

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002, or

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

For the transition period from to _____ to _____

Commission file number 001-15451

United Parcel Service, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

58-2480149
(IRS Employer Identification No.)

55 Glenlake Parkway, NE
Atlanta, Georgia
(Address of Principal Executive Offices)

30328
(Zip Code)

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

Former name, former address and former 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 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

There were 664,024,333 Class A shares, and 452,382,090 Class B shares, with a par value of \$0.01 per share outstanding at August 13, 2002.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2002 (unaudited) and December 31, 2001
(In millions, except per share amounts)

	June 30, 2002	December 31, 2001
Assets		
Current Assets:		
Cash & cash equivalents	\$ 1,404	\$ 858
Marketable securities & short-term investments	1,025	758
Accounts receivable, net	3,722	4,078
Finance receivables, net	857	708
Other current assets	930	1,195
Total Current Assets	7,938	7,597
Property, Plant & Equipment—at cost, net of accumulated depreciation & amortization of \$11,277 and \$10,620 in 2002 and 2001	13,699	13,438
Prepaid Pension Costs	1,838	1,845
Other Assets	1,967	1,756
	\$ 25,442	\$ 24,636

Liabilities & Shareowners' Equity			
Current Liabilities:			
Current maturities of long-term debt and commercial paper	\$	123	\$ 518
Accounts payable		1,982	1,899
Accrued wages & withholdings		1,672	1,169
Income taxes payable		139	92
Other current liabilities		946	1,108
Total Current Liabilities		4,862	4,786
Long-Term Debt		4,729	4,648
Accumulated Postretirement Benefit Obligation, Net		1,214	1,130
Deferred Taxes, Credits & Other Liabilities		3,959	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 713 and 772 in 2002 and 2001		7	8
Class B common stock, par value \$.01 per share, authorized 5,600 shares, issued 405 and 349 in 2002 and 2001		4	3
Additional paid-in capital		17	414
Retained earnings		10,911	10,162
Accumulated other comprehensive loss		(261)	(339)
Deferred compensation arrangements		86	47
		10,764	10,295
Less: Treasury stock (1 share in 2002 and 2001)		(86)	(47)
		10,678	10,248
	\$	25,442	\$ 24,636

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Three and Six Months Ended June 30, 2002 and 2001
(In millions, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue	\$ 7,682	\$ 7,491	\$ 15,261	\$ 14,926
Operating Expenses:				
Compensation and benefits	4,435	4,269	8,884	8,520
Other	2,219	2,181	4,402	4,421
	6,654	6,450	13,286	12,941
Operating Profit	1,028	1,041	1,975	1,985
Other Income and (Expense):				
Investment income	12	39	24	92
Interest expense	(48)	(47)	(91)	(91)
	(36)	(8)	(67)	1
Income Before Income Taxes And Cumulative Effect of Change In Accounting Principle	992	1,033	1,908	1,986
Income Taxes	381	403	734	774
Income Before Cumulative Effect of Change In Accounting Principle	611	630	1,174	1,212
Cumulative Effect of Change In The Method Of Accounting For Derivatives, Net of Taxes	—	—	—	(26)
Net Income	\$ 611	\$ 630	\$ 1,174	\$ 1,186
Basic Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle	\$ 0.55	\$ 0.56	\$ 1.05	\$ 1.07

Basic Earnings Per Share	\$ 0.55	\$ 0.56	\$ 1.05	\$ 1.05
Diluted Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle	\$ 0.54	\$ 0.55	\$ 1.04	\$ 1.06
Diluted Earnings Per Share	\$ 0.54	\$ 0.55	\$ 1.04	\$ 1.03

See notes to unaudited consolidated financial statements.

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
Six Months Ended June 30, 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	—	—	—	—	—	1,174	—	—	—	—	1,174
Foreign currency adjustments	—	—	—	—	—	—	60	—	—	—	60
Unrealized gain (loss) on marketable securities	—	—	—	—	—	—	(7)	—	—	—	(7)
Unrealized gain (loss) on cash flow hedges	—	—	—	—	—	—	25	—	—	—	25
Comprehensive income:											1,252
Dividends (\$0.38 per share)	—	—	—	—	—	(425)	—	—	—	—	(425)
Stock award plans	4	—	—	—	71	—	—	—	—	—	71
Common stock purchases	(8)	—	—	—	(516)	—	—	—	—	—	(516)
Common stock issuances	1	—	—	—	48	—	—	—	—	—	48
Common stock held for deferred compensation arrangements	—	—	—	—	—	—	—	39	—	(39)	—
Conversion of Class A common stock to Class B common stock	(56)	(1)	56	1	—	—	—	—	—	—	—
Balance, June 30, 2002	713	\$ 7	405	\$ 4	\$ 17	\$ 10,911	\$ (261)	\$ 86	(1)	\$ (86)	\$ 10,678

See notes to unaudited consolidated financial statements.

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2002 and 2001
(In millions)
(unaudited)

	Six Months Ended June 30,	
	2002	2001
Cash flows from operating activities:		
Net income	\$ 1,174	\$ 1,186
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	713	656
Postretirement benefits	84	67
Deferred taxes, credits and other	69	111
Stock award plans	257	282
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	351	702

Finance receivables	(351)	(131)
Other current assets	384	323
Prepaid pension costs	7	(16)
Accounts payable	83	(366)
Accrued wages and withholdings	285	244
Dividends payable	(212)	(192)
Income taxes payable	136	440
Other current liabilities	42	(11)
	<u> </u>	<u> </u>
Net cash from operating activities	3,022	3,295
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Capital expenditures	(954)	(1,241)
Disposals of property, plant and equipment	27	46
Purchases of marketable securities and short-term investments	(1,329)	(2,008)
Sales and maturities of marketable securities and short-term investments	1,041	1,973
Construction funds in escrow	—	21
Payments for acquisitions, net of cash acquired	(14)	(339)
Other asset receipts	(4)	(79)
	<u> </u>	<u> </u>
Net cash used in investing activities	(1,233)	(1,627)
	<u> </u>	<u> </u>
Cash flows from financing activities:		
Proceeds from borrowings	225	1,365
Repayments of borrowings	(563)	(439)
Purchases of common stock	(516)	(1,035)
Issuances of common stock pursuant to stock awards and employee stock purchase plans	73	176
Dividends	(425)	(430)
Other transactions	(82)	(69)
	<u> </u>	<u> </u>
Net cash used in financing activities	(1,288)	(432)
	<u> </u>	<u> </u>
Effect of exchange rate changes on cash	45	(53)
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	546	1,183
Cash and cash equivalents:		
Beginning of period	858	879
	<u> </u>	<u> </u>
End of period	\$ 1,404	\$ 2,062
	<u> </u>	<u> </u>
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 94	\$ 77
	<u> </u>	<u> </u>
Income taxes	\$ 649	\$ 220
	<u> </u>	<u> </u>

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 June 30, 2002, our results of operations for the three and six months ended June 30, 2002 and 2001, and cash flows for the six months ended June 30, 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. The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2001.

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 June 30,		Six Months Ended June 30,	
2002	2001	2002	2001
<u> </u>	<u> </u>	<u> </u>	<u> </u>

Numerator:				
Numerator for basic and diluted earnings per share—				
Net income	\$ 611	\$ 630	\$ 1,174	\$ 1,186
Denominator:				
Weighted-average shares	1,117	1,126	1,117	1,128
Deferred compensation arrangements	1	1	1	—
Denominator for basic earnings per share	1,118	1,127	1,118	1,128
Effect of dilutive securities:				
Contingent shares—				
Management incentive awards	5	6	4	5
Stock option plans	8	12	10	14
Denominator for diluted earnings per share	1,131	1,145	1,132	1,147
Basic Earnings Per Share	\$ 0.55	\$ 0.56	\$ 1.05	\$ 1.05
Diluted Earnings Per Share	\$ 0.54	\$ 0.55	\$ 1.04	\$ 1.03

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,

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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, 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, as discussed below.

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.

In May 2002, we began settlement discussions with the IRS pursuant to mediation conducted by a judge of the Tax Court. Although these settlement discussions are still in process, we and the IRS have reached a tentative basis for settlement of all outstanding tax issues related to EV package insurance. If this tentative basis for settlement becomes final, we expect to receive a refund or credit of some of the amount we previously paid to the IRS.

Many steps are required before the amount of any refund or credit associated with the EV package insurance issues is determined or before a settlement would become final. These steps will

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likely take at least several months and could take substantially longer. There can be no assurance that the tentative basis for settlement will not materially change, or that it or any other settlement will be approved and finalized. If we are unable to finalize a settlement, we intend to vigorously defend the remanded proceedings in the Tax Court.

There are other outstanding tax issues that are unrelated to EV package insurance for tax years covered by the tentative basis for settlement. These issues are described below. The IRS will not issue refunds for a given tax year until all matters for that tax year are resolved. Accordingly, we will not be able to determine the availability, timing or amount of any potential refunds until these unrelated tax issues are concluded.

Therefore, since contingencies continue to exist and we cannot accurately predict the availability, timing or amount of a possible refund or credit, we are not in a position to reverse any portion of the tax assessment charges that we recorded after the August 1999 Tax Court decision.

The IRS has proposed adjustments, unrelated to the EV package insurance 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 June 30, 2002 could aggregate up to approximately \$463 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-four 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-four cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. The Court has ruled on the pending motions to dismiss, granting our motion to dismiss with respect to all of the plaintiffs' tort claims and all of their breach of contract claims prior to August 26, 1994. Claims asserted under specific federal statutes, and breach of contract claims commencing on August 26, 1994, may proceed at this time. UPS intends to continue to seek dismissal of these remaining claims. Motions to remand several of these cases to state court are pending.

As previously disclosed, 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. This case 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 and six months ended June 30 is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue:				
U.S. domestic package	\$ 5,908	\$ 5,981	\$ 11,811	\$ 11,957
International package	1,144	1,050	2,198	2,124
Non-package	630	460	1,252	845
Consolidated	\$ 7,682	\$ 7,491	\$ 15,261	\$ 14,926
Operating profit:				
U.S. domestic package	\$ 899	\$ 966	\$ 1,761	\$ 1,811
International package	62	24	92	63
Non-package	67	51	122	111
Consolidated	\$ 1,028	\$ 1,041	\$ 1,975	\$ 1,985

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 on a gross basis, whereas our Freight Services Group, which was formed with the acquisition of Fritz Companies, Inc. 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 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
UPS Logistics Group gross revenue	\$ 273	\$ 219	\$ 551	\$ 431
Less freight under management	(49)	(58)	(91)	(116)
Net revenue	224	161	460	315
UPS Freight Services gross revenue	518	249	977	366
Less freight under management	(285)	(99)	(520)	(116)
Net revenue	233	150	457	250
Other	173	149	335	280
Non-package revenue	\$ 630	\$ 460	\$ 1,252	\$ 845

Non-package operating profit included \$28 and \$29 million for the three months ended June 30, 2002 and 2001, respectively, and \$56 million for each of the six month periods ended June 30, 2002 and 2001, 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 and six months ended June 30 are as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Repairs and maintenance	\$ 273	\$ 261	\$ 532	\$ 523
Depreciation and amortization	362	338	713	656
Purchased transportation	340	387	698	815
Fuel	237	244	433	491
Other occupancy	120	119	259	262
Other expenses	887	832	1,767	1,674
Consolidated	\$ 2,219	\$ 2,181	\$ 4,402	\$ 4,421

7. Other assets as of June 30, 2002 and December 31, 2001 consist of the following (in millions):

	June 30, 2002	December 31, 2001
Goodwill	\$ 1,126	\$ 1,112
Intangible assets, net of accumulated amortization	110	107
Non-current finance receivables, net of allowance for credit losses	444	242
Other non-current assets	287	295
Consolidated	\$ 1,967	\$ 1,756

8. Effective January 1, 2002, we adopted Financial Accounting Standards Board (FASB) Statement No. 142 "Goodwill and Other Intangible Assets" (FAS 142). Under the provisions of FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but rather are subjected to periodic impairment testing. The transitional impairment test required by FAS 142 is a two-step process. The first step involves estimating the fair value of each reporting unit that has goodwill assigned to it and comparing the estimated fair value to the reporting unit's carrying value. A second step is required if the reporting unit's estimated fair value is less than its carrying value. The second step of the impairment test involves estimating the fair value of the goodwill and comparing that estimate to the goodwill's carrying value. A shortfall of the goodwill's fair value below carrying value represents the amount of goodwill impairment.

We have completed the first step of the impairment testing described above, but we have not completed the second step. Our approach to determining fair value is primarily based on the use of a discounted cash flow methodology. Pursuant to the results of the first step, there is an indication we may have some limited impairment within our non-package segment. The amount of impairment will be determined upon completion of the second step of the impairment test, which will occur by year-end 2002.

The following table indicates the allocation of goodwill by reportable segment, as of June 30, 2002 and December 31, 2001 (in millions):

	June 30, 2002	December 31, 2001
Goodwill by Segment:		
U.S. domestic package	\$ —	\$ —
International package	99	98
Non-package	1,027	1,014
Consolidated	\$ 1,126	\$ 1,112

Goodwill in the international package and non-package segments increased from year-end due to the resolution of purchase price contingencies and other purchase price adjustments to acquisitions closed in 2001.

Intangible assets consisting of franchise rights, non-compete agreements, licenses, and patents of \$97 million continue to be amortized under the provisions of FAS 142 because they have finite lives. 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

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provisions of FAS 142 had been applied beginning January 1, 2001 (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Reported net income	\$ 611	\$ 630	\$ 1,174	\$ 1,186
Adjustments:				
Goodwill amortization	—	17	—	30
Income taxes	—	(5)	—	(7)
Adjusted net income	611	642	1,174	1,209
Cumulative effect of change in accounting principle (FAS 133)	—	—	—	26
Adjusted net income before cumulative effect of change in accounting principle	\$ 611	\$ 642	\$ 1,174	\$ 1,235
Basic earnings per share:				
Reported	\$ 0.55	\$ 0.56	\$ 1.05	\$ 1.05
Adjusted	\$ 0.55	\$ 0.57	\$ 1.05	\$ 1.07
Diluted earnings per share:				
Reported	\$ 0.54	\$ 0.55	\$ 1.04	\$ 1.03
Adjusted	\$ 0.54	\$ 0.56	\$ 1.04	\$ 1.05
Basic earnings per share before cumulative effect of change in accounting principle:				
Reported	\$ 0.55	\$ 0.56	\$ 1.05	\$ 1.07
Adjusted	\$ 0.55	\$ 0.57	\$ 1.05	\$ 1.09
Diluted earnings per share before cumulative effect of change in accounting principle:				
Reported	\$ 0.54	\$ 0.55	\$ 1.04	\$ 1.06
Adjusted	\$ 0.54	\$ 0.56	\$ 1.04	\$ 1.08

9. Effective January 1, 2001, we adopted 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.

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At January 1, 2001, our financial statements were adjusted to record the cumulative effect of adopting FAS 133, as follows (in millions, except per share amounts):

	Income	OCI
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.

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

Revenue, Volume and Revenue Per Piece

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 June 30,		\$	%
	2002	2001		
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	\$ 1,336	\$ 1,383	\$ (47)	(3.4)%
Deferred	695	711	(16)	(2.3)
Ground	3,877	3,887	(10)	(0.3)
Total U.S. domestic package	5,908	5,981	(73)	(1.2)
International package:				
Domestic	229	220	9	4.1
Export	803	729	74	10.2
Cargo	112	101	11	10.9
Total International package	1,144	1,050	94	9.0
Non-package:				
UPS Logistics Group	224	161	63	39.1
UPS Freight Services	233	150	83	55.3
Other	173	149	24	16.1
Total non-package	630	460	170	37.0
Consolidated	\$ 7,682	\$ 7,491	\$ 191	2.5%
Average Daily Package Volume (in thousands):				
U.S. domestic package:				
Next Day Air	1,081	1,112	(31)	(2.8)%
Deferred	844	874	(30)	(3.4)
Ground	9,749	10,000	(251)	(2.5)
Total U.S. domestic package	11,674	11,986	(312)	(2.6)
International package:				
Domestic	755	775	(20)	(2.6)
Export	434	399	35	8.8
Total International package	1,189	1,174	15	1.3
Consolidated	12,863	13,160	(297)	(2.3)%
Operating days in period	64	64		
Average Revenue Per Piece:				
U.S. domestic package:				

Next Day Air	\$	19.31	\$	19.43	\$	(0.12)	(0.6)%
Deferred		12.87		12.71		0.16	1.3
Ground		6.21		6.07		0.14	2.3
Total U.S. domestic package		7.91		7.80		0.11	1.4
International:							
Domestic		4.74		4.44		0.30	6.8
Export		28.91		28.55		0.36	1.3
Total International package		13.56		12.63		0.93	7.4
Consolidated	\$	8.43	\$	8.23	\$	0.20	2.4%

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	Six Months Ended June 30,						
	2002	2001	\$	%			
Revenue (in millions):							
U.S. domestic package:							
Next Day Air	\$	2,649	\$	2,766	\$	(117)	(4.2)%
Deferred		1,395		1,427		(32)	(2.2)
Ground		7,767		7,764		3	0.0
Total U.S. domestic package		11,811		11,957		(146)	(1.2)
International package:							
Domestic		451		452		(1)	(0.2)
Export		1,540		1,477		63	4.3
Cargo		207		195		12	6.2
Total International package		2,198		2,124		74	3.5
Non-package:							
UPS Logistics Group		460		315		145	46.0
UPS Freight Services		457		250		207	82.8
Other		335		280		55	19.6
Total non-package		1,252		845		407	48.2
Consolidated	\$	15,261	\$	14,926	\$	335	2.2%
Average Daily Package Volume (in thousands):							
U.S. domestic package:							
Next Day Air		1,086		1,109		(23)	(2.1)%
Deferred		861		881		(20)	(2.3)
Ground		9,890		10,096		(206)	(2.0)
Total U.S. domestic package		11,837		12,086		(249)	(2.1)
International package:							
Domestic		767		789		(22)	(2.8)
Export		430		399		31	7.8
Total International package		1,197		1,188		9	0.8
Consolidated		13,034		13,274		(240)	(1.8)%
Average Revenue Per Piece:							
U.S. domestic package:							
Next Day Air	\$	19.21	\$	19.49	\$	(0.28)	(1.4)%
Deferred		12.76		12.65		0.11	0.9
Ground		6.18		6.01		0.17	2.8
Total U.S. domestic package		7.86		7.73		0.13	1.7
International:							
Domestic		4.63		4.48		0.15	3.3
Export		28.20		28.92		(0.72)	(2.5)
Total International package		13.10		12.69		0.41	3.2

Operating Profit

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

	Three Months Ended June 30,		Change	
	2002	2001	\$	%
	<i>Operating Segment</i>			
U.S. domestic package	\$ 899	\$ 966	\$ (67)	(6.9)%
International package	62	24	38	158.3
Non-package	67	51	16	31.4
Consolidated Operating Profit	\$ 1,028	\$ 1,041	\$ (13)	(1.2)%
	Six Months Ended June 30,		Change	
	2002	2001	\$	%
<i>Operating Segment</i>				
U.S. domestic package	\$ 1,761	\$ 1,811	\$ (50)	(2.8)%
International package	92	63	29	46.0
Non-package	122	111	11	9.9
Consolidated Operating Profit	\$ 1,975	\$ 1,985	\$ (10)	(0.5)%

U.S. Domestic Package Operations

U.S. domestic package revenue decreased 1.2% compared to last year for both the second quarter and year-to-date. These declines were driven by reductions in average daily package volume (2.6% for the quarter and 2.1% for year-to-date), which was primarily a result of the continued weakness in the U.S. economy, combined with the impact of volume diversion to competitors prior to the handshake agreement reached on a new six-year contract with the International Brotherhood of Teamsters. Volume diversion increased as we approached the July 31, 2002 expiration date of the existing contract. For April and May 2002, package volume decreased approximately 2%, while volume in June decreased approximately 4%. Volume declines occurred across all product lines. The effects of volume declines were offset somewhat by increases in revenue per piece in all products with the exception of Next Day Air. The decline in revenue per piece for our Next Day Air products continues, primarily due to lower package weights and a mix shift favoring letters to packages.

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 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 since February 2002. It replaced a fixed fuel surcharge of 1.25% which was originally implemented prior to 2001. 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. Based on published rates, the average fuel surcharge for the second quarter of 2002 was 0.65% and for the six months was 0.62%.

U.S. domestic package operating profit decreased \$67 million for the quarter (\$50 million year-to-date) primarily due to the decrease in average daily volume discussed previously. These volume declines were partially offset by the continued cost saving efforts that were implemented in 2001. We also benefited from favorable trends in fuel and other energy costs compared to last year.

International Package Operations

For the second quarter, international package revenue improved \$94 million due primarily to volume growth for our export products and strong revenue per piece improvements, a portion of which can be attributed to the impact of currency. 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 17%. In total, international package average daily volume increased 1.3% and average revenue per piece increased 7.4% (5.8% currency-adjusted).

For the six months ended June 30, 2002, revenue was up \$74 million, reversing a first quarter decline. This revenue increase was driven by the second quarter improvements described above. On a year-to-date basis, international package average daily volume increased 0.8% and average revenue per piece increased 3.2% (4.3% currency-adjusted).

The improvement in operating profit for our international package operations was \$38 million for the quarter, \$4 million of which was due to currency fluctuations. Year to date, operating profit was up \$29 million, with currency fluctuations having a negative \$5 million impact. International package operating profit also benefited by \$4 million for the quarter, and \$7 million year to date, from the elimination of goodwill amortization in 2002, as discussed in Note 8. In general, the increase in operating profit was primarily

due to strong revenue growth for this segment in the second quarter.

Non-Package Operations

Non-package revenue increased \$170 million for the quarter and \$407 million for the six-month period. UPS Logistics Group revenue was up 39% for the quarter of which 30% was due to acquisitions, primarily our UNI-DATA subsidiary in Germany, acquired last August. On a year-to-date basis, Logistics Group revenue was up 46% of which 32% was due to acquisitions. UPS Freight Services revenue was up \$83 million during the quarter primarily due to having three full months of revenue from Fritz, which was acquired in late May 2001. On a year to date basis, the increase in Freight Services revenue is even more significant for the same reason (up \$207 million).

The increase in non-package operating profit for the quarter, and year-to-date, was primarily due to higher operating profits from our Freight Services business combined with a \$13 million reduction in goodwill expense (\$23 million year-to-date) as a result of the elimination of goodwill amortization in 2002, as discussed in Note 8.

Operating Expenses and Operating Margin

Consolidated operating expenses increased by \$204 million, or 3.2%, for the quarter, and \$345 million, or 2.7%, for the six-month period. The non-package segment accounted for the majority of these increases (up \$154 million for the quarter and \$396 million year-to-date). This is primarily the result of acquisitions that we completed in the first six months of 2001.

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Our operating margin, defined as operating profit as a percentage of revenue, decreased from 13.9% during the second quarter of 2001 to 13.4% during the second quarter of 2002. This decline is primarily due to a 0.9% decline in the operating margin for our U.S. domestic package segment, which experienced a volume-driven decline in profit.

For the first six months of the year, our operating margin decreased from 13.3% in 2001 to 12.9% during 2002. This decline was also affected by the decrease in domestic profitability for the second quarter, which produced a decline for the six months.

Investment Income/Interest Expense

The decrease in investment income of \$27 million for the second quarter of 2002 (\$68 million year-to-date) is primarily due to a combination of lower interest rates and lower balances available for investment in 2002.

Net Income and Earnings Per Share

Net income for the second quarter of 2002 was \$611 million, a decrease of \$19 million from \$630 million in the second quarter of 2001, resulting in a decrease in diluted earnings per share from \$0.55 in 2001 to \$0.54 in 2002. Adjusting for the effects of goodwill amortization, our net income for the second quarter of 2001 would have been \$642 million, or \$0.56 per diluted share (see Note 8).

Net income for the first six months of 2002 was \$1.174 billion, a decrease of \$12 million from \$1.186 billion in the first six months of 2001. However, due to a decrease in the weighted average shares outstanding, diluted earnings per share increased from \$1.03 in 2001 to \$1.04 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 effects of goodwill amortization, our net income for the first six months of 2001 would have been \$1.235 billion, or \$1.08 per diluted share.

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 \$2.4 billion at June 30, 2002.

As part of our continuing share repurchase program, \$1.0 billion was authorized for share repurchases in February 2002, of which \$751 million was still available as of June 30, 2002.

We maintain two commercial paper programs under which we are authorized to borrow up to \$7.0 billion. Approximately \$1.30 billion was outstanding under these programs as of June 30, 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 June 30, 2002 was 1.78%. 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 June 30, 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 June 30, 2002.

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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. No amounts were outstanding under this program at June 30, 2002.

We have a \$2.0 billion shelf registration statement under which we may issue debt securities in the United States. There was approximately \$1.358 billion issued under this shelf registration statement at June 30, 2002. As of June 30, 2002, \$716 million in notes have been issued under the UPS Notes program, \$89 million of which were issued in the second quarter of 2002. These notes have various terms and maturities, all with fixed interest rates. The notes are callable at various stated times after issuance, and \$104 million of the notes were called in the second quarter of 2002.

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.

In May 2002, we began settlement discussions with the IRS pursuant to mediation conducted by a judge of the Tax Court. Although these settlement discussions are still in process, we and the IRS have reached a tentative basis for settlement of all outstanding tax issues related to EV package insurance. If this tentative basis for settlement becomes final, we expect to receive a refund or credit of some of the amount we previously paid to the IRS.

Many steps are required before the amount of any refund or credit associated with the EV package insurance issues is determined or before a settlement would become final. These steps will likely take at least several months and could take substantially longer. There can be no assurance that the tentative basis for settlement will not materially change, or that it or any other settlement will be approved and finalized. If we are unable to finalize a settlement, we intend to vigorously defend the remanded proceedings in the Tax Court.

There are other outstanding tax issues that are unrelated to EV package insurance for each tax year covered by the tentative basis for settlement. These issues are described below. The IRS will not issue refunds for a given tax year until all matters for that tax year are resolved. Accordingly, we will not be able to determine the availability, timing or amount of any potential refunds until these unrelated tax issues are concluded.

Therefore, since contingencies continue to exist and we cannot accurately predict the availability, timing or amount of a possible refund or credit, we are not in a position to reverse any portion of the tax assessment charges that we recorded after the August 1999 Tax Court decision.

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The IRS has proposed adjustments, unrelated to the EV package insurance 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 June 30, 2002 could aggregate up to approximately \$463 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-four 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 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-four cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. The Court has ruled on the pending motions to dismiss, granting our motion to dismiss with respect to all of the plaintiffs' tort claims and all of their breach of contract claims prior to August 26, 1994. Claims asserted under specific federal statutes, and breach of contract claims commencing on August 26, 1994, may proceed at this time. UPS intends to continue to seek dismissal of these remaining claims. Motions to remand several of these cases to state court are pending.

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.

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

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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 are ongoing 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.

On July 15, 2002, we and the Teamsters reached tentative agreement on a successor to our current national master agreement and all supplemental agreements. The proposed contracts will be sent to the Teamster's membership for a ratification vote in August 2002. We anticipate that the membership will ratify these agreements.

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 June 30, 2002, we had unfunded loan commitments totaling \$676 million, consisting of letters of credit of \$64 million and other unfunded lending commitments of \$612 million.

Effective January 1, 2002, we adopted FASB Statement No. 142 "Goodwill and Other Intangible Assets" (FAS 142). Under the provisions of FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but rather are subjected to periodic impairment testing. The transitional impairment test required by FAS 142 is a two-step process. The first step involves estimating the fair value of each reporting unit that has goodwill assigned to it and comparing the estimated fair value to the reporting unit's carrying value. A second step is required if the reporting unit's estimated fair value is less than its carrying value. The second step of the impairment test involves estimating the fair value of the goodwill and comparing that estimate to the goodwill's carrying value. A shortfall of the goodwill's fair value below carrying value represents the amount of goodwill impairment.

We have completed the first step of the impairment testing described above, but we have not completed the second step. Our approach to determining fair value is primarily based on the use of a discounted cash flow methodology. Pursuant to the results of the first step, there is an indication we may have some limited impairment within our non-package segment. The amount of impairment will be determined upon completion of the second step of the impairment test, which will occur by year-end 2002.

Goodwill amortization ceased upon the implementation of FAS 142 on January 1, 2002. See Note 8 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.

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Item 3. Quantitative and Qualitative Disclosures About 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 June 30, 2002 are similar to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2001. During the first six months of 2002, we issued a total of \$225 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 notes are callable at various stated times after issuance, and \$121 million of the notes were called in the first six months of 2002.

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

	June 30, 2002	December 31, 2001
Energy Hedges	\$ 20	\$ (27)
Currency Hedges	—	4
Interest Rate Hedges	(57)	(74)
Investment Hedges	219	214
	\$ 182	\$ 117

The forward contracts, swaps, and options previously discussed contain an element of risk that the counterparties 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings affecting us and our subsidiaries, please see Note 4 to our unaudited consolidated financial statements contained herein.

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

Our annual meeting of shareowners was held on May 16, 2002.

Proxies for the meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934. There was no solicitation in opposition to management's nominees as listed in Item No. 1 in the proxy statement, and all of such nominees were elected.

1. The results of the voting by the shareowners for directors are presented below.

Director		Number of Votes	Percent of Total Voting
William H. Brown, III	For	3,944,567,194	98.08%
	Withheld	77,216,586	1.92%
Calvin Darden	For	3,931,844,047	97.76%
	Withheld	89,939,733	2.24%
Michael L. Eskew	For	3,995,332,012	99.34%
	Withheld	26,451,768	0.66%
James P. Kelly	For	3,979,727,796	98.95%
	Withheld	42,055,984	1.05%
Ann M. Livermore	For	3,974,725,012	98.83%
	Withheld	47,058,768	1.17%
Gary E. MacDougal	For	3,968,046,693	98.66%
	Withheld	53,737,087	1.34%
Joseph R. Moderow	For	3,989,232,296	99.19%
	Withheld	32,551,484	0.81%
Victor A. Pelson	For	3,975,437,204	98.85%
	Withheld	46,346,576	1.15%
Lea N. Soupata	For	3,868,660,520	96.19%
	Withheld	153,123,260	3.81%
Robert M. Teeter	For	3,971,723,454	98.76%
	Withheld	50,060,326	1.24%
John W. Thompson	For	3,981,745,572	99.00%
	Withheld	40,038,208	1.00%
Thomas H. Weidemeyer	For	3,969,701,002	98.70%
	Withheld	52,082,778	1.30%

2. The proposal and the results of the voting by the shareowners for ratification of our appointment of independent auditors are presented below.

Director		Number of Votes	Percent of Total Voting
To ratify the appointment of Deloitte & Touche LLP, independent auditors, as auditors of UPS and its subsidiaries for the year ending December 31, 2002	For	3,958,234,828	98.42%
	Against	50,130,352	1.25%
	Abstain	13,410,523	0.33%

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Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits:

- 3.1 Form of Restated Certificate of Incorporation of United Parcel Service, Inc., as amended.
- 3.2 Form of Bylaws of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
- 4.1 Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
- 4.2 Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
- 4.3 Specimen Certificate of 8³/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
- 4.4 Specimen Certificate of 8³/8% Debentures due April 1, 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
- 99.1 Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(B) Reports on Form 8-K:

The Company filed a Form 8-K Current Report on July 11, 2002 (Date of Earliest Event Reported: July 10, 2002), providing an update to second quarter operating and financial performance and an update to ongoing labor negotiations.

The Company filed a Form 8-K Current Report on July 12, 2002 (Date of Earliest Event Reported: July 12, 2002), reporting second quarter financial results and the planned registration of a secondary public offering associated with the inclusion of the Company's Class B common stock in the Standard & Poor's 500 Index.

The Company filed a Form 8-K Current Report on July 17, 2002 (Date of Earliest Event Reported: July 16, 2002), reporting that the Company had reached a tentative agreement with the International Brotherhood of Teamsters on a new six-year labor contract to replace the agreement expiring on July 31, 2002.

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: August 14, 2002

By: /s/ D. SCOTT DAVIS

D. Scott Davis
*Senior Vice President, Treasurer and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)*

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- (iv) 5,600,000,000 shares shall be shares of Class B Common Stock, par value \$.01 per share (the "Class B Common Stock"); and
- (v) 200,000,000 shares shall be shares of Preferred Stock, par value \$.01 per share (the "Preferred Stock").

The Class A-1 Common Stock, the Class A-2 Common Stock, the Class A-3 Common Stock and the Class B Common Stock are referred to collectively as the "Common Stock".

(b) The number of authorized shares of any class or classes of stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the votes entitled to be cast by the holders of the Common Stock, voting together as a single class, irrespective of the provisions of Section 242(b)(2) of the Delaware General Corporation Law or any corresponding provision hereinafter enacted.

(c) The following is a statement of the relative powers, preferences and participating, optional or other special rights, and the qualifications, limitations and restrictions of the classes of Common Stock:

- (1) Except as otherwise set forth in this Article Fourth, the relative powers, preferences and participating, optional or other special rights, and the qualifications, limitations or restrictions of each class of Common Stock shall be identical in all respects.
- (2) Subject to the rights of the holders of Preferred Stock, holders of each class of Common Stock shall be entitled to receive such dividends and other distributions in cash, stock of any corporation (other than Common Stock) or property of the Corporation as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor, and shall share equally on a per share basis in all such dividends and other distributions. In the case of dividends or other distributions payable in Common Stock, including distributions pursuant to stock splits or divisions of Common Stock: (i) only shares of Class A-1 Common Stock shall be paid or distributed with respect to Class A-1 Common Stock; (ii) only shares of Class A-2 Common Stock shall be paid or distributed with respect to Class A-2 Common Stock; (iii) only shares of Class A-3 Common Stock shall be paid or distributed with respect to Class A-3 Common Stock; and (iv) only shares of Class B Common Stock shall be paid or distributed with respect to Class B Common Stock. No class of Common Stock may be reclassified, subdivided or combined unless the reclassification, subdivision or combination occurs simultaneously and in the same proportion for each class of Common Stock, except that Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock may be reclassified as a single class of common stock at any time after 540 days after November 9, 1999 (the "Public Offering Date") without any reclassification of Class B Common Stock.
- (3) (A) At every meeting of the stockholders of the Corporation in connection with the election of directors and all other matters submitted to a vote of stockholders: (i) every holder of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock shall be entitled to ten votes in person or by proxy for each share of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock registered in his or her name on the transfer books of the Corporation; and (ii) every holder of Class B Common Stock shall be entitled to one vote in person or by proxy for each share of Class B Common Stock registered in his or her name on the transfer books of the Corporation. Except as otherwise required by law or by this Article Fourth, the holders of each class of Common Stock shall vote together as a single class, subject to any right that may be conferred upon holders of Preferred Stock to vote together with holders of Common Stock on all matters submitted to a vote of stockholders of the Corporation.
- (B) Except as otherwise provided by law, the provisions of this Restated Certificate of Incorporation shall not be modified, revised, altered or amended, repealed or rescinded, in whole or in part, without the approval of the holders of a majority of the votes entitled to be cast by the holders of each class of Common Stock, voting together as a single class; *provided, however*, that any proposal to modify, revise, alter or amend this Restated Certificate of Incorporation in any manner that would alter or change the powers, preferences or special rights of the shares of any class of Common Stock so as to affect them adversely also will require the approval of the holders of a majority of the votes entitled to be cast by the holders of the shares of the class so affected by the proposed amendment, voting separately as a class. An increase in the authorized number of shares of any class or classes of stock of the Corporation or creation, authorization or issuance of any securities convertible into, or warrants, options or similar rights to purchase, acquire or receive, shares of any such class or classes of stock, shall be deemed not to affect adversely the powers, preferences or special rights of the shares of any class of Common Stock.
- (4) In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, whether voluntary or involuntary, after payment in full of the amounts required to be paid to the holders of Preferred Stock, the remaining assets and funds of the Corporation shall be distributed pro rata to the holders of shares of Common Stock. For purposes of this paragraph (c)(4), the voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the assets of the Corporation or a consolidation or merger of the Corporation with one or more other corporations (whether or not the Corporation is the corporation surviving the consolidation or merger) shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.
- (5) In case of any reorganization or any consolidation of the Corporation with one or more other corporations or a merger of the Corporation with another corporation, each holder of a share of Common Stock of any class shall be entitled to receive with respect to that share the same kind and amount of shares of stock and other securities and property (including cash)

receivable upon the reorganization, consolidation or merger by a holder of a share of any other class of Common Stock.

- (6) Each record holder of shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock may convert any or all of those shares into an equal number of shares of Class B Common Stock; *provided, however*, that: (i) no share of Class A-1 Common Stock may be converted into a share of Class B Common Stock before 180 days after the Public Offering Date; (ii) no share of Class A-2 Common Stock may be converted into a share of Class B Common Stock before 360 days after the Public Offering Date; and (iii) no share of Class A-3 Common Stock may be converted into a share of Class B Common Stock before 540 days after the Public Offering Date. A record holder of shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock may effect a voluntary conversion of any or all of those shares in accordance with this paragraph (c)(6) by surrendering the certificates for the number of shares to be converted, accompanied by any required tax transfer stamps and by a written notice by the record holder to the Corporation stating that such record holder desires to convert such shares into the same number of shares of Class B Common Stock and requesting that the Corporation issue such shares of Class B Common Stock to persons named therein, setting forth the number of shares of Class B Common Stock to be issued to each such person and the denominations in which the certificates therefor are to be issued. To the extent permitted by law, such a voluntary conversion shall be deemed to have been effected at the close of business on the date of surrender. Shares of Class B Common Stock may not be converted into shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock.
- (7) Shares of Class A-1 Common Stock may not be transferred to anyone other than a permitted transferee prior to 180 days after the Public Offering Date. Shares of Class A-2 Common Stock may not be transferred to anyone other than a permitted transferee prior to 360 days after the Public Offering Date. Shares of

Class A-3 Common Stock may not be transferred to anyone other than a permitted transferee prior to 540 days after the Public Offering Date. For purposes of this paragraph (c)(7), the terms "transferred" and "permitted transferee" have the meanings set forth in paragraph (c)(16). Except as provided in this paragraph (c)(7), any purported transfer of shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock prior to the applicable date referred to in this paragraph (c)(7) shall be void. Shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock may be transferred to a permitted transferee prior to the applicable date referred to in this paragraph (c)(7), and such permitted transferee will take such shares subject to the provisions of this paragraph (c)(7).

- (8) Each share of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock shall automatically convert into one share of Class B Common Stock upon the transfer of that share if (i) the transfer is permitted by paragraph (c)(7) of this Article Fourth and (ii) after the transfer, the share is not owned by a permitted transferee. For purposes of this paragraph (c)(8), the term "permitted transferee" has the meaning set forth in paragraph (c)(16).
- (9) Shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock shall be transferred on the books of the Corporation, and a new certificate therefor issued, upon presentation at the office of the Secretary of the Corporation (or at such additional place or places as may from time to time be designated by the Secretary of the Corporation) of the certificate for the shares, in proper form for transfer and accompanied by all requisite stock transfer tax stamps, only if the certificate when so presented is accompanied by an affidavit from the record holder stating that the certificate is being presented to effect a transfer of the shares to a permitted transferee. The affidavit of a record holder furnished pursuant to this paragraph (c)(9) shall be verified as of a date not earlier than five days prior to the date of delivery of the affidavit, and, where the record holder is a corporation or

partnership, shall be verified by an officer of the corporation or by a general partner of the partnership, as the case may be.

- (10) Any person (other than a permitted transferee) who takes shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock in a transfer that complies with the provisions of this paragraph (c) may treat the endorsement on the certificate representing such shares, or the instrument of transfer accompanying such shares, as authorizing such person on behalf of the transferor to convert the shares in the manner provided in paragraph (c)(6) for the purpose of registering the transfer to such person of the shares of Class B Common Stock issuable upon conversion, and to give on behalf of the transferor the written notice of conversion above required, and may convert such shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock accordingly.
- (11) Every certificate for shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock shall bear a legend on its face reading as follows:

"The shares of Common Stock represented by this certificate may not be transferred (which term includes, without limitation, buying a put option, selling a call option or entering into any other hedging or insurance transaction relating to the shares) to any person in connection with a transfer that does not meet the qualifications set forth in paragraphs (c)(7) and (c)(8) of Article Fourth of the Restated Certificate of Incorporation of this Corporation, and no person who receives the shares represented by this certificate in connection with a transfer that does not meet the qualifications prescribed by paragraphs (c)(7) and (c)(8) of Article Fourth is entitled to own or to be registered as the record holder of the shares of Common Stock represented by this certificate, but the record holder of this certificate may at any time (except as provided in paragraph (c)(6) of Article Fourth) convert the shares of Common Stock represented by this certificate into the same number of shares of Class B Common Stock for purposes of effecting the sale or other disposition of the shares of Class B Common Stock to any person. Each holder of this certificate, by accepting the certificate, accepts and agrees to all of the foregoing."
- (12) Upon any conversion of shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock into shares of Class B Common Stock pursuant to the provisions of paragraph (c)(6), any dividend, for which the record date or payment date is subsequent to the conversion, that has been declared on the shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock so converted shall be deemed to have been declared, and shall be payable, with respect to the shares of Class B Common Stock into or for which the shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock are so converted, and any such dividend that is declared on the shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock payable in shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock shall be deemed to have been declared, and shall be payable, in shares of Class B Common Stock.
- (13) Any shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock that have been converted in to shares of Class B Common Stock will be retired with no further action by the Corporation, and will resume the status of authorized and unissued Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock, respectively.
- (14) The Corporation at all times shall reserve and keep available, out of its authorized but unissued Class B Common Stock, at least the number of shares of Class B Common Stock that would become issuable upon the conversion of all shares of Class A-1 Common Stock, Class A-2 Common Stock and Class A-3 Common Stock then outstanding.
- (15) In connection with any transfer or conversion of any shares of any class of Common Stock pursuant to or as permitted by the provisions of this paragraph (c), or in connection with the

making of any determination referred to in this paragraph (c), neither the Corporation nor any director, officer, employee or agent of the Corporation shall be liable in any manner for any action taken or omitted in good faith.

- (16) For purposes of this Article Fourth, the following terms have the following meanings:
 - (i) A "permitted transferee" means:
 - (A) the transferor's spouse or child, provided that (1) the transferor was a holder on the Public Offering Date of the shares being transferred and the transfer occurs within 540 days of such date; or (2) the transferor is an employee of the corporation or one of its subsidiaries;
 - (B) a trust for the sole benefit of the transferor or the transferor's spouse or child provided that (1) the transferor was a holder on the Public Offering Date of the shares being transferred and the transfer occurs within 540 days of such date; or (2) the transferor is an employee of the corporation or one of its subsidiaries;
 - (C) an individual retirement account that receives shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock, provided that (1) the transferor is an employee benefit plan sponsored by the Corporation or any of its subsidiaries, (2) the transferor is a distributee of an employee benefit plan described in subclause (1) or (3) the transferor is an individual retirement account for the benefit of a distributee described in subclause (2);
 - (D) the beneficial owner of an individual retirement account, provided that the transferor is such individual retirement account; and

- (E) the estate of a deceased holder of shares provided that (1) the deceased holder was a holder on the Public Offering Date of the shares being transferred and the transfer occurs within 540 days of such date; or (2) the deceased was an employee of the Corporation or one of its subsidiaries on the date of death; and such transfer was pursuant to the deceased holder's will or the laws of distribution;
- (F) the beneficiary of an estate referred to in clause (E) above, provided that the transferor is such estate and such beneficiary is the spouse or child of the deceased or a trust for the sole benefit of such spouse or child;
- (G) an employee benefit plan sponsored by the Corporation or any of its subsidiaries;
- (H) a bank or trust company in connection with a pledge of shares by a person who either (1) was a holder on the Public Offering Date of the shares being pledged or (2) was an employee of the Corporation or one of its subsidiaries on the date of the pledge of such shares; and such shares are pledged as bona fide collateral for a loan to such person provided such lending institution agrees in writing to immediately sell such shares to the Corporation in the event such lending institution forecloses on such shares;
- (I) a charitable organization that agrees in writing to sell such shares to the Corporation immediately following the transfer;
- (J) the Corporation or any of its subsidiaries;
- (K) any distributee of an employee benefit plan sponsored by the Corporation or any of its subsidiaries pursuant to the terms of such plan, provided that the transferor is such employee benefit plan; and
- (L) an employee of the Corporation or any of its subsidiaries, provided that the transferor is the Corporation or any of its subsidiaries.

(ii) A "transfer" (and the related term "transferred") means any sale, pledge, gift, assignment or other transfer of any ownership or voting interest in any share of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock, including:

- (A) any offer, pledge, sale, contract to sell, sale of any option or contract to purchase, purchase of any option or contract to sell, grant of any option, right or warrant to purchase, loan or other direct or indirect transfer or disposal of: (1) any shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock; (2) any securities convertible into or exercisable or exchangeable for Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock; or (3) any shares of Class B Common Stock into which the shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock are convertible; or
- (B) entry into any swap or other arrangement (including by way of insurance) that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock or any shares of Class B Common Stock into which the shares of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock are convertible;

whether any transaction described in clause (A) or (B) above is to be settled by delivery of Class A-1 Common Stock, Class A-2 Common Stock or Class A-3 Common Stock, Class B Common Stock or other securities, in cash or otherwise.

(d) All rights to vote and all voting power shall be vested exclusively in the holders of Common Stock, except as otherwise expressly provided by the Board of Directors in connection with the issuance of any shares of Preferred Stock pursuant to Article Fifth of this Restated Certificate of Incorporation or as otherwise expressly required by the law of the State of Delaware. At every meeting of stockholders duly called and held at which a quorum is present (i) in all matters other than the election of directors, a majority of the votes that could be cast at the meeting upon a given question and (ii) in the case of the election of directors, a plurality of the votes that could be cast at the meeting upon the election, by the holders who are present in person or by proxy, shall be necessary, in addition to any vote or other action that may be expressly required by the provisions of this Restated Certificate of Incorporation or by the law of the State of Delaware, to decide the question or election.

FIFTH: The Board of Directors shall have authority to issue shares of Preferred Stock from time to time on such terms as it may determine, and to divide the Preferred Stock into one or more series. In connection with the creation of any such series, the Board of Directors shall have authority to fix by the resolution or resolutions providing for the issue of shares thereof the designations, voting powers, preferences and relative participating, optional or other special rights of such series, and the qualifications, limitations or restrictions thereof, to the full extent now or hereafter permitted by law.

SIXTH: The number of directors of the Corporation constituting the whole Board shall be fixed in the manner provided in the by-laws. The election of directors need not be by ballot unless the by-laws so require.

SEVENTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to make, alter, amend and repeal the by-laws of the Corporation, in any manner not inconsistent with the laws of the State of Delaware or this Restated Certificate of Incorporation.

EIGHTH: No holder of stock of any class of the Corporation shall have any preemptive or preferential right of subscription to any shares of any class of stock of the Corporation whether now or hereafter authorized, or to any obligation convertible into stock of the Corporation, or any right of subscription therefor, other than such rights, if any, as the Board of Directors in its discretion may from time to time determine.

NINTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article Ninth shall be prospective only, and shall not adversely affect any elimination or limitation of the personal liability of a director of the Corporation existing at the time of such repeal or modification.

TENTH: Subject to the rights of the holders of any series of Preferred Stock, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Subject to the rights of the holders of any series of Preferred Stock, special meetings of stockholders of the Corporation may be called only by the Chairman of the Board or by the Board of Directors pursuant to a resolution. Business transacted at any special meeting of stockholders shall be confined to the purpose or purposes of the meeting as stated in the notice of the meeting. Notwithstanding anything contained in this Restated Certificate of Incorporation to the contrary, any amendment to or deletion of this Article Tenth shall require the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors.

ELEVENTH: (a) So long as any person (as defined in this Article Eleventh) is the beneficial owner (as defined in this Article Eleventh) of more than 25% of the voting power, determined without giving effect to the provisions of this Article Eleventh, of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), the record holders of such shares so beneficially owned by such person (hereinafter a "Substantial Stockholder") shall

have limited voting rights on any matter requiring their vote or consent as set forth in this Article Eleventh; *provided, however*, that the voting restrictions of this Article Eleventh shall not apply to any employee benefit plan of the Corporation or any Subsidiary, any person holding Voting Stock for or pursuant to the terms of such plan or to any person who is a fiduciary, participant, beneficiary or alternate payee under the terms of such plan, and such plan or person shall not be deemed to be a Substantial Stockholder as defined herein with respect to such shares held pursuant to such plan. With respect to each vote in excess of 25% of the voting power of the then outstanding shares of Voting Stock which such record holders would be entitled to cast without giving effect to this Article Eleventh, the record holders in the aggregate shall be entitled to cast only 1/100 of a vote and the aggregate voting power of such record holders, so limited, for all shares of Voting Stock beneficially owned by the Substantial Stockholder shall be allocated proportionately among such record holders. For each such record holder, this allocation shall be accomplished by multiplying the aggregate voting power, as so limited, of the outstanding shares of Voting Stock beneficially owned by the Substantial Stockholder by a fraction whose numerator is the number of votes represented by the shares of Voting Stock owned of record by such record holder (and which are beneficially owned by the Substantial Stockholder) and whose denominator is the total number of votes represented by the shares of Voting Stock beneficially owned by the Substantial Stockholder, in each case before giving effect to the limitation on voting power provided by this Article Eleventh. A person who is a record holder of shares of Voting Stock that are beneficially owned simultaneously by more than one person shall have, with respect to such shares, the right to cast the least number of votes that such person would be entitled to cast under this Article Eleventh by virtue of such shares being so beneficially owned by any of such persons.

(b) The Board of Directors shall have the power to construe and apply the provisions of this Article Eleventh and to make all determinations necessary or desirable to implement such provisions, including but not limited to matters with respect to (i) the number of shares of Voting Stock beneficially owned by any person, (ii) whether a person is an Affiliate or Associate of another, (iii) whether a person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of beneficial ownership, (iv) the application of any other definition or

operative provision of this Article Eleventh to the given facts or (v) any other matter relating to the applicability or effect of this Article Eleventh.

(c) The Board of Directors shall have the right to demand that any person who after reasonable inquiry is believed to be a Substantial Stockholder supply the Corporation with complete information as to (i) the record holder(s) of all shares beneficially owned by such person who is so believed to be a Substantial Stockholder, (ii) the number of, and class or series of, shares beneficially owned by such person who is so believed to be a Substantial Stockholder and held of record by each record holder and the number(s) of the stock certificate(s) evidencing such shares and (iii) any other factual matter relating to the applicability or effect of this Article Eleventh, as may reasonably be requested of such person. Such person shall furnish such information within ten days after the receipt of such demand. If the Board of Directors reasonably believes the shares of Voting Stock held of record by any person or represented by a proxy holder are beneficially owned by a Substantial Stockholder, it may demand that the record holder of such shares, or the proxy holder thereof, provide to the Corporation a list of (i) names and addresses of the beneficial owners of all shares of Voting Stock held by such record holder or represented by such proxy holder; (ii) the number of, and class or series of, shares of Voting Stock held by such record holder or represented by such record holder or represented by such proxy holder on behalf of each beneficial owner and (iii) any other factual matter relating to the applicability or effect of this Article Eleventh. Such record holder or proxy holder shall furnish such information within ten days (or such longer period as is required by law or regulation) after the receipt of such demand; provided, however, that any such request shall be made in accordance with the requirements of applicable law and regulation. If as of the date of any stockholder vote or consent, a demand made pursuant to this paragraph has not been timely responded to, the Corporation, to the extent permitted by law, shall treat such votes as are reasonably believed by the Board of Directors to have been cast with respect to the shares of Voting Stock beneficially owned by a Substantial Stockholder as subject to the limitation provided by this Article Eleventh.

(d) Except as otherwise provided by law or expressly provided in this paragraph (d), the presence, in person or by proxy, of the holders of record of shares of capital stock of the Corporation entitling the holders thereof to cast a majority of the votes (after giving effect, if applicable, to the provisions of this Article Eleventh) entitled to be cast by the holders of shares of capital stock of the Corporation entitled to vote shall constitute a quorum at all meetings of the stockholders, and every reference in this Restated Certificate of Incorporation to a majority or other proportion of capital stock (or the holders thereof) for the purposes of determining any quorum requirement or any requirement for stockholder consent or approval shall be deemed to refer to such majority or other proportion of the votes (or the holders thereof) then entitled to be cast in respect of such capital stock.

(e) Any construction, application or determination made by the Board of Directors pursuant to this Article Eleventh in good faith and on the basis of such information and assistance as was then reasonably available for such purpose shall be conclusive and binding upon the Corporation and its stockholders including any Substantial Stockholder.

(f) Nothing contained in this Article Eleventh shall be construed to relieve any Substantial Stockholder from any fiduciary obligation imposed by law.

(g) Notwithstanding any other provisions of this Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock required by law, this Restated Certificate of Incorporation or any resolution of the Board of Directors referred to in Article Fifth, the affirmative vote of the holders of at least 80% of the voting power of all of the then-outstanding shares of the Voting Stock (after giving effect to the provisions of paragraph (a) of this Article Eleventh), voting together as a single class, shall be required to alter, amend or repeal this Article Eleventh.

(h) In the event any provision (or portion thereof) of this Article Eleventh shall be found to be invalid, prohibited or unenforceable for any reason, the remaining provisions (or portions

thereof) of this Article Eleventh shall remain in full force and effect, and shall be construed as if such invalid, prohibited or unenforceable provision had been stricken herefrom or otherwise rendered inapplicable, it being the intent of this Corporation and its stockholders that each such remaining provision (or portion thereof) of this Article Eleventh remain, to the fullest extent permitted by law, applicable and enforceable as to all stockholders, including any Substantial Stockholder, notwithstanding any such finding.

(i) For the purposes of this Article Eleventh:

- (1) A "person" means any individual, limited partnership, general partnership, corporation or other firm or entity.
- (2) Except as expressly provided by this Article Eleventh, a person shall be a "beneficial owner" of all of the outstanding shares of Voting Stock, other than shares held in the Corporation's treasury:
 - (i) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or
 - (ii) which such person or any of its Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options or otherwise or (B) the right to vote pursuant to any agreement, arrangement or understanding (but shall not be deemed to be the beneficial owner of any shares of Voting Stock solely by reason of a revocable proxy granted for a particular meeting of stockholders, pursuant to a public solicitation of proxies for such meeting, and with respect to which shares neither such person nor any such Affiliate or Associate is otherwise deemed the beneficial owner); and

- (iii) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

Notwithstanding the foregoing: (x) no director, officer or employee of the Corporation or any Subsidiary (nor any Affiliate or Associate of any such director, officer or employee) shall, solely by reason of his capacity as such or by reason of the Board of Director's determination to oppose any proxy solicitation or any other offer or attempt to cause a change in control of the Corporation or the public disclosure of such determination by the Board of Directors, be deemed, for any purpose hereof, to be the beneficial owner of any Voting Stock beneficially owned by any other director, officer or employee (or any Affiliate or Associate thereof); (y) no director, trustee or officer of The Annie E. Casey Foundation, Inc. or any corporate successor thereto (the "Foundation") shall be deemed for any purpose hereof to be the beneficial owner of shares of Voting Stock beneficially owned by the Foundation, nor shall the Foundation be deemed for any purposes hereof to be the beneficial owner of any Voting Stock beneficially owned by its directors, trustees or officers; and (z) in the case of any employee stock ownership or similar employee benefit plan of the Corporation or of any Subsidiary, no such plan nor any trustee or any member of an administrative committee or other representative with respect thereto (nor any Affiliate or Associate of such trustee or other representative), solely by reason of such capacity of such trustee or other representative shall be deemed, for any purposes hereof, to beneficially own any shares of Voting Stock held under any such plan.

- (3) "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on the date of this Restated Certificate of Incorporation.

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- (4) "Subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Corporation.

TWELFTH: Subject to the provisions hereof, the Corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

* * *

IN WITNESS WHEREOF, this Restated Certificate of Incorporation, which restates and integrates and further amends the provisions of the Certificate of Incorporation of this Corporation, and which has been duly adopted in accordance with Sections 242 and 245 of the Delaware General Corporation Law, has been executed by a duly authorized officer on this 15th day of November, 1999.

UNITED PARCEL SERVICE, INC.

By: _____ /s/ JAMES P. KELLY

James P. Kelly
Chairman and Chief Executive Officer

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[CERTIFICATE OF AMENDMENT OF RESTATED CERTIFICATE OF INCORPORATION
RESTATED CERTIFICATE OF INCORPORATION OF UNITED PARCEL SERVICE, INC. \(ORIGINALLY INCORPORATED ON JULY 15, 1999\)](#)

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Exhibit 99.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of United Parcel Service, Inc. (the "Corporation") for the period ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman of the Board and Chief Executive Officer of the Corporation, certifies 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 Corporation.

/s/ Michael L. Eskew

Michael L. Eskew
Chairman and Chief Executive Officer
August 14, 2002

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

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Exhibit 99.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of United Parcel Service, Inc. (the "Corporation") for the period ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Financial Officer of the Corporation, certifies 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 Corporation.

/s/ D. Scott Davis

D. Scott Davis
Chief Financial Officer
August 14, 2002

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