SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended June 30, 2001

Commission file number 0-4714

United Parcel Service, Inc.

(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

Atlanta, Georgia	30328
(Address of principal executive office)	(Zip Code)

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

Not Applicable

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

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

YES X NO

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

(Title of Class)

815,146,964 Class A shares, 310,523,401 Class B shares

Outstanding as of August 9, 2001

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

<TABLE>
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UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2001 (unaudited) and December 31, 2000
(In millions except share and per share amounts)

<S>	<C>	<C>
Assets	June 30, 2001	December 31, 2000
Current Assets:		
Cash & cash equivalents	$ 2,062	$ 879

Marketable securities & short-term investments	1,081	1,073
Accounts receivable	3,932	4,140
Other current assets	684	1,032
Total Current Assets	7,759	7,124
Property, Plant & Equipment - at cost, net of accumulated depreciation & amortization of $10,168 in 2001 and $9,665 in 2000	13,062	12,329
Prepaid pension costs	1,609	1,593
Other assets	1,362	616
	$23,792	$21,662
Liabilities & Shareowners' Equity		
Current Liabilities:		
Commercial paper	$ 321	$ 366
Accounts payable	1,829	1,674
Accrued wages & withholdings	1,629	1,134
Income taxes payable	497	132
Current maturities of long-term debt	71	257
Other current liabilities	798	938
Total Current Liabilities	5,145	4,501
Long-Term Debt	4,138	2,981
Accumulated Postretirement Benefit Obligation, Net	1,116	1,049
Deferred Taxes, Credits & Other Liabilities	3,465	3,396
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 829,331,774 and 935,873,745 in 2001 and 2000	8	9
Class B common stock, par value $.01 per share, authorized 5,600,000,000 shares, issued 298,815,014 and 198,819,384 in 2001 and 2000	3	2
Additional paid-in capital	100	267
Retained earnings	10,120	9,684
Accumulated other comprehensive loss	(303)	(227)
Deferred compensation arrangements	47	-
	9,975	9,735
Less: Treasury stock, at cost (817,414 and 0 shares in 2001 and 2000)	(47)	-
	9,928	9,735
	$23,792	$21,662

</TABLE>

See notes to unaudited consolidated financial statements.

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UNITED PARCEL SERVICE, INC., AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
Three and Six Months Ended June 30, 2001 and 2000
(In millions except per share amounts)
(unaudited)

<S>	<C>	<C>	<C>	<C>
	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenue	$7,566	$7,284	$15,076	$14,504
Operating Expenses:				
Compensation and benefits	4,269	4,042	8,520	8,117
Other	2,256	2,081	4,571	4,159
	6,525	6,123	13,091	12,276
Operating Profit	1,041	1,161	1,985	2,228
Other Income and (Expense):				
Investment income	39	63	92	402
Interest expense	(47)	(65)	(91)	(117)
	(8)	(2)	1	285

Income Before Income Taxes And Cumulative Effect of Change In Accounting Principle	1,033	1,159	1,986	2,513
Income Taxes	403	464	774	1,005
Income Before Cumulative Effect of Change In Accounting Principle	630	695	1,212	1,508
Cumulative Effect of Change In The Method Of Accounting For Derivatives, Net of Taxes	-	-	(26)	-
Net Income	$630	$695	$1,186	$1,508
Basic Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle	$ 0.56	$ 0.61	$ 1.07	$ 1.29
Basic Earnings Per Share	$ 0.56	$ 0.61	$ 1.05	$ 1.29
Diluted Earnings Per Share Before Cumulative Effect Of Change In Accounting Principle	$ 0.55	$ 0.60	$ 1.06	$ 1.27
Diluted Earnings Per Share	$ 0.55	$ 0.60	$ 1.03	$ 1.27

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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, 2001
(In millions except per share amounts)
(unaudited)

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

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation Arrangements	Treasury Stock, At Cost		Total Shareowners' Equity
	Shares	Amount	Shares	Amount					Shares	Amount	
Balance, January 1, 2001	936	$ 9	199	$ 2	$ 267	$ 9,684	$ (227)	$ -	-	$ -	$9,735
Comprehensive income:											
Net income	-	-	-	-	-	1,186	-	-	-	-	1,186
Foreign currency adjustments	-	-	-	-	-	-	(37)	-	-	-	(37)
Unrealized loss on marketable securities	-	-	-	-	-	-	(17)	-	-	-	(17)
Unrealized loss on cash flow hedges	-	-	-	-	-	-	(22)	-	-	-	(22)
Comprehensive income											1,110
Dividends ($0.38 per share)	-	-	-	-	-	(430)	-	-	-	-	(430)
Stock award plans	3	-	-	-	60	-	-	-	-	-	60
Common stock purchases	(16)	-	(3)	-	(715)	(320)	-	-	-	-	(1,035)
Common stock issuances	1	-	-	-	33	-	-	-	-	-	33
Common stock issuances for											

acquisitions	-	-	7	-	455	-	-	-	-	-	455
Common stock issuances for deferred compensation arrangements	1	-	-	-	-	-	-	47	(1)	(47)	-
Conversion of Class A Common Stock to Class B Common Stock	(96)	(1)	96	1	-	-	-	-	-	-	-
Balance, June 30, 2001	829	$ 8	299	$ 3	$ 100	$10,120	$ (303)	$ 47	(1)	$(47)	$9,928

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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, 2001 and 2000
(In millions)
(unaudited)

<S>	<C> Six Months Ended June 30, 2001	<C> 2000
Cash flows from operating activities:		
Net income	$1,186	$1,508
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	656	570
Postretirement benefits	67	62
Deferred taxes, credits, and other	111	60
Stock award plans	282	288
Gain on exchange of investments and sale of business	-	(290)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	571	(5)
Other current assets	323	300
Prepaid pension costs	(16)	15
Accounts payable	(366)	(48)
Accrued wages and withholdings	244	326
Dividends payable	(192)	(361)
Tax assessment	-	(311)
Income taxes payable	440	452
Other current liabilities	(11)	117
Net cash from operating activities	3,295	2,683
Cash flows from investing activities:		
Capital expenditures	(1,241)	(663)
Disposals of property, plant and equipment	46	220
Purchases of marketable securities and short-term investments	(2,008)	(2,098)
Sales and maturities of marketable securities and short-term investments	1,973	2,167
Construction funds in escrow	21	51
Payments for acquisitions, net of cash acquired	(339)	(156)
Other asset receipts (payments)	(79)	85
Net cash (used in) investing activities	(1,627)	(394)
Cash flows from financing activities:		
Proceeds from borrowings	1,365	1,123
Repayments of borrowings	(439)	(368)
Purchases of common stock via tender	-	(4,070)
Other purchases of common stock	(1,035)	(335)
Issuances of common stock pursuant to stock awards and employee stock purchase plans	176	77
Dividends	(430)	(400)
Other transactions	(69)	(122)
Net cash (used in) financing activities	(432)	(4,095)
Effect of exchange rate changes on cash	(53)	(17)

Net increase (decrease) in cash and cash equivalents	1,183	(1,823)
Cash and cash equivalents:		
Beginning of period	879	4,204
End of period	$2,062	$2,381
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 77	$162
Income taxes	$220	$444

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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, 2001, the results of operations for the three and six months ended June 30, 2001 and 2000, and cash flows for the six months ended June 30, 2001 and 2000. 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):

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Numerator:				
Numerator for basic and diluted earnings per share - Net income	$ 630	$ 695	$1,186	$1,508
Denominator:				
Weighted-average shares	1,126	1,144	1,128	1,167
Deferred compensation arrangements	1	-	-	-
Denominator for basic earnings per share	1,127	1,144	1,128	1,167
Effect of dilutive securities:				
Contingent shares -				
Management incentive awards	6	7	5	5
Stock option plans	12	16	14	18
Denominator for diluted earnings per share	1,145	1,167	1,147	1,190
Basic Earnings Per Share	$ 0.56	$ 0.61	$ 1.05	$ 1.29
Diluted Earnings Per Share	$ 0.55	$ 0.60	$ 1.03	$ 1.27

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

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 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 21, 2001, the United States Court of Appeals for the Eleventh Circuit reversed the Tax Court's decision. The case has been remanded to the Tax Court to consider alternative arguments raised by the parties, but the IRS has requested that the Eleventh Circuit reconsider its reversal in an en banc proceeding. We do not know whether the IRS request will be granted and, if the case is ultimately remanded what the outcome of the remanded proceedings will be.

The IRS has taken similar positions to that advanced in the Tax Court opinion 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 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.

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 determined the size of our reserve with respect to these matters in accordance with accounting principles generally accepted in the United States of America based on our estimate of our most likely liability based on the Tax Court opinion. In making this determination, we concluded that, based on the Tax Court opinion, 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. Since the IRS has requested an en banc proceeding, we currently do not know what impact the Eleventh Circuit opinion will ultimately have on our previously recorded reserve for this matter.

Further, again as a result of the unfavorable Tax Court opinion, 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 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 1999. In February 2000, we deposited $339 million with the IRS related to these matters for the 1995 through 1997 tax years. These amounts will remain with the IRS pending further proceedings.

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

The IRS has proposed adjustments, unrelated to the OPL matters discussed above, regarding the allowance of deductions and certain losses, the characterization of expenses as capital rather than ordinary, the treatment of certain income and our entitlement to the investment tax credit and the research tax credit in the 1985 through 1990 tax years. The proposed adjustments would result in $15 million in 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, 2001 could aggregate up to approximately $400 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 2000. 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 the eventual resolution of these issues will not result in a material adverse effect on our financial condition, results of operations or liquidity.

We have been named as a defendant in 24 lawsuits that seek to hold us liable for the collection of premiums for excess value ("EV") package 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. We believe the allegations in these cases have no merit and intend to continue to defend them vigorously.

These actions all developed after the August 9, 1999 Tax Court opinion. As discussed above, on June 21, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court opinion.

Twenty-two of these cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. Motions to dismiss these cases are pending in the MDL Proceeding. One case is in the process of being transferred to the MDL Proceeding.

The ultimate resolution of these cases cannot presently be determined.

The remaining case is pending in Madison County, Illinois (Triad Industries, Inc. v. UPS). We have entered into a proposed settlement of the Illinois case -- only with respect to Illinois EV shippers -- based in part on our desire to vigorously defend these actions in the single MDL Proceeding. We entered into the proposed settlement shortly before the Eleventh Circuit reversed the Tax Court decision on which these lawsuits are based. While expressly denying any and all liability, the proposed settlement would resolve the Illinois case. This proposed settlement has no impact on the claims pending in the MDL Proceeding regarding shippers in states other than Illinois.

Confirmation of this proposed settlement is subject to a fairness hearing, currently scheduled for November 2001, and a final court order. If the proposed settlement is approved, we would provide to qualifying settlement class members coupons toward the purchase of specified UPS services and pay attorneys' fees in an amount specified in, and subject to the terms and conditions of, the proposed settlement. The proposed settlement's ultimate cost to us will depend upon a number of factors. We do not believe this proposed settlement will have a material effect on our financial condition, results of operations or liquidity.

In addition, we are a defendant in various other lawsuits that arose in the normal course of business. We believe the eventual resolution of these cases will not result in a material 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 the Forwarding and Brokerage Services unit, 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,	
	2001	2000	2001	2000
Revenue:				
U.S. domestic package	$5,981	$5,890	$11,957	$11,731
International package	1,050	1,008	2,124	1,998
Non-package	535	386	995	775
Consolidated	$7,566	$7,284	$15,076	$14,504
Operating profit:				
U.S. domestic package	$966	$1,024	$ 1,811	$ 1,907
International package	24	74	63	132
Non-package	51	63	111	189
Consolidated	$1,041	$1,161	$ 1,985	$ 2,228

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Forwarding and Brokerage Services revenues are recorded in the non-package operating segment net of certain third party transportation costs, which totaled $81 million for the three and six months ending June 30, 2001. These costs did not exist for reporting periods prior to June 30, 2001.

Non-package operating profit included $29 and $30 million for the three months ended June 30, 2001 and 2000, respectively, and $56 and $57 million for the six months ended June 30, 2001 and 2000, respectively, of intersegment profit, with a corresponding amount of operating expense, which reduces operating profit included in the U.S. domestic package segment. Non-package operating profit also included a $49 million gain for the six months ended June 30, 2000 from the sale of our UPS Truck Leasing subsidiary.

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,	
	2001	2000	2001	2000
Repairs and maintenance	$261	$241	$523	$480
Depreciation and amortization	338	287	656	570
Purchased transportation	462	466	965	900
Fuel	244	210	491	448
Other occupancy	119	91	262	198
Other expenses	832	786	1,674	1,563
Consolidated	$2,256	$2,081	$4,571	$4,159

7. During the second quarter, we acquired substantially all of the assets of Mail Boxes Etc. ("MBE") in a cash transaction valued at approximately $185 million. MBE is the world's largest franchisor of independently owned and operated business, communication, and shipping centers worldwide. The acquisition, which closed on April 30, 2001, was accounted for as a purchase. MBE's revenues are included in the non-package segment from the date of acquisition.

On May 24, 2001, we completed our acquisition of Fritz Companies, Inc. ("Fritz") in a transaction valued at approximately $463 million. Fritz is a freight forwarding, customs brokerage and logistics concern. The acquisition, accounted for as a purchase, involved the exchange of 7.4 million shares of UPS class B common stock for all of the outstanding common shares of Fritz. Each outstanding and unexercised stock option granted by Fritz was converted into an option to purchase UPS class A common stock based upon the agreed-upon exchange ratio. Fritz's revenues are included in the non-package segment and constitute a substantial portion of our Forwarding and Brokerage Services unit as discussed in Note 5.

On August 7, 2001, we completed our acquisition of First International Bancorp, Inc. ("First International"). First International offers a variety of structured trade finance, commercial and government-backed lending products. First International will operate as a subsidiary of UPS Capital Corporation, the finance subsidiary of UPS. The total value of the transaction was approximately $59 million, with an additional $8 million held in escrow pending the outcome of certain contingencies. The acquisition, accounted for as a purchase, involved the exchange of 1.1 million shares (including shares held in escrow) of UPS class B common stock for all of the outstanding shares of First International. In addition, we issued options to purchase shares of UPS Class A common stock in substitution for options issued by First International pursuant to its stock option plans and other agreements. First International's revenues will be included in the non-package segment.

In addition, we completed six other acquisitions in the first six months of 2001. These six transactions, which were accounted for using the purchase method of accounting, were completed through the payment of cash and issuance of notes payable. The aggregate purchase value of these transactions was $153 million. Pro forma results of operations have not been presented for any of the acquisitions because the effects of these transactions were not material to us individually or in the aggregate.

8. The Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by Statements No. 137 and No. 138, which became effective for UPS on January 1, 2001. Under FAS 133, as amended, all derivative instruments are

recognized on the balance sheet at fair value, and changes in the fair values of such instruments are recognized in earnings unless the derivatives qualify as hedges of future cash flows. For derivatives qualifying as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in accumulated other comprehensive income (OCI), then recognized in earnings along with the related effects of the hedged items. Any ineffective portion of hedges is reported in earnings as it occurs.

The nature of our business activities necessarily involves 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, 2000, we use derivative financial instruments to mitigate or eliminate certain of those risks. The January 1, 2001 accounting change described above affected only the pattern and timing of non-cash accounting recognition.

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

(in millions)

	Earnings	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 earnings effect, amount shown is net of adjustment to hedged items.

The cumulative effect on earnings was primarily comprised of marking to market the time value of option contracts used in commodity and foreign currency hedging. This accounting change did not involve cash, and we believe that it will not have a material effect on our financial condition, results of operations, or liquidity.

The cumulative effect on OCI was primarily attributable to marking to market swap contracts used as hedges of anticipated foreign currency cash flows and anticipated purchases of energy products.

9. 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, 2001 and 2000

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,		Change	
	2001	2000	$	%
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	$1,383	$1,412	$(29)	(2.1)%
Deferred	711	690	21	3.0
Ground	3,887	3,788	99	2.6
Total U.S. domestic package	5,981	5,890	91	1.5
International package				
Domestic	220	222	(2)	(0.9)
Export	729	707	22	3.1
Cargo	101	79	22	27.8
Total International package	1,050	1,008	42	4.2
Non-package:				
UPS Logistics Group	308	219	89	40.6
Forwarding and Brokerage Services	78	15	63	420.0
Other	149	152	(3)	(2.0)
Total Non-package	535	386	149	38.6
Consolidated	$7,566	$7,284	$282	3.9 %

Average Daily Package Volume (in thousands):			#	
U.S. domestic package:				
Next Day Air	1,112	1,113	(1)	(0.1)%
Deferred	874	852	22	2.6
Ground	10,000	10,135	(135)	(1.3)
Total U.S. domestic package	11,986	12,100	(114)	(0.9)
International package:				
Domestic	775	749	26	3.5
Export	399	360	39	10.8
Total International package	1,174	1,109	65	5.9
Consolidated	13,160	13,209	(49)	(0.4)%
Operating days in period	64	64		

Average Revenue Per Piece:			$	
U.S. domestic package:				
Next Day Air	$19.43	$19.82	$(0.39)	(2.0)%
Deferred	12.71	12.65	0.06	0.5
Ground	6.07	5.84	0.23	3.9
Total U.S. domestic package	7.80	7.61	0.19	2.5
International:				
Domestic	4.44	4.63	(0.19)	(4.1)
Export	28.55	30.69	(2.14)	(7.0)
Total International package	12.63	13.09	(0.46)	(3.5)
Consolidated	$ 8.23	$ 8.07	$ 0.16	2.0 %

Despite the continued weakness of the U.S. economy, U.S. domestic package operations produced a 1.5% increase in revenue over the prior year. This increase was driven by a 2.5% improvement in average revenue per piece, offset by a 0.9% decrease in our average daily volume.

The increase in international package revenue was due primarily to volume growth for export products, offset by a decline in the revenue per piece for these products, along with an increase in cargo revenue associated with our acquisition of Challenge Air in 2000. Overall, average daily package volume increased almost 6% for international operations, with our export products still increasing at double-digit rates.

The increase in non-package revenue of over 38% resulted primarily from the impact of acquisitions as well as continued growth of the UPS Logistics Group. Growth in our UPS Logistics Group was led by our supply chain management and service parts logistics offerings. We are also now separately reporting revenue amounts for our Forwarding and Brokerage Services unit, which consists primarily of Fritz along with several other brokerage and cargo entities.

Operating expenses increased by $402 million, or 6.6%. The $227 million increase in compensation and benefits expenses was driven significantly by growth in the non-package segment including recent acquisitions. Other operating expenses increased $175 million due largely to higher fuel costs, increases in depreciation and amortization expenses, and growth in the non-package segment. Excluding our non-package segment, operating expenses increased 4.2%.

Our operating margin decreased from 15.9% during the second quarter of 2000 to 13.8% during the second quarter of 2001. The margin improved from the first quarter results of 12.6% due in part to an increased focus on controlling costs in response to the slowing economy.

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

Operating Segment	Three Months Ended June 30, 2001	2000	Change $	%
U.S. domestic package	$966	$1,024	$ (58)	(5.7)%
International package	24	74	(50)	(67.6)
Non-package	51	63	(12)	(19.0)
Consolidated Operating Profit	$1,041	$1,161	$(120)	(10.3)%

U.S. domestic package operating profit decreased $58 million due to the continued weakness of the U.S. economy.

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

The decline in the operating profit of our international package operations resulted primarily from below plan revenues, including cargo, matched with increased expenses, particularly those expenses associated with aircraft used in this segment (maintenance, rental and fuel).

The decrease in non-package operating profit is due primarily to integration costs and goodwill amortization associated with our more recent acquisitions.

Net income of $630 million for the second quarter of 2001 decreased by $65 million from the second quarter of 2000 primarily due to reduced operating profit. Corresponding diluted earnings per share decreased from $0.60 in 2000 to $0.55 in 2001.

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

Six Months Ended June 30, 2001 and 2000

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	
	2001	2000	$	%
Revenue (in millions):				
U.S. domestic package:				
Next Day Air	$ 2,766	$ 2,793	$(27)	(1.0)%
Deferred	1,427	1,384	43	3.1
Ground	7,764	7,554	210	2.8
Total U.S. domestic package	11,957	11,731	226	1.9
International package:				
Domestic	452	455	(3)	(0.7)
Export	1,477	1,389	88	6.3
Cargo	195	154	41	26.6
Total International package	2,124	1,998	126	6.3
Non-package:				
UPS Logistics Group	612	428	184	43.0
Forwarding and Brokerage Services	103	48	55	114.6
Other	280	299	(19)	(6.4)
Total Non-package	995	775	220	28.4
Consolidated	$15,076	$14,504	$572	3.9 %
Average Daily Package Volume (in thousands):			#	
U.S. domestic package:				
Next Day Air	1,109	1,092	17	1.6 %
Deferred	881	854	27	3.2
Ground	10,096	10,118	(22)	(0.2)
Total U.S. domestic packag	12,086	12,064	22	0.2
International package:				
Domestic	789	752	37	4.9
Export	399	351	48	13.7
Total International package	1,188	1,103	85	7.7
Consolidated	13,274	13,167	107	0.8 %
Operating days in period	128	129		
Average Revenue Per Piece:			$	
U.S. domestic package:				
Next Day Air	$ 19.49	$ 19.83	$(0.34)	(1.7)%
Deferred	12.65	12.56	0.09	0.7
Ground	6.01	5.79	0.22	3.8
Total U.S. domestic package	7.73	7.54	0.19	2.5
International:				

Domestic	4.48	4.69	(0.21)	(4.5)
Export	28.92	30.68	(1.76)	(5.7)
Total International package	12.69	12.96	(0.27)	(2.1)
Consolidated	$ 8.17	$ 7.99	$ 0.18	2.3 %

U.S. domestic package revenue increased almost 2% primarily due to revenue per piece improvements in our Ground products. Our Deferred Air products also contributed to this increase; however, our Next Day Air revenue was down slightly as the decline in revenue per piece has exceeded our volume gains. Our total U.S. domestic average daily volume increased 0.2% to approximately 12.1 million packages per day. Also affecting the period comparison was one extra operating day in the first six months of 2000 compared to the first six months of 2001. On a per day basis, revenue for this segment was up 2.7%.

During the first quarter of 2001, we increased rates for standard ground shipments an average of 3.1% for commercial deliveries. The ground residential charge increased $0.05 to $1.05 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, UPS 2nd Day Air, and 3 Day Select an average of 3.7%. The surcharge for UPS Next Day Air Early A.M. increased to $27.50. 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. In addition, all package rates during the six months included a 1.25% fuel surcharge that was put in place August 7, 2000.

The increase in international package revenue was due primarily to volume growth for our export products, offset by a decline in the revenue per piece for these products. This decline in revenue per piece is consistent with previously reported trends and 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 7.7% for international operations, with our export products increasing at 13.7%. The average revenue increase for this segment on a per day basis was 7.1%.

The increase in non-package revenue of over 28% resulted primarily from the impact of acquisitions, as well as the continued growth of the UPS Logistics Group.

Operating expenses increased by $815 million, or 6.6%, split almost evenly between compensation and benefits ($403 million) and other operating expenses ($412 million). The increase was due to a number of factors (i.e., depreciation/amortization, fuel, purchased transportation) and also included growth in the non-package segment. Excluding our non-package segment, operating expenses increased 4.4%.

Our operating margin declined from 15.4% during the first six months of 2000 to 13.2% during the same period in 2001. This decline continues the trend we began reporting in the fourth quarter of 2000 as the economy began to weaken.

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,		Change	
	2001	2000	$	%
U.S. domestic package	$1,811	$1,907	$ (96)	(5.0)%
International package	63	132	(69)	(52.3)
Non-package	111	189	(78)	(41.3)
Consolidated Operating Profit	$1,985	$2,228	$(243)	(10.9)%

U.S. domestic package operating profit decreased by $96 million primarily due to the declining economy experienced during 2001.

The decline in the operating profit of our international package operations resulted primarily from below plan revenues, including cargo, matched with increased expenses, particularly those expenses associated with aircraft used in this segment (maintenance, rental and fuel).

The decrease in non-package operating profit is partially due to the $49 million gain we recognized from the sale of our UPS Truck Leasing subsidiary in the first quarter of 2000. The remaining decrease is due to start-up and integration costs for several subsidiaries that we are developing or have acquired, along with goodwill amortization expense associated with recent acquisitions.

The decrease in investment income of $310 million for the period is due to two factors relating to the first six months of last year. First, in the first quarter of 2000, we recognized a $241 million gain on investments held by our Strategic Enterprise Fund in two companies that were acquired by other companies. 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.

Net income for the six months ended June 30, 2001 amounted to $1.186 billion, or $1.03 per diluted share, compared to $1.508 billion, or $1.27 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 2001 results reflect a FAS 133 cumulative expense adjustment, net of tax, of $26 million. Excluding these non-recurring transactions for each of these periods, net income for the six months ending June 30, 2001, would have been $1.212 billion, a decrease of $157 million over adjusted 2000 net income of $1.369 billion. Adjusted diluted earnings per share decreased from $1.15 in 2000 to $1.06 in 2001.

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 $3.1 billion at June 30, 2001.

We have used all of the $750 million authorized in October 2000 for share repurchases. An additional $1.3 billion was authorized for share repurchases in May 2001, of which $1.185 billion was still available as of June 30, 2001.

We maintain two commercial paper programs under which we are authorized to borrow up to $7.0 billion. Approximately $1.321 billion was outstanding under these programs as of June 30, 2001, of which $1.0 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, 2001 was 3.93%. 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, 2001.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of $1.25 billion each, with one expiring on April 25, 2002 and the other expiring on April 27, 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, 2001.

We also maintain a $1.0 billion European medium-term note program. Under this program, we may issue notes from time to time, denominated in a variety of currencies. At June 30, 2001, $264 million was available under this program. The 500 million Pound Sterling denominated bonds which are outstanding (recorded at $708 million at June 30, 2001), were issued in February 2001 and bear interest at a stated rate of 5.50%.

We have a shelf registration statement under which we may issue debt securities in the U.S. of up to $2.0 billion. There was approximately $868 million issued under this shelf registration statement at June 30, 2001, including $322 million in notes issued under the UPS Notes program. These notes have various terms and maturities, all with fixed interest rates. Also during 2001, we issued $89 million in floating rate senior notes due December 2050, and $52 million in floating rate senior notes due June 2051, both of which bear interest at one-month LIBOR less 45 basis points.

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 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 21, 2001, the United States Court of Appeals for the Eleventh Circuit reversed the Tax Court's decision. The case has been remanded to the Tax Court to consider alternative arguments raised by the parties, but the IRS has requested that the Eleventh Circuit reconsider its reversal in an en banc proceeding. At this time, it is not known whether the IRS request will be granted and, if the case is ultimately remanded what the outcome of the remanded proceedings will be. The IRS has taken similar positions to that advanced in the Tax Court for tax years subsequent to 1984. Tax years 1985 through 1990 currently are docketed in the Tax Court, although no trial date has been set pending resolution of the case that covers the 1984 year. Further, the IRS has issued a report asserting similar positions for the 1991 through 1994 tax years, and we expect the IRS to take similar positions for tax years 1995 through 1999.

We have been named as a defendant in 24 lawsuits that seek to hold us liable for the collection of premiums for excess value package 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. We believe the allegations in these cases have no merit and intend to continue to defend them vigorously.

These actions all developed after the August 9, 1999 Tax Court opinion. As discussed above, on June 21, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court opinion.

Twenty-two of these cases have been consolidated for pre-trial purposes in a multi-district litigation proceeding ("MDL Proceeding") in federal court in New York. Motions to dismiss these cases are pending in the MDL Proceeding. One case is in the process of being transferred to the MDL Proceeding.

The ultimate resolution of these cases cannot presently be determined.

The remaining case is pending in Madison County, Illinois (Triad Industries, Inc. v. UPS). We have entered into a proposed settlement of the Illinois case -- only with respect to Illinois EV shippers -- based in part on our desire to vigorously defend these actions in the single MDL Proceeding. We entered into the proposed settlement shortly before the Eleventh Circuit reversed the Tax Court decision on which these lawsuits are based. While expressly denying any and all liability, the proposed settlement would resolve the Illinois case. This proposed settlement has no impact on the claims pending in the MDL Proceeding regarding shippers in states other than Illinois.

Confirmation of this proposed settlement is subject to a fairness hearing, currently scheduled for November 2001, and a final court order. If the proposed settlement is approved, we would provide to qualifying settlement class members coupons toward the purchase of specified UPS services and pay attorneys' fees in an amount specified in, and subject to the terms and conditions of, the proposed settlement. The proposed settlement's ultimate cost to us will depend upon a number of factors. We do not believe this proposed settlement will have a material effect on our financial condition, results of operations or liquidity.

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

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

New Accounting Pronouncements

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

Goodwill amortization, which was $18 and $32 million for the three and six months ended June 30, 2001, will cease upon the implementation of FAS 142 on January 1, 2002. In order to complete the transitional assessment of goodwill impairment, we will need to (1) identify reporting units, (2) determine the carrying value of each reporting unit, and (3) determine the fair value of each reporting unit. Due to the extensiveness of the efforts needed to comply with these provisions, it is not practical, at this time, to estimate the impact of adoption of these Statements.

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

"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 about our strategic direction, prospects and future results. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties, and certain factors may cause actual results to differ materially from those contained in the forward-looking statements. These factors include, for example, economic and other conditions in the markets in which we operate, our competitive environment, increases in aviation and motor fuel prices, strikes, work stoppages and slowdowns, governmental regulation, and cyclical and seasonal fluctuations in our operating results. Additional information concerning these risks and uncertainties, and other factors you may wish to consider, are provided in the "Risk Factors" discussed in our Annual Report on Form 10-K for the year ended December 31, 2000 and other documents we file from time to time with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

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

Our market risks, hedging strategies, and financial instrument positions at June 30, 2001 are similar to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2000. However, during the first six months of 2001, we issued 500 million of Pound Sterling denominated bonds (recorded at $708 million at June 30, 2001), at a fixed 5.50% interest rate. We issued a total of $322 million of fixed rate notes with various maturities under our UPS Notes program. By utilizing interest rate swaps designated as fair value hedges of the related fixed rate debt, all of these fixed rate notes were effectively converted to floating interest rates. In addition, we completed two floating rate senior note issuances in the amounts of $89 million and $52 million, both of which bear interest at one month LIBOR less 45 basis points.

The total fair value of our derivative financial instruments, including derivatives added during the first six months of 2001, increased from an asset of $137 million at December 31, 2000 to an asset of $139 million at June 30, 2001. The information concerning market risk under the sub-caption "Market Risk" of the caption "Management's Discussion and Analysis" on pages 29 and 30 of our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated by reference in this Quarterly Report on Form 10-Q.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have been named as a defendant in 24 lawsuits that seek to hold us liable for the collection of premiums for excess value package 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. We believe the allegations in these cases have no merit and intend to continue to defend them vigorously.

These actions all developed after the August 9, 1999 Tax Court opinion. As discussed above, on June 21, 2001, the U.S. Court of Appeals for the Eleventh Circuit ruled in our favor and reversed the Tax Court decision.

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Confirmation of this proposed settlement is subject to a fairness hearing, currently scheduled for November 2001, and a final court order. If the proposed settlement is approved, we would provide to qualifying settlement class members coupons toward the purchase of specified UPS services and pay attorneys' fees in an amount specified in, and subject to the terms and conditions of, the proposed settlement. The proposed settlement's ultimate cost to us will depend upon a number of factors. We do not believe this proposed settlement will have a material effect on our financial condition, results of operations or liquidity.

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

Our annual meeting of shareowners was held on May 17, 2001.

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	5,120,863,549	98.41%
	Withheld	82,759,835	1.59%
Calvin Darden	For	5,085,951,949	97.74%
	Withheld	117,671,435	2.26%
Michael L. Eskew	For	5,164,670,526	99.25%
	Withheld	38,952,858	0.75%
James P. Kelly	For	5,158,183,929	99.13%
	Withheld	45,439,455	0.87%
Ann M. Livermore	For	5,148,831,208	98.95%
	Withheld	54,792,176	1.05%
Gary E. MacDougal	For	5,133,769,946	98.66%
	Withheld	69,853,438	1.34%
Joseph R. Moderow	For	5,158,503,437	99.13%
	Withheld	45,119,947	0.87%
Kent C. Nelson	For	5,055,311,416	97.15%
	Withheld	148,311,968	2.85%
Victor A. Pelson	For	5,145,987,590	98.89%
	Withheld	57,635,794	1.11%
Lea N. Soupata	For	4,941,956,742	94.97%
	Withheld	261,666,642	5.03%
Robert M. Teeter	For	5,137,830,168	98.74%
	Withheld	65,793,216	1.26%
John W. Thompson	For	5,152,327,908	99.01%
	Withheld	51,295,476	0.99%
Thomas H. Weidemeyer	For	5,152,541,262	99.02%
	Withheld	51,081,122	0.98%

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, 2001	For	5,126,804,263	98.52%
	Against	59,802,342	1.15%
	Abstain	17,016,779	0.33%

3. The proposal and the results of the voting by the shareowners for the approval of the Discounted Employee Stock Purchase Plan are presented below.

Percent of

		Number of Votes	Total Voting
To approve the United Parcel Service, Inc. Discounted Employee Stock Purchase Plan.	For	4,947,557,496	95.08%
	Against	196,170,063	3.77%
	Abstain	59,895,825	1.15%

Item 6. Exhibits and Reports on Form 8-K

A) Exhibits: none

B) Reports on Form 8-K:

The Company filed a Form 8-K Current Report on June 26, 2001 (Date of Earliest Event Reported: June 21, 2001), reporting a decision of the Eleventh Circuit with respect to pending litigation involving UPS.

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, 2001

By: /S/ D. Scott Davis
D. Scott Davis
Senior Vice President,
Treasurer and
Chief Financial Officer