SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

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For the Quarter Ended June 30, 2000

Commission file number 0-4714

United Parcel Service, Inc.

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(Exact name of registrant specified in its charter)

| | |
|---|---|
| Delaware | 58-2480149 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 55 Glenlake Parkway, NE<br>Atlanta, Georgia | 30328 |
| (Address of principal executive office) | (Zip Code) |

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

Not Applicable

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Former name, address and fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

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

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(Title of Class)

996,779,940 Class A shares, 145,243,505 Class B shares

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Outstanding as of August 10, 2000

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2000 (unaudited) and December 31, 1999
(In millions except share and per share amounts)

| Assets | June 30, 2000 | December 31, 1999 |
|---|---|---|
| Current Assets: | | |
| Cash & cash equivalents | $ 2,381 | $ 4,204 |
| Marketable securities & short-term investments | 2,277 | 2,074 |
| Accounts receivable | 3,216 | 3,167 |
| Prepaid employee benefit costs | 976 | 1,327 |
| Materials, supplies & other prepaid expenses | 406 | 366 |
| Total Current Assets | 9,256 | 11,138 |
| Property, Plant & Equipment (including aircraft | | |

| | | |
|---|---|---|
| under capitalized lease obligations) - at cost, net of accumulated depreciation & amortization of $9,245 in 2000 and $8,891 in 1999 | 11,450 | 11,579 |
| Other Assets | 379 | 326 |
| | $21,085 | $23,043 |
| Liabilities & Shareowners' Equity | | |
| Current Liabilities: | | |
| Commercial paper | $ 904 | $ - |
| Accounts payable | 1,267 | 1,295 |
| Accrued wages & withholdings | 1,586 | 998 |
| Dividends payable | - | 361 |
| Tax assessment | 146 | 457 |
| Income taxes payable | 367 | 50 |
| Current maturities of long-term debt | 545 | 512 |
| Other current liabilities | 728 | 525 |
| Total Current Liabilities | 5,543 | 4,198 |
| Long-Term Debt (including capitalized lease obligations) | 1,748 | 1,912 |
| Accumulated Postretirement Benefit Obligation, Net | 1,052 | 990 |
| Deferred Taxes, Credits & Other Liabilities | 3,481 | 3,469 |
| Shareowners' Equity: | | |
| Preferred stock, no par value, authorized 200,000,000 shares, none issued | - | - |
| Class A common stock, par value $.01 per share, authorized 4,600,000,000 shares, issued 1,004,932,270 and 1,101,295,534 in 2000 and 1999 | 10 | 11 |
| Class B common stock, par value $.01 per share, authorized 5,600,000,000 shares, issued 138,159,361 and 109,400,000 in 2000 and 1999 | 1 | 1 |
| Additional paid-in capital | 811 | 5,096 |
| Retained earnings | 8,644 | 7,536 |
| Accumulated other comprehensive loss | (205) | (170) |
| | 9,261 | 12,474 |
| | $21,085 | $23,043 |

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Three Months and Six Months Ended June 30, 2000 and 1999
(In millions except per share amounts)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Revenue | $7,284 | $6,560 | $14,504 | $12,891 |
| Operating Expenses: | | | | |
| Compensation and benefits | 4,042 | 3,725 | 8,117 | 7,377 |
| Other | 2,078 | 1,833 | 4,140 | 3,646 |
| | 6,120 | 5,558 | 12,257 | 11,023 |
| Operating Profit | 1,164 | 1,002 | 2,247 | 1,868 |
| Other Income and (Expense): | | | | |
| Investment income | 62 | 39 | 395 | 70 |
| Interest expense | (65) | (56) | (117) | (105) |
| Tax assessment | - | (1,786) | - | (1,786) |
| Miscellaneous, net | (2) | (6) | (12) | (22) |
| | (5) | (1,809) | 266 | (1,843) |
| Income (Loss) Before Income Taxes | 1,159 | (807) | 2,513 | 25 |
| Income Taxes | 464 | 47 | 1,005 | 380 |

| | | | | |
|---|---|---|---|---|
| Net Income (Loss) | $ 695 | $ (854) | $ 1,508 | $ (355) |
| Basic Earnings (Loss) Per Share | $ 0.61 | $(0.77) | $ 1.29 | $ (0.32) |
| Diluted Earnings (Loss) Per Share | $ 0.60 | $(0.77) | $ 1.27 | $ (0.32) |

See notes to unaudited consolidated financial statements.

<TABLE>
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UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
Six Months Ended June 30, 2000
(In millions except per share amounts)
(unaudited)

<S> <C> <C> <C> <C> <C> <C>

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-In | Retained | Accumulated Other Comprehensive | Total Shareowners' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Earnings | Loss | Equity |
| Balance, January 1, 2000 | 1,101 | $11 | 109 | $1 | $5,096 | $7,536 | $(170) | $12,474 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | - | 1,508 | - | 1,508 |
| Foreign currency adjustments | - | - | - | - | - | - | (51) | (51) |
| Unrealized gain on marketable securities | - | - | - | - | - | - | 16 | 16 |
| Comprehensive income | | | | | | | | 1,473 |
| Dividends ($0.34 per share) | - | - | - | - | - | (400) | - | (400) |
| Stock award plans | 5 | - | - | - | 92 | - | - | 92 |
| Common stock purchases: | | | | | | | | |
| Tender offer | (68) | (1) | - | - | (4,069) | - | - | (4,070) |
| Other | (5) | - | - | - | (335) | - | - | (335) |
| Common stock issuances | 1 | - | - | - | 27 | - | - | 27 |
| Conversion of Class A Common Stock to Class B Common Stock | (29) | - | 29 | - | - | - | - | - |
| Balance, June 30, 2000 | 1,005 | $10 | 138 | $1 | $ 811 | $8,644 | $(205) | $ 9,261 |

</TABLE>

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2000 and 1999
(In millions)
(unaudited)

| | Six Months Ended June 30, 2000 | 1999 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income/(loss) | $ 1,508 | $ (355) |
| Adjustments to reconcile net income (loss) | | |

| | | |
|---|---|---|
| to net cash from operating activities: | | |
| Depreciation and amortization | 570 | 563 |
| Postretirement benefits | 62 | 48 |
| Deferred taxes, credits, and other | 60 | 38 |
| Stock award plans | 288 | 204 |
| Gain on exchange of investments and sale of business | (290) | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | (49) | 85 |
| Prepaid employee benefit costs | 351 | 412 |
| Materials, supplies and other prepaid expenses | (40) | (62) |
| Accounts payable | (28) | (40) |
| Accrued wages and withholdings | 329 | 140 |
| Dividends payable | (361) | (247) |
| Tax assessment | (311) | 1,442 |
| Income taxes payable | 452 | 250 |
| Other current liabilities | 137 | 49 |
| Net cash from operating activities | 2,678 | 2,527 |
| Cash flows from investing activities: | | |
| Capital expenditures | (663) | (597) |
| Disposals of property, plant and equipment | 202 | 50 |
| Purchases of marketable securities and short-term investments | (2,098) | (1,753) |
| Sales and maturities of marketable securities and short-term investments | 2,167 | 674 |
| Construction funds in escrow | 51 | (140) |
| Other asset receipts (payments) | (69) | 17 |
| Net cash (used in) investing activities | (410) | (1,749) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 1,123 | 999 |
| Repayments of borrowings | (347) | (367) |
| Purchases of common stock via tender | (4,070) | - |
| Other purchases of common stock | (335) | (1,140) |
| Issuances of common stock pursuant to stock awards and employee stock purchase plans | 77 | 620 |
| Dividends | (400) | (311) |
| Other transactions | (122) | (21) |
| Net cash (used in) financing activities | (4,074) | (220) |
| Effect of exchange rate changes on cash | (17) | (20) |
| Net increase (decrease) in cash and cash equivalents | (1,823) | 538 |
| Cash and cash equivalents: | | |
| Beginning of period | 4,204 | 1,240 |
| End of period | $ 2,381 | $1,778 |
| Cash paid during the period for: | | |
| Interest (net of amount capitalized) | $ 162 | $ 85 |
| Income taxes | $ 444 | $ 423 |

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 the financial position as of June 30, 2000, the results of operations for the three and six months ended June 30, 2000 and 1999, and cash flows for the six months ended June 30, 2000 and 1999. 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.

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, |
|---|---|---|

| | 2000 | 1999 | 2000 | 1999 |
|---|---|---|---|---|
| Numerator: | | | | |
| Numerator for basic and diluted earnings (loss) per share - Net income (loss) | $ 695 | $(854) | $1,508 | $(355) |
| Denominator: | | | | |
| Weighted-average shares - Denominator for basic earnings (loss) per share | 1,144 | 1,114 | 1,167 | 1,114 |
| Effect of dilutive securities: | | | | |
| Contingent shares - | | | | |
| Management incentive awards | 7 | - | 5 | - |
| Stock option plans | 16 | - | 18 | - |
| Denominator for diluted earnings (loss) per share | 1,167 | 1,114 | 1,190 | 1,114 |
| Basic Earnings (Loss) Per Share | $0.61 | $(0.77) | $1.29 | $(0.32) |
| Diluted Earnings (Loss)Per Share | $0.60 | $(0.77) | $1.27 | $(0.32) |



4. On August 9, 1999 the U.S. Tax Court issued an opinion unfavorable to UPS regarding a Notice of Deficiency asserting that we are liable for additional tax for the 1983 and 1984 tax years. The Court held that we are liable for tax on income of Overseas Partners Ltd. ("OPL"), a Bermuda company, which had reinsured excess value package insurance purchased by our customers beginning in 1984. The Court held that for the 1984 tax year we are 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. In February 2000, the U.S. Tax Court entered a decision in accord with its opinion.

In addition, during the first quarter of 1999, the IRS issued two Notices of Deficiency asserting that we are liable for additional tax for the 1985 through 1987 tax years, and the 1988 through 1990 tax years. The primary assertions by the IRS relate to the reinsurance of excess value package insurance, the issue raised for the 1984 tax year. The IRS has based its assertions on the same theories included in the 1983-1984 Notice of Deficiency.

The IRS has taken similar positions for tax years subsequent to 1990. Based on the Tax Court opinion, we currently estimate that our total after-tax exposure for the tax years 1984 through 1999 could be as high as $2.353 billion. We believe that a number of aspects of the Tax Court decision are incorrect, and we have appealed the decision to the U.S. Court of Appeals for the Eleventh Circuit.

In the 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 is included in income taxes; however, since none of the income on which this tax assessment is based is our income, we have not classified the tax charge as income taxes.

We determined the size of our reserve with respect to these matters in accordance with generally accepted accounting principles based on our estimate of our most likely liability. In making this determination, we concluded that 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. If penalties and penalty interest ultimately are determined to be payable, we would have to record an additional charge of up to $681 million.



On August 31, 1999, we deposited $1.349 billion, and on August 8, 2000, we deposited an additional $91 million, with the IRS related to these matters for the 1984 through 1994 tax years. We included the profit of the excess value package insurance program, using the IRS's methodology for calculating these amounts, for both 1998 and 1999 in filings we made with the IRS in the fourth quarter of 1999. In February 2000, we deposited $339 million with the IRS related to these matters for the 1995 through 1997 tax years. These deposits and filings were made in order to stop the accrual of interest, where applicable, on that amount of the IRS's claim, without conceding the IRS's position or giving up our right to appeal the Tax Court's decision.

Effective October 1, 1999, we implemented a new arrangement for providing excess value package insurance for our customers through UPS subsidiaries. This new arrangement results in including in our non-package operating segment the operations of the excess value package insurance program offered to our customers. This revised arrangement should eliminate the issues considered by the Tax Court in the Notices of Deficiency relating to OPL for periods after September 1999.

The IRS has proposed adjustments, unrelated to the OPL matters discussed above, regarding the allowance of deductions and certain losses, the characterization of expenses as capital rather than ordinary, and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. These proposed adjustments, if sustained, would result in $82 million in additional income tax expense.

We expect that we will prevail on substantially all of these issues. 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. Should the IRS prevail, however, unpaid interest on these adjustments through June 30, 2000, could aggregate up to $270 million, after the benefit of related tax deductions. 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. The IRS may take similar positions with respect to some of these issues for each of the years from 1991 through 1999. We believe the eventual resolution of these issues will not result in a material adverse effect upon our financial condition, results of operations or liquidity.

We are a defendant in various employment-related lawsuits. In our opinion, none of these cases is expected to have a material effect upon our financial condition, results of operations or liquidity.



We have been named as a defendant in 18 lawsuits that seek to hold us (and in three cases, other defendants) liable for the collection of premiums for excess value package insurance in connection with package shipments since 1984. These cases generally claim that we acted as an insurer in violation of our shipping contract and without complying with state insurance laws and regulations, and that the price for excess value package insurance was excessive. Twelve of these cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding before the United States District Court for the Southern District of New York. We are in the process of removing the remaining cases to federal court and having them consolidated into the multi-district litigation proceeding. These cases are in their initial stages, no discovery has commenced, and no class has been certified. These actions all developed after the August 9, 1999 Tax Court opinion was rendered. We believe the allegations have no merit and intend to defend them vigorously. The ultimate resolution of these matters cannot presently be determined.

On November 22, 1999, the U.S. Occupational Safety and Health Administration proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. The exact changes in the workplace that might be required to comply with these standards are not specified in the proposal. If OSHA enforced these regulations by seeking the same ergonomic measures it has advocated in the past under its general authority to remedy "recognized hazards," however, it might demand extensive changes in the physical layout of our distribution centers as well as the hiring of significant numbers of additional full-time and part-time employees. Our competitors, as well as the remainder of American industry, also would incur proportionately comparable costs.

We, our competitors and other affected parties have filed comments with OSHA challenging the medical support and economic and technical feasibility of the proposed regulations. We do not believe that OSHA has complied with the statutory mandate of establishing significant risk of material health impairment or has properly analyzed the costs and benefits of these proposed regulations. We and other affected parties recently filed additional comments in opposition to the proposed regulations and would have the right to appeal any final ergonomics standard to an appropriate federal court of appeals. We anticipate that such a standard would be rejected by the reviewing court. If ergonomic regulations resembling the current proposal were sustained by a reviewing court, we believe that we would prevail in an enforcement proceeding based on substantial defenses including the vagueness of the standards and the technological and economic feasibility of costly abatement measures.



OSHA has taken the position that the cost of compliance with the proposed regulations will be only $4.2 billion per year over a ten-year period for all of American industry. We believe that these estimates are unrealistic. We have attempted to estimate the costs of compliance if OSHA adopts the proposed regulations and applies them in the same way as it sought to apply its prior unsuccessful attempts to impose ergonomic measures under its general authority. Based on this experience and assuming that, contrary to our expectations, OSHA were able to obtain court orders applying to all of our facilities that mandated compliance with these regulations, we estimate that the cost of compliance could be approximately $20 billion in initial costs, which would be incurred over a period of years, and approximately $5 billion in incremental annual costs. Such expenditures, if required to be incurred, would materially and adversely affect our results of operations, liquidity and financial condition.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. In our opinion, none of these cases is expected to have a material effect upon 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 delivery outside the U.S. Non-package operations, which include the UPS Logistics Group, 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, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Revenue: | | | | |
| U.S. domestic package | $5,890 | $5,434 | $11,731 | $10,665 |
| International package | 1,023 | 908 | 2,046 | 1,793 |
| Non-package | 371 | 218 | 727 | 433 |
| Consolidated | $7,284 | $6,560 | $14,504 | $12,891 |
| Operating profit: | | | | |
| U.S. domestic package | $1,018 | $ 898 | $ 1,911 | $ 1,687 |
| International package | 85 | 71 | 149 | 123 |
| Non-package | 61 | 33 | 187 | 58 |
| Consolidated | $1,164 | $1,002 | $ 2,247 | $ 1,868 |



Non-package operating profit included $26 and $28 million for the three months ended June 30, 2000 and 1999, respectively, and $53 and $58 million for the six months ended June 30, 2000 and 1999, respectively, of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit of the U.S. domestic package segment.

6. The major components of other operating expenses for the three months and six months ended June 30, are as follows (in millions):

Three Months Ended Six Months Ended

| | June 30, 2000 | June 30, 1999 | June 30, 2000 | June 30, 1999 |
|---|---|---|---|---|
| Repairs and maintenance | $ 241 | $ 226 | $ 480 | $ 443 |
| Depreciation and amortization | 287 | 280 | 570 | 563 |
| Purchased transportation | 466 | 385 | 900 | 761 |
| Fuel | 210 | 151 | 448 | 293 |
| Other occupancy | 91 | 88 | 198 | 189 |
| Other expenses | 783 | 703 | 1,544 | 1,397 |
| Consolidated | $2,078 | $1,833 | $4,140 | $3,646 |

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

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

Three Months Ended June 30, 2000 and 1999

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, 2000 | Three Months Ended June 30, 1999 | Change $ | Change % |
|---|---|---|---|---|
| Revenue (in millions): | | | | |
| U.S. domestic package: | | | | |
| Next Day Air | $1,412 | $1,282 | $130 | 10.1% |
| Deferred | 690 | 637 | 53 | 8.3 |
| Ground | 3,788 | 3,515 | 273 | 7.8 |
| Total U.S. domestic package | 5,890 | 5,434 | 456 | 8.4 |
| International package: | | | | |
| Domestic | 222 | 224 | (2) | (0.9) |
| Export | 711 | 606 | 105 | 17.3 |
| Cargo | 90 | 78 | 12 | 15.4 |
| Total International package | 1,023 | 908 | 115 | 12.7 |
| Non-package | 371 | 218 | 153 | 70.2 |
| Consolidated | $7,284 | $6,560 | $724 | 11.0% |
| Average Daily Package Volume (in thousands): | | | # | |
| U.S. domestic package: | | | | |
| Next Day Air | 1,113 | 1,013 | 100 | 9.9% |
| Deferred | 852 | 792 | 60 | 7.6 |
| Ground | 10,135 | 9,614 | 521 | 5.4 |
| Total U.S. domestic package | 12,100 | 11,419 | 681 | 6.0 |
| International package: | | | | |
| Domestic | 749 | 669 | 80 | 12.0 |
| Export | 360 | 293 | 67 | 22.9 |
| Total International package | 1,109 | 962 | 147 | 15.3 |
| Consolidated | 13,209 | 12,381 | 828 | 6.7% |
| Operating days in period | 64 | 64 | | |
| Average Revenue Per Piece: | | | $ | |
| U.S. domestic package: | | | | |
| Next Day Air | $19.82 | $19.77 | $.05 | 0.3% |
| Deferred | 12.65 | 12.57 | .08 | 0.6 |
| Ground | 5.84 | 5.71 | .13 | 2.3 |
| Total U.S. domestic package | 7.61 | 7.44 | .17 | 2.3 |
| International: | | | | |
| Domestic | 4.63 | 5.23 | (.60) | (11.5) |
| Export | 30.86 | 32.32 | (1.46) | (4.5) |
| Total International package | 13.15 | 13.48 | (.33) | (2.4) |
| Consolidated | $ 8.07 | $ 7.91 | $.16 | 2.0% |

U.S. domestic package revenue increased primarily due to volume gains across all product lines, continuing the trends reported during the first quarter of 2000. Average daily package volume for our higher revenue per piece express (Next Day Air and Deferred) products increased 8.9%, while average daily package volume for our Ground products increased 5.4%.

The increase in international package revenue was due to volume growth for both our domestic and export products, offset by a decline in the revenue per piece for these products. This decline was primarily due to currency fluctuations, particularly a decline in the value of the Euro relative to the U.S. dollar. Overall average daily package volume increased 15.3% for international operations, with our high revenue per piece export products increasing at 22.9%.

The increase in non-package revenue resulted primarily from the new arrangement for providing excess value package insurance for our customers as well as continued growth of the UPS Logistics Group. Excluding the excess value business, which was not included in the segment during the same period last year, non-package revenue increased over 25%, consistent with the trend we reported in the first quarter of 2000.

Operating expenses increased by $562 million, or 10.1%, to $6.120 billion during the second quarter of 2000. Compensation and benefits expenses increased by $317 million, the largest component of the change. Other operating expenses increased $245 million primarily due to higher fuel costs, claims expense associated with the new arrangement for providing excess value package insurance for our customers, and higher purchased transportation costs. The increase in purchased transportation costs was primarily due to increased business for our international and logistics operations, while the $59 million, or 39.1%, increase in fuel costs was due to the increase in fuel prices and the growth in volume, partially offset by the cost reductions generated by our fuel hedging program. International operating expenses were favorably impacted by the decline in the value of the Euro relative to the U.S. dollar.

To offset the increasing fuel costs we have experienced over the last several quarters and that we expect to continue into the future, we implemented a temporary 1.25% fuel surcharge effective August 7, 2000.

Our operating margin improved from 15.3% during the second quarter of 1999 to 16.0% during the second quarter of 2000. This improvement continues our recently reported trends and is favorably impacted by continued product mix improvements.



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

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| Operating Segment | 2000 | 1999 | $ | % |
| | (dollars in millions) | | | |
| U.S. domestic package | $1,018 | $ 898 | $ 120 | 13.4% |
| International package | 85 | 71 | 14 | 19.7 |
| Non-package | 61 | 33 | 28 | 84.8 |
| Consolidated operating profit | $1,164 | $1,002 | $ 162 | 16.2% |

U.S. domestic package operating profit increased over 13% due to the volume and revenue improvements discussed previously.

The improvement in the operating profit of our international package operations of almost 20% resulted primarily from increased volume and revenue, and was realized despite significantly higher fuel costs for this segment. All international regions contributed to these results.

The increase in non-package operating profit is largely due to the new arrangement for providing excess value package insurance for our customers, which contributed $57 million of additional operating profit for the quarter. This improvement was offset in part by start-up costs associated with Service Parts Logistics, UPS Capital Corporation and other initiatives.

The increase in investment income of $23 million for the quarter is due primarily to IPO proceeds that were not utilized for the tender offer that occurred in March 2000 and have not been used for the repurchase of UPS stock under our share repurchase program.

Net income for the second quarter of 2000 increased by $107 million from the second quarter of 1999, after adjusting the prior year results to exclude a $1.442 billion tax assessment charge. This increase resulted in an improvement in diluted earnings per share from $0.52 in the second quarter of 1999, excluding the impact of the tax assessment charge, to $0.60 in the second quarter of 2000.

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Six Months Ended June 30, 2000 and 1999

The following table sets forth information showing the change in revenue, average daily package volume and average revenue per piece, both in dollars and in percentage terms:

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2000 | 1999 | $ | % |
| Revenue (in millions): | | | | |
| U.S. domestic package: | | | | |
| Next Day Air | $2,793 | $2,490 | $ 303 | 12.2% |
| Deferred | 1,384 | 1,248 | 136 | 10.9 |
| Ground | 7,554 | 6,927 | 627 | 9.1 |
| Total U.S. domestic package | 11,731 | 10,665 | 1,066 | 10.0 |
| International package: | | | | |
| Domestic | 455 | 459 | (4) | (0.9) |
| Export | 1,396 | 1,180 | 216 | 18.3 |
| Cargo | 195 | 154 | 41 | 26.6 |
| Total International package | 2,046 | 1,793 | 253 | 14.1 |
| Non-package | 727 | 433 | 294 | 67.9 |
| Consolidated | $14,504 | $12,891 | $1,613 | 12.5% |
| Average Daily Package Volume | | | # | |
| (in thousands): | | | | |
| U.S. domestic package: | | | | |
| Next Day Air | 1,092 | 995 | 97 | 9.7% |
| Deferred | 854 | 790 | 64 | 8.1 |
| Ground | 10,118 | 9,639 | 479 | 5.0 |
| Total U.S. domestic package | 12,064 | 11,424 | 640 | 5.6 |
| International package: | | | | |
| Domestic | 752 | 684 | 68 | 9.9 |
| Export | 351 | 286 | 65 | 22.7 |
| Total International package | 1,103 | 970 | 133 | 13.7 |
| Consolidated | 13,167 | 12,394 | 773 | 6.2% |
| Operating days in period | 129 | 127 | | |
| | | | $ | |
| Average Revenue Per Piece: | | | | |
| U.S. domestic package: | | | | |
| Next Day Air | $19.83 | $19.70 | $.13 | 0.7% |
| Deferred | 12.56 | 12.44 | .12 | 1.0 |
| Ground | 5.79 | 5.66 | .13 | 2.3 |
| Total U.S. domestic package | 7.54 | 7.35 | .19 | 2.6 |
| International: | | | | |
| Domestic | 4.69 | 5.28 | (.59) | (11.2) |
| Export | 30.83 | 32.49 | (1.66) | (5.1) |
| Total International package | 13.01 | 13.30 | (.29) | (2.2) |
| Consolidated | $ 8.00 | $ 7.82 | $.18 | 2.3% |

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

U.S. domestic package revenue increased 10.0% primarily due to volume gains across all product lines, continuing the trends reported during 1999. All products contributed to this increase, with our higher revenue per piece express (Next Day Air and Deferred) products accounting for over 40% of the overall revenue increase. Our average daily Ground volume grew at a 5.0% rate for the period, increasing by an average of 479,000 packages per day. Also contributing to the revenue increase were two extra operating days in the first six months of 2000 compared to the first six months of 1999. The average revenue increase for this segment on a per day basis was 8.3%.

During the first quarter of 2000, we increased rates for standard ground shipments an average of 3.1% for commercial deliveries. The ground residential charge continued to be $1.00 over the commercial ground rate, with an additional delivery area surcharge of $1.50 added to certain less accessible areas. In addition, we increased rates for UPS Next Day Air, UPS Next Day Air Saver and UPS 2nd Day Air an average of 3.5%. The surcharge for UPS Next Day Air Early A.M. did not change. Rates for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service) increased by 2.9%. Rate changes for shipments originating outside the U.S. were made throughout the past year and varied by geographic market.

The increase in international package revenue was due to volume growth for both our domestic and export products, offset by a decline in the revenue per piece for these products. This decline was primarily due to currency fluctuations, particularly a decline in the value of the Euro relative to the U.S. dollar. Overall average daily package volume increased 13.7% for international operations, with our export products, which had an average revenue per piece of $30.83, increasing at 22.7%. The average revenue increase for this segment on a per day basis was 12.3%.

The increase in non-package revenue resulted primarily from the new arrangement for providing excess value package insurance for our customers as well as continued growth of the UPS Logistics Group. Excluding the excess value business, which was not included in the segment during the same period last year, non-package revenue increased almost 25%.

Operating expenses increased by $1.234 billion, or 11.2%, which was less than our revenue increase of 12.5%. Compensation and benefits expenses, the largest component of this increase, accounted for $740 million and included a $59 million charge recorded in the first quarter of this year relating to the creation of 4,000 new full-time hourly jobs resulting from the 1997 Teamsters contract. Other operating expenses increased $494 million due to higher fuel costs, claims expense associated with the new arrangement for providing excess value package insurance for our customers, and higher purchased transportation costs. The increase in purchased transportation costs was primarily due to increased business for our international and logistics operations. The 52.9% increase in fuel costs from $293 million to $448 million was due to the increase in fuel prices, the growth in our average daily volume, and the two extra operating days in the quarter, partially offset by the cost



reductions generated by our fuel hedging program. International operating expenses were favorably impacted by the decline in the value of the Euro relative to the U.S. dollar.

To offset the increasing fuel costs we have experienced over the last several quarters and that we expect to continue into the future, we implemented a temporary 1.25% fuel surcharge effective August 7, 2000.

Our operating margin improved from 14.5% during the first six months of 1999 to 15.5% during the same period in 2000. This improvement continues our recently reported trends and is favorably impacted by continued product mix improvements.

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

| Operating Segment | Six Months Ended June 30, 2000 | 1999 | Change $ | % |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| U.S. domestic package | $1,911 | $1,687 | $ 224 | 13.3% |
| International package | 149 | 123 | 26 | 21.1 |
| Non-package | 187 | 58 | 129 | 222.4 |
| Consolidated operating profit | $2,247 | $1,868 | $ 379 | 20.3% |

===== ===== ====

U.S. domestic package operating profit increased by $224 million due to the volume and revenue improvements discussed previously.

The improvement in the operating profit of our international package operations of 21.1% resulted primarily from increased volume and revenue, and was realized despite significantly higher fuel costs for this segment. This improvement was spread throughout our international regions.

The increase in non-package operating profit is largely due to the new arrangement for providing excess value package insurance for our customers, which contributed $115 million of additional operating profit for the six month period. Also contributing to the operating profit improvement was the $49 million gain we recognized from the sale of our UPS Truck Leasing subsidiary. These improvements were offset somewhat by start-up costs associated with Service Parts Logistics, UPS Capital Corporation and other initiatives.



The increase in investment income of $325 million for the period is due to two factors. First, in the first quarter of 2000, two companies in which our Strategic Enterprise Fund held investments were acquired by other companies, which caused us to recognize a gain of $241 million. In addition, we earned income on the $5.3 billion in net IPO proceeds available for investment prior to the tender offer that occurred in early March 2000, and the $1.2 billion in IPO proceeds that were not utilized for the tender offer. We announced a share repurchase program on April 20, 2000, that we expect to utilize up to the remaining $1.2 billion not used in the tender offer, of which approximately $950 million remains available for share repurchases as of June 30, 2000, and continues to generate investment income.

Net income for the six months ended June 30, 2000 amounted to $1.508 billion, or $1.27 per diluted share, compared to a loss of $355 million, $0.32 per diluted share, for the same period in the prior year. Our fiscal 2000 results reflect the non-recurring items discussed above, which include the gains on our Strategic Enterprise Fund investments and sale of our Truck Leasing subsidiary, offset partially by the charge for retroactive costs associated with creating new full-time jobs from existing part-time Teamster jobs. Our fiscal 1999 results reflect a tax assessment charge resulting from an unfavorable ruling of the U.S. Tax Court. Excluding these non-recurring transactions for each of these periods, net income for the six months ending June 30, 2000, would have been $1.369 billion, an increase of $282 million over adjusted 1999 net income of $1.087 billion. Adjusted diluted earnings per share increased from $0.96 in 1999 to $1.15 in 2000.



## 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 $4.7 billion at June 30, 2000. Of this amount, approximately $950 million represents the net proceeds remaining from our initial public offering, which was completed in November 1999. We used the majority of the IPO proceeds to fund a cash tender offer to purchase Class A-1 shares from shareowners. The tender offer, which was announced on February 4, 2000 and expired on March 3, 2000, was for up to 100,893,277 shares at a price of $60 per share. The actual number of shares validly tendered and accepted for purchase by us was 67,834,815, which resulted in a cash expenditure of approximately $4.1 billion and reduced our outstanding Class A shares accordingly. The remaining IPO proceeds are available for a share repurchase program that was announced on April 20, 2000.

We maintain a commercial paper program under which we are authorized to borrow up to $2.0 billion. Approximately $1.004 billion was outstanding under this program as of June 30, 2000. Since we do not intend to refinance the full commercial paper balance outstanding at June 30, 2000, $904 million has been classified as a current liability on our balance sheet. The average interest rate on the amount outstanding at June 30, 2000 was 6.5%.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of $1.25 billion each, with one expiring in April 2001 and the other expiring in April 2005. 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, 2000.

We also maintain a European medium-term note program with a borrowing capacity of $1.0 billion. Under this program, we may issue notes from time to time denominated in a variety of currencies. At June 30, 2000, $500 million was available under this program. Of the amount outstanding at June 30, 2000, $200 million bears interest at a stated interest rate of 6.625% and $300 million bears interest at a stated interest rate of 6.25%. The $300 million notes were repaid on July 7, 2000.

In January 1999, we filed a shelf registration statement with the SEC under which we may issue debt securities in the U.S. marketplace of up to $2.0 billion. The debt may be denominated in a variety of currencies. There was approximately $105 million issued under this shelf registration statement at June 30, 2000.



On November 22, 1999, the U.S. Occupational Safety and Health Administration proposed regulations to mandate an ergonomics standard that would require American industry to make significant changes in the workplace in order to reduce the incidence of musculoskeletal complaints such as low back pain. The exact changes in the workplace that might be required to comply with these standards are not specified in the proposal. If OSHA enforced these regulations by seeking the same ergonomic measures it has advocated in the past under its general authority to remedy "recognized hazards," however, it might demand extensive changes in the physical layout of our distribution centers as well as the hiring of significant numbers of additional full-time and part-time employees. Our competitors, as well as the remainder of American industry, also would incur proportionately comparable costs.

We, our competitors and other affected parties have filed comments with OSHA challenging the medical support and economic and technical feasibility of the proposed regulations. We do not believe that OSHA has complied with the statutory mandate of establishing significant risk of material health impairment or has properly analyzed the costs and benefits of these proposed regulations. We and other affected parties recently filed additional comments in opposition to the proposed regulations and would have the right to appeal any final ergonomics standard to an appropriate federal court of appeals. We anticipate that such a standard would be rejected by the reviewing court. If ergonomic regulations resembling the current proposal were sustained by a reviewing court, we believe that we would prevail in an enforcement proceeding based on substantial defenses including the vagueness of the standards and the technological and economic feasibility of costly abatement measures.

OSHA has taken the position that the cost of compliance with the proposed regulations will be only $4.2 billion per year over a ten-year period for all of American industry. We believe that these estimates are unrealistic. We have attempted to estimate the costs of compliance if OSHA adopts the proposed regulations and applies them in the same way as it sought to apply its prior unsuccessful attempts to impose ergonomic measures under its general authority. Based on this experience and assuming that, contrary to our expectations, OSHA were able to obtain court orders applying to all of our facilities that mandated compliance with these regulations, we estimate that the cost of compliance could be approximately $20 billion in initial costs, which would be incurred over a period of years, and approximately $5 billion in incremental annual costs. Such expenditures, if required to be incurred, would materially and adversely affect our results of operations, liquidity and financial condition.

## Market Risk

We are exposed to a number of market risks in the ordinary course of business. These risks, which include interest rate risk, foreign currency exchange risk and commodity price risk, arise in the normal course of business rather than from trading. We have examined our exposures to these risks and concluded that none of our exposures in these areas is material to fair values, cash flows or earnings. We have engaged in several strategies to manage these market risks.



Our indebtedness under our various financing arrangements creates interest rate risk. In connection with each debt issuance and as a result of continual monitoring of interest rates, we may enter into interest rate swap agreements for purposes of managing our borrowing costs.

For all foreign currency-denominated borrowing and certain lease transactions, we simultaneously entered into currency exchange agreements to lock in the price of the currency needed to pay the obligations and to hedge the foreign currency exchange risk associated with such transactions. We are exposed to other foreign currency exchange risks in the ordinary course of our business operations due to the fact that we provide our services in more than 200 countries and territories and collection of revenues and payment of certain expenses may give rise to currency exposure.

We require significant quantities of gasoline, diesel fuel and jet fuel for our aircraft and delivery vehicles. We therefore are exposed to commodity price risk associated with variations in the market price for energy products. We manage this risk with a hedging strategy designed to minimize the impact of sudden, catastrophic increases in the prices of energy products, while allowing us to benefit if fuel prices decline. Our hedging program is designed to moderate the impact of fluctuating crude oil prices and maintain our competitive position relative to our industry peers.

Future Accounting Changes

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statement No. 137 and No. 138, which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. Upon adoption, all derivative instruments will be recognized on the balance sheet at fair value, and changes in the fair values of such instruments must be recognized currently in earnings unless specific hedge accounting criteria are met. FAS 133 will be effective for the Company on January 1, 2001. We are currently evaluating this Statement and expect to provide an estimate of the probable effects of adoption on the financial statements when we file our third quarter 10-Q.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. We will adopt SAB 101 as required in the fourth quarter of 2000. We are currently evaluating the effect that such adoption might have on our financial position and results of operations.



In March 2000, the FASB issued Interpretation No. 44 "Accounting of Certain Transactions involving Stock Compensation - an Interpretation of APB No. 25" ("FIN 44"). FIN 44 clarifies the application of APB No. 25 for (a) the definition of employee for purposes of applying APB No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The application of FIN 44 did not have a material effect on our financial position or results of operations.

"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 about matters that are inherently difficult to predict. These statements include statements regarding our intent, belief and current expectations. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties that may affect future developments. These risks include, for example, our continued ability to successfully compete, especially with foreign competition, the reliability and availability of rail transportation, the growth rate of e-commerce in relation to our expectations, adverse weather conditions and changing fuel prices. Additional information concerning these risks and uncertainties, and other factors you may wish to consider, are provided in the "Risk Factors" section of our prospectus dated November 9, 1999, as filed with the Securities and Exchange Commission.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2.

# PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have been named as a defendant in 18 lawsuits that seek to hold us (and in three cases, other defendants) liable for the collection of premiums for excess value package insurance in connection with package shipments since 1984. These cases generally claim that we acted as an insurer in violation of our shipping contract and without complying with state insurance laws and regulations, and that the price for excess value package insurance was excessive. Twelve of these cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding before the United States District Court for the Southern District of New York. We are in the process of removing the remaining cases to federal court and having them consolidated into the multi-district litigation proceeding. These cases are in their initial stages, no discovery has commenced, and no class has been certified. These actions all developed after the August 9, 1999 Tax Court opinion was rendered. We believe the allegations have no merit and intend to defend them vigorously. The ultimate resolution of these matters cannot presently be determined.

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

Our annual meeting of shareowners was held on May 12, 2000.

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 | 5,878,869,066 | 97.45% |
| | Withheld | 153,602,139 | 2.55% |
| Robert J. Clanin | For | 5,858,934,372 | 97.12% |
| | Withheld | 173,536,833 | 2.88% |
| Michael L. Eskew | For | 5,896,225,304 | 97.74% |
| | Withheld | 136,245,901 | 2.26% |
| James P. Kelly | For | 5,892,337,837 | 97.68% |
| | Withheld | 140,133,368 | 2.32% |
| Ann M. Livermore | For | 5,890,896,960 | 97.65% |
| | Withheld | 141,574,245 | 2.35% |
| Gary E. MacDougal | For | 5,865,319,075 | 97.23% |
| | Withheld | 167,152,130 | 2.77% |
| Joseph R. Moderow | For | 5,901,410,664 | 97.83% |
| | Withheld | 131,060,541 | 2.17% |
| Kent C. Nelson | For | 5,819,877,137 | 96.48% |
| | Withheld | 212,594,068 | 3.52% |
| Victor A. Pelson | For | 5,890,384,625 | 97.64% |
| | Withheld | 142,086,580 | 2.36% |
| Charles L. Schaffer | For | 5,907,749,169 | 97.93% |
| | Withheld | 124,722,036 | 2.07% |
| Lea N. Soupata | For | 5,780,646,143 | 95.83% |
| | Withheld | 251,825,062 | 4.17% |
| Robert M. Teeter | For | 5,889,265,124 | 97.63% |
| | Withheld | 143,206,081 | 2.37% |
| Thomas H. Weidemeyer | For | 5,888,827,690 | 97.62% |
| | Withheld | 143,643,515 | 2.38% |

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

| | | 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, 2000 | For | 5,933,809,338 | 98.37% |
| | Against | 70,194,436 | 1.16% |
| | Abstain | 28,467,431 | 0.47% |

3. The proposal and the results of the voting by the shareowners for the amendment of our restated certificate of incorporation are presented below.

Percent of

| | | Number of Votes | Total Voting |
|---|---|---|---|
| To confirm the amendment of the restated certificate of incorporation of UPS to modify the definition of "permitted transferee" as it applies to lending institutions. | For | 5,912,191,486 | 98.01% |
| | Against | 32,743,781 | 0.54% |
| | Abstain | 87,535,938 | 1.45% |

Item 6. - Exhibits and Reports on Form 8-K

a) Exhibits:

(3) Certificate of Amendment of Restated Certificate of Incorporation

(27) Financial Data Schedule (for SEC filing purposes only)

b) Reports on Form 8-K: no reports on Form 8-K were filed during the quarter.

EXHIBIT INDEX

(3) Certificate of Amendment of Restated Certificate of Incorporation

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, 2000

By: /S/ Robert J. Clanin
----------------------
Robert J. Clanin

Senior Vice President,
Treasurer and
Chief Financial Officer

58443

# CERTIFICATE OF AMENDMENT

# OF

# RESTATED CERTIFICATE OF INCORPORATION

* * * * *

United Parcel Service, Inc., a corporation organized and existing under and by virtue of the Delaware General Corporation Law (the "Company"), DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of the Company, resolutions were adopted setting forth a proposed amendment to the Restated Certificate of Incorporation of the Company, declaring the amendment to be advisable and directing that the amendment be considered by the Company's shareowners at the Company's next annual meeting of shareowners. The resolutions setting forth the proposed amendment are as follows:

> WHEREAS, it is in the best interests of the Company and its shareowners for the Company to amend its Certificate of Incorporation to clarify the definition of "permitted transferee" as it applies to lending institutions as provided in the Restated Certificate of Incorporation of United Parcel Service, Inc. (the "Amendment") as reviewed by the Directors of the Company;
>
> NOW, THEREFORE, BE IT RESOLVED, that, subject to approval by the shareowners of the Company, subparagraph (c)(16)(i)(H) of Article Fourth of the Company's Certificate of Incorporation shall be deleted in its entirety and replaced with the following:
>
> "a lending institution 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 Company 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 offer to sell such shares to the Corporation in the event such lending institution forecloses on such shares;"
>
> BE IT FURTHER RESOLVED, that the Amendment be submitted to the shareowners of the Company for their approval at the next annual meeting of shareowners;
>
> BE IT FURTHER RESOLVED, that, subject to approval by the shareowners, the Chief Executive Officer or the Secretary of the Company or either of them, be and such officers hereby are, authorized, empowered and directed to make and execute a Certificate of Amendment to the Company's Certificate of Incorporation, which shall be in substantially the same form as the Amendment, but with such changes or additions thereto as such officer shall deem to be in the best interests of the Company, the execution of the same containing any such changes or additions being deemed to evidence conclusively the decision that such changes or additions are approved and in the best interests of the Company.

SECOND: That thereafter, at the annual meeting of shareowners of the Company duly called and held on May 12, 2000, upon notice in accordance with Section 222 of the Delaware General Corporation Law, the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That the foregoing amendment was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

IN WITNESS WHEREOF, United Parcel Service, Inc. has caused this certificate to be signed by Joseph R. Moderow, its Secretary, this 15th day of May, 2000.

UNITED PARCEL SERVICE, INC.

By: ____________________________________

JOSEPH R. MODEROW, Secretary

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