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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the Quarter Ended March 31, 2002

Commission file number 0-4714

United Parcel Service, Inc.

(Exact name of registrant specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**58-2480149** (I.R.S. Employer Identification No.)
55 Glenlake Parkway, NE **Atlanta, Georgia** (Address of principal executive office)	**30328** (Zip Code)

Registrant's telephone number, including area code **(404) 828-6000**

Not Applicable
Former name, address and fiscal year, if changed since last report

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 and Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Class A and B Common Stock, par value $.01 per share

(Title of Class)

726,704,363 Class A shares, 390,313,407 Class B shares

Outstanding as of May 10, 2002

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2002 (unaudited) and December 31, 2001
(In millions except per share amounts)

	March 31, 2002	December 31, 2001
Assets		
Current Assets:		
Cash & cash equivalents	$ 1,142	$ 858
Marketable securities & short-term investments	885	758
Accounts receivable, net	3,896	4,078
Finance receivables, net	640	708
Prepaid health and welfare benefit costs	261	446
Other current assets	614	749
Total Current Assets	7,438	7,597
Property, Plant & Equipment—at cost, net of accumulated depreciation & amortization of $10,885 and $10,620 in 2002 and 2001	13,654	13,438
Prepaid Pension Costs	1,842	1,845
Other Assets	1,795	1,756

	$ 24,729	$ 24,636
Liabilities & Shareowners' Equity		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	$ 276	$ 518
Accounts payable	1,756	1,899
Accrued wages & withholdings	1,474	1,169
Income taxes payable	300	92
Other current liabilities	920	1,108
Total Current Liabilities	4,726	4,786
Long-Term Debt	4,717	4,648
Accumulated Postretirement Benefit Obligation, Net	1,172	1,130
Deferred Taxes, Credits & Other Liabilities	3,826	3,824
Shareowners' Equity:		
Preferred stock, no par value, authorized 200 shares, none issued	—	—
Class A common stock, par value $.01 per share, authorized 4,600 shares, issued 732 and 772 in 2002 and 2001	7	8
Class B common stock, par value $.01 per share, authorized 5,600 shares, issued 384 and 349 in 2002 and 2001	4	3
Additional paid-in capital	100	414
Retained earnings	10,512	10,162
Accumulated other comprehensive loss	(335)	(339)
Deferred compensation arrangements	47	47
	10,335	10,295
Less: Treasury stock (1 shares in 2002 and 2001)	(47)	(47)
	10,288	10,248
	$ 24,729	$ 24,636

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Three Months Ended March 31, 2002 and 2001
(In millions except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2002	**2001**
Revenue	$ 7,579	$ 7,435
Operating Expenses:		
Compensation and benefits	4,449	4,251
Other	2,183	2,240
	6,632	6,491
Operating Profit	947	944
Other Income and (Expense):		
Investment income	12	53
Interest expense	(43)	(44)
	(31)	9
Income Before Income Taxes And Cumulative Effect of Change In Accounting Principle	916	953
Income Taxes	353	371
Income Before Cumulative Effect of Change In Accounting Principle	563	582
Cumulative Effect of Change In The Method Of Accounting For Derivatives, Net of Taxes	—	(26)
Net Income	$ 563	$ 556
Basic Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle	$ 0.50	$ 0.52
Basic Earnings Per Share	$ 0.50	$ 0.49
Diluted Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle	$ 0.50	$ 0.51

Diluted Earnings Per Share	$ 0.50	$ 0.48

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
Three Months Ended March 31, 2002
(In millions except per share amounts)
(unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation Arrangements	Treasury Stock		Total Shareowners' Equity
	Shares	Amount	Shares	Amount					Shares	Amount	
Balance, January 1, 2002	772	$ 8	349	$ 3	$ 414	$ 10,162	$ (339)	$ 47	(1)	$ (47)	$ 10,248
Comprehensive income:											
Net income	—	—	—	—	—	563	—	—	—	—	563
Foreign currency adjustments	—	—	—	—	—	—	(26)	—	—	—	(26)
Unrealized gain (loss) on marketable securities	—	—	—	—	—	—	—	—	—	—	—
Unrealized gain (loss) on cash flow hedges	—	—	—	—	—	—	30	—	—	—	30
Comprehensive income											567
Dividends ($0.19 per share)	—	—	—	—	—	(213)	—	—	—	—	(213)
Stock award plans	—	—	—	—	23	—	—	—	—	—	23
Common stock purchases	(6)	—	—	—	(363)	—	—	—	—	—	(363)
Common stock issuances	1	—	—	—	26	—	—	—	—	—	26
Conversion of Class A Common stock to Class B Common stock	(35)	(1)	35	1	—	—	—	—	—	—	—
Balance, March 31, 2002	732	$ 7	384	$ 4	$ 100	$ 10,512	$ (335)	$ 47	$ (1)	$ (47)	$ 10,288

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2002 and 2001
(In millions)
(unaudited)

	Three Months Ended March 31,	
	2002	2001
Cash flows from operating activities:		
Net income	$ 563	$ 556
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	351	318
Postretirement benefits	42	33
Deferred taxes, credits and other	(24)	38
Stock award plans	140	143
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	182	447
Finance receivables	(31)	(21)
Prepaid health and welfare benefit costs	185	207
Other current assets	212	(89)
Prepaid pension costs	3	(7)
Accounts payable	(143)	(117)
Accrued wages and withholdings	187	137
Dividends payable	(212)	(192)
Income taxes payable	208	197
Other current liabilities	24	56
Net cash from operating activities	1,687	1,706

Cash flows from investing activities:		
Capital expenditures	(624)	(515)
Disposals of property, plant and equipment	72	11
Purchases of marketable securities and short-term investments	(484)	(1,312)
Sales and maturities of marketable securities and short-term investments	357	1,048
Construction funds in escrow	—	21
Payments for acquisitions, net of cash acquired	—	(72)
Other asset receipts	10	—
Net cash used in investing activities	(669)	(819)
Cash flows from financing activities:		
Proceeds from borrowings	136	1,170
Repayments of borrowings	(312)	(716)
Purchases of common stock	(363)	(622)
Issuances of common stock pursuant to stock awards and employee stock purchase plans	27	18
Dividends	(213)	(215)
Net cash used in financing activities	(725)	(365)
Effect of exchange rate changes on cash	(9)	(83)
Net increase in cash and cash equivalents	284	439
Cash and cash equivalents:		
Beginning of period	858	879
End of period	$ 1,142	$ 1,318
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 55	$ 22
Income taxes	$ 145	$ 132

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. For interim consolidated financial statement purposes, we compute our tax provision on the basis of our estimated annual effective income tax rate, and provide for accruals under our various employee benefit plans for each three month period based on one quarter of the estimated annual expense.

2. In our opinion, the accompanying interim, unaudited, consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly our financial position as of March 31, 2002, the results of operations for the three months ended March 31, 2002 and 2001, and cash flows for the three months ended March 31, 2002 and 2001. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

3. The following table sets forth the computation of basic and diluted earnings per share (in millions except per share amounts):

	Three Months Ended March 31,	
	2002	2001
Numerator:		
Numerator for basic and diluted earnings per share—		
Net income	$ 563	$ 556
Denominator:		
Weighted-average shares—	1,118	1,129
Deferred compensation arrangements	1	1
Denominator for basic earnings per share	1,119	1,130
Effect of dilutive securities:		
Contingent shares—		
Management incentive awards	3	4
Stock option plans	12	15

Denominator for diluted earnings per share	1,134	1,149
Basic Earnings Per Share	$ 0.50	$ 0.49
Diluted Earnings Per Share	$ 0.50	$ 0.48

4. On August 9, 1999, the United States Tax Court held that we were liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company that had reinsured excess value ("EV") package insurance purchased by our customers beginning in 1984, and that we were liable for additional tax for the 1983 and 1984 tax years. The Court held that for the 1984 tax year we were liable for taxes of $31 million on income reported by OPL, penalties and penalty interest of $93 million, and interest for a total after-tax exposure estimated at approximately $246 million.

On June 20, 2001, the United States Court of Appeals for the Eleventh Circuit reversed the Tax Court's decision. On September 13, 2001, the Eleventh Circuit denied the IRS's petition to have the appeal reheard en banc. The IRS did not attempt to appeal the case to the U.S. Supreme Court and, consequently, the case has been remanded to the Tax Court to consider alternative arguments raised by the parties. At this time, we do not know what the outcome of the remanded proceedings in the Tax Court will be.

The IRS has taken similar positions to those advanced in the Tax Court decision for tax years subsequent to 1984. Tax years 1985 through 1990 currently are docketed in the Tax Court, although no trial date has been set pending resolution of the case that covers the 1984 year. Further, the IRS has issued a report asserting similar positions for the 1991 through 1994 tax years, and we expect the IRS to take similar positions for tax years 1995 through 1999. Based on the Tax Court decision, we estimate that our total after-tax exposure for tax years 1984 through 1999 could be as high as $2.353 billion.

In our second quarter 1999 financial statements, we recorded a tax assessment charge of $1.786 billion, which included an amount for related state tax liabilities. The charge included taxes of $915 million and interest of $871 million. This assessment resulted in a tax benefit of $344 million related to the interest component of the assessment. As a result, our net charge to net income for the tax assessment was $1.442 billion, increasing our total after-tax reserve at that time with respect to these matters to $1.672 billion. The tax benefit of deductible interest was included in income taxes in 1999; however, since none of the income on which this tax assessment is based is our income, we did not classify the tax charge as income taxes.

We determine the size of our reserve with respect to these matters in accordance with accounting principles generally accepted in the United States of America. In 1999, we estimated our most likely liability based on the initial Tax Court decision. In making this determination, we concluded that, based on the Tax Court decision, it was more likely that we would be required to pay taxes on income reported by OPL and interest, but that it was not probable that we would be required to pay any penalties and penalty interest. In our prior estimation, if penalties and penalty interest ultimately were determined to be payable, we would have had to record an additional charge of up to $681 million. We currently do not know what impact the Eleventh Circuit decision and the remanded proceedings in the Tax Court ultimately will have on our recorded reserve and above estimations for this matter.

Further, again as a result of the unfavorable Tax Court decision, and in order to stop the potential accrual of additional interest that might ultimately be determined to be due to the IRS, on August 31, 1999, we paid $1.349 billion and, on August 8, 2000, we paid an additional $91 million, to the IRS related to these matters for the 1984 through 1994 tax years. We included the profit of the EV insurance program, using the IRS's methodology for calculating these amounts, for both 1998 and 1999 in filings we made with the IRS in 1999. In February 2000, we paid $339 million to the IRS related to these matters for the 1995 through 1997 tax years. These amounts will remain with the IRS pending further proceedings.

The EV program that was the subject of the Tax Court decision has been changed since September 1999. The revised arrangement should eliminate the issues considered by the Tax Court and the Eleventh Circuit related to OPL.

The IRS has proposed adjustments, unrelated to the OPL matters discussed above, regarding the allowance of deductions and certain losses, the characterization of expenses as capital rather than ordinary, the treatment of certain income, and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. The proposed adjustments would result in $16 million of additional income tax expense. Also, the IRS has issued a report taking a similar position with respect to some of these issues for each of the years from 1991 through 1994. This report proposes adjustments that would result in $155 million in additional income tax expense. For the 1985 through 1994 tax years, unpaid interest on these adjustments through March 31, 2002 could aggregate up to approximately $449 million, after the benefit of related tax deductions. We expect that we will prevail on substantially all of these issues. Specifically, we believe that our practice of expensing the items that the IRS alleges should have been capitalized is consistent with the practices of other industry participants. The IRS may take similar positions with respect to some of these issues for each of the years 1995 through 2001. The IRS's proposed adjustments include penalties and penalty interest. We believe that the possibility that such penalties and penalty interest will be sustained is remote. We believe that the eventual resolution of these issues will not have a material adverse effect on our financial condition, results of operations or liquidity.

We are named as a defendant in twenty-five pending lawsuits that seek to hold us liable for the collection of premiums for EV insurance in connection with package shipments since 1984. Based on a variety of state and federal tort, contract and statutory claims, these cases generally claim that we failed to remit collected EV premiums to an independent insurer; we failed to provide promised EV insurance; we acted as an insurer without complying with state insurance laws and regulations; and the price for EV insurance was excessive.

These actions all were filed after the August 9, 1999 Tax Court decision. As discussed above, on June 20, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court decision.

These twenty-five cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. Motions to dismiss these cases are pending, as are motions to remand several of these cases to state court.

In addition to the cases in which UPS is named as a defendant, there is also an action, *Smith v. Mail Boxes Etc.,* against Mail Boxes Etc. and its franchisees relating to UPS EV insurance purchased through Mail Boxes Etc. centers. Although the case had been pending in California state court, the complaint was amended in late 2001 to allege a nationwide plaintiff class, and to add a UPS subsidiary, Mail Boxes Etc., Inc. ("New MBE"), and an MBE franchisee as a representative of a purported nationwide defendant class of franchisees, as new defendants. Previously, only the former franchisor, which was not affiliated with UPS, was named a defendant. New MBE has removed the case to federal court, and it also has been consolidated into the MDL Proceeding. The plaintiff is seeking to have the case remanded back to state court.

We believe that the allegations in these cases have no merit and intend to continue to defend them vigorously. The ultimate resolution of these cases cannot presently be determined.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations or liquidity.

5. We report our operations in three segments: U.S. domestic package operations, international package operations and non-package operations. Package operations represent our core business and are divided into regional operations around the world. Regional operations managers are responsible for both domestic and export operations within their geographic region. International package operations include shipments wholly outside the U.S. as well as shipments with either origin or distribution outside the U.S. Non-package operations, which include the UPS Logistics Group and UPS Freight Services, are distinct from package operations and are thus managed and reported separately.

Segment information for the three months ended March 31 is as follows (in millions):

	Three Months Ended March 31,	
	2002	**2001**
Revenue:		
U.S. domestic package	$ 5,903	$ 5,976
International package	1,054	1,074
Non-package	622	385
Consolidated	$ 7,579	$ 7,435
Operating profit:		
U.S. domestic package	$ 862	$ 845
International package	30	39
Non-package	55	60
Consolidated	$ 947	$ 944

Two changes were made during the first quarter of 2002, which affect revenue reporting within the non-package segment. Neither of these changes have any effect on current or prior period income. First, effective January 1, 2002, the results of operations of the Transportation Unit of our Logistics Group were moved to our Freight Services Group. Amounts in prior periods have been reclassified for comparison purposes.

Second, our Logistics Group has historically reported revenue from freight under management gross, whereas our Freight Services Group, which was formed with the acquisition of the Fritz Companies in the second quarter of 2001, reports revenue net of freight under management. Beginning with the first quarter of 2002, we are now reporting revenue for both the Logistics Group and Freight Services net of freight under management. Amounts for prior periods have been modified to reflect revenue net of freight under management for comparison purposes. Following is a reconciliation of gross to net revenue for the non-package segment:

	Three Months Ended March 31,	
	2002	**2001**
UPS Logistics Group	$ 278	$ 212
Less freight under management	(42)	(58)
Net revenue	236	154
UPS Freight Services	459	117
Less freight under management	(235)	(17)
Net revenue	224	100
Other	162	131
Non-package revenue	$ 622	$ 385

Non-package operating profit included $28 and $27 million for the three months ended March 31, 2002 and 2001, respectively, of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit, included in the U.S. domestic package segment.

6. The major components of other operating expenses for the three months ended March 31 are as follows (in millions):

Three Months Ended March 31,

	2002	2001
Repairs and maintenance	$ 259	$ 262
Depreciation and amortization	351	318
Purchased transportation	358	428
Fuel	196	247
Other occupancy	139	143
Other expenses	880	842
Consolidated	$ 2,183	$ 2,240

7. Other assets as of March 31, 2002 and December 31, 2001 consist of the following (in millions):

	March 31, 2002	December 31, 2001
Goodwill	$ 1,102	$ 1,112
Intangible assets, net of accumulated amortization	100	107
Non-current finance receivables, net of allowance for credit losses	341	242
Other non-current assets	252	295
Consolidated	$ 1,795	$ 1,756

8. Effective January 1, 2001, we adopted Financial Accounting Standards Board (FASB) Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), as amended by Statements No. 137 and No. 138. FAS 133, as amended, requires us to record all financial derivative instruments on our balance sheet at fair value. Derivatives not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, depending on the nature of the hedge, changes in its fair value that are considered to be effective, as defined, either offset the change in fair value of the hedged assets, liabilities, or firm commitments through income, or are recorded in other comprehensive income (OCI) until the hedged item is recorded in income. Any portion of a change in a derivative's fair value that is considered to be ineffective, or is excluded from the measurement of effectiveness, is recorded immediately in income.

The nature of our business activities necessitates the management of various financial and market risks, including those related to changes in commodity prices, foreign currency exchange rates, interest rates, and equity prices. As discussed more fully in note 13 "Derivative Instruments and Risk Management" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2001, we use derivative financial instruments to mitigate or eliminate certain of those risks. The January 1, 2001 accounting change described above affected only the pattern and timing of non-cash accounting recognition.

At January 1, 2001, our financial statements were adjusted to record a cumulative effect of adopting FAS 133, as follows:

	Income	OCI
	(in millions, except per share amounts)	
Adjustment to fair value of derivatives (a)	$ (42)	$ 37
Income tax effects	16	(14)
Total	$ (26)	$ 23
Effect on diluted earnings per share (a)	$ (0.03)	

(a) For income effect, amount shown is net of adjustment to hedged items.

The cumulative effect on income resulted primarily from marking to market the time value of option contracts used in commodity and foreign currency cash flow hedging. The cumulative effect on OCI resulted primarily from marking to market swap contracts used as cash flow hedges of anticipated foreign currency cash flows and anticipated purchases of energy products.

9. In June 2001, the FASB issued Statement No. 141 "Business Combinations" (FAS 141) and Statement No. 142 "Goodwill and Other Intangible Assets" (FAS 142). FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. FAS 142 eliminates the requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life, and addresses the impairment testing and recognition for goodwill and intangible assets.

To comply with the transition provisions of FAS 142, we have determined our reporting units and assigned goodwill and other net assets to those reporting units. Goodwill attributable to each of our reporting units is being tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is primarily being determined through the use of a discounted cash flow methodology. We have not completed our impairment testing required by the transition provisions of FAS 142, and therefore it is not practical, at this time, to estimate the impact of adoption of this statement.

The following table indicates the allocation of goodwill by reportable segment, as of March 31, 2002 and December 31, 2001 (in millions).

	March 31, 2002	December 31, 2001
Goodwill by Segment:		
U.S. domestic package	$ —	$ —
International package	99	98

Non-package	1,003	1,014
Consolidated	$ 1,102	$ 1,112

Intangible assets consisting of franchise rights, non-compete agreements, licenses, and patents of $87 million are continuing to be amortized under the provisions of FAS 142. The remaining intangible assets, consisting of trade names, of $13 million are considered indefinite-lived intangible assets under FAS 142, and are no longer being amortized.

Goodwill amortization ceased upon the implementation of FAS 142 on January 1, 2002. The following table indicates the impact on net income and earnings per share if the non-amortization provisions of FAS 142 had been applied in the first quarter of 2001.

	Three Months Ended March 31,	
	2002	2001
Reported net income	$ 563	$ 556
Adjustments: Goodwill amortization	—	13
Income taxes	—	(2)
Adjusted net income	563	567
Cumulative effect of change in accounting principle (FAS 133)	—	26
Adjusted net income before cumulative effect of change in accounting principle	$ 563	$ 593
Basic earnings per share:		
Reported	$ 0.50	$ 0.49
Adjusted	$ 0.50	$ 0.50
Diluted earnings per share:		
Reported	$ 0.50	$ 0.48
Adjusted	$ 0.50	$ 0.49
Basic earnings per share before cumulative effect of change in accounting principle:		
Reported	$ 0.50	$ 0.52
Adjusted	$ 0.50	$ 0.52
Diluted earnings per share before cumulative effect of change in accounting principle:		
Reported	$ 0.50	$ 0.51
Adjusted	$ 0.50	$ 0.52

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

Three Months Ended March 31, 2002 and 2001

The following tables set forth information showing the change in revenue, average daily package volume and average revenue per piece, both in dollars or amounts and in percentage terms:

	Three Months Ended March 31,			
	2002	2001	$	%
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	$ 1,313	$ 1,383	$ (70)	(5.1)%
Deferred	700	716	(16)	(2.2)
Ground	3,890	3,877	13	0.3
Total U.S. domestic package	5,903	5,976	(73)	(1.2)
International package:				
Domestic	222	232	(10)	(4.3)
Export	737	748	(11)	(1.5)
Cargo	95	94	1	1.1
Total International package	1,054	1,074	(20)	(1.9)
Non-package:				
UPS Logistics Group	236	154	82	53.2
UPS Freight Services	224	100	124	124.0

Other	162	131	31	23.7
Total non-package	622	385	237	61.6
Consolidated	$ 7,579	$ 7,435	$ 144	1.9 %
			#	
Average Daily Package Volume (in thousands):				
U.S. domestic package:				
Next Day Air	1,092	1,106	(14)	(1.3)%
Deferred	880	888	(8)	(0.9)
Ground	10,034	10,192	(158)	(1.6)
Total U.S. domestic package	12,006	12,186	(180)	(1.5)
International package:				
Domestic	780	804	(24)	(3.0)
Export	427	399	28	7.0
Total International package	1,207	1,203	4	0.3
Consolidated	13,213	13,389	(176)	(1.3)%
Operating days in period	63	64		
			$	
Average Revenue Per Piece:				
U.S. domestic package:				
Next Day Air	$ 19.09	$ 19.54	$ (0.45)	(2.3)%
Deferred	12.63	12.60	0.03	0.2
Ground	6.15	5.94	0.21	3.5
Total U.S. domestic package	7.80	7.66	0.14	1.8
International:				
Domestic	4.52	4.51	0.01	0.2
Export	27.40	29.29	(1.89)	(6.5)
Total International package	12.61	12.73	(0.12)	(0.9)
Consolidated	$ 8.24	$ 8.12	$ 0.12	1.5 %

U.S. domestic package revenue decreased 1.2% compared to last year. This decline was driven by a 1.5% reduction in average daily package volume which was primarily a result of the continued weakness in the U.S. economy. Revenue for our Next Day Air products was also adversely affected by a decline in revenue per piece. The decline results in part from lower package weights combined with a mix shift favoring letters to packages. This reflected what we believe to be continued slowness in the manufacturing sector. Conversely, revenue for our Ground products increased slightly due to a 3.5% increase in average revenue per piece. This improvement resulted in part from having a rate increase that occurred four weeks earlier than compared to the prior year.

On January 7, 2002, we increased rates for standard ground shipments an average of 3.5% for commercial deliveries. The ground residential charge increased $0.05 to $1.10 over the commercial ground rate, and this charge will also be applied to express deliveries in 2002. The additional delivery area surcharge, which is added to ground deliveries in certain less accessible areas, remained at $1.50. In addition, in 2002, this charge will also be applied to express deliveries to these addresses. Rates for UPS Hundredweight increased 5.9%.

We also increased rates for UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, and 3 Day Select an average of 4.0%. The surcharge for UPS Next Day Air Early A.M. increased from $27.50 to $28.50. Rates for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service) increased an average of 3.9%. Rate changes for shipments originating outside the U.S. were made throughout the past year and varied by geographic market.

An index-based fuel surcharge, which became effective December 10, 2001, continued and resets on a monthly basis beginning in February 2002. The index-based surcharge is based on the National U.S. Average On-Highway Diesel Fuel Prices as reported by the U.S. Department of Energy.

The decrease in international package revenue was due primarily to one less operating day, combined with the timing of Easter. Because of the timing of Easter, many of our international locations effectively experienced two less operating days. Nevertheless, we experienced strong average daily volume growth of 7.0% for our export products, offset by a decline in revenue per piece. The volume growth was primarily driven by strong growth in both the Europe and Asia-Pacific regions. European average daily export volume was up 13% while Asia-Pacific was up 11%. The revenue per piece decline resulted from a combination of currency fluctuations and continued strong growth in our lower-yielding, intra-Europe volume. In total, international package average daily volume increased .3% and average revenue per piece decreased .9%. Adjusting the average revenue per piece for currency would have resulted in a 2.4% increase compared to the prior year.

Non-package revenue increased a total of $237 million, or 62%, during the quarter. UPS Logistics Group revenue was up 53% of which 18% was due to organic growth and the balance from acquisitions, much of which was contributed by the new UNI-DATA subsidiary in Germany acquired last August. UPS Freight Services revenue more than doubled during the quarter primarily due to the acquisition of Fritz which occurred in May of 2001.

Two changes were made during the first quarter of 2002, which affect revenue reporting within the non-package segment. Neither of these changes have any effect on current or prior period income. First, effective January 1, 2002, the results of operations of the Transportation Unit of our Logistics Group were moved to our Freight Services

Group. Amounts in prior periods have been reclassified for comparison purposes.

Second, our Logistics Group has historically reported revenue from freight under management gross, whereas our Freight Services Group, which was formed with the acquisition of the Fritz Companies in the second quarter of 2001, reports revenue net of freight under management. Beginning with the first quarter of 2002, we are now reporting revenue for both the Logistics Group and Freight Services net of freight under management. Amounts for prior periods have been modified to reflect revenue net of freight under management for comparison purposes. Following is a reconciliation of gross to net revenue for the non-package segment:

	Three Months Ended March 31,	
	2002	2001
UPS Logistics Group	$ 278	$ 212
Less freight under management	(42)	(58)
Net revenue	236	154
UPS Freight Services	459	117
Less freight under management	(235)	(17)
Net revenue	224	100
Other	162	131
Non-package revenue	$ 622	$ 385

Consolidated operating expenses increased by $141 million, or 2.2%. Compensation and benefits expenses increased by $198 million, while other operating expenses decreased by $57 million. The majority of the increase in compensation and benefits expense resulted from the acquisitions that we completed in 2001. Other operating expenses decreased primarily due to lower purchased transportation costs, lower fuel costs and the continuing benefits of our cost savings initiatives.

Our operating margin, defined as operating profit as a percentage of revenue, decreased slightly from 12.7% during the first quarter of 2001 to 12.5% during the first quarter of 2002. This decline is the continuation of the trend that began in the fourth quarter of 2000 as the economy began to weaken, although the rate of decline moderated in the first quarter compared to what we experienced during 2001.

The following table sets forth information showing the change in operating profit, both in dollars (in millions) and in percentage terms:

	Three Months Ended March 31,		Change	
Operating Segment	2002	2001	$	%
U.S. domestic package	$ 862	$ 845	$ 17	2.0%
International package	30	39	(9)	(23.1)
Non-package	55	60	(5)	(8.3)
Consolidated Operating Profit	$ 947	$ 944	$ 3	0.3%

U.S. domestic package operating profit increased $17 million primarily due to the continued cost saving efforts that were implemented last year. We also benefited from favorable trends in fuel and other energy costs compared to the first quarter of last year.

The decline in operating profit for our international package operations was primarily currency-related. The strengthening of the U.S. dollar against most major currencies this year versus last year accounted for $8 million of the total $9 million decrease.

The decrease in non-package operating profit was primarily caused by an earnings decline in our excess value insurance business, due to reduced volumes and favorable claims results in the first quarter of 2001. This segment did benefit by $10 million due to the elimination of goodwill amortization in 2002, as discussed in Note 9.

The decrease in investment income of $41 million for the first quarter of 2002 is due in part to a combination of lower interest rates and lower balances available for investment in 2002. Investment income in 2001 also included realized investment gains compared to a small, realized loss in 2002.

Net income for the first quarter of 2002 was $563 million, an increase of $7 million from $556 million in the first quarter of 2001, resulting in an increase in diluted earnings per share from $0.48 in 2001 to $0.50 in 2002. The 2001 results reflect a non-recurring FAS 133 cumulative expense adjustment, net of tax, of $26 million. Excluding the impact of this non-recurring item and adjusting for the non-amortization provisions of FAS 142, our net income for the first quarter of 2001 would have been $593 million, which results in a slight decrease in diluted earnings per share ($0.52 in 2001 compared to $0.50 in 2002- See Note 9).

Liquidity and Capital Resources

Our primary source of liquidity is our cash flow from operations. We maintain significant cash, cash equivalents, marketable securities and short-term investments, amounting to $2.0 billion at March 31, 2002.

As part of our continuing share repurchase program, $1.0 billion was authorized for share repurchases in February 2002, of which $947 million was still available as of March 31, 2002.

We maintain two commercial paper programs under which we are authorized to borrow up to $7.0 billion. Approximately $1.45 billion was outstanding under these programs as of March 31, 2002. Of this amount, $1.25 billion has been classified as long-term debt in accordance with our intention and ability to refinance such obligations on a long-term basis under our revolving credit facilities. The average interest rate on the amount outstanding at March 31, 2002 was 1.79%. In addition, we maintain an extendible commercial notes program under which we are authorized to borrow up to $500 million. No amounts were outstanding under this program at March 31, 2002.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of $3.75 billion and $1.25 billion, expiring on April 24, 2003 and April 27, 2005, respectively. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. There were no borrowings under either of these agreements as of March 31, 2002.

We also maintain a $1.0 billion European medium-term note program. Under this program, we may issue notes from time to time, denominated in a variety of currencies. At March 31, 2002, $1.0 billion was available under this program.

We have a $2.0 billion shelf registration statement under which we may issue debt securities in the United States. There was approximately $1.268 billion issued under this shelf registration statement at March 31, 2002. As of March 31, 2002, $627 million in notes have been issued under the UPS Notes program, $138 million of which were issued in the first quarter 2002. These notes have various terms and maturities, all with fixed interest rates.

On August 9, 1999, the United States Tax Court held that we were liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company that had reinsured excess value ("EV") package insurance purchased by our customers beginning in 1984, and that we were liable for additional tax for the 1983 and 1984 tax years. The Court held that for the 1984 tax year we were liable for taxes of $31 million on income reported by OPL, penalties and penalty interest of $93 million, and interest for a total after-tax exposure estimated at approximately $246 million.

On June 20, 2001, the United States Court of Appeals for the Eleventh Circuit reversed the Tax Court's decision. On September 13, 2001, the Eleventh Circuit denied the IRS's petition to have the appeal reheard en banc. The IRS did not appeal the case to the U.S. Supreme Court and, consequently, the case has been remanded to the Tax Court to consider alternative arguments raised by the parties. At this time, we do not know what the outcome of the remanded proceedings in the Tax Court will be.

The IRS has taken similar positions to those advanced in the Tax Court decision for tax years subsequent to 1984. Tax years 1985 through 1990 currently are docketed in the Tax Court, although no trial date has been set pending resolution of the case that covers the 1984 year. Further, the IRS has issued a report asserting similar positions for the 1991 through 1994 tax years, and we expect the IRS to take similar positions for tax years 1995 through 1999.

We are named as a defendant in twenty-five pending lawsuits that seek to hold us liable for the collection of premiums for excess value EV insurance in connection with package shipments since 1984. Based on a variety of state and federal tort, contract and statutory claims, these cases generally claim that we failed to remit collected EV premiums to an independent insurer; we failed to provide promised EV insurance; we acted as an insurer without complying with state insurance laws and regulations; and the price for EV insurance was excessive.

These actions were filed after the August 9, 1999 Tax Court decision. As discussed above, on June 20, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court decision.

These twenty-five cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. Motions to dismiss these cases are pending, as are motions to remand several of these cases to state court.

We believe that the allegations in these cases have no merit and intend to continue to defend them vigorously. The ultimate resolution of these cases cannot presently be determined.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations or liquidity.

Reference is made to Note 4 to the accompanying unaudited consolidated financial statements for more information on the preceding matters.

Due to the events of September 11, 2001, increased security requirements for air carriers may be forthcoming; however, we do not anticipate that such measures will have a material adverse effect on our financial condition, results of operations or liquidity. In addition, our insurance premiums have risen and we have taken several actions, including self-insuring certain risks, to mitigate the expense increase.

As of December 31, 2001, we had approximately 232,500 employees (64% of total employees) employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("Teamsters"). These agreements run through July 31, 2002. The majority of our pilots are employed under a collective bargaining agreement with the Independent Pilots Association, which becomes amendable January 1, 2004. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable on August 1, 2001. Members of Teamsters 2727 recently voted down a proposed new contract, and negotiations resumed in April 2002 with the assistance of the National Mediation Board. In addition, the majority of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers. These agreements have various expiration dates between July 31, 2002 and May 31, 2003.

We entered into negotiations with the Teamsters in January 2002 for a new national master agreement. It is our desire through these discussions to reach an agreement on a new contract prior to the end of our current five-year agreement on July 31, 2002. Any strike, work stoppage or slowdown that results from our failure to reach a timely agreement with the Teamsters, and any change in shipping behavior by our customers or potential customers due to perceptions that we will not reach a timely agreement with the Teamsters, could have a material adverse effect on our financial condition and results of operations. We do not, however, anticipate that this will occur.

We believe that funds from operations and borrowing programs will provide adequate sources of liquidity and capital resources to meet our expected long-term needs for the operation of our business, including anticipated capital expenditures such as commitments for aircraft purchases, through 2009.

At March 31, 2002, we had unfunded loan commitments totaling $729 million, consisting of letters of credit of $56 million and other unfunded lending commitments of $673 million.

New Accounting Pronouncements

In June 2001, the FASB issued Statement No. 141 "Business Combinations" (FAS 141) and Statement No. 142 "Goodwill and Other Intangible Assets" (FAS 142). FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. FAS 142 eliminates the requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life, and addresses the impairment testing and recognition for goodwill and intangible assets.

To comply with the transition provisions of FAS 142, we have determined our reporting units and assigned goodwill and other net assets to those reporting units. Goodwill attributable to each of our reporting units is being tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is primarily being determined through the use of a discounted cash flow methodology. We have not completed our impairment testing required by the transition provisions of FAS 142, and therefore it is not practical, at this time, to estimate the impact of adoption of this statement.

Goodwill amortization ceased upon the implementation of FAS 142 on January 1, 2002. Reference is made to Note 9 to the accompanying consolidated financial statements for a summary of the impact goodwill amortization had on 2001 income and earnings per share.

Forward-Looking Statements

Except for historical information contained herein, "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Liquidity and Capital Resources" and other parts of this report contain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve certain risks and uncertainties, including statements regarding the intent, belief or current expectations of UPS and its management regarding strategic directions, prospects and future results. Certain factors may cause actual results to differ materially from those contained in the forward-looking statements, including economic and other conditions in the markets in which we operate, governmental regulations, our competitive environment, strikes, work stoppages and slowdowns (or customer behavior in anticipation of such events), increases in aviation and motor fuel prices, cyclical and seasonal fluctuations in our operating results, and other risks discussed in our Form 10-K and other filings with the Securities and Exchange Commission, which discussions are incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, interest rates, equity prices, and certain commodity prices. All of this market risk arises in the normal course of business, as we do not engage in speculative trading activities. In order to manage the risk arising from these exposures, we utilize a variety of foreign exchange, interest rate, equity and commodity forward contracts, options, and swaps.

Our market risks, hedging strategies, and financial instrument positions at March 31, 2002 are similar to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2001. During the first three months of 2002, we issued a total of $138 million of fixed rate notes with various maturities under our UPS Notes program. All of these fixed rate notes were effectively converted to floating interest rates using interest rate swaps.

The total fair value asset (liability) of our derivative financial instruments, including derivatives added during the first three months of 2002, is summarized in the following table (in millions):

	March 31, 2002	December 31, 2001
Energy Hedges	$ 28	$ (27)
Currency Hedges	9	4
Interest Rate Hedges	(51)	(74)
Investment Hedges	217	214
	$ 203	$ 117

The forward contracts, swaps, and options previously discussed contain an element of risk that the couterparties may be unable to meet the terms of the agreements. However, we minimize such risk exposures for these instruments by limiting the counterparties to large banks and financial institutions that meet established credit guidelines. We do not expect to incur any losses as a result of counterparty default.

The information concerning market risk under the sub-caption "Market Risk" of the caption "Management's Discussion and Analysis" on pages 29-31 of our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated by reference in this Quarterly Report on Form 10-Q.

Item 6. Exhibits and Reports on Form 8-K

A) Exhibits:

(10) Material Contracts

(a) Credit Agreement (364-Day Facility) dated April 25, 2002 among United Parcel Service, Inc., the initial lenders named therein, Salomon Smith Barney Inc. as Arranger and Bank of America, N.A., and Bank One, NA, as Co-Documentation Agents and Citibank, N.A. as Administrative and Syndication Agent.

(B) Reports on Form 8-K:

None

EXHIBIT INDEX

(10) Material Contracts

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED PARCEL SERVICE, INC.

(Registrant)

Date: May 15, 2002

By: /s/ D. Scott Davis

D. Scott Davis
Senior Vice President,
Treasurer and
Chief Financial Officer

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PART I. FINANCIAL INFORMATION

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SIGNATURES

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Exhibit 10(a)

SIXTH AMENDED AND RESTATED CREDIT AGREEMENT
(364-DAY FACILITY)

Dated as of April 25, 2002

UNITED PARCEL SERVICE, INC., a Delaware corporation (the "*Borrower*"), the banks, financial institutions and other institutional lenders (collectively, the "*Initial Lenders*") party hereto, Citibank, N.A., as administrative agent (together with any successor thereto appointed pursuant to Article VII of the Existing Credit Agreement referred to below, in such capacity, the "*Administrative Agent*") and as syndication agent (in such capacity, the "*Syndication Agent*") for the Lenders (as defined in the Existing Credit Agreement referred to below), Bank of America, N.A. and Bank One, NA, as co-documentation agents (in such capacity, the "*Co-Documentation Agents*") for the Lenders, and Salomon Smith Barney Inc., as arranger (in such capacity, the "*Arranger*") under the Loan Documents (as defined in the Existing Credit Agreement described below), hereby agree as follows:

PRELIMINARY STATEMENTS

(1) The Borrower is party to a Fifth Amended and Restated Credit Agreement (364-Day Facility) dated as of April 26, 2001 (as amended, supplemented or otherwise modified from time to time to, but not including, the date hereof, the "*Existing Credit Agreement*") with the banks, financial institutions and other institutional lenders party thereto (the "*Existing Lenders*"), Citibank, N.A., as Administrative Agent and as Syndication Agent for the Existing Lenders, ABN AMRO Bank N.V., Bank of America, N.A., Bank One, NA, and The Chase Manhattan Bank, as Co-Documentation Agents for such Lenders, and Salomon Smith Barney Inc., as Arranger. Capitalized terms not otherwise defined in this Sixth Amended and Restated Credit Agreement (364-Day Facility) (the "*Amendment and Restatement*") shall have the same meanings as specified in the Existing Credit Agreement.

(2) The Borrower has requested that the Lenders agree to extend credit to it from time to time in an aggregate principal amount of up to $3,750,000,000 for general corporate purposes of the Borrower and its Subsidiaries not otherwise prohibited under the terms of this Amendment and Restatement. The Lenders have indicated their willingness to agree to extend credit to the Borrower from time to time in such amount on the terms and conditions of this Amendment and Restatement.

(3) The parties to this Amendment and Restatement desire to amend the Existing Credit Agreement as set forth herein and to restate the Existing Credit Agreement in its entirety to read as set forth in the Existing Credit Agreement with the following amendments.

SECTION 1. *Amendments to the Existing Credit Agreement.* Effective as of the date of this Amendment and Restatement and subject to the satisfaction of the conditions precedent set forth in Section 2 hereof:

(a) The definition of "Applicable Margin" in Section 1.01 of the Existing Credit Agreement is hereby amended in full to read as follows:

"*Applicable Margin*" means (a) as of any date up to the Termination Date, 0.00% per annum for Base Rate Advances and 0.12% per annum for Eurodollar Rate Advances and (b) as of any date from and after the Termination Date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Base Rate Advances	Applicable Margin for Eurodollar Rate Advances
Level 1 AA- / Aa3 or above	0.00%	0.300%
Level 2 Lower than Level 1 but at least A- / A3	0.00%	0.500%
Level 3 Lower than Level 2	0.00%	0.725%

provided, however, that if as of any date of determination the aggregate principal amount of Advances outstanding exceeds 33% of the aggregate Commitments, the Applicable Margin for such date shall be the percentage per annum determined in accordance with clause (a) or (b) above *plus* 0.05%.

(b) Section 1.01 of the Existing Credit Agreement is hereby further amended by (i) deleting the definitions of "*Existing Credit Facilities*" and "*Termination Date*" set forth therein and (ii) replacing them with the following new definitions:

"*Existing Credit Facilities*" means the credit facilities provided pursuant to (a) the Fifth Amended and Restated Credit Agreement (364-Day Facility), dated as of April 26, 2001, as amended, supplemented or otherwise modified from time to time prior to the date hereof, among United Parcel Service, Inc., a Delaware corporation, the banks, financial institutions and other institutional lenders parties thereto, Citibank, N.A., as administrative agent and syndication agent, ABN AMRO Bank N.V., Bank of America, N.A., Bank One, NA, and The Chase Manhattan Bank, as co-documentation agents, and Salomon Smith Barney Inc., as arranger thereunder and (b) the Second Amended and Restated Credit Agreement (Five-year Facility) dated as of April 27, 2000, among United Parcel Service of America, Inc., a Delaware corporation, the banks, financial institutions and other institutional lenders parties thereto, Citibank, N.A., as administrative agent and syndication agent, and Salomon Smith Barney Inc. and Banc of America Securities LLC, as co-arrangers thereunder.

"*Termination Date*" means the earlier of (i) April 24, 2003 or, if extended pursuant to Section 2.16(a), the date that is 364 days after the Termination Date then in effect, and (ii) the date of termination in whole of the Commitments pursuant to section 2.05 or 6.01.

(c) Section 4.01(e) of the Existing Credit Agreement is hereby amended and restated in its entirety to read as follows:

"(e) The Consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2001, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the Fiscal Year then ended, all audited and certified by

Deloitte & Touche LLP, independent public accountants, copies of which have been furnished to each Lender, fairly present the Consolidated financial condition of the Borrower and its Subsidiaries at such dates and the Consolidated results of the operations of the Borrower and its Subsidiaries for the periods ended on such dates, all in accordance with GAAP consistently applied. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of the Borrower and its Subsidiaries on a Consolidated basis as of the dates thereof."

(d) Section 4.01(f) of the Existing Credit Agreement is amended by replacing the words "December 31, 2000" with the words "December 31, 2001."

(e) Section 8.07(a)(vi) is hereby amended by deleting the figure "$3,000" therein and substituting therefor the new figure "$3,500".

(f) Section 8.07(a) is hereby amended (i) by deleting at the end of clause (vii) thereof ", and" and substituting therefor the punctuation ",", (ii) by deleting at the end of clause (viii) thereof the punctuation "." and substituting therefor ", and" and (iii) by adding at the end thereof the following new clause (ix):

"(ix) notwithstanding any other provision set forth in this Agreement, a Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Revolving Credit Advances owing to it and the Revolving Credit Note or Notes held by it) upon notice to the Borrower and the Administrative Agent, with or without the consent of the Borrower, so long as any Event of Default shall have occurred and be continuing."

(g) Schedule I to the Existing Credit Agreement is deleted in its entirety and replaced with Schedule I to this Amendment and Restatement.

SECTION 2. *Conditions of Effectiveness of this Amendment and Restatement.* This Amendment and Restatement shall become effective as of the date first above written (the "***Restatement Effective Date***") when and only if:

(a) The Administrative Agent shall have received counterparts of this Amendment and Restatement executed by the Borrower, each of the Guarantors and all of the Initial Lenders or, as to any of the Initial Lenders, advice satisfactory to the Administrative Agent that such Initial Lender has executed this Amendment and Restatement.

(b) The Administrative Agent shall have received on or before the Restatement Effective Date the following, each dated such date and (unless otherwise specified below) in form and substance satisfactory to the Administrative Agent and (except for the Revolving Credit Notes) in sufficient copies for each Initial Lender:

(i) The new Revolving Credit Notes issued in connection with this Amendment and Restatement to the order of each of the Lenders which has a Commitment in a different amount from that, if any, with respect to the Existing Credit Agreement.

(ii) Certified copies of the resolutions of the board of directors of the Borrower approving this Amendment and Restatement, the Notes and all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment and Restatement and the Notes.

(iii) Certified copies of the resolutions of the board of directors of each of the Guarantors approving this Amendment and Restatement and all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment and Restatement.

(iv) A certificate of the Secretary or an Assistant Secretary of each of the Guarantors certifying the names and true signatures of the officers of such Guarantor authorized to sign this Amendment and Restatement and the other documents to be delivered hereunder.

(v) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement, the Notes and the other documents to be delivered hereunder.

(vi) A favorable opinion of King & Spalding, counsel for the Borrower, in substantially the form of Exhibit G to the Existing Credit Agreement, but with such modifications as are required to address the Existing Credit Agreement, as amended by this Amendment and Restatement, in each such case in form and substance reasonably satisfactory to the Initial Lenders.

(vii) A favorable opinion of Shearman & Sterling, counsel for the Administrative Agent, in form and substance reasonably satisfactory to the Administrative Agent.

(c) The representations and warranties contained in Section 4.01 of the Existing Credit Agreement shall be correct on and as of the Restatement Effective Date, before and after giving effect to the Restatement Effective Date, as though made on and as of such date.

(d) No event shall have occurred and be continuing, or shall occur as a result of the occurrence of the Restatement Effective Date, that constitutes a Default.

(e) The Existing Borrower shall have paid all fees and amounts due and payable.

SECTION 3. *Affirmation of Guaranty.* Each of the Guarantors hereby consents to the execution and delivery of this Amendment and Restatement and ratifies and confirms its obligations under the Guaranty dated April 30, 1998, which obligations shall remain in full force and effect notwithstanding the provisions of this Amendment and Restatement or any other amendment and restatement thereto heretofore executed. Each of the Guarantors further agrees that all references to "the Borrower" in the above referenced Guaranty shall be deemed to be references to the Borrower hereunder.

SECTION 4. *Reference to and Effect on the Existing Credit Agreement and the Notes.* (a) On and after the effectiveness of this Amendment and Restatement, each reference in the Existing Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Existing Credit Agreement, and each reference in the Notes to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Existing Credit Agreement, shall mean and be a reference to the Existing Credit Agreement, as amended by this Amendment and Restatement.

(b) The Existing Credit Agreement and the Notes, as specifically amended by this Amendment and Restatement, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

(c) Without limiting any of the other provisions of the Existing Credit Agreement, as amended by this Amendment and Restatement, any references in the Existing Credit Agreement to the phrases "on the date hereof", "on the date of this Agreement" or words of similar import shall mean and be a reference to the date of the Existing Credit Agreement (which is April 26, 2001).

SECTION 5. *Costs and Expenses.* The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and Restatement, the Notes and the other documents to be delivered hereunder (including, without limitation, the reasonable and documented fees and expenses of counsel for the Administrative Agent with respect hereto and thereto) in accordance with the terms of Section 8.04 of the Existing Credit Agreement.

SECTION 6. *Execution in Counterparts.* This Amendment and Restatement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment and Restatement by telecopier shall be effective as delivery of an original executed counterpart of such signature page.

SECTION 7. *Governing Law.* This Amendment and Restatement shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

UNITED PARCEL SERVICE, INC., as Borrower

By ______________________________

Name:
Title:

UNITED PARCEL SERVICE, INC., a New York corporation, as Guarantor

By ______________________________

Name:
Title:

UNITED PARCEL SERVICE, INC., an Ohio corporation, as Guarantor

By ______________________________

Name:
Title:

UNITED PARCEL SERVICE CO., a Delaware corporation, as Guarantor

By ______________________________

Name:
Title:

THE AGENTS

CITIBANK, N.A.,
as Administrative Agent, Syndication Agent and Lender

By ______________________________

Name:
Title:

THE INITIAL LENDERS

CITIBANK, N.A.

By ______________________________

Name:
Title:

ABN AMRO BANK, N.V.

By ______________________________

Name:
Title:

By

Name:
Title:

BANK OF AMERICA, N.A.

By

Name:
Title:

BANK ONE, NA

By

Name:
Title:

BNP PARIBAS

By

Name:
Title:

By

Name:
Title:

JP MORGAN CHASE BANK

By

Name:
Title:

MELLON BANK, N.A.

By

Name:
Title:

BARCLAYS BANK PLC

By

Name:
Title:

CREDIT SUISSE FIRST BOSTON

By

Name:
Title:

By

Name:
Title:

STANDARD CHARTERED BANK

By

Name:
Title:

By

Name:
Title:

WACHOVIA BANK, N.A.

By

Name:
Title:

WELLS FARGO BANK, N.A.

By

Name:
Title:

DRESDNER BANK AG,
NEW YORK AND GRAND CAYMAN BRANCHES

By

Name:
Title:

By

Name:
Title:

MERRILL LYNCH BANK USA

By

Name:
Title:

ROYAL BANK OF CANADA

By

Name:
Title:

SANPAOLO IMI S.p.A.

By

Name:
Title:

By

Name:
Title:

UBS AG, Stamford Branch

By

Name:
Title:

By

Name:
Title:

STATE STREET BANK AND TRUST COMPANY

By

Name:
Title:

MIZUHO CORPORATE BANK, LIMITED

By

Name:
Title:

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender		Commitment	Domestic Lending Office	Eurodollar Lending Office
Citibank, N.A.	$	550,000,000	Citibank, N.A. 2 Penns Way Suite 200 New Castle, DE 19720 Attn: Pat Dimery T: (302) 894-6023 F: (302) 894-6120	Citibank, N.A. 2 Penns Way Suite 200 New Castle, DE 19720 Attn: Pat Dimery T: (302) 894-6023 F: (302) 894-6120
ABN AMRO Bank, N.V.	$	300,000,000	ABN AMRO Bank N.V. 208 South LaSalle St., Suite 1500 Chicago, IL 60604-1003 Attn: Loan Administration T: (312) 992-5160 F: (312) 992-5155	ABN AMRO Bank N.V. 208 South LaSalle St., Suite 1500 Chicago, IL 60604-1003 Attn: Loan Administration T: (312) 992-5160 F: (312) 992-5155
Bank of America, N.A.	$	400,000,000	Bank of America 901 Main Street Dallas, TX 75202 Attn: Chester Celestine T: (214) 209-3798 F: (214) 290-9486	Bank of America 901 Main Street Dallas, TX 75202 Attn: Chester Celestine T: (214) 209-3798 F: (214) 290-9486
Bank One, NA	$	350,000,000	Bank One, NA 1 Bank One Plaza Chicago, IL 60670 Attn: Mark Gibbs T: (312) 732-7624 F: (312) 732-1117	Bank One, NA 1 Bank One Plaza Chicago, IL 60670 Attn: Mark Gibbs T: (312) 732-7624 F: (312) 732-1117
BNP Paribas	$	300,000,000		
JP Morgan Chase Bank	$	300,000,000	JP Morgan Chase Bank 1 Chase Manhattan Plaza 8th Floor New York, NY 10081 Attn: May Fong T: (212) 552-7314 F: (212) 552-5650	JP Morgan Chase Bank 1 Chase Manhattan Plaza 8th Floor New York, NY 10081 Attn: May Fong T: (212) 552-7314 F: (212) 552-5650
Royal Bank of Canada	$	75,000,000	Royal Bank of Canada, New York Branch One Liberty Plaza, 3rd Floor New York, NY 10006-1404 Attn: Manager, Loans Administration T: (212) 428-6322 F: (212) 428-2372	Royal Bank of Canada, New York Branch One Liberty Plaza, 3rd Floor New York, NY 10006-1404 Attn: Manager, Loans Administration T: (212) 428-6322 F: (212) 428-2372
Wachovia Bank, N.A.	$	150,000,000	Wachovia Bank, N.A. 201 South College Street Charlotte, NC 28288-1183 Attn: Ida Blake T: (704) 383-7912 F: (704) 374-2802	Wachovia Bank, N.A. 201 South College Street Charlotte, NC 28288-1183 Attn: Ida Blake T: (704) 383-7912 F: (704) 374-2802
Barclays Bank Plc	$	150,000,000	Barclays Bank Plc 222 Broadway New York, NY 10038 Attn: Christina Challenger-Batiz T: (212) 412-3701 F: (212) 412-5306	Barclays Bank Plc 222 Broadway New York, NY 10038 Attn: Christina Challenger-Batiz T: (212) 412-3701 F: (212) 412-5306
Credit Suisse First Boston	$	150,000,000	Credit Suisse First Boston 11 Madison Avenue New York, NY 10010-3629 Attn: Robert Finney T: (212) 325-9038 F: (212) 325-8319	Credit Suisse First Boston 11 Madison Aveune New York, NY 10010-3629 Attn: Robert Finney T: (212) 325-9038 F: (212) 325-8319
Dresdner Bank AG, New York and Grand Cayman Branches	$	125,000,000	Dresdner Bank 75 Wall Street New York, NY 10005 Attn: Deborah Carlson T: (212) 429-2244 F: (212) 429-2524	Dresdner Bank 75 Wall Street New York, NY 10005 Attn: Deborah Carlson T: (212) 429-2244 F: (212) 429-2524
Mellon Bank, N.A.	$	300,000,000	Mellon Bank, N.A. One Mellon Bank Center Pittsburgh, PA 15258-0001 Attn: Daniel Lenckos T: (412) 234-0733 F: (412) 236-1914	Mellon Bank, N.A. One Mellon Bank Center Pittsburgh, PA 15258-0001 Attn: Daniel Lenckos T: (412) 234-0733 F: (412) 236-1914
Wells Fargo Bank, National Association	$	150,000,000	Wells Fargo Bank, N.A. 201 Third Street—8th Floor MAC A0187-081 San Francisco, CA 94103 Attn: Maria Belle Garcia T: (415) 477-5471 F: (415) 979-0675	Wells Fargo Bank, N.A. 201 Third Street—8th Floor MAC A0187-081 San Francisco, CA 94103 Attn: Maria Belle Garcia T: (415) 477-5471 F: (415) 979-0675

Mizuho Corporate Bank, Limited	$	25,000,000	Mizuho Corporate Bank, Limited 1251 Avenue of the Americas New York, NY 10020-1104 Attn: Christine Francese T: (212) 282-4097 F: (212) 282-4480/4481	Mizuho Corporate Bank, Limited 1251 Avenue of the Americas New York, NY 10020-1104 Attn: Christine Francese T: (212) 282-4097 F: (212) 282-4480/4481
Merrill Lynch Bank USA	$	75,000,000	Merrill Lynch Bank USA 15 W. South Temple, Suite 300 Salt Lake City, UT 84101 Attn: Butch Alder T: (801) 526-8324 F: (801) 531-7470	Merrill Lynch Bank USA 15 W. South Temple, Suite 300 Salt Lake City, UT 84101 Attn: Butch Alder T: (801) 526-8324 F: (801) 531-7470
San Paolo IMI S.p.A.	$	75,000,000	San Paolo IMI S.p.A. 245 Park Avenue New York, NY 10167 Attn: Glen Binder T: (212) 692-3016 F: (212) 692-3178	San Paolo IMI S.p.A. 245 Park Avenue New York, NY 10167 Attn: Glen Binder T: (212) 692-3016 F: (212) 692-3178
Standard Chartered Bank	$	150,000,000	Standard Chartered Bank 1285 Avenue of the Americas New York, NY 10019 Attn: Vijayant Jain T: (212) 969-7693 F: (212) 649-7556	Standard Chartered Bank 1285 Avenue of the Americas New York, NY 10019 Attn: Vijayant Jain T: (212) 969-7693 F: (212) 649-7556
State Street Bank and Trust Company	$	50,000,000	State Street Bank and Trust Company 2 Avenue De Lafayette Boston, MA 02111 Attn: Ms. C. Jaynelle Landy T: (617) 662-3677 F: (617) 662-4201	State Street Bank and Trust Company 2 Avenue De Lafayette Boston, MA 02111 Attn: Ms. C. Jaynelle Landy (617) 662-3677 F: (617) 662-4201
UBS AG, Stamford Branch	$	75,000,000	UBS AG, Stamford Branch 677 Washington Blvd. Stamford, CT 06901 Attn: Vladimira Holeckova T: (203) 719-6403 F: (203) 719-3888	UBS AG, Stamford Branch 677 Washington Blvd. Stamford, CT 06901 Attn: Vladimira Holeckova T: (203) 719-6403 F: (203) 719-3888
TOTAL OF COMMITMENTS	**$3,750,000,000**			

QuickLinks

Exhibit 10(a)

PRELIMINARY STATEMENTS