferred compensation payable in installments commencing on the date of his separation from the Postal Service or October 22, 2019, whichever is later. In 2010, the former Postmaster General entered into an employment agreement with Mr. Vegliante. That agreement was amended on November 14, 2011. As amended, the agreement clarifies that Mr. Vegliante's retention incentive is performance-based and provides for his 2012 deferred compensation to be paid no sooner than one year after his departure from the Postal Service.

The Postmaster General and all of the other named executives are subject to the standard policies governing the CSRS or FERS, as described in the Compensation Discussion and Analysis. The present value of these CSRS and FERS benefits are found in the Pension Benefits table in the Compensation section of this report. The information below describes and quantifies certain compensation, in addition to that due pursuant to CSRS or FERS, that would become payable under existing plans and arrangements if the named executive officer's employment had terminated on September 30, 2012. Additionally, pursuant to statutes and regulations generally applicable to federal employees, the named executives would be entitled to receive the federal employer's standard contribution toward retiree health benefits, in the event they have qualifying service and participated in the Federal Employees Health Benefits Plan for the requisite period of time prior to retiring.

DEFERRED COMPENSATION

All federal employees, including Postal Service employees, are subject to annual compensation limits established pursuant to federal statutes and regulations. When amounts earned by federal employees cannot be paid because of these compensation limits, these payments are deferred until a year in which their payment would not cause total annual compensation paid to the employee to exceed the compensation limit, or the year in which an employee leaves federal service, whichever occurs first. Named executive officers appearing in the Nonqualified Deferred Compensation table in the Executive Officer Compensation section of this report have deferred compensation in the amounts indicated therein. These amounts would have been paid to them in a lump-sum or pursuant to their contract with the Postal Service following their departure, had they ended their Postal Service employment on September 30, 2012. Mr. Corbett's employment agreement provides for deferred incentives linked in part to his performance. Mr. Corbett began accruing deferred performance-based compensation at the end of fiscal year 2010. When Mr. Corbett concludes his Postal Service employment, or on October 22, 2019, if that date is later than Mr. Corbett's departure from the Postal Service, his deferred compensation will be paid to him in three approximately equal annual installments. Mr. Vegliante's 2012 deferred compensation will be paid to him no sooner than one year after his departure from the Postal Service.

SUPPLEMENTAL PENSION BENEFIT

The Governors have not authorized a supplemental pension benefit for any executive officer at this time.

SEVERANCE PAYMENT

Mr. Corbett is entitled to a severance payment of $230,000, in the event the Postal Service terminates his employment for any reason other than for cause or breach of contract.

INSURANCE BENEFITS

The Governors have not authorized supplemental insurance benefits for any executive officer at this time. The insurance benefits to which all postal executives are entitled are described above.

OUTPLACEMENT ASSISTANCE

The Governors have not authorized any outplacement assistance for any executive officer at this time.

ACCRUED ANNUAL LEAVE

All Postal Service employees are entitled to receive and accrue paid days off, known as annual leave. Upon their separation from the Postal Service, all employees, including the named executive officers, are entitled to be paid, in a lump-sum, the value of all accrued annual leave. The table below shows the accrued value of the annual leave of the named executive officers, as of September 30, 2012.

Name	Value of accrued annual leave ($)
Patrick R. Donahoe	210,691
Joseph Corbett	41,365
Stephen J. Masse	13,085
Ellis A. Burgoyne	11,279
Mary Anne Gibbons	23,001
Anthony J. Vegliante	227,077

COMPENSATION COMMITTEE REPORT

The Compensation and Management Resources Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation and Management Resources Committee recommended to the Governors that the Compensation Discussion and Analysis be included in this Report.

The Compensation and Management Resources Committee

Ellen C. Williams, Chairman
Mickey D. Barnett, Member
Louis J. Giuliano, Member

ITEM 12 — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Not applicable to the United States Postal Service. As an "independent establishment of the executive branch of the Government of the United States," we do not issue equity securities.

ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

CERTAIN TRANSACTIONS

We enter into significant transactions with other government agencies, as disclosed throughout this report and the financial statements.

DIRECTOR INDEPENDENCE

All of the Governors of the Postal Service Board of Governors who are currently serving and have been appointed by the President of the United States with the advice and consent of the Senate are independent, based on the New York Stock Exchange definition of independence.

ITEM 14 — PRINCIPAL ACCOUNTANT FEES AND SERVICES

In 2002, the Board of Governors selected Ernst & Young LLP as its independent auditor to perform external auditing services. In October 2009, the contract was extended to February 2014 with two option years to February 2016. As with previous contracts for external audit services, Ernst & Young LLP will not perform consulting work for us for the duration of the contract. Fees for audit services totaled approximately $11.6 million in 2012, $10.4 million in 2011, and $10.2 million in 2010, including fees associated with the annual audit, including the reviews of the Postal Service's quarterly reports on Form 10-Q and testing of management's internal control assessment in accordance with the Sarbanes-Oxley Act in 2012, 2011, and 2010.

Part IV

Financial Review

ITEM 15 — EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A)(1) AND (2) FINANCIAL STATEMENTS; FINANCIAL STATEMENT SCHEDULES

In 2002, the Board of Governors selected Ernst & Young LLP to audit the Postal Service's financial statements, together with the notes thereto. The report of Ernst & Young LLP dated November 15, 2012, is presented on page 77 of this Form 10-K. The financial statements included are the Statement of Operations, the Balance Sheets, the Statements of Changes in Net Deficiency, the Statements of Cash Flows and the Notes to the Financial Statements.

1. FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm — page 77.

Statements of Operations for the Years Ended September 30, 2012, 2011, and 2010 — page 78.

Balance Sheets as of September 30, 2012, and 2011 — pages 79-80.

Statements of Changes in Net Deficiency for the Years Ended September 30, 2012, 2011, and 2010 — page 81.

Statements of Cash Flows for the Years Ended September 30, 2012, 2011, and 2010 — page 82.

Notes to Financial Statements — pages 83-104.

2. FINANCIAL STATEMENT SCHEDULES

Operating Statistics from the Years Ended September 30, 2008 to 2012 — pages 105-108.

Financial History Summary from the Year ended September 30, 2008 to 2012 — page 109.

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Postal Service's financial statements or the notes thereto.

(A)(3) EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Employment/Compensation Contract with Joseph Corbett, Chief Financial Officer (filed with the PRC on January 29, 2009, as Exhibit No. 10.1 to the Current Report on Form 8-K).
10.2	Employment/Compensation Contract with Paul Vogel, President, Digital Solutions, dated July 27, 2010 (filed with the PRC on November 15, 2010, as Exhibit No. 10.5 to the Annual Report on Form 10-K).
10.3	Amendment to employment/compensation contract with Paul Vogel, President, Digital Solutions, dated November 14, 2011 (filed with the PRC on November 16, 2011, as Exhibit No. 10.4 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2011).
10.4	Amendment to employment/compensation contract with Paul Vogel, President, Digital Solutions, dated June 14, 2012 (filed with the PRC on August 9, 2012, as Exhibit No. 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.5	Employment/Compensation Contract with Anthony Vegliante, Chief Human Resources Officer and Executive Vice President (filed with the PRC on November 15, 2010, as Exhibit No. 10.1 to the Current Report on Form 8-K).
10.6	Amendment to employment/compensation contract with Anthony Vegliante, Chief Human Resources Officer and Executive Vice President, dated November 14, 2011 (filed with the PRC on November 16, 2011, as Exhibit No. 10.6 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2011).

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.

Report of Independent Registered Public Accounting Firm

The Board of Governors of the United States Postal Service

We have audited the United States Postal Service's internal control over financial reporting as of September 30, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The United States Postal Service's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the United States Postal Service's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the United States Postal Service maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the United States Postal Service as of September 30, 2012 and 2011, and the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2012 of the United States Postal Service and our report dated November 15, 2012 expressed an unqualified opinion thereon that included an explanatory paragraph regarding the United States Postal Service's ability to generate sufficient cash flow to meet all of its financial obligations throughout their fiscal year ending September 30, 2013.

/s/ Ernst & Young LLP

McLean, Virginia
November 15, 2012

Report of Independent Registered Public Accounting Firm

The Board of Governors of the United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2012 and 2011, and the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2012. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2012, in conformity with U.S. generally accepted accounting principles.

As discussed more fully in Note 2 to the financial statements, the United States Postal Service, an independent establishment of the executive branch of the Government of the United States, is dependent upon future actions of the Government to continue its operations in the ordinary course as a result of increasing operating losses and near term statutory funding requirements for employee benefit obligations. Losses in recent periods have increased primarily due to sustained declines in mail volume, and statutory and regulatory restrictions have constrained the ability of the Postal Service to implement strategies to improve efficiency, reduce costs and increase revenues. Due to these conditions, during fiscal year 2012, the Postal Service defaulted on $11.1 billion of prefunding payments required to be paid to the Postal Service Retiree Health Benefits Fund by Public Law (P.L.) 109-435, the *Postal Accountability and Enhancement Act*. The Postal Service does not expect to have sufficient cash to meet the related additional obligation due by September 30, 2013 for $5.6 billion. The statutory requirement establishing the payments required by P.L. 109-435 contains no provisions addressing a payment default. The Postal Service does not, at this time, anticipate any legal consequences, under current law, from its inability to make the required payment. Management expects, but no assurances can be given, that additional legislation will be enacted in fiscal year 2013 to address the short-term funding requirements of the United States Postal Service.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the United States Postal Service's internal control over financial reporting as of September 30, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 15, 2012 expressed an unqualified opinion thereon.

In accordance with *Government Auditing Standards*, we also have issued our report dated November 15, 2012 on our consideration of the United States Postal Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/ Ernst & Young LLP

McLean, Virginia
November 15, 2012

STATEMENTS OF OPERATIONS

	Years Ended September 30, 2012	2011	2010
(Dollars in millions)			
Operating revenue	$ 65,223	$ 65,711	$ 67,052
Operating expenses			
Compensation and benefits	47,689	48,310	48,909
Retiree health benefits	13,729	2,441	7,747
Workers' compensation	3,729	3,672	3,566
Transportation	6,630	6,389	5,878
Other	9,187	9,822	9,326
Total operating expenses	80,964	70,634	75,426
Loss from operations	**(15,741)**	**(4,923)**	**(8,374)**
Interest and investment income	25	28	25
Interest expense	(190)	(172)	(156)
Net loss	**$ (15,906)**	**$ (5,067)**	**$ (8,505)**

See accompanying notes to the financial statements

BALANCE SHEETS — ASSETS

		September 30, 2012		2011
(Dollars in millions)				
Current Assets				
Cash and cash equivalents	$	2,319	$	1,488
Receivables:				
Foreign countries		509		669
U.S. Government		142		154
Other		308		255
Receivables before allowances		959		1,078
Less: Allowance for doubtful accounts		41		37
Total receivables, net		918		1,041
Supplies, advances and prepayments		126		120
Total Current Assets		**3,363**		**2,649**
Noncurrent Assets				
Property and Equipment, at Cost				
Buildings		24,452		24,263
Equipment		20,143		20,409
Land		2,919		2,952
Leasehold improvements		1,208		1,112
		48,722		48,736
Less: Allowances for depreciation and amortization		30,187		29,023
		18,535		19,713
Construction in progress		328		624
Total Property and Equipment, Net		**18,863**		**20,337**
Other Assets - Principally Revenue Forgone Receivable		385		427
Total Noncurrent Assets		**19,248**		**20,764**
Total Assets	$	**22,611**	$	**23,413**

See accompanying notes to the financial statements

BALANCE SHEETS — LIABILITIES AND NET DEFICIENCY

(Dollars in millions)	September 30, 2012	September 30, 2011
Current Liabilities		
Compensation and benefits	$ 1,856	$ 2,390
Retiree health benefits	11,205	7
Workers' compensation	1,337	1,255
Payables and accrued expenses:		
Trade payables and accrued expenses	1,159	1,041
Foreign countries	583	652
U.S. Government	93	119
Total payables and accrued expenses	1,835	1,812
Deferred revenue-prepaid postage	4,014	3,497
Customer deposit accounts	1,210	1,386
Outstanding postal money orders	677	688
Prepaid box rent and other deferred revenue	475	502
Debt	9,500	7,500
Total Current Liabilities	**32,109**	**19,037**
Noncurrent Liabilities		
Workers' compensation costs	16,230	13,887
Employees' accumulated leave	1,855	2,030
Deferred appropriation and other revenue	194	326
Long-term portion capital lease obligations	410	460
Deferred gains on sales of property	313	345
Contingent liabilities and other	846	768
Debt	5,500	5,500
Total Noncurrent Liabilities	**25,348**	**23,316**
Total Liabilities	**57,457**	**42,353**
Net Deficiency		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	(37,978)	(22,072)
Total Net Deficiency	**(34,846)**	**(18,940)**
Total Liabilities and Net Deficiency	**$ 22,611**	**$ 23,413**

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN NET DEFICIENCY

(Dollars in millions)	Capital Contributions of U.S. Government	Retained Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2009	**$ 3,087**	**$ (8,500)**	**$ (5,413)**
Additional capital contributions	45	0	45
Net loss	0	(8,505)	(8,505)
Balance, September 30, 2010	**$ 3,132**	**$ (17,005)**	**$ (13,873)**
Additional capital contributions	0	0	0
Net loss	0	(5,067)	(5,067)
Balance, September 30, 2011	**$ 3,132**	**$ (22,072)**	**$ (18,940)**
Additional capital contributions	0	0	0
Net loss	0	(15,906)	(15,906)
Balance, September 30, 2012	**$ 3,132**	**$ (37,978)**	**$ (34,846)**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(Dollars in millions)	2012	2011	2010
	Years Ended September 30,		
Cash flows from operating activities:			
Net Loss	$ (15,906)	$ (5,067)	$ (8,505)
Adjustments to reconcile net loss to cash provided by operations:			
Depreciation and amortization	2,075	2,313	2,469
(Gain) loss on disposals of property and equipment and impairments, net	(5)	6	8
Decrease (increase) in other assets - primarily, appropriations receivable revenue forgone	17	(25)	10
Increase in noncurrent workers' compensation liability	2,343	2,413	2,410
Decrease in employees' accumulated leave	(175)	(53)	(13)
Decrease in noncurrent deferred appropriations and other revenue	(3)	(3)	(2)
Increase (decrease) in other noncurrent liabilities	78	520	(11)
Changes in current assets and liabilities:			
Receivables, net	108	53	(255)
Supplies, advances and prepayments	(6)	(6)	24
Compensation and benefits	(534)	(539)	163
Retiree health benefits	11,198	7	-
Workers' compensation	82	140	46
Payables and accrued expenses	23	(182)	182
Customers deposit accounts	(176)	(43)	50
Deferred revenue-prepaid postage	517	913	139
Outstanding postal money orders	(11)	49	(1)
Prepaid box rent and other deferred revenue	(57)	(2)	(6)
Net cash (used in) provided by operating activities	**(432)**	**494**	**(3,292)**
Cash flows from investing activities:			
Purchase of property and equipment	(705)	(1,190)	(1,393)
Proceeds from deferred building sale	40	48	19
Proceeds from sales of property and equipment	108	89	51
Net cash used in investing activities	**(557)**	**(1,053)**	**(1,323)**
Cash flows from financing activities:			
Issuance of notes payable	5,300	5,800	4,100
Payments on notes payable	(4,100)	(4,600)	(2,500)
Net change in revolving credit line	800	(200)	200
Payments on capital lease obligations, net	(51)	(51)	(50)
U.S. Government appropriations - expensed	(129)	(63)	(63)
Net cash provided by financing activities	**1,820**	**886**	**1,687**
Net increase (decrease) in cash and cash equivalents	831	327	(2,928)
Cash and cash equivalents at beginning of year	1,488	1,161	4,089
Cash and cash equivalents at end of year	**$ 2,319**	**$ 1,488**	**$ 1,161**
Supplemental cash flow disclosures:			
Interest paid	$ 188	$ 166	$ 154

See accompanying notes to the financial statements

Notes to the Financial Statements

NOTE 1 — DESCRIPTION OF BUSINESS

NATURE OF OPERATIONS

The United States Postal Service (Postal Service) provides a variety of classes of mail service without undue discrimination among its many customers. This means that, within each class of mail, prices do not unreasonably vary by customer for the service provided. This fulfills the Postal Service's legal mandate to offer universal service at a fair price. We have a very diverse customer base and are not dependent on a single customer or small group of customers. No single customer represents more than 2% of operating revenue. Operations are conducted primarily in the domestic market, with international mail services representing less than 5% of revenue.

Postal services are divided into several broad categories: First-Class Mail, Standard Mail, Periodicals, Shipping and Packages, International, and Other services. In terms of revenue, our largest categories are First-Class Mail, Standard Mail and Shipping and Packages. First-Class Mail revenue for the three years ended September 30, 2012, 2011, and 2010 was $28,867 million, $30,030 million, and $32,111 million, respectively. Standard Mail revenue for the three years ended September 30, 2012, 2011, and 2010 was $16,428 million, $17,175 million, and $16,728 million, respectively. Shipping and Packages revenue for the three years ended September 30, 2012, 2011, and 2010 was $11,596 million, $10,670 million, and $10,156 million, respectively. Priority Mail and Express Mail are significant services in the Shipping and Packages category. Significant market sectors for postal services include financial services, communications, distribution, delivery, and advertising. Products and services are sold through nearly 32,000 Post Offices, stations, and branches plus a large network of Contract Postal Units (CPU), Community Post Offices (CPO), Village Post Offices (VPO), and commercial outlets which sell stamps on our behalf.

More than 85% of career employees are covered by collective bargaining agreements and are primarily represented by the American Postal Workers Union (APWU), National Association of Letter Carriers (NALC), National Postal Mail Handlers Union (NPMHU), and National Rural Letter Carriers' Association (NRLCA). By law, the Postal Service also consults with management organizations representing most of the employees not covered by collective bargaining agreements. These consultations provide an opportunity for non-bargaining unit employees in the field to participate directly in the planning, development, and implementation of programs and policies affecting managerial employees.

POSTAL REORGANIZATION

The Postal Service began operations on July 1, 1971, in accordance with the provisions of the *Postal Reorganization Act,* which established it as an "independent establishment of the executive branch of the Government of the United States." Governing decisions are made by a Board of Governors, which consists of independent members who are appointed by the President with the advice and consent of the Senate; the Board of Governors also includes the Postmaster General, who is appointed by the independent members of the Board of Governors and the Deputy Postmaster General, who is appointed by the independent Governors and the Postmaster General.

The U.S. Government's equity in the former Post Office Department (POD) became the Postal Service's beginning capital, with initial assets valued at original cost less accumulated depreciation. The transfer of assets from the POD, which included property, equipment, and cash, totaled $1.7 billion. Subsequent cash contributions and transfers of assets between 1972 and 1982 totaled approximately $1.3 billion. In 2009 and 2010, approximately 6,500 fuel efficient vehicles were contributed to the Postal Service under the provisions of the *American Recovery and Reinvestment Act*. The excess of the fair value of these vehicles over the fair value of the vehicles traded-in was recorded as additional non-cash capital contributions by the U.S. Government of $53 million in 2009 and $45 million in 2010. Total capital contributions of the U.S. Government are $3,132 million as of September 30, 2012. Although the U.S. Government remains responsible for the POD's liabilities, The *Balanced Budget Act of 1997* transferred the POD's workers' compensation liability to the Postal Service. The Postal Service has paid a total of $615 million towards these liabilities of the POD as of September 30, 2012.

The *Postal Accountability and Enhancement Act*, Public Law 109-435 (P.L. 109-435), made further revisions to the *Postal Reorganization Act*. The Postal Service's governing statute is codified in Title 39 of the United States Code. P.L. 109-435 created the Postal Regulatory Commission (PRC), endowing the PRC with regulatory and oversight obligations.

P.L. 109-435 also significantly altered some financial responsibilities of the Postal Service, particularly with respect to the funding of Civil Service Retirement System (CSRS) benefits and retiree health benefits. As originally enacted, P.L. 109-435 required the Postal Service to contribute a total of $56 billion to a newly established Postal Service Retiree Health Benefits Fund (PSRHBF) from 2007 – 2016. Public Law 111-68, *Making Appropriations for the Legislative Branch for the fiscal year-ending September 30, 2010, and for other purposes* amended P.L. 109-435 by changing the required Postal Service payments to the Postal Service Retiree Health Benefits Fund (PSRHBF) for the year ended September 30, 2009, from $5.4 billion to $1.4 billion. This law affected only the 2009 payment made in September 2009 and did not change any subsequent prefunding payment requirements. See Note 9, *Health Benefit Plans*, for additional information.

NOTE 2 — LIQUIDITY MATTERS

SUMMARY OF PROJECTED CASH SHORTFALL

The United States Postal Service continues to suffer from a severe lack of liquidity. The largest contributing factor has been the requirement of P.L. 109-435 to prefund its retiree health benefit obligations, a requirement not shared by other federal agencies or private sector businesses, coupled with a decline in mail volume since the 2006 peak. The prefunding requirement is in addition to paying the employers' share of the insurance premiums for the Postal Service's retirees, which cost $2.6 billion in 2012. In the past six years, since the enactment of the congressionally mandated prefunding, the Postal Service has incurred $41 billion of net losses, including $32 billion of expenses for prefunding to the PSRHBF. While the Postal Service was not able to pay the $11.1 billion of prefunding obligations in 2012, this amount has been expensed and is reflected as a liability in its balance sheet. The United States Postal Service has paid $21 billion of cash to the PSRHBF for prefunding over the past six years. During that time, its debt has increased by nearly $13 billion, reaching the $15 billion borrowing limit at the end of 2012.

During 2012, the Postal Service was forced to default on the required $5.5 billion prefunding payment to the PSRHBF for retiree health benefits which was due by August 1, 2012, and the $5.6 billion payment which was due by September 30, 2012. The statutory requirement establishing the prefunding payment schedule (P.L. 109-435) contains no provisions addressing a payment default. Prior to the default, all significant stakeholders, including the Administration and Congress were notified. As of November 15, 2012, the Postal Service has suffered no penalties or damages as a result of our inability to make these payments.

The United States Postal Service ended 2012 with $2.3 billion of total cash and no remaining borrowing capacity on its $15 billion debt facility (See Note 4, *Debt*, for additional information). The trend of losses continued this year, as the Postal Service had a net loss of $15.9 billion for the year, including expenses accrued for the two legally-mandated prefunding payments for retiree health benefits totaling $11.1 billion.

The Postal Service's liquidity position worsened in October of 2012, when in addition to paying its normal operating expenses, the Postal Service made its annual payment of approximately $1.4 billion to reimburse the Department of Labor (DOL) for workers' compensation expenses. Although the United States Postal Service's liquidity position is projected to improve slightly for a few months during the fall mailing season, current projections indicate that it will once again have an extremely low level of liquidity in the second half of 2013. Further, these projections indicate that the Postal Service will be unable to make the required $5.6 billion prefunding payment due by September 30, 2013, and will have no ability to borrow additional funds at that date. These conditions will exist absent the legislative actions by Congress that has been requested to assist the Postal Service in returning to a financially stable position.

In the short-term, should circumstances leave the United States Postal Service with insufficient cash, it will be required to consider emergency measures to ensure that mail deliveries continue. These measures could require that the Postal Service prioritize payments to our employees and suppliers ahead of those to the Federal Government, as it has done in the past. Additionally, the Postal Service continues to seek a refund of the overfunding of Federal Employees' Retirement System (FERS) as those funds would help alleviate some of the Postal Service's short-term liquidity risks. The Office of the Inspector General (OIG) has determined that if Postal Service specific assumptions were used in estimating the FERS obligation, rather than government-wide averages, the surplus would be much greater.

POSTAL INITIATIVES UNDERTAKEN TO IMPROVE LIQUIDITY

The United States Postal Service has removed nearly $15 billion from its annual cost base in the past six years. The Postal Service will continue to improve productivity and generate cost savings as outlined in its comprehensive five-year plan, released in February 2012. This, including necessary legislative changes, will enable the Postal Service to achieve financial stability and repay debt. It continues to aggressively pursue strategies within its control to increase efficiency. These measures include right-sizing the mail processing, retail, and delivery networks in order to better align them with mail volumes, pursuing new revenue streams, and reducing workforce costs.

The United States Postal Service is implementing a strategy to increase the efficiency of its mail processing network. This requires the consolidation of a number of mail processing and distribution locations and the rescheduling of transportation routes. On May 17, 2012, the Postal Service announced a modified, phased plan to continue the consolidation of its network of 461 mail processing locations. The first phase will result in up to 140 consolidations through 2013. Unless its circumstances change, a second phase of 89 additional consolidations is scheduled to begin in February 2014. When fully implemented, the consolidations are expected to reduce costs by approximately $2.1 billion annually.

The Postal Service is also working to increase efficiency and reduce the costs of its retail network, while continuing to provide appropriate levels of service to communities throughout America. On May 9, 2012, the Postal Service announced a strategy to preserve Post Offices serving rural America while providing a framework to achieve significant cost savings. This strategy, called the POSt Plan, will allow Post Offices to remain open with modified window hours and will also allow the affected towns to retain their ZIP codes. When fully implemented, this strategy will save approximately $500 million annually.

The United States Postal Service continues to develop innovative new services to generate new revenue and slow the migration of existing revenue streams to electronic alternatives. Existing services and online services have been enhanced with “ease of use” in mind in an effort to grow revenues. Additionally, major advertising campaigns promote mail as a powerful way for businesses to reach and engage their customers. However, it is not possible to achieve financial stability through revenue initiatives alone without a fundamental change in the business model.

As the Postal Service implements these efficiency measures, it plans to better align staffing levels with projected mail volume. It is expected that this will be achieved largely through attrition, as approximately one-half of career employees are eligible for retirement or voluntary early retirement. In 2012, two voluntary incentive separation offers were announced. Approximately 4,275 eligible postmasters accepted an incentive offer of $20,000 and approximately 2,925 eligible mail handlers accepted an incentive of $15,000. All of these employees left the Postal Service by September 30, 2012. The incentive payments will be made in December 2012 and 2013. In compliance with GAAP, the full amount of the incentive payments were recorded as an expense in Quarter IV, 2012 although the cash payments will be paid in future periods.

Additionally, the Postal Service announced on October 1, 2012 a Special Incentive and Voluntary Early Retirement (VER) offer to employees represented by the APWU. Eligible full-time APWU employees must notify the Postal Service on or before December 3, 2012 of their intent to accept the incentive. Eligible part-time or nontraditional full-time APWU employees have until January 4, 2013. Separation for those employees will be effective no later than January 31, 2013 and incentive payments of $10,000 will be made on May 24, 2013, and $5,000 on May 23, 2014. Incentives for employees who are not full-time will be prorated. No amounts for these incentives have been accrued in the financial statements for the year ended September 30, 2012.

Achieving significant future cost reductions in areas that are under the Postal Service’s control, will not be enough to return it to a position of financially viability in the long run, without comprehensive changes to its business model. Accordingly, the Postal Service has proposed legislative changes to Congress that are needed to provide it with the legal authority to implement certain measures to increase efficiency and cost savings. Certain parts of the plan, such as transitioning to a five-day per week delivery schedule, obtaining a refund of the FERS overfunding, and resolving the prefunding of retiree health benefits are beyond the control of management and require enactment of legislation. Relevant legislation has been introduced in both houses of Congress and a bill has been passed by the Senate. If no bill is passed in the current session of Congress, then the legislative process starts anew with new bills required to be introduced when the 113th Congress begins in January 2013. Given the vital role that the Postal Service plays in the U.S. economy, management is requesting that Congress promptly take the steps needed to enact legislative changes that will enable the Postal Service to return to financial stability.

A vital component of the five-year plan is the proposal that the Postal Service sponsor its own health care program independent of other federal health insurance programs. A Postal Service-sponsored health care program could achieve over $7 billion of projected annual savings. The plan would allow for 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 over $5 billion dollars annually through 2016. The plan also proposes to transfer current retirees into the Postal Service-sponsored health care program, an action that requires legislation. The Postal Service's 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 United States Postal Service's status as an independent establishment of the executive branch that 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. The Postal Service is widely recognized as the provider of an essential government service and is the epicenter of an almost $1 trillion mailing industry. There are 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 it to significantly curtail or cease operations.

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 it faces and the legislative changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, it is hopeful that Congress will promptly 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 requests to restructure the PSRHBF prefunding payment schedule, or any other legislative changes, will be made in time to impact 2013, or at all.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The Postal Service conforms to accounting principles generally accepted in the United States (GAAP) and maintains its accounting records and prepares its financial statements on the accrual basis of accounting. Following these principles, estimates and assumptions are made that affect the amounts reported in the Financial Statements and disclosed in the Notes to the Financial Statements. Actual results may differ from those estimates.

These financial statements reflect the audited results of operations of the United States Postal Service for the years ended September 30, 2012, 2011, and 2010 and its financial position as of September 30, 2012 and 2011. 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 stated, refer to quarters within fiscal years 2012, 2011, and 2010. Subsequent events through November 15, 2012, the date that the financial statements were issued, have been evaluated.

SEGMENT INFORMATION

The Postal Service operates in one segment throughout the United States, its possessions and territories.

RECLASSIFICATIONS

Certain prior year amounts related to short-term and long-term annual leave liabilities have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported operating losses and net losses.

RELATED PARTIES

The Postal Service has significant transactions with other U.S. Government agencies, as disclosed throughout this report. In addition to those amounts disclosed elsewhere, deferred revenue of $27 million for 2012 and $39 million for 2011 related to government deposits, is included in the Balance Sheets in "Customer Deposit Accounts."

CASH AND CASH EQUIVALENTS

Securities that mature within 90 days from the purchase date are deemed to be cash equivalents.

Included in "Cash and Cash Equivalents" are funds designated to be used for law enforcement purposes and consumer fraud prevention awareness. The amounts so designated at the end of 2012 and 2011 were $194 million and $169 million, respectively.

RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables are carried at book value. Billed receivables are generally liquidated within one year and do not have a stated interest rate.

Provision is made for doubtful accounts on outstanding receivables based on historical collection experience and an estimate of uncollectible accounts as of the reporting date. The following summarizes activity in the allowance for doubtful accounts:

Allowance for Doubtful Accounts (Dollars in millions)		2012		2011		2010
Beginning Balance	**$**	**37**	**$**	**32**	**$**	**29**
Provision for Doubtful Accounts		**11**		**13**		**11**
Write-offs		**(7)**		**(8)**		**(8)**
September 30 Balance	**$**	**41**	**$**	**37**	**$**	**32**

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, including interest paid on funds borrowed to pay for the construction of major capital additions, less accumulated depreciation. Property and equipment are depreciated, using the straight-line method, over estimated useful lives, which range from 3 to 40 years, except for buildings with historic status, which are depreciated over 75 years. See Note 5, *Property and Equipment* for detailed information regarding Property and Equipment.

Leasehold improvements are amortized over the period of the lease or the useful life of the improvement, whichever is shorter. Leasehold improvements that are placed in service after the start of the lease term are amortized over the shorter of the useful life of the asset or the remaining lease term, including renewal options that are reasonably assured to be executed.

The depreciation and amortization of capital assets over estimated useful lives require management to make judgments about future events. Capital assets are utilized over relatively long periods of time; therefore, periodic evaluations of whether adjustments to the estimated service lives are necessary to ensure that these estimates properly match the economic useful lives of the assets.

ASSET RETIREMENT OBLIGATIONS

A liability for the estimated costs of legally binding obligations to perform asset retirement activities is included in “Contingent liabilities and other” on the Balance Sheets.

IMPAIRED ASSETS

In accordance with ASC Topic 360-10-35, *Accounting for the Impairment or Disposal of Long-Lived Assets,* impairment losses on long-lived assets are recorded when events or circumstances indicate that the assets' fair value is less than the carrying value. When such a determination is made, the carrying values of the assets are written down to fair value. Fair value is determined by independent appraisals for real property. Due to the absence of a market for most types of mailing equipment, impaired equipment assets are assigned a fair value of zero. See Note 5*, Property and Equipment* for additional information related to impairment charges for 2012, 2011, and 2010.

OUTSTANDING POSTAL MONEY ORDERS

Postal money orders are sold at retail locations. A fee is charged at the time of sale. The fee is recognized as revenue at the time of sale. A current liability is recorded for money orders expected to be presented for payment.

REVENUE RECOGNITION/DEFERRED REVENUE-PREPAID POSTAGE

Deferred revenue-prepaid postage is an estimate of postage that has been sold but not yet used by customers. Revenue is recognized only when services are rendered. Because payments for postage are collected in advance of services being performed, revenue is deferred and reflected in the Balance Sheets as *“Deferred revenue–prepaid postage.”* Two categories of postage sales account for the majority of deferred revenue–prepaid postage: stamp sales and metered postage.

Stamp sales in 2012 totaled $8.1 billion. Deferred revenue on stamp sales is estimated using statistical samples of stamped mail exiting the mail system across the country. The estimated stamp usage is subtracted from stamp sales with the difference representing our obligation to perform future services. That obligation is reduced by recognizing a provision for stamps sold that may never be used; either through loss, damage, or collecting activity, commonly referred to as the “breakage factor.”

Metered postage is primarily used by businesses. Deferred revenue related to meters is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings is used to derive a deferral percentage, which is applied to all postage meter receipts for the month. Metered postage receipts in September 2012 subject to deferral totaled $1.2 billion.

Also included in the estimate of deferred revenue–prepaid postage is an estimate for mail that is in transit within the postal system.

In Quarter III, 2010, the Postal Service refined the stamp usage estimation technique to reflect new information concerning the breakage factor. This resulted in an increase of deferred revenue-prepaid postage of $112 million, $103 million of which is attributable to changes that were not identifiable based on data previously available.

In Quarter I, 2011, the Postal Service enhanced the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. During that quarter, certain usage data indicated that a refinement of the estimation process for Forever Stamp usage was necessary. As a result of this enhancement, deferred revenue-prepaid postage was increased by $170 million.

In Quarter II, 2012, the Postal Service improved the estimation technique employed to estimate deferred revenue-prepaid postage for Forever Stamps. The Postal Service obtained new information regarding its customers' stamp usage and retention habits. This enabled the Postal Service to update its estimate of stamps that will never be used for mailing. As a result of this enhancement, the liability for deferred revenue-prepaid postage was decreased by $59 million.

These changes are considered changes in accounting estimates under GAAP and, accordingly, the impact of the changes was reflected in the quarter that the estimate changes were made.

The chart below details deferred revenue-prepaid postage by category.

Deferred Revenue - Prepaid Postage (Dollars in millions)		2012		2011		2010
Forever Stamps	$	3,253	$	2,527	$	1,323
Non-Forever Stamps		117		246		488
Meters		362		459		506
Mail In-Transit		259		247		254
Other, primarily Precancelled Stamps		23		18		13
Total Deferred Revenue - Prepaid Postage	$	4,014	$	3,497	$	2,584

CONTINGENT LIABILITIES

The Postal Service is involved in various legal proceedings and contingencies. A liability is recorded based on an estimate of the probable cost to resolve each contingency. The actual resolution of these contingencies may differ from the estimates. If a contingency is settled for an amount greater than the estimate, a future charge to income would result. Likewise, if a contingency is settled for an amount that is less than the estimate, a future credit to income would result.

The events that may impact contingent liabilities are often unique and generally are not predictable. At the time a contingency is identified, all relevant facts are considered. A liability is recorded for a loss when the loss is probable of occurring and reasonably estimable. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to the Postal Service that differs from the previously estimated liability. These factors could result in a material difference between estimated and actual operating results. See Note 7, *Contingent Liabilities,* for additional information.

EMPLOYEES' ACCUMULATED LEAVE

Employees earn annual leave based on their number of creditable years of service. The Postal Service advances annual leave to employees at the beginning of each calendar year for the value of leave they will earn for the year. Leave taken by employees before it is earned is considered an advance. Advances were $166 million and $159 million at September 30, 2012 and 2011, respectively. Employees' accumulated leave represents leave earned as of the balance sheet date and is recorded net of advances.

RETIREE BENEFITS

Employees are eligible to participate in the federal government sponsored pension and retiree health benefits programs. The Postal Service is required to provide funding for these plans as determined by the administrator of the plans, the OPM. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Accordingly, the plans are accounted for using multiemployer plan accounting rules and expense is recorded in the period the contribution is due and payable. These amounts can fluctuate significantly from year to year, if changes in funding requirements are made. See Note 8, *Retirement Benefit Plans*, and Note 9, *Health Benefit Plans*, for additional information.

WORKERS' COMPENSATION

Workers' compensation expenses are incurred under a program administered by the DOL and include employees' medical expenses, compensation for wages lost, and DOL administrative fees. See Note 10, *Workers' Compensation*, for additional information.

REVENUE FORGONE APPROPRIATION

Revenue forgone is an appropriation from Congress which covers the cost of providing mailing services to certain groups at no cost or at reduced rates. The costs incurred for this service are estimated by the Postal Service and submitted to Congress annually. Congress subsequently approves or alters the amount and funds the necessary appropriation. See Note 12, *Revenue Forgone*, for additional information.

EMERGENCY PREPAREDNESS APPROPRIATION

Emergency preparedness appropriations were received from Congress to help pay the costs of keeping the mail, postal employees, and postal customers safe, and are restricted for such use. These funds were accounted for as deferred revenue upon receipt and were generally utilized to procure capital equipment. The majority of these funds were received in 2001. Revenue for emergency preparedness appropriations is recognized when depreciation expense for the purchased equipment is recorded. The emergency preparedness appropriations revenue recognized during the year ended September 30, 2012 was $129 million, and for the years ended September 30, 2011 and 2010, was $63 million. The majority of the $66 million increase in the emergency preparedness appropriations revenue for 2012, compared to 2011, reflects the revenue recognized to offset the impairment expense related to equipment originally funded by appropriations that was taken out of service as a result of a process improvement.

Deferred revenue at September 30 related to emergency preparedness appropriations was $231 million in 2012 and $360 million in 2011. The current portion is included in “Prepaid box rent and other deferred revenue,” and the noncurrent portion is included in “Deferred appropriation and other revenue” on the Balance Sheets.

ADVERTISING EXPENSES

Advertising costs are expensed as incurred and are included in other operating expenses. Advertising expenses were $125 million in 2012, and $147 million in both 2011 and 2010.

COMPENSATION AND BENEFITS

Compensation and benefits payable consists of the salaries and benefits owed to current and former employees, including the amounts employees have earned but have not yet been paid, unemployment, and health benefit costs.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to expense as incurred. This expense amounted to $708 million in 2012, $725 million in 2011, and $676 million in 2010.

SUPPLIES AND REPAIR PARTS

Supplies and repair parts consist of parts for mail processing equipment and are valued at average cost. These supplies and repair parts are included in inventory, and expense is recognized when placed in service. A majority of motor vehicle spare parts are supplied through consignment agreements and not included in inventory. Total supplies and repair parts were $106 million for 2012 and $93 million for 2011.

FOREIGN CURRENCY TRANSLATION

Foreign currency risk exists related to settlements of receivables and payables with foreign postal administrations for international mail. The majority of international accounts are denominated in special drawing rights (SDRs). The SDR exchange rate fluctuates daily based on a basket of currencies comprised of the euro, Japanese yen, British pound sterling and the U.S. dollar. Changes in the relative value of these currencies will increase or decrease the value of the settlement accounts and result in a gain or loss that is included in operating results. The impact of foreign currency translation on operating results was immaterial for 2012, 2011, and 2010.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-09, Compensation-Retirement Benefits-Multiemployer Plans (Accounting Standards Codification 715-80), 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 is required. We adopted the new rules beginning with the year ended September 30, 2012.

Other new pronouncements issued but not effective until after September 30, 2012, are not expected to have a significant effect on our consolidated financial position or results of operations.

NOTE 4 — DEBT

DEBT LIMITS

Under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435, the Postal Service can issue debt obligations. The Postal Service is limited by statute to net annual debt increases of $3 billion. Total debt cannot exceed $15 billion.

NOTE PURCHASE AGREEMENTS

The Postal Service has two revolving credit line facilities with the Federal Financing Bank (FFB), a government-owned corporation under the general supervision of the Secretary of the Treasury, 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 line, 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. The interest rates for borrowings under these credit facilities are determined by the Treasury each business day. As of September 30, 2012, these two revolving credit facilities were fully drawn.

In addition, under the provisions of a Note Purchase Agreement with the FFB, the Postal Service can use a series of other notes with varying provisions to draw upon with two days prior notice. The Note Purchase Agreement, renewable annually, was extended to September 30, 2013.

These credit line 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. Debt as of September 30, 2012, and 2011, is as follows:

Indebtedness to Federal Financing Bank

(Dollars in millions)

Maturity	Debt Type	September 30, 2012 Balance	September 30, 2012 Rate %	September 30, 2011 Balance	September 30, 2011 Rate %
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
November 15, 2012	Fixed rate-payable at maturity	1,300	0.227	-	-
May 30, 2013	Fixed rate-payable at maturity	1,200	0.298	-	-
September 19, 2013	Fixed rate-payable at maturity	500	0.299	-	-
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	0.135
June 15, 2012	Floating rate	-	-	800	0.135
October 15, 2012	Floating rate	700	0.228	-	-
December 14, 2012	Floating rate	700	0.227	-	-
June 19, 2013	Floating rate[1]	500	0.236	-	-
September 18, 2013	Floating rate[2]	600	0.231	-	-
	Short-term revolving credit line	3,400	0.176	3,200	0.125
	Overnight revolving credit line	600	0.186		
Total debt		**$ 15,000**		**$ 13,000**	
Current portion of debt		**$ 9,500**		**$ 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 December 19, 2012 and March 19, 2013.

[2] Floating Rate Note- Repurchasable at par on each interest rate reset date and the interest rate resets on December 18, 2012, March 18, and June 18, 2013.

At September 30, 2012, scheduled repayments of debt principal, exclusive of capital leases, is as follows:

Scheduled Debt Principal Repayments - By Fiscal Year (Dollars in millions)		
2013	$	9,500
2014		300
2015		-
2016		300
2017		-
After 2017		4,900
Total Debt	**$**	**15,000**

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation, which includes the interest on borrowings used to pay for the construction of major capital additions. Interest capitalized during the years ended September 30, 2012 and 2011 was not material.

Deferred gains on sales of property are recognized in income and the sold assets removed from the accounting records when any lease-backs or other conditions requiring continued Postal Service involvement in the properties have expired. Deferred gains recognized in income were $79 million in 2012, $17 million in 2011, and $18 million in 2010.

In September 2011, the Postal Service announced plans to realign its mail processing, delivery, and retail networks. These plans were further modified in 2012. See Note 2, *Liquidity Matters,* for details. As a result, an assessment was performed on both the real estate and equipment associated with the proposed realignment efforts to determine if any impairment should be recognized. Any facility lacking utility to the network will be marked for disposal. Once a facility is marked for disposal, determination of impairments, if any, will be made by management. As of September 30, 2012, these evaluations are ongoing. For the year ended September 30, 2012, there were no significant impairment charges related to these plans.

Assets classified as held for sale of $111 million as of September 30, 2012, and $58 million as of September 30, 2011, are included on the Balance Sheets in “Land” and “Buildings”.

Impairment charges of $80 million, $21 million, and $26 million were recorded in 2012, 2011, and 2010, respectively and are included in the Statement of Operations in “Other.” The majority of the impairment expenses in 2012 are related to equipment taken out of service as a result of a process improvement.

NOTE 6 — LEASES AND OTHER COMMITMENTS

LEASES

Future minimum lease payments for all non-cancellable leases as of September 30, 2012 are as follows:

Lease Obligations (Dollars in millions)	Operating	Capital
2013	$ 723	$ 98
2014	667	92
2015	609	90
2016	541	87
2017	475	78
After 2017	3,864	214
Total Lease Obligations	$ 6,879	$ 659
Less: Interest		191
Total Capital Lease Obligations		$ 468
Less: Current Portion of Capital Lease Obligations		58
Noncurrent portion of capital lease obligations		$ 410

Leases generally have renewal options for periods ranging from 3 to 20 years. Certain non-cancellable real estate leases have purchase options at prices specified in the leases.

Capital leases included in buildings at September 30 were $886 million in 2012, and $898 million in 2011. Total accumulated amortization was $563 million, and $531 million at September 30, 2012, and 2011, respectively. Amortization expense for assets recorded as capital leases is included in "Other" in the Statements of Operations.

Rental expense for the years ended September 30, is summarized as follows:

Rental Expense (Dollars in millions)	2012	2011	2010
Noncancelable real estate leases	$ 938	$ 956	$ 964
GSA facilities leases*	41	42	44
Equipment and other short-term rentals	176	161	153
Total Rental Expense	$ 1,155	$ 1,159	$ 1,161

*General Services Administration; leases subject to 120-day cancellation notice.

CAPITAL COMMITMENTS

At September 30, 2012, financial commitments for approved capital projects in progress are as follows:

Capital Commitments (Dollars in millions)	2012	2011
Mail Processing Equipment	$ 281	$ 481
Building Improvements, Construction, and Building Purchase	301	320
Postal Support Equipment	56	75
Vehicles	6	5
Total Capital Commitments	$ 644	$ 881

NOTE 7 — 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 $51 million and $448 million for the years ended September 30, 2012, and 2011, respectively.

The following table summarizes contingent liabilities provided for in the financial statements at September 30, 2012, and 2011.

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 as McConnell v. Potter in 2006). The class currently consists of all permanent rehabilitation employees and limited duty employees who have been subjected to the National Reassessment Process (NRP) from May 5, 2006, to July 1, 2011. 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 adverse 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 twelve months ended September 30, 2012.

Contingent Liabilities (Dollars in millions)		**2012**		**2011**
Labor- Employment	**$**	**722**	**$**	**662**
Environmental		**48**		**48**
Tort		**43**		**39**
Contractual		**-**		**13**
Total Contingent Liabilities	**$**	**813**	**$**	**762**

Based on currently available information, adequate provision has been made for probable losses arising from all claims and suits. The current portion of this liability is $61 million at September 30, 2012, and $72 million as of September 30, 2011, and is included on the Balance Sheets in “Trade payables and accrued expenses”. The long-term portion of this liability at September 30, 2012, was $752 million and $690 million at September 30, 2011. These amounts are accrued in “Contingent liabilities and other” on the Balance Sheets.

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 $375 million to $425 million at September 30, 2012. No provisions for these possible losses are accrued or included in the financial statements.

NOTE 8 —RETIREMENT BENEFIT PLANS

PENSION PROGRAMS

Employees participate in one of three federal government pension programs based on the starting date of their employment with the federal government. Employee and employer contributions are made to the Civil Service Retirement System (CSRS), the Dual Civil Service Retirement System/Social Security (Dual CSRS), or the Federal Employees Retirement System (FERS), all of which are administered by the OPM. As government-sponsored benefit plans, the CSRS, Dual CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Employees may also participate in the Thrift Savings Plan (TSP), a defined contribution retirement savings and investment plan, administered by the Federal Retirement Thrift Investment Board.

<u>CSRS</u>
The CSRS was established by the *Civil Service Retirement Act*, which was enacted on May 22, 1920. It is a stand-alone retirement plan intended to provide reasonable benefits for long-service Federal employees. The CSRS, which is closed to new participants, covers most Federal employees who first entered a covered position prior to January 1, 1984. CSRS provides a basic annuity toward which the Postal Service and the employee contribute at rates prescribed by law. Effective October 2006, P.L. 109-435 suspends the Postal Service employer obligation to make contributions for CSRS employees' retirement until 2017. At that time, OPM will perform an actuarial valuation to determine whether additional payments are necessary. The Postal Service does not match TSP contributions for employees participating in CSRS.

<u>Dual CSRS</u>
Dual CSRS is a subset of the CSRS plan. Employees with prior U.S. Government service who were rehired between January 1, 1984, and January 1, 1987, are covered by Dual CSRS, which consists of a basic annuity and Social Security. The Postal Service and the employee contribute to Social Security and the basic annuity at rates prescribed by law. The Postal Service does not match TSP contributions for employees participating in Dual CSRS.

<u>FERS</u>
Effective January 1, 1987, officers and career employees hired since December 31, 1983, are covered by the *Federal Employees Retirement System Act of 1986*, except for those covered by Dual CSRS. Also included are employees formerly covered by CSRS who elected in either 1987, 1988, or 1998 to participate in FERS.

FERS consists of Social Security, a basic annuity plan, and TSP. The Postal Service and the employee contribute to Social Security and the basic annuity plan at the rates prescribed by law. The Postal Service is required by law to contribute to TSP a minimum of 1% per year of the basic pay of employees covered by this system. It is also required by law 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.

As discussed above, the pension plans generally provide for retirement, death and/or termination benefits for eligible employees, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The Postal Service is required to provide funding for these plans as determined by the administrator, the Office of Personnel Management (OPM). Annual funding requirements can fluctuate significantly if changes are made by the passage of a new federal law or, in some circumstances, by OPM under its authority as administrator. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Accordingly, the Postal Service's participation in the federal retirement plans is accounted for using multiemployer plan accounting rules.

Effective September 30, 2012, the Postal Service adopted new disclosure requirements for multiemployer benefit plans as outlined in Accounting Standards Update (ASU) No. 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans (Accounting Standards Codification 715-80)*. The new guidance requires additional quantitative and qualitative disclosures for employers who participate in multiemployer pension plans and multiemployer other postretirement benefit plans. The disclosure requirements have been applied retrospectively to all years and are presented below.

The risks of participating in these federal retirement plans are different from single-employer retirement plans in the following aspects:

- Assets contributed to the plans by one agency may be used to provide benefits to employees of other participating agencies.
- If a participating agency stops contributing to the plans, the unfunded obligations of the plan may be borne by the remaining participating agencies.
- Postal Service participation in the federal retirement plans is required by law. If the Postal Service were permitted by a change in law to stop participating in some of the Federal retirement plans, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability if such a liability exists at that time.

Factors that could cause the Postal Service to make significantly higher future contributions to these plans include unfavorable investment performance, changes in demographics, and increased benefits to participants. In addition, changes in law or regulation could significantly impact future required contributions. At this time, it is not possible to determine the amount of additional future contributions, if any, or whether any material adverse effect on the Postal Service's financial condition, results of operations or liquidity would result from participation in these plans.

The CSRS plan is less than 65% funded, and the Postal Service made no contribution to the CSRS plan in 2012, 2011, or 2010. The FERS plan is greater than 80% funded, and for 2012, 2011, and 2010, the Postal Service provided more than 5% of the total plan contributions for FERS from all employers (as disclosed in the OPM's *Civil Service Retirement and Disability Fund Annual Report*). Because these government-sponsored retirement plans are not subject to the rules and regulations of the *Pension Protection Act of 2006*, typical plan measurements such as, zone status, and financial improvement plan status, or rehabilitation plan status are not available for these plans.

EMPLOYEE / EMPLOYER CONTRIBUTIONS

As required by law, the Postal Service contribution rate was 11.9% of base salary for current FERS employees for the twelve months ended September 30, 2012, and 11.7% and 11.2% of base salary for FERS employees for the twelve months ended September 30, 2011 and 2010, respectively. For employees covered by the FERS system, the Postal Service is also required to contribute to the TSP a minimum of 1% per year of the basic pay, and 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.

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 retirees. As a result, the Postal Service contribution rate for CSRS and Dual CSRS was zero in 2012, 2011, and 2010.

The Postal Service recognizes expense for the legally-required contribution for each period, and records a liability for any contributions due and unpaid at the end of a reporting period.

EXPENSE COMPONENTS

The following table lists the components of total retirement expenses included in "Compensation and Benefits" expense in the Statements of Operations for years 2012, 2011, and 2010.

Retirement Expense (Dollars in millions)		**2012**		**2011**		**2010**
FERS	**$**	**2,980**	**$**	**2,983**	**$**	**2,904**
Social Security		**1,853**		**1,856**		**1,856**
FERS Thrift Savings Plan		**1,021**		**1,040**		**1,049**
Total Retirement Expense	**$**	**5,854**	**$**	**5,879**	**$**	**5,809**

Because the number of employees participating in FERS has decreased by 9.8% over the past three years, the period-to-period comparability of the contributions for the years 2012, 2011, and 2010 is impacted. This has been somewhat offset by higher required FERS contribution percentages.

The number of employees enrolled in each of the retirement plans at the end of 2012, 2011, and 2010 is as follows:

Retirement Enrollment by Program (Actual numbers)	2012	2011	2010
CSRS	**67,224**	**79,014**	**90,480**
Dual CSRS	**3,942**	**4,551**	**5,206**
FERS	**457,292**	**473,686**	**488,222**
Total Enrollment	**528,458**	**557,251**	**583,908**

Employer cash contributions to retirement plans were $3,988 million in 2012, $3,214 million in 2011, and $3,944 million in 2010. These amounts do not include Social Security contributions. Employer contributions, as a percentage of employee basic pay for FERS will remain 11.9% in 2013.

Employee contributions for the past three years, as a percentage of employee basic pay, were 7.0% for CSRS and 0.8% for Dual CSRS and FERS in 2012, 2011, and 2010.

In 2011, at a time when OPM had projected that the Postal Service had overfunded its FERS obligation by $11.4 billon, the Postal Service sought to apply the overfunded balance to amounts currently due for employer contributions and ceased making employer FERS contributions in June 2011 through November 2011. 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.

OPM's most recent calculation estimates the FERS surplus at $2.6 billion at September 30, 2011, the latest actual data available. This reduction in the estimated surplus resulted primarily from changes to government-wide economic and demographic assumptions made by OPM, as well as actual 2011 experience. OPM currently estimates the FERS surplus will grow to approximately $3.0 billion by September 30, 2012. The Postal Service is requesting that OPM calculate FERS liabilities utilizing Postal Service-specific assumptions.

NOTE 9 — HEALTH BENEFIT PLANS

CURRENT EMPLOYEES

Substantially all career employees are covered by the Federal Employees' Health Benefits Program (FEHBP). This plan covers both active and retired employees. Health care benefits are available to all participants who meet certain eligibility requirements. In addition to administering the program, OPM allocates the cost of FEHBP to the various 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 multiemployer plan accounting rules. Contributions to the plan are recorded as an expense in the period in which the contribution is due. The portion of the premium cost paid by the Postal Service for most active employees is determined through agreements with our unions.

Employees paid approximately 22% of total premium costs in 2012, 21% of the premium costs in 2011, and 20% of the premium costs in 2010. Postal Service employee healthcare expense was $5,187 million in 2012, $5,222 million in 2011, and $5,141 million in 2010, and are included in "Compensation and benefits" in the Statement of Operations.

RETIREES

Employees who participate in the FEHBP for the five years immediately preceding their retirement may participate in the FEHBP during their 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 retire on or after July 1, 1971. The employer's share of premium costs for retirees (and their survivors) is set by law and is not subject to negotiation with our unions. Costs attributable to federal civil service before July 1, 1971 are not paid by the Postal Service. As discussed below, the Postal Service was required to prefund retiree health benefits to be provided beginning in 2007 by depositing funds into the PSRHBF each year through 2016. No other agency that participates in FEHBP prefunds retiree health benefits for their employees.

In 2006, P.L. 109-435 created the PSRHBF, which is held by the U.S. Treasury and controlled by OPM, but funded by the Postal Service. P.L. 109-435 established a ten-year schedule of Postal Service prefunding payments that ranged between $5.4 and $5.8 billion per year. However, the 2009 scheduled prefunding payment was decreased from $5.4 billion to $1.4 billion due to the enactment of P.L. 111-68. On September 30, 2011, P.L. 112-33, *Continuing Appropriations Act, 2012,* rescheduled 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 rescheduled by a number of laws subsequently passed. The most recent law affecting the PSRHBF payment, P.L. 112-74, *Consolidated Appropriations Act, 2012*, rescheduled the due date to August 1, 2012. As a result, the total required PSRHBF payments in 2012 were $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 2013 to 2016 scheduled payments.

On August 1, 2012, when the $5.5 billion PSRHBF prefunding payment became due, the Postal Service had insufficient funds to make the payment and was forced to default. On September 30, 2012, when the $5.6 billion prefunding payment became due, the Postal Service again had insufficient funds to make this payment and was forced to default again. Prior to the defaults, the Postal Service notified its stakeholders, including the Administration and Congress, of the imminent default. The Postal Service has further advised these same stakeholders that it does not see any means by which to satisfy the future payment of $5.6 billion due by September 30, 2013. Although the Postal Service defaulted on its payments, the full $11.1 billion that was due by August 1, 2012, and September 30, 2012, is recorded as an expense under "Retiree Health Benefits" in the Statement of Operations and as a current liability in "Retiree Health Benefits" on the September 30, 2012 Balance Sheets.

Current law obligates the Postal Service to make additional payments of $5.6 billion in 2013, $5.7 billion in 2014 and 2015, and $5.8 billion in 2016, each due by September 30 of each respective year. To date, no law changes have addressed these required payments. However, given the low levels of liquidity, the Postal Service may be forced to prioritize payments to employees and suppliers to ensure that it continues to be able to fulfill its other statutory obligations, including the obligation to provide universal mail service to the nation (as discussed in Note 2*, Liquidity Matters).* The statutory requirement establishing the payment schedule (P.L. 109-435) contains no provisions addressing a payment default.

Although P.L. 109-435 dictates the annual prefunding requirements through 2016, these amounts and the timing of funding could be changed at any time with enactment of a new law or an amendment of existing law. At September 30, 2012, scheduled prefunding payments to the PSRHBF are:

PSRHBF Commitment (Dollars in millions)	**P.L. 109-435 Requirement**
2013 *	**$ 16,700**
2014	**5,700**
2015	**5,700**
2016	**5,800**
2017	**-**
Total PSRHBF Commitment	**$ 33,900**

* In addition to the $5.6 billion required under P.L. 109-435, total includes $5.5 billion due by August 1, 2012 as well as the $5.6 billion due by September 30, 2012. They are included here because the Postal Service defaulted on both of these payments due to insufficient funds. These latter contributions totaling $11.1 billion were expensed in 2012.

These annual prefunding payments are in addition to the regularly allocated cost of premiums for current retirees, which continue to be payable through 2016. The law requires that, not later than 2017, OPM will perform an actuarial valuation to determine if additional payments into the PSRHBF are required. If required, OPM will design an amortization schedule to fully fund any remaining liability by 2056. Starting in 2017, the Postal Service's share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF. Beginning in 2017, the Postal Service will also fund the actuarially determined normal cost. The Postal Service did not make any prefunding payments in 2012 or 2011, but paid $5.5 billion into the fund in 2010. At September 30, 2012, the balance in the fund was $45.7 billion. This amount represents 49% of the total accumulated health benefit retirement obligation of $93.6 billion as of September 30, 2012.

The Postal Service is required to provide retiree health benefits through FEHBP, in accordance with statute and following regulations and procedures promulgated by the administrator, the Office of Personnel Management (OPM). Annual funding requirements could fluctuate significantly if changes are made by the passage of a new federal law or, in some circumstances, by OPM under its authority as administrator. The Postal Service cannot direct the costs, benefits, or funding requirements of the plans. Accordingly, the Postal Service's participation in FEHBP is accounted for as participation in a multiemployer benefit plan. Several factors could significantly increase or decrease future health benefits costs, including favorable or unfavorable investment performance of the PSRHBF, changes in demographics, higher healthcare premiums, changes in actuarial assumptions and increased or decreased benefits to participants. At this time, it is not possible to determine the amount of additional future contributions that may be required by OPM, if any, or whether any material adverse effect on the Postal Service's financial condition, results of operations, or liquidity would result from participation in these plans.

The Postal Service has provided 100% of the contributions into the PSRHBF since inception. No other agencies provide funding for retirees into the PSRHBF or into any other fund related to future retiree health benefits to be provided under FEHBP. Because these government-sponsored retirement plans are not subject to the rules and regulations of the *Pension Protection Act of 2006*, no zone status and financial improvement plan status or rehabilitation plan status reports for these plans are available.

Total retiree health benefits expenses were $13,729 million in 2012, $2,441 million in 2011, and $7,747 million in 2010. Components of retiree health benefits expense for the three years ended September 30 are as follows:

Retiree Health Benefits (Dollars in millions)	**2012**	**2011**	**2010**
Retiree Health Benefits Premiums	**$ 2,629**	**$ 2,441**	**$ 2,247**
P.L. 109-435 Payment to PSRHBF	**11,100**	**-**	**5,500**
Total Retiree Health Benefits	**$ 13,729**	**$ 2,441**	**$ 7,747**

Because the amounts to be paid into the PSRHBF are set by legislation, retiree health benefits expense may represent more or less than the full cost of the benefits earned by Postal Service employees. These costs are reflected as "Retiree health benefits" in the Statements of Operations.

NOTE 10 — 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 DOL.

An estimation model that combines four generally accepted actuarial valuation techniques is used to project future claim payments based upon current 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 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 Postal Service uses the average rate of medical inflation experienced by its workers' compensation claimants over the past five years as an estimate for future medical inflation. The liability for claims arising more than ten years ago is determined by an independent actuary.

The FECA benefit structure is often superior to benefits available under normal federal retirement, and these more lucrative payments will, in some cases, be for the rest of the lives of the claimants.

The liability for estimated future workers' compensation payments is recorded at its present value. 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 the balance sheet date in accordance with GAAP. The impact of changes in the discount 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. An increase of 1% in the discount rate would decrease the September 30, 2012 liability and 2012 expense by approximately $1.8 billion. A decrease of 1% in the discount rate would increase the September 30, 2012 liability and 2012 expense by approximately $2.3 billion.

The inflation and discount rates used to estimate the liability at September 30, 2012, 2011, and 2010 are shown in the following table:

Workers' Compensation Liability Inflation and Discount Rates	September 30, 2012	 2011	 2010
Compensation Claims Liability			
Discount Rate	**2.1%**	**2.3%**	**2.9%**
Wage Inflation	**2.9%**	**2.9%**	**2.9%**
Medical Claims Liability			
Discount Rate	**2.2%**	**2.4%**	**3.0%**
Medical Inflation	**8.9%**	**8.6%**	**7.4%**

In Quarter IV, 2012, the Postal Service enhanced the estimation process by refining the variables employed to estimate its workers' compensation liability. As a result of this enhancement, the liability for workers' compensation was increased by $361 million. This change was considered a change in accounting estimate under GAAP and, accordingly, the impact of the change was reflected in Quarter IV, 2012.

At September 30, 2012, the present value of the liability for future workers' compensation payments was $17,567 million, compared to $15,142 million at September 30, 2011, an increase of $2,425 million. The current portion of this liability was $1,337 million at September 30, 2012, and $1,255 million at September 30, 2011. These amounts are accrued under "Workers' compensation" on the Balance Sheets.

Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases. The impact of the changes in discount rates accounted for $346 million, $978 million, and $2,017 million of the 2012, 2011, and 2010 expense, respectively.

In 2012, workers' compensation expense was $3,729 million compared to $3,672 million in 2011 and $3,566 million in 2010. The components of workers' compensation expense are as follows:

Workers' Compensation Expense (Dollars in millions)	Years Ended September 30, 2012	2011	2010
Impact of Discount Rate Changes	$ 346	$ 978	$ 2,017
Actuarial Revaluation of Existing Cases	1,602	1,264	483
Subtotal	1,948	2,242	2,500
Costs of New Cases	1,714	1,367	1,009
Administrative Fee	67	63	57
Total Workers' Compensation Expense	$ 3,729	$ 3,672	$ 3,566

NOTE 11 — FAIR VALUE MEASUREMENT

The Postal Service assumes that the carrying value of current assets and current liabilities approximates fair values. The Postal Service also has noncurrent financial instruments, such as the long-term portion of debt (see Note 4, *Debt*) and long-term receivables (see Note 12, *Revenue Forgone*), that must be measured for disclosure purposes on a recurring basis under authoritative accounting literature as promulgated by the Financial Accounting Standards Board. 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 in the table below. This 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.

Fair Value of Long-Term Financial Assets and Liabilities	For The Years Ended September 30, 2012		2011	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue Forgone	$ 385	$ 533	$ 393	$ 540
Total Long-Term Financial Assets	385	533	393	540
Debt	5,500	6,290	5,500	6,148
Total Long-Term Financial Liabilities	$ 5,500	$ 6,290	$ 5,500	$ 6,148

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

Reconciliation of Fair Value of Level 3 Instruments (Dollars in millions)		
Debt		
Balance at September 30, 2011	**$**	**6,148**
New Indebtedness		**-**
Unrecognized Loss		**142**
Balance at September 30, 2012	**$**	**6,290**

For the year ended September 30, 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. Impairment analyses of property and equipment were performed in each quarter of 2012, 2011, and 2010 and, based on those analyses, impairment charges of $80 million, $21 million, and $26 million were recorded in 2012, 2011, and 2010 respectively. The increase in impairment expense in 2012 is related to equipment taken out of service as a result of a process improvement. 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 section on impaired assets in Note 3, *Summary of Significant Accounting Policies,* and Note 5, *Property and Equipment.*

NOTE 12 — REVENUE FORGONE

Revenue forgone is an appropriation that compensates the Postal Service for the cost of services that it is required to perform at no cost or reduced cost to certain groups. Congress appropriates funds to reimburse the Postal Service for the revenue that has been forgone in providing these services.

The lost revenue associated with the services that will be provided during a given year is estimated and forwarded to Congress with a funding request. At the end of the year, the actual value of services provided is reconciled with this funding request. If the actual services provided differs from that underlying the initial funding request, the Postal Service will request additional funding or return any excess funding through a reduction to the next revenue forgone funding request.

The Revenue Forgone Reform Act of 1993 authorized Congress to make 42 annual payments of $29 million each, beginning in 1994 and continuing through 2035, to reimburse the Postal Service for certain services performed or revenue forgone from 1991 through 1998. The payments authorized by the *Revenue Forgone Reform Act of 1993* totaled $1,218 million, which had a present value calculated at a 7% discount rate of approximately $390 million. The $390 million was recognized as revenue during fiscal years 1991 through 1998. The discounted present value of the remaining future payment for the years ended September 30, was $374 million in 2012, and $351 million 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 did not receive any of the scheduled $29 million of the 2012 amount due. There was no impact to the 2012 or 2011 Statement of Operations because the revenue was previously recognized upon the enactment of the *Revenue Forgone Reform 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. Current proposed legislation does not contain a provision for funds to be paid to the Postal

Service regarding these amounts due under the *Revenue Forgone Reform Act of 1993*. However, there has been no final legislation enacted regarding the 2013 appropriation requests.

During 2012, the Postal Service recognized $69 million in revenue, including $23 million of imputed interest, from the appropriations, compared to $119 million, including $24 million of imputed interest in 2011. In 2010, $113 million was recognized in revenue, which included $24 million of imputed interest. The revenue forgone receivable is included in the Balance Sheets as “Receivables: U.S. Government.” The total receivable for revenue forgone was $463 million in 2012, of which $78 million was classified as current assets. In 2011, the total receivable was $467 million and the current portion was $74 million.

NOTE 13 — SELECTED QUARTERLY FINANCIAL DATA

2012 (Dollars in millions, unaudited)		Quarter 1		Quarter 2		Quarter 3		Quarter 4
Operating revenue	$	17,677	$	16,227	$	15,613	$	15,706
Total operating expenses[a]		20,923		19,364		20,755		19,922
(Loss) from operations		(3,246)		(3,137)		(5,142)		(4,216)
Interest (expense) - net		(41)		(40)		(43)		(41)
Net Loss	$	(3,287)	$	(3,177)	$	(5,185)	$	(4,257)

2011 (Dollars in millions, unaudited)		Quarter 1		Quarter 2		Quarter 3		Quarter 4
Operating revenue	$	17,877	$	16,234	$	15,766	$	15,834
Total operating expenses		18,167		18,426		18,831		15,210 [b]
(Loss) Income from operations		(290)		(2,192)		(3,065)		624
Interest income (expense) - net		(39)		(36)		(35)		(34)
Net (Loss) Income	$	(329)	$	(2,228)	$	(3,100)	$	590

2010 (Dollars in millions, unaudited)		Quarter 1		Quarter 2		Quarter 3		Quarter 4
Operating revenue	$	18,355	$	16,697	$	16,045	$	15,955
Total operating expenses		18,618		18,250		19,510		19,048
(Loss) from operations		(263)		(1,553)		(3,465)		(3,093)
Interest income (expense) - net		(34)		(31)		(33)		(33)
Net Loss	$	(297)	$	(1,584)	$	(3,498)	$	(3,126)

a - Includes the impact of the $5.5 billion increase in PSRHBF contribution due to P.L. 112-33 which changed the due date of the scheduled payment of $5.5 billion originally due by September 30, 2011 to be due by August 1, 2012. In addition, it also includes the regularly scheduled $5.6 billion contribution to the PSRHBF required by P.L. 109-435.
b - Includes the impact of the $5.5 billion reduction in the PSRHBF contribution due to P.L. 112-33.

Operating Statistics

Revenue, Pieces and Weight Statistics	2012	2011	2010	2009	2008
(In millions of units indicated, unaudited)					
First-Class Mail					
Revenue	$ 28,867	$ 30,030	$ 32,111	$ 33,848	$ 36,156
Number of Pieces	68,696	72,522	77,592	82,727	90,671
Weight, Pounds	3,296	3,459	3,451	3,437	3,910
Standard Mail					
Revenue	$ 16,428	$ 17,175	$ 16,728	$ 16,707	$ 19,939
Number of Pieces	79,496	83,957	81,841	81,763	98,350
Weight, Pounds	8,300	8,770	9,043	8,970	10,685
Shipping & Packages Services					
Revenue	$ 11,596	$ 10,670	$ 10,156	$ 10,193	$ 10,529
Number of Pieces	3,502	3,258	3,057	3,077	3,346
Weight, Pounds	5,731	5,462	5,006	4,961	5,502
International Mail					
Revenue	$ 2,816	$ 2,585	$ 2,388	$ 2,310	$ 2,380
Number of Pieces	926	987	594	759	835
Weight, Pounds	463	445	243	241	282
Periodicals					
Revenue	$ 1,731	$ 1,821	$ 1,879	$ 2,038	$ 2,295
Number of Pieces	6,741	7,077	7,269	7,901	8,605
Weight, Pounds	2,535	2,725	2,778	3,018	3,677
U.S. Postal Service					
Number of Pieces	440	434	438	455	824
Weight, Pounds	145	150	134	128	148
Free Matter for the Blind					
Number of Pieces	58	62	68	62	72
Weight, Pounds	25	30	32	30	33
Other Services					
Revenue*	$ 3,785	$ 3,430	$ 3,790	$ 2,994	$ 3,633
Postal Service Totals					
Revenue	**$ 65,223**	**$ 65,711**	**$ 67,052**	**$ 68,090**	**$ 74,932**
Number of Pieces	**159,859**	**168,297**	**170,859**	**176,744**	**202,703**
Weight, Pounds	**20,495**	**21,041**	**20,687**	**20,785**	**24,237**

Note: The charts have been reformatted to reflect the new presentation which is more representative of how the Postal Service manages the business. The following summarizes the major reclassification changes:

-The new First-Class Package Services now includes the First-Class Parcels category formally included in First-Class Mail.

-Parcel Select, Parcel Return, & Standard Parcels now include Standard Mail Parcels category formally included in Standard Mail.

-The International category now includes all international revenues, pieces, and weight formally included in First-Class Mail, Standard Mail, Package Services, and Other.

** Includes a $59 million decrease and increases of $298 million, $103 million, $655 million, $230 million to the deferred revenue-prepaid postage liability in 2012, 2011, 2010, 2009, and 2008, respectively. As this is a change in estimate, the decrease in revenue is accounted for in Other Mailing Services revenue.*

Operating Statistics

Shipping & Packages Services Statistics	2012	2011	2010	2009	2008
(In millions of units indicated, unaudited)					
Express Mail					
Revenue	$ 802	$ 800	$ 829	$ 884	$ 901
Number of Pieces	40	40	43	47	48
Weight, Pounds	41	39	40	45	47
First-Class Packages					
Revenue	$ 1,524	$ 1,284	$ 1,170	$ 1,117	$ 1,121
Number of Pieces	705	638	599	583	606
Weight, Pounds	230	209	195	190	195
Priority Mail					
Revenue	$ 5,940	$ 5,636	$ 5,455	$ 5,368	$ 5,484
Number of Pieces	824	790	779	791	852
Weight, Pounds	1,694	1,693	1,670	1,636	1,747
Parcel Select Mail					
Revenue	$ 1,626	$ 1,277	$ 1,106	$ 1,104	$ 1,158
Number of Pieces	1,241	1,077	951	908	982
Weight, Pounds	1,869	1,619	1,287	1,178	1,343
Parcel Return Service Mail					
Revenue	$ 115	$ 92	$ 65	$ 49	$ 32
Number of Pieces	47	38	28	18	12
Weight, Pounds	140	118	72	39	15
Package Services					
Revenue	$ 1,589	$ 1,581	$ 1,531	$ 1,671	$ 1,833
Number of Pieces	645	675	657	730	846
Weight, Pounds	1,757	1,784	1,742	1,873	2,155
Total Shipping & Package Services					
Revenue	$ 11,596	$ 10,670	$ 10,156	$ 10,193	$ 10,529
Number of Pieces	3,502	3,258	3,057	3,077	3,346
Weight, Pounds	5,731	5,462	5,006	4,961	5,502
Ancillary & Special Services					
Certified Mail					
Revenue	$ 663	$ 708	$ 791	$ 731	$ 718
Number of Articles	227	251	283	267	269
Return Receipts					
Revenue	$ 399	$ 478	$ 557	$ 544	$ 550
Number of Articles	170	195	223	221	230
Delivery Confirmation					
Revenue	$ 228	$ 244	$ 224	$ 166	$ 147
Number of Articles	1,819	1,482	1,371	1,063	961
P.O. Box Rent Revenue	$ 837	$ 808	$ 816	$ 817	$ 897
Money Orders					
Revenue	$ 165	$ 172	$ 182	$ 190	$ 205
Number of Articles	109	116	123	135	149
Insurance					
Revenue	$ 109	$ 117	$ 128	$ 129	$ 145
Number of Articles	30	35	40	44	52
Shipping and Mailing Supplies					
Revenue	$ 118	$ 112	$ 107	$ N/A	$ N/A
Number of Articles	70	62	62	N/A	N/A
Other Services Revenue	$ 1,266	$ 791	$ 985	$ 417	$ 971
Total Other Services Revenue	$ ***3,785***	$ ***3,430***	$ ***3,790***	$ ***2,994***	$ ***3,633***

Note: The charts have been reformatted to reflect the new presentation which is more representative of how the Postal Service manages the business. The following summarizes the major reclassification changes:
-The new First-Class Package Services now includes the First-Class Parcels category formally included in First-Class Mail.
-Parcel Select, Parcel Return, & Standard Parcels now include Standard Mail Parcels category formally included in Standard Mail.
-The International category now includes all international revenues, pieces, and weight formally included in First-Class Mail, Standard Mail, Package Services, and Other.

** Includes a $59 million decrease and increase of $298 million, $103 million, $655 million, $230 million to the deferred revenue-prepaid postage liability in 2012, 2011, 2010, 2009, and 2008, respectively. As this is a change in estimate, the decrease in revenue is accounted for in Other Mailing Services revenue.*

Operating Statistics

Career Employees	2012	2011	2010	2009	2008
(Actual numbers, unaudited)					
Headquarters and HQ Related Employees					
Headquarters	2,922	2,745	2,937	2,811	2,892
Headquarters - Field Support Units	4,189	4,213	4,876	4,455	4,429
Inspection Service - Field	2,403	2,398	2,435	2,617	2,890
Inspector General	1,124	1,123	1,108	1,155	1,159
Total HQ and HQ Related Employees	10,638	10,479	11,356	11,038	11,370
Field Employees					
Area Offices	805	809	1,079	1,047	1,316
Postmasters / Installation Heads	17,376	22,212	23,111	23,672	25,250
Supervisors / Managers	23,566	25,083	27,792	28,812	31,787
Professional Administration and Technical Personnel	4,501	4,571	5,926	6,460	8,010
Clerks/Nurses	139,666	149,562	157,168	177,842	194,907
Mail Handlers	42,033	46,596	48,650	52,954	55,812
City Delivery Carriers	176,808	183,774	192,180	200,658	211,661
Motor Vehicle Operators	6,885	7,064	7,413	8,113	8,558
Rural Delivery Carriers - Full-Time	66,549	66,186	66,845	67,749	68,900
Building and Equipment Maintenance Personnel	34,705	36,032	37,403	39,531	40,248
Vehicle Maintenance Employees	4,926	4,883	4,985	5,252	5,419
Total Field Employees	517,820	546,772	572,552	612,090	651,868
Total Career Employees	528,458	557,251	583,908	623,128	663,238
Noncareer Employees					
Casuals	5,651	2,606	6,503	4,271	12,000
Postal Support Employees	20,281	10,471	0	0	0
Nonbargaining Temporary	3,537	2,259	1,910	1,659	1,119
Rural Part-Time: Subs / RCA / RCR / AUX	48,170	50,349	51,801	54,529	58,072
Postmaster Relief and Leave Replacements	8,727	9,138	11,350	11,477	12,327
Transitional Employees	14,204	13,876	16,215	17,018	18,332
Total Noncareer Employees	100,570	88,699	87,779	88,954	101,850
Total Employees	629,028	645,950	671,687	712,082	765,088

Note: The Postal Support Employees category was created in 2011.

Operating Statistics

Post Office and Delivery Points	**2012**	**2011**	**2010**	**2009**	**2008**
(In actual units indicated, unaudited)					
Post Offices, Stations, and Branches					
Postal-managed					
Post Offices	26,755	26,927	27,077	27,161	27,232
Classified Stations, Branches, and Carrier Annexes	5,102	5,219	5,451	5,501	5,509
Total Postal-Managed	**31,857**	**32,146**	**32,528**	**32,662**	**32,741**
Contract Postal Units	2,839	2,904	2,931	3,037	3,148
Community Post Offices	673	706	763	797	834
Total Offices, Stations, and Branches	**35,369**	**35,756**	**36,222**	**36,496**	**36,723**
Residential Delivery Points					
City Delivery	81,040,591	80,792,112	80,531,231	80,187,505	79,848,415
Rural	39,449,400	39,067,740	38,638,280	38,264,946	37,684,158
PO Box	15,994,508	15,891,349	15,739,698	15,601,883	15,639,031
Highway Contract	2,678,508	2,639,061	2,607,138	2,576,166	2,516,783
Total Residential Delivery	**139,163,007**	**138,390,262**	**137,516,347**	**136,630,500**	**135,688,387**
Business Delivery Points					
City Delivery	7,525,979	7,487,332	7,457,500	7,483,461	7,436,965
Rural	1,493,644	1,468,861	1,453,292	1,439,266	1,407,942
PO Box	3,889,964	4,072,664	4,355,674	4,489,688	4,587,454
Highway Contract	73,957	72,872	72,648	72,966	71,538
Total Business Delivery	**12,983,544**	**13,101,729**	**13,339,114**	**13,485,381**	**13,503,899**
Total Delivery Points	**152,146,551**	**151,491,991**	**150,855,461**	**150,115,881**	**149,192,286**
Change in Delivery Points	654,560	636,530	739,580	923,595	1,199,764

Financial History Summary

(Dollars in millions)	2012	2011	2010	2009	2008
Operating Results					
Operating Revenue	$ 65,223	$ 65,711	$ 67,052	$ 68,090	$ 74,932
Operating Expenses					
Compensation and benefits	47,689	48,310	48,909	50,883	52,358
Retiree health benefits*	13,729	2,441	7,747	3,390	7,407
All other operating expenses	19,546	19,883	18,770	17,557	17,973
Total Operating Expenses *	**$ 80,964**	**$ 70,634**	**$ 75,426**	**$ 71,830**	**$ 77,738**
Operating Loss	**$ (15,741)**	**$ (4,923)**	**$ (8,374)**	**$ (3,740)**	**$ (2,806)**
Net Loss	**$ (15,906)**	**$ (5,067)**	**$ (8,505)**	**$ (3,794)**	**$ (2,806)**
P.L.109-435 PSRHBF Expenses*	**$ 11,100**	**$ -**	**$ 5,500**	**$ 1,400**	**$ 5,600**
Workers' compensation expenses	**$ 3,729**	**$ 3,672**	**$ 3,566**	**$ 2,223**	**$ 1,227**
Financial Position					
Cash and cash equivalents	$ 2,319	$ 1,488	$ 1,161	$ 4,089	$ 1,432
Property and equipment, net	18,863	20,337	21,595	22,680	23,193
All other assets	1,429	1,588	1,570	1,349	1,361
Total Assets	**$ 22,611**	**$ 23,413**	**$ 24,326**	**$ 28,118**	**$ 25,986**
Accrued Contributions to PSRHBF	$ 11,100	$ -	$ -	$ -	$ -
Workers' compensation liability	17,567	15,142	12,589	10,133	7,968
Debt	15,000	13,000	12,000	10,200	7,200
All other liabilities	13,790	14,211	13,610	13,198	12,490
Total Liabilities	**$ 57,457**	**$ 42,353**	**$ 38,199**	**$ 33,531**	**$ 27,658**
Net Capital					
Capital contributions of the U.S. government	$ 3,132	$ 3,132	$ 3,132	$ 3,087	$ 3,034
Deficit since 1971 reorganization	(37,978)	(22,072)	(17,005)	(8,500)	(4,706)
Total Net Deficiency	**$ (34,846)**	**$ (18,940)**	**$ (13,873)**	**$ (5,413)**	**$ (1,672)**

* Due to the passage of P.L. 112-33 which changed the due date of the scheduled PSRHBF prefunding payment of $5.5 billion originally due by September 30, 2011 into 2012, PSRHBF expenses were zero in 2011. As a result, total PSRHBF expenses in 2012, including the previously scheduled prefunding payment of $5.6 billion due by September 30, 2012, were $11.1 billion. In 2009, P.L. 111-68 changed the PSRHBF payment from $5.4 billion to $1.4 billion.

Trademarks

The following are among the many trademarks owned by the United States Postal Service:

United States Postal Service®, U.S. Postal Service®, USPS®, First-Class Mail®, usps.com®, Click-N-Ship®, Automated Postal Center®, APC®, Express Mail®, Priority Mail®, Standard Mail®, Parcel Post®, Media Mail®, Customized MarketMail®, Intelligent Mail®, Parcel Select®, Express Mail International®, Quick, Easy, Convenient®, United States Postal Service Office of Inspector General™, Post Office™, Postal Service™, Signature Confirmation™, Certified Mail™, Delivery Confirmation™, Registered Mail™, ZIP Code™, Carrier Pickup™, Priority Mail International™, First-Class Mail International™, Premium Forwarding Service™, Forever Stamp™ and Postmaster General™.

The Sonic Eagle Logo, Round Top Collection Box design, Letter Carrier Uniform design, and the Mail Truck design are also trademarks belonging to the United States Postal Service.

Glossary

Accounting Standards Codification (ASC). Codifies authoritative accounting literature and guidance into a single source and establishes two levels of U.S. Generally Accepted Accounting Principles, or GAAP — authoritative and nonauthoritative. ASC is the source of authoritative GAAP.

Accruals. Revenue and expenses that are recorded as they occur, even though they may not have actually been received or paid.

Amortize. To reduce the value of an asset through regular charges to income over time; or to write off expenses by prorating them over a period of time.

Appropriation. Public funds set aside by Congress for a specific purpose.

Asset. An economic resource that is expected to be of benefit in the future.

Cautionary Statements. Statements contained in Management's Discussion and Analysis that represent our best estimate of the trends we know about, the trends we anticipate, and the trends we think are relevant to our future operations.

Capitalize. To treat an expenditure as an asset or to compute the present value of a future payment that will be paid over a period of time.

Competitive Services. Services that are not Mailing Services and are considered competitive services. The competitive product list includes Priority Mail, Expedited Mail, Bulk Standard Post, and Bulk International Mail.

Contribution. The difference between the revenue from a class of mail and that class's volume-variable costs. For example, if a class of mail has revenue of $1.5 billion and volume-variable costs of $1 billion, its contribution is $500 million, which means that this class of mail covers its costs and contributes $500 million to the common costs of all mail services.

Contingent Liability. A potential liability that is contingent on a future event.

Delivery Confirmation. A special service that provides the date of delivery or attempted delivery for Priority Mail and Standard Mail parcels, Bound Printed Matter, and Library Mail.

Depreciate. To periodically reduce the estimated value of an asset over the course of its useful life.

Direct Mail. A form of advertising often employed by businesses to reach targeted groups of potential customers by mail.

Enhanced Carrier Route. A subclass of Standard Mail for mail pieces weighing less than 16 ounces and prepared in carrier route sequence.

Equity. The difference between the value of all assets less all liabilities.

Express Mail. The Postal Service's premium delivery service, providing guaranteed overnight delivery for documents and packages weighing up to 70 pounds. Both domestic and international services are offered.

First-Class Mail. A class of mail including letters, postcards, and all matter sealed or otherwise closed against inspection. This service is required for personal correspondence, handwritten or typewritten letters, and bills or statements of account.

Fiscal Year. As used in the financial section of this report, the Postal Service fiscal year, which is the 12-month period during which the Postal Service keeps accounts, beginning October 1 and closing September 30.

Fixed Asset. Any tangible property such as buildings, machinery and equipment, furniture, and leasehold improvements.

Forever Stamp. A stamp that once purchased is good for mailing one-ounce First-Class Mail letters anytime in the future — regardless of price changes. It was introduced in 2007.

Generally Accepted Accounting Principles (GAAP). The rules and procedures of accepted accounting practice as defined by the Financial Accounting Standards Board.

Impaired Asset. When the market value of an economic resource has been permanently lowered below the recorded value of the asset.

Inspector General. The Inspector General is appointed by and reports directly to the Governors of the Postal Service and is independent of postal management. The Office of Inspector General (OIG) primarily investigates and evaluates programs and operations of the Postal Service to ensure the efficiency and integrity of the postal system.

Intelligent Mail. Services or a strategy used to describe services that use machine readable codes, such as barcodes, to uniquely identify mail. This enables large mailers to follow the progress of their mail through the many stages of processing all the way to delivery.

Leasehold. An asset that gives the Postal Service the right to use property under a lease.

Liability. Any debt or obligation that is owed by the Postal Service at some future period of time.

Market-Dominant Services. Services as defined by the PRC. These are services for which the Postal Service has market power to set prices substantially above costs without risk of losing business to others. The Market Dominant Services include: First-Class Mail letters and sealed parcels; First-Class Mail cards; Periodicals; Standard Mail; single-piece Standard Post; Media Mail; Bound Printed Matter; Library Mail; Special Services; and single-piece International Mail.

Mailing Flat. A flat is any rectangular or square mail piece that is too big in at least one direction to be a letter. To be a flat, all the following must be true: (a) no side is longer than 15"; (b) the shorter side is 12" or less; (c) the piece is no more than 3/4" thick; and (d) the piece weighs no more than 13 ounces for first class, or is under 16 ounces for standard class.

Operating Expense. Expense that is incurred in providing our primary business services.

Operating Revenue. Revenue that is earned from our primary business services.

Office of Personnel Management (OPM). The agency that manages and maintains the government retirement and health benefit plans.

Package Services. Mailing category offered for any merchandise or printed matter weighing up to 70 pounds. These services include Standard Post, Bound Printed Matter, Library Mail, and Media Mail.

Payable. Money that is owed by the Postal Service.

Periodicals. A class of mail formerly called second-class mail that consists of magazines, newspapers, and other publications.

Postal Inspection Service. The investigative arm of the Postal Service responsible for investigating criminal acts involving the mail and misuse of the postal system.

Postal Regulatory Commission (PRC). An independent federal establishment with oversight responsibility for the Postal Service to review and approve prices, review financial data, and hear and rule on price and service complaints.

Prepaid. Payments made in advance of service being provided.

Present Value. The value today of a future payment that is discounted at a stated rate of compound interest. For example, the present value of $100 that will be paid to the Postal Service 10 years from now is about $38.55, if we discount that $100 at a rate equal to 10% interest compounded annually.

Priority Mail. Priority mail is a 1 to 3-day non-guaranteed delivery service.

Receivable. Money that is owed to the Postal Service.

Recognize. To record in Postal Service accounts as income or expense.

Special Services. A category of services that add value to mail by providing added security, proof of delivery or loss recovery. These services include: Certified Mail, Registered Mail, Delivery Confirmation, Signature Confirmation, and insurance up to $1,000.

Standard Mail. Mailing service offered for any item, including advertisements and merchandise weighing less than 16 ounces that are not required to be sent using First-Class Mail. Standard Mail is typically used for bulk advertising to multiple delivery addresses.

U.S. Mail. Any mailable matter that is accepted for mail processing and delivery by the Postal Service.

Universal Service. The Postal Service's mandate and commitment to the nation to provide mail delivery service at uniform and reasonable rates to everyone, everywhere.

Utilization Rate. A metric used to quantify the rate at which total potential use of a resource is currently being applied. Displayed as a percentage, utilization levels of our transportation fleet and work hours are the most common references to this metric.

Work Hours. The amount of time spent by employees performing work for their employers for which they are entitled to compensation as defined by the Fair Labor Standards Act (FSLA).

Workshare. Tasks performed by mailers that otherwise would be done by the Postal Service, such as preparing, sorting, barcoding, and transporting mail. Reduced postage rates are offered to these customers.

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: November 15, 2012

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, this Report has been signed below by the following persons on behalf of the Postal Service and in the capacities indicated as of November 15, 2012.

Signature	Title
/s/ Thurgood Marshall, Jr. Thurgood Marshall, Jr.	Chairman, Board of Governors
/s/ Mickey D. Barnett Mickey D. Barnett	Vice Chairman, Board of Governors
/s/ James H. Bilbray James H. Bilbray	Governor
/s/ Louis J. Giuliano Louis J. Giuliano	Governor
/s/ Dennis J. Toner Dennis J. Toner	Governor
/s/ Ellen C. Williams Ellen C. Williams	Governor

Signature	Title
/s/ Patrick R. Donahoe Patrick R. Donahoe	Board Member, Postmaster General and Chief Executive Officer
/s/ Ronald A. Stroman Ronald A. Stroman	Board Member and Deputy Postmaster General
/s/ Joseph Corbett Joseph Corbett	Chief Financial Officer and Executive Vice President, (Principal Financial Officer)
/s/ Timothy F. O’Reilly Timothy F. O’Reilly	Controller, Vice President, (Principal Accounting Officer)

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 annual report on Form 10-K 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 a significant role in the Postal Service's internal control over financial reporting.

Date: November 15, 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 annual report on Form 10-K 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 a significant role in the Postal Service's internal control over financial reporting.

Date: November 15, 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 Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 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: November 15, 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 Annual Report of the United States Postal Service (Postal Service) on Form 10-K for the period ended September 30, 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: November 15, 2012

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