

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from _____ to _____
Commission file number 001-15451



United Parcel Service, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*
55 Glenlake Parkway, N.E. Atlanta, Georgia
(Address of Principal Executive Offices)

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

58-2480149
*(I.R.S. Employer
Identification No.)*
30328
(Zip Code)

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

Title of Each Class
Class B common stock, par value \$.01 per share

Name of Each Exchange on Which Registered
New York Stock Exchange

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

Class A common stock, par value \$.01 per share
(Title of Class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the class B common stock held by non-affiliates of the registrant was \$35,043,546,589 as of June 30, 2009. The registrant's class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant's class A common stock is convertible into one share of the registrant's class B common stock.

As of February 17, 2010, there were 278,928,093 outstanding shares of class A common stock and 713,924,267 outstanding shares of class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareowners scheduled for May 6, 2010 are incorporated by reference into Part III of this report.

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UNITED PARCEL SERVICE, INC.
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PART I

Item 1. Business

Overview

United Parcel Service, Inc. (“UPS”) is the world’s largest package delivery company, a leader in the U.S. less-than-truckload industry, and a global leader in supply chain management. We were founded in 1907 as a private messenger and delivery service in Seattle, Washington. Today, we deliver packages each business day for 1.8 million shipping customers to 6.1 million consignees in over 200 countries and territories. In 2009, we delivered an average of 15.1 million pieces per day worldwide, or a total of 3.8 billion packages. Total revenue in 2009 was \$45.3 billion.

Our primary business is the time-definite delivery of packages and documents worldwide. The UPS service portfolio also includes global supply chain services and less-than-truckload transportation, primarily in the U.S. We report our operations in three segments: U.S. Domestic Package operations, International Package operations, and Supply Chain & Freight operations.

- U.S. Domestic Package operations include the time-definite delivery of letters, documents, and packages throughout the United States.
- International Package operations encompass delivery of letters, documents, and packages to more than 200 countries and territories worldwide, including shipments wholly outside the United States, as well as shipments from or to the United States with another country as the destination or origin point.
- Supply Chain & Freight is comprised of our forwarding and logistics operations, UPS Freight, and other related businesses. Our forwarding and logistics business provides services in more than 175 countries and territories worldwide, and includes supply chain design and management, freight distribution, customs brokerage, mail and consulting services. UPS Freight offers a variety of less-than-truckload (“LTL”) and truckload (“TL”) services to customers in North America. Other business units within this segment include Mail Boxes, Etc. (the franchisor of Mail Boxes, Etc. and The UPS Store) and UPS Capital.

Transportation and Infrastructure. We operate a ground fleet of approximately 101,900 vehicles, which reaches all business and residential zip codes in the contiguous U.S. We also operate an air fleet of 510 aircraft, and we are one of the largest airlines in the world. Our primary air hub is in Louisville, KY. Regional air hubs are located in Hartford, CT; Ontario, CA; Philadelphia, PA; and Rockford, IL. Our largest international air hub is in Cologne, Germany, with other regional international hubs in Miami, FL; Canada; Hong Kong; Singapore; Taiwan; China; and the Philippines.

We operate a global transportation infrastructure and offer a comprehensive portfolio of services. We support these services with advanced operational and customer-facing technology. Our supply chain solutions enable customers’ inventory to move more effectively. As a consequence, they can concentrate on their own core competencies.

Outlook. Notwithstanding the global recessionary conditions that prevailed throughout most of 2009, we believe that the following trends will allow us to continue to grow our business over the long term:

- As countries around the world recover from the recession that characterized most of 2009, global trade should resume, albeit slowly.
- Just-in-time inventory management, increased use of the Internet for ordering goods, and direct-to-consumer business models require transportation services to be effective.
- Outsourcing supply chain management is becoming more prevalent, as customers increasingly view effective management of their supply chains as a strategic advantage rather than a cost center.

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Our vision for the future is to synchronize the world of commerce, addressing the complexities of our customers' supply chain needs. Our goal is to develop business solutions that create value and competitive advantages for our customers, enabling them to achieve supply chain efficiencies, better customer service for *their* customers and improved cash flow.

Operations

We believe that our integrated global network is the most extensive in the industry. It is the only network that handles all levels of service (air, ground, domestic, international, commercial, residential) through one integrated pickup and delivery service system. All packages are commingled throughout their journey through our network except when necessary to meet their specific service commitments.

U.S. Domestic Package

The U.S. business consists of air and ground delivery of small packages—up to 150 pounds in weight—and letters to and from all 50 states. It also provides guaranteed, time-definite delivery of certain heavy-weight packages. Substantially all of our U.S. small package delivery services are guaranteed.

The integrated air and ground pick-up and delivery network on which this business is built improves productivity and asset utilization, and provides the flexibility to transport packages using the most reliable and cost-effective transportation mode or combination of modes.

In 2009, UPS completed the first phase of a multi-year expansion of the fully automated Worldport® air hub in Louisville, KY, our largest air hub. When expansion is completed next year, Worldport sort capacity will be 416,000 packages per hour—a 37% increase. This expansion enables more cost-effective package processing and improved network efficiencies.

Also in 2009, we expanded our early morning delivery service. UPS now delivers earlier to more businesses and zip codes in the United States, and worldwide from the United States, than our competitors.

We believe that our broad product portfolio, reliable package delivery service, experienced and dedicated employees and unmatched, integrated air and ground network provide us with the advantages of reputation, service quality and economies of scale that differentiate us from our competitors. Our strategy is to increase domestic revenue through cross-selling services to our large and diverse customer base, to control costs through effective network modification and limited expense growth, and to employ technology-driven efficiencies to increase operating profit.

International Package

The International Package segment provides air and ground delivery of small packages and letters to more than 200 countries and territories around the world. Export services cross country boundaries; domestic services move shipments within a country's borders. UPS's global presence grew out of its highly refined U.S. domestic business.

- Europe is our largest region outside the United States—accounting for approximately half of our international revenue. In Europe we provide both express and domestic service, much like the service portfolio we offer in the U.S., and based on the same integrated network model.
- Through more than two dozen alliances with Asian delivery companies that supplement company-owned operations, we serve more than 40 Asia Pacific countries and territories. Two of the fastest growing economies in the world, China and India, are among our most promising opportunities.
- Our Canadian operations include both domestic and import/export capabilities. We deliver to all addresses throughout Canada.
- We are also the largest air cargo carrier in Latin America and the Caribbean.

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We have built a strong international presence through significant investments over several decades. Some of our recent acquisitions and investments include the following:

- In 2007, we implemented the largest service expansion of our international shipping portfolio in more than a decade. UPS began offering customers three, rather than two, daily time-definite delivery options to and from the world's most active trading markets, giving customers greater flexibility in managing their businesses.
- In 2008, we completed construction of a new hub in Tamworth, England, UPS's largest ground hub outside the U.S. It replaced three smaller facilities, and added more capacity and better efficiencies than existed with the three separate facilities.
- Also in 2008, we acquired our partner's interest in the small package joint venture operation in Romania.
- In 2009, we expanded our presence in Eastern Europe and in Central Asia with the acquisition of our service agents in Slovenia and Turkey, respectively.
- Also in 2009, we set up a joint venture in Dubai to coordinate management and growth of UPS express package, freight forwarding and contract logistics services across the Middle East, Turkey and portions of Central Asia.

Growth in Asia is being driven by global demand, which is stimulating improved demographic and economic trends throughout the region, particularly in China and India. Over the last few years, UPS has steadily increased air service between the U.S. and Asia.

- In 2007, we added six daily flights between the U.S. and Nagoya, Japan. This new service complements our 78 weekly flights into and out of Tokyo and Osaka, Japan. These flights connected to Shanghai in 2008, enhancing intra-Asia service.
- In 2008, we opened a new air hub in Shanghai, the first constructed in China by a U.S. carrier. It links all of China via Shanghai to UPS's international network with direct service to the Americas, Europe and Asia. It also connects points served in China by UPS.
- In 2008, we broke ground on a new intra-Asia air hub in Shenzhen, China, which became operational in February 2010.
- Also in 2008, we acquired our partner's interest in a small package shipping joint venture in Korea.

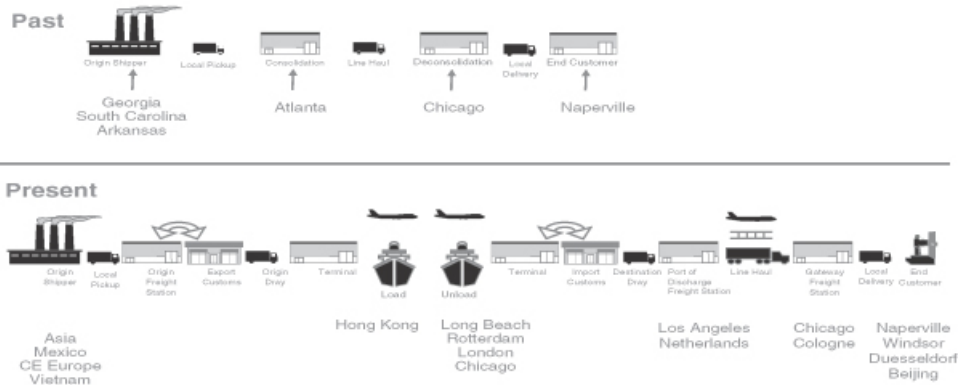
The international package delivery market has been growing at a faster rate than that of the U.S., and our international package operations have historically been growing faster than the market. We plan to use our worldwide infrastructure and broad product portfolio to grow high-margin premium services. Additionally, we plan to expand our non-U.S. domestic package operations by continuing to build our package delivery infrastructure and through acquisitions in certain countries. We have been and will continue to implement cost, process and technology improvements in our international operations. We believe that both Europe and Asia offer significant opportunities for long-term growth.

Supply Chain & Freight Segment

The Supply Chain & Freight segment consists of our forwarding and logistics capabilities as well as our UPS Freight business unit.

Supply chains are becoming increasingly complex, as shown in Diagram 1. Many of our customers, large and small, have outsourced all or part of their supply chains to streamline and gain efficiencies, to improve service, to support new business models and to strengthen their balance sheets.

Diagram 1. The Changing Nature of the Supply Chain



This increasing complexity creates demand for a global service offering that incorporates transportation, distribution and international trade and brokerage services with financial and information services. We can meet that demand because:

- We manage supply chains in over 175 countries and territories, with more than 33 million square feet of distribution space worldwide.
- We focus on supply chain optimization, freight forwarding, international trade and brokerage services for our customers worldwide, which include a broad range of transportation solutions including air, ocean and ground freight.
- We provide information technology systems and distribution facilities adapted to the unique supply chains of specific industries such as healthcare, technology, and consumer/retail. We call these “configurable solutions.” In a configurable solution, multiple customers share standardized IT systems and processes as well as a common network of assets. A configurable solution is repeatable for multiple customers and has a package transportation component. For example, we have a well developed supply chain management capability for the healthcare sector that meets all regulatory and compliance requirements.
- We offer a portfolio of financial services that provides customers with short-term working capital, government guaranteed lending, global trade financing, credit cards and export financing.

UPS Freight is an LTL service, which offers a full range of regional, inter-regional and long-haul LTL capabilities in all 50 states, Canada, Puerto Rico, Guam, the Virgin Islands and Mexico. This business also offers a TL service. UPS Freight provides services through a network of owned and leased service centers and carrier partnerships.

Our growth strategy is to increase the number of customers benefiting from configurable supply chain solutions, particularly in the healthcare, high tech and retail sectors, and to increase the amount of small package transportation from these customers. We intend to leverage our small package and freight customers through cross-selling the full complement of UPS services.

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Products and Services

Our goal is to provide our customers with easy-to-use products and services. We seek to streamline their shipment processing and integrate critical transportation information into their own business processes, helping them create supply chain efficiencies, better serve their customers and improve their cash flows. These products and services support LTL and air freight shipments, as well as small package transportation. UPS offers a variety of technology solutions for automated shipping, visibility and billing. We believe we have the most comprehensive suite of such services in the industry.

Global Small Package. Our global small package portfolio consists of a spectrum of export and domestic services. Export services are those provided for packages crossing a country's borders, while domestic services are for packages that stay within the borders of a single country. We provide domestic express services in 50 countries outside the United States. This portfolio includes guaranteed delivery options to major cities around the world. We handle packages that weigh up to 150 pounds and are up to 165 inches in combined length and girth. We offer same-day pickup of air and ground packages. We also offer worldwide customs clearance service for any mode of transportation.

Additional products that provide enhanced shipping, visibility, billing and returns services are available to customers who require customized package solutions.

Our enhanced, data-driven package pick-up and delivery technology is the basis for new services introduced in 2007. For example, UPS introduced a unique paperless invoice service for international small package shippers that integrates order processing, shipment preparation and commercial invoice data and then transmits that data to customs offices across the globe, eliminating the need for paper commercial invoices. Another new offering, UPS Returns, is the first industry offering that facilitates international commerce for any size customer by simplifying package returns to 98 countries or territories. Package recipients can obtain international return labels and commercial invoices via e-mail, local post or from a UPS driver picking up the return package.

In 2009, UPS pioneered a return service for its retail customers in partnership with the United States Postal Service. Customers may leave a return package in their mailboxes for pick-up by their U.S. mail carrier. UPS picks up returned packages at the Post Office.

We provide our customers with easy access to UPS. There are over 141,000 domestic and international access points to UPS. These include: 38,800 branded drop-boxes, 1,100 UPS Customer Centers, 4,800 independently owned and operated The UPS Store® and Mail Boxes Etc.® locations worldwide, 2,700 alliance partner locations, 12,000 Authorized Shipping Outlets and commercial counters, and 81,900 UPS drivers who can accept packages given to them.

Supply Chain Services. Our freight forwarding and logistics businesses meet customers' supply chain needs through a comprehensive portfolio of services, including:

- *Freight Forwarding:* international air, full container load and less than container load ocean, rail and ground freight for all size shipments utilizing UPS and other carriers, and multimodal transportation network management.
- *Logistics and Distribution:* supply chain management, distribution center design, planning and management, order fulfillment, inventory management, receiving and shipping, critical parts logistics, reverse logistics and cross docking.
- *Customs Brokerage:* customs clearance, trade management, and international trade consulting.
- *Industry-specific Solutions:* for healthcare, retail, high tech, automotive, industrial manufacturing and government customers.
- *UPS Capital*SM provides short-term working capital, government guaranteed lending, global trade financing, credit cards and export financing.

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In 2008, UPS launched a new, simplified global portfolio for shipping air freight, with guaranteed day-specific, door-to-door service as well as non-guaranteed service options.

Freight Services. UPS Freight provides LTL services through a network of owned and leased service centers and carrier partnerships. UPS Freight also provides our customers with truckload and dedicated truckload transportation solutions. Since expanding into the freight transport market, we have enhanced our value proposition through improvements in technology, operations and the customer experience. In 2007, we integrated all freight products into our small package visibility systems, enabling shippers to view the status of package and freight shipments from a single web page. Since mid-2007, UPS Freight has accelerated transit times on over 16,000 lanes. Significant service and reliability improvements for freight transportation enabled us to implement a no-fee, guaranteed delivery service in early 2008 and we expanded it to Canadian deliveries later in the year. In 2009, UPS Freight began offering door-to-door service to and from Mexico, complete with UPS customs brokerage capabilities and single invoicing for all services between the United States, Canada, and Mexico.

Technology

Technology is the backbone of everything we do at UPS. It is at the heart of customer access to the company.

- *UPS.com* processes over 22 million package tracking transactions daily. A growing number of those tracking requests come from customers in countries that have wireless access to UPS tracking information.
- Package tracking, pickup requests, rate quotes, account opening, wireless registration, drop-off locator, transit times and supply ordering services are all available at customers' desktops or laptops. The site also displays full domestic and international service information and allows customers to process outbound shipments as well as return labels for their customers.
- Businesses in a number of countries also can download *UPS Developer Kit SM* to their own websites for direct use by their customers. This allows users to access the information they need without leaving our customers' websites.
- In 2007, we integrated all freight products, including international air freight forwarding shipments, into our small package visibility systems. Now a shipper can view the status of package and freight shipments from a single web page.

Technology is also the foundation for process improvements within UPS that enhance productivity, improve efficiency and reduce costs. The most comprehensive improvement to our U.S. small package handling facilities was completed in 2007. This multi-year effort re-engineered our domestic business, based on a data-driven platform, and included software, hardware and process changes. It enables a package center to produce an optimized dispatch plan for every driver and detailed loading instructions for every vehicle before center employees handle any packages. This plan reduces mileage driven, resulting in substantial fuel savings. The re-engineered system provides the basis for unique customer-focused services based on the customer-specific data which powers the system.

A new technology we began deploying in 2008 is Telematics, which combines information from our drivers' hand-held computers with GPS and automotive sensors to help us better manage our ground fleet operations. It helps us improve vehicle maintenance, enhance safety and fine-tune delivery and pick-up service. This technology also improves on-road performance by reducing vehicle expense, fuel consumption, and carbon emissions. Since 2008, we have equipped approximately 12,000 of our U.S. vehicles with the sensors needed to achieve the benefits from this technology.

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Sustainability

UPS takes seriously its commitment to operate in a socially, environmentally and economically sustainable manner. In 2003, the company was the first in its industry to publish a sustainability report that set forth its five-year goals—and then to provide annual updates on progress toward attaining those goals. The website www.sustainability.ups.com provides complete information on these efforts.

UPS constantly reviews our processes, programs and policies to ensure we are operating in a sustainable and responsible manner that benefits all our stakeholders—customers, employees, shareowners and the communities in which we operate. Multiple recognitions in 2009 attest to our success, such as:

- Included in the Dow Jones Sustainability Index for the seventh consecutive year and the FTSE4Good Index for the fifth consecutive year
- Top 500 Greenest Companies in America (ranked No. 85) by Newsweek Magazine
- SmartWay Excellence Award by U.S. Environmental Protection Agency (EPA)
- Carbon Disclosure Leadership Index Top 50 Global Companies
- 40 Best Companies for Diversity by Black Enterprise Magazine
- Top 50 Companies for Diversity by Hispanic Business Magazine
- Best Places to Launch a Career by BusinessWeek Magazine
- 100 Best Global Brands by Interbrand (ranked No. 31)
- America's Top Corporations for Women's Business Enterprises (included every year since 1999)

Sales and Marketing

The UPS worldwide sales organization is responsible for the complete spectrum of UPS products and services. This field sales organization consists primarily of locally based account executives assigned to our individual operating units. For our largest multi-shipping site customers, we manage sales through an organization of regionally based account managers, reporting directly to executive management.

Our sales force also includes specialized groups that work with our general sales organization to support the sale of customer technology solutions, international package delivery, LTL and freight transportation, and warehousing and distribution services.

In 2007, we completed a major sales force reorganization to better align our sales resources and integrate with customer business processes. Our goal is to enhance the customer experience when dealing with the extensive scope of UPS capabilities, at any point in the shipping or supply chain management process. In early 2010, we announced a streamlining of the U.S. Domestic Package operations. As part of the restructuring, we will expand our outreach to customers by strengthening local sales and marketing efforts.

Our worldwide marketing organization also supports our global small package, supply chain and freight businesses. Our corporate marketing function is engaged in market and customer research, brand management, segment management, rate-making and revenue management policy, pricing, new product development, product portfolio management, marketing alliances, and technology marketing, including the non-technical aspect of our web presence. Advertising, public relations, and most formal marketing communications are generally centrally developed and controlled.

In addition to our corporate marketing group, field-based marketing personnel are assigned to our individual operating units and are primarily engaged in business planning, market analysis and opportunity identification, segment management, and customer profitability management.

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Employees

We had approximately 408,000 employees as of December 31, 2009, of which 340,000 are in the U.S. and 68,000 are located internationally.

As of December 31, 2009, we had approximately 254,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters (“Teamsters”). These agreements run through July 31, 2013.

We have approximately 2,800 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association (“IPA”), which becomes amendable at the end of 2011. In February 2010, we announced plans to furlough at least 300 of our airline pilots, after efforts between the Company and the IPA failed to identify sufficient operating cost savings. If the furloughs go forward, they would be phased in order to better match our resources to current economic conditions.

Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable in November 2006. We began formal negotiations with Teamsters Local 2727 in October 2006. In addition, the majority (approximately 3,400) of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers (“IAM”). In July 2009, a new agreement with the IAM was ratified, which runs through July 31, 2014.

We believe that our relations with our employees are good. We periodically survey all our employees to determine their level of job satisfaction. Areas of concern receive management attention as we strive to keep UPS the employer of choice among our employees.

We consistently receive numerous awards and wide recognition as an employer-of-choice, resulting in part from our emphasis on diversity and corporate citizenship.

Competition

We are the largest package delivery company in the world, in terms of both revenue and volume. We offer a broad array of services in the package and freight delivery industry and, therefore, compete with many different local, regional, national and international companies. Our competitors include worldwide postal services, various motor carriers, express companies, freight forwarders, air couriers and others. Through our supply chain service offerings, we compete with a number of participants in the supply chain, financial services and information technology industries.

Competitive Strengths

Our competitive strengths include:

Integrated Global Network. We believe that our integrated global ground and air network is the most extensive in the industry. It is the only network that handles all levels of service (air, ground, domestic, international, commercial, residential) through a single pickup and delivery service system.

Our sophisticated engineering systems allow us to optimize our network efficiency and asset utilization on a daily basis. This unique, integrated global business model creates consistent and superior returns.

We believe we have the most comprehensive integrated delivery and information services portfolio of any carrier in Europe. In other regions of the world, we rely on both our own and local service providers’ capabilities to meet our service commitments.

Global Presence. UPS has the most balanced presence throughout the world.

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Leading-edge Technology. We are a global leader in developing technology that helps our customers optimize their shipping and logistics business processes to lower costs, improve service and increase efficiency.

Technology powers virtually every service we offer and every operation we perform. Our technology initiatives are driven by our customers' needs. We offer a variety of on-line service options that enable our customers to integrate UPS functionality into their own businesses not only to conveniently send, manage and track their shipments, but also to provide their customers with better information services. We provide the infrastructure for an Internet presence that extends to tens of thousands of customers who have integrated UPS tools directly into their own web sites.

Broad Portfolio of Services. Our portfolio of services enables customers to choose the delivery option that is most appropriate for their requirements. Increasingly, our customers benefit from business solutions that integrate many UPS services in addition to package delivery. For example, our supply chain services—such as freight forwarding, customs brokerage, order fulfillment, and returns management—help improve the efficiency of the supply chain management process.

Customer Relationships. We focus on building and maintaining long-term customer relationships. We serve 1.8 million pick-up customers and 6.1 million delivery customers daily. Cross-selling small package, supply chain and freight services across our customer base is an important growth mechanism for UPS.

Brand Equity. We have built a leading and trusted brand that stands for quality service, reliability and product innovation. The distinctive appearance of our vehicles and the friendliness and helpfulness of our drivers are major contributors to our brand equity.

Distinctive Culture. We believe that the dedication of our employees results in large part from our distinctive “employee-owner” concept. Our employee stock ownership tradition dates from 1927, when our founders, who believed that employee stock ownership was a vital foundation for successful business, first offered stock to employees. To facilitate employee stock ownership, we maintain several stock-based compensation programs.

Our long-standing policy of “promotion from within” complements our tradition of employee ownership, and this policy reduces the need for us to hire managers and executive officers from outside UPS. The majority of our management team began their careers as full-time or part-time hourly UPS employees, and have spent their entire careers with us. Many of our executive officers have more than 30 years of service with UPS and have accumulated a meaningful ownership stake in our company. Therefore, our executive officers have a strong incentive to effectively manage UPS, which benefits all our shareowners.

Financial Strength. Our balance sheet reflects financial strength that few companies can match. As of December 31, 2009, we had a balance of cash and marketable securities of approximately \$2.100 billion and shareowners' equity of \$7.696 billion. Our Moody's and Standard & Poor's (“S&P”) short-term credit ratings are P-1 and A-1+, respectively, and our Moody's and S&P long-term credit ratings are Aa3 and AA-, respectively. We have a stable outlook from Moody's, however subsequent to year-end, S&P changed its outlook for the company from stable to negative. We have a strong capacity to service our obligations. Our financial strength gives us the resources to achieve global scale; to invest in employee development, technology, transportation equipment and buildings; to pursue strategic opportunities that facilitate our growth; and to return value to our shareowners in the form of dividends and share repurchases.

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Government Regulation

Air Operations

The U.S. Department of Transportation (“DOT”), the Federal Aviation Administration (“FAA”), and the U.S. Department of Homeland Security, through the Transportation Security Administration (“TSA”), have regulatory authority over United Parcel Service Co.’s (“UPS Airlines”) air transportation services. The Federal Aviation Act of 1958, as amended, is the statutory basis for DOT and FAA authority and the Aviation and Transportation Security Act of 2001, as amended, is the basis for TSA aviation security authority.

The DOT’s authority primarily relates to economic aspects of air transportation, such as discriminatory pricing, non-competitive practices, interlocking relations and cooperative agreements. The DOT also regulates, subject to the authority of the President of the United States, international routes, fares, rates and practices, and is authorized to investigate and take action against discriminatory treatment of U.S. air carriers abroad. International operating rights for U.S. airlines are usually subject to bilateral agreement between the U.S. and foreign governments. UPS Airlines has international route operating rights granted by the DOT and we may apply for additional authorities when those operating rights are available and are required for the efficient operation of our international network. The efficiency and flexibility of our international air transportation network is dependent on DOT and foreign government regulations and operating restrictions.

The FAA’s authority primarily relates to safety aspects of air transportation, including aircraft operating procedures, transportation of hazardous materials, record keeping standards and maintenance activities, personnel and ground facilities. In 1988, the FAA granted us an operating certificate, which remains in effect so long as we meet the safety and operational requirements of the applicable FAA regulations. In addition, we are subject to non-U.S. government regulation of aviation rights involving non-U.S. jurisdictions, and non-U.S. customs regulation.

FAA regulations mandate an aircraft corrosion control program, along with aircraft inspection and repair at periodic intervals specified by approved programs and procedures, for all aircraft. Our total expenditures under these programs for 2009 were \$13 million. The future cost of repairs pursuant to these programs may fluctuate according to aircraft condition, age and the enactment of additional FAA regulatory requirements.

The TSA regulates various security aspects of air cargo transportation in a manner consistent with the TSA mission statement to “protect the Nation’s transportation systems to ensure freedom of movement for people and commerce.” UPS Airlines, and specified airport and off airport locations, are regulated under TSA regulations applicable to the transportation of cargo in an air network. In addition, personnel, facilities and procedures involved in air cargo transportation must comply with TSA regulations.

UPS Airlines, along with a number of other domestic airlines, participates in the Civil Reserve Air Fleet (“CRAF”) program. Our participation in the CRAF program allows the U.S. Department of Defense (“DOD”) to requisition specified UPS Airlines wide-body aircraft for military use during a national defense emergency. The DOD compensates us for the use of aircraft under the CRAF program. In addition, participation in CRAF entitles UPS Airlines to bid for military cargo charter operations.

Ground Operations

Our ground transportation of packages in the U.S. is subject to the DOT’s jurisdiction with respect to the regulation of routes and to both the DOT’s and the states’ jurisdiction with respect to the regulation of safety, insurance and hazardous materials. We are subject to similar regulation in many non-U.S. jurisdictions.

The Postal Reorganization Act of 1970 created the U.S. Postal Service as an independent establishment of the executive branch of the federal government, and vested the power to recommend domestic postal rates in a regulatory body, the Postal Rate Commission. We participate in the proceedings before the Postal Rate Commission in an attempt to secure fair postal rates for competitive services.

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Other Regulations

We are subject to numerous other laws and regulations in connection with our non-package businesses, including customs regulations, Food and Drug Administration regulation of our transportation of pharmaceuticals, and state and federal lending regulations.

Customs

We are subject to U.S. customs laws and related DOT regulations regarding the import and export of shipments to and from the U.S. In addition, our customs brokerage entities are subject to those same laws and regulations as they relate to the filing of documents on behalf of client importers and exporters.

Environmental

We are subject to federal, state, and local environmental laws and regulations across all of our business units. These laws and regulations cover a variety of processes, including, but not limited to: proper storage, handling, and disposal of hazardous and other waste; managing wastewater and storm water; monitoring and maintaining the integrity of underground storage tanks; complying with laws regarding clean air, including those governing emissions; protecting against and appropriately responding to spills and releases; and communicating the presence of reportable quantities of hazardous materials to local responders. UPS has established site- and activity-specific environmental compliance and pollution prevention programs to address our environmental responsibilities and remain compliant. In addition, UPS has created numerous programs which seek to minimize waste and prevent pollution within our operations.

Where You Can Find More Information

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available free of charge through our investor relations website, located at www.investors.ups.com, as soon as reasonably practicable after they are filed with or furnished to the SEC. Additional information about UPS is available at www.ups.com. Our sustainability report, which describes our activities that support our commitment to acting responsibly and contributing to society, is available at www.sustainability.ups.com.

We have adopted a written Code of Business Conduct that applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers. It is available in the governance section of the investor relations website, located at www.investors.ups.com. In the event that we make changes in, or provide waivers from, the provisions of the Code of Business Conduct that the SEC requires us to disclose, we intend to disclose these events in the governance section of our investor relations website.

Our Corporate Governance Guidelines and the charters for our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are also available in the governance section of the investor relations website. The information on our investor relations website is not incorporated by reference into this report.

See Footnote 11 to our consolidated financial statements for financial information regarding our reporting segments and geographic areas in which we operate.

The information on websites maintained by the Company is not incorporated by reference into this annual report on Form 10-K.

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Item 1A. *Risk Factors*

Cautionary Statement About Forward-Looking Statements

This report includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in the future tense, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and variations thereof and similar terms are intended to be forward-looking statements. We intend that all forward-looking statements we make will be subject to safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Our disclosure and analysis in this report, in our Annual Report to Shareholders and in our other filings with the Securities and Exchange filings contain some forward-looking statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. From time to time, we also provide forward-looking statements in other materials we release as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or anticipated results. These risks and uncertainties include, but are not limited to, those described below and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements.

Risk Factors

You should carefully consider the following factors, which could materially affect our business, financial condition or results of operations. You should read these Risk Factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our Consolidated Financial Statements and related notes in Item 8. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

General economic conditions, both in the U.S. and internationally, may adversely affect our results of operations.

We conduct operations in over 200 countries and territories. Our U.S. and international operations are subject to normal cycles affecting the economy in general, as well the local economic environments in which we operate. The factors that create cyclical changes to the economy and to our business are beyond our control, and it may be difficult for us to adjust our business model to mitigate the impact of these factors. In particular, our business is affected by levels of industrial production, consumer spending and retail activity. To the extent that the current economic recession in the U.S. and worldwide continues for a prolonged period of time or the recovery takes longer than anticipated, our business, financial position and results of operations could be materially affected.

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We face significant competition which could adversely affect our business, financial position and results of operations.

We face significant competition on a local, regional, national, and international basis. Our competitors include the postal services of the U.S. and other nations, various motor carriers, express companies, freight forwarders, air couriers and others. Competition may also come from other sources in the future. Some of our competitors have cost and organizational structures that differ from ours and may offer services and pricing terms that we may not be willing or able to offer. If we are unable to timely and appropriately respond to competitive pressures, our business, financial position and results of operations could be adversely affected.

The transportation industry continues to consolidate and competition remains strong. As a result of consolidation, our competitors may increase their market share and improve their financial capacity, and may strengthen their competitive positions. Business combinations could also result in competitors providing a wider variety of services and products at competitive prices, which could adversely affect our financial performance.

Our business is subject to complex and stringent regulation in the U.S. and internationally.

We are subject to complex and stringent aviation, transportation, environmental, security, labor, employment, and other governmental laws and regulations, both in the U.S. and in the other countries in which we operate. Changes in laws, regulations and the related interpretations may alter the landscape in which we do business and may affect our costs of doing business. The impact of new laws and regulations cannot be predicted. Compliance with new laws and regulations may increase our operating costs or require significant capital expenditures. Any failure to comply with applicable laws or regulations in the U.S. or in any of the countries in which we operate could result in substantial fines or possible revocation of our authority to conduct our operations, which could adversely affect our financial performance.

Increased security requirements could impose substantial costs on us.

As a result of concerns about global terrorism and homeland security, governments around the world have adopted or may adopt stricter security requirements that will result in increased operating costs for businesses in the transportation industry. These requirements may change periodically as a result of regulatory and legislative requirements and in response to evolving threats. We cannot determine the effect that these new requirements will have on our cost structure or our operating results, and these rules or other future security requirements may increase our costs of operations and reduce operating efficiencies.

We may be affected by global climate change or by legal, regulatory or market responses to such potential change.

Concern over climate change, including the impact of global warming, has led to significant federal, state, and international legislative and regulatory efforts to limit greenhouse gas (GHG) emissions. For example, in the past several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support for enactment, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency, spurred by judicial interpretation of the Clean Air Act, may regulate GHG emissions, especially aircraft or diesel engine emissions, and this could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our aircraft or trucks prematurely. Until the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. Notwithstanding our widely recognized position as a leader in sustainable business practices, it is reasonably possible, however, that such legislation or regulation could impose material costs on us. Moreover, even without such legislation or regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the airline and transportation industries could harm our reputation and reduce customer demand for our services, especially our air services.

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Strikes, work stoppages and slowdowns by our employees could adversely affect our business, financial position and results of operations.

A significant number of our employees are employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters, and our airline pilots, airline mechanics, ground mechanics and certain other employees are employed under other collective bargaining agreements. Strikes, work stoppages and slowdowns by our employees could adversely affect our ability to meet our customers' needs, and customers may do more business with competitors if they believe that such actions or threatened actions may adversely affect our ability to provide service. We may face permanent loss of customers if we are unable to provide uninterrupted service, and this could adversely affect our business, financial position and results of operations. The terms of future collective bargaining agreements also may affect our competitive position and results of operations.

We are exposed to the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities.

Changing fuel and energy costs may have a significant impact on our operations. We require significant quantities of fuel for our aircraft and delivery vehicles and are exposed to the risk associated with variations in the market price for petroleum products, including gasoline, diesel and jet fuel. We mitigate our exposure to changing fuel prices through our indexed fuel surcharges and we may also enter into hedging transactions from time to time. If we are unable to maintain or increase our fuel surcharges, higher fuel costs could adversely impact our operating results. Even if we are able to offset the cost of fuel with our surcharges, high fuel surcharges may result in a mix shift from our higher yielding air products to lower yielding ground products or an overall reduction in volume. If fuel prices rise sharply, even if we are successful in increasing our fuel surcharge, we could experience a lag time in implementing the surcharge, which could adversely affect our short-term operating results. There can be no assurance that our hedging transactions will be effective to protect us from changes in fuel prices. Moreover, we could experience a disruption in energy supplies, including our supply of gasoline, diesel and jet fuel, as a result of war, actions by producers, or other factors which are beyond our control, which could have an adverse affect on our business.

Changes in exchange rates or interest rates may have an adverse affect on our results.

We conduct business across the globe with a significant portion of our revenue derived from operations outside the United States. Our operations in international markets are affected by changes in the exchange rates for local currencies, and in particular the Euro, British Pound, and Canadian Dollar.

We are exposed to changes in interest rates, primarily on our short-term debt and that portion of our long-term debt that carries floating interest rates. The impact of a 100-basis-point change in interest rates affecting our debt is discussed in the "Quantitative and Qualitative Disclosures about Market Risk" section of this report. During 2008, credit markets tightened and the global economy slowed. We are not dependent on the credit markets to fund current operations.

We monitor and manage our exposures to changes in currency exchange rates and interest rates, and make limited use of currency exchange contracts, over the counter option contracts, commodity forwards, swaps and futures contracts to mitigate the impact of changes in currency values, but changes in exchange rates and interest rates cannot always be predicted or hedged.

If we are unable to maintain our brand image and corporate reputation, our business may suffer.

Our success depends in part on our ability to maintain the image of the UPS brand and our reputation for providing excellent service to our customers. Service quality issues, actual or perceived, even when false or unfounded, could tarnish the image of our brand and may cause customers to use other companies. Also, adverse publicity surrounding labor relations, environmental concerns, security matters, political activities and the like, or attempting to connect our company to these sorts of issues, either in the United States or other countries in which

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we operate, could negatively affect our overall reputation and acceptance of our services by customers. Damage to our reputation and loss of brand equity could reduce demand for our services and thus have an adverse effect on our business, financial position and results of operations, and could require additional resources to rebuild our reputation and restore the value of our brand.

A significant privacy breach could adversely affect our business and we may be required to increase our spending on data security.

The provision of service to our customers and the operation of our network involve the storage and transmission of proprietary information and sensitive or confidential data, including personal information of customers, employees and others. Breaches in security could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, resulting in litigation and potential liability for the company, as well as the loss of existing or potential customers, damage to our brand and reputation, or disruptions in our operations. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

We have invested in a technology infrastructure which supports our global air and ground network and is critical to support our operations and customer needs. Any major disruption to this infrastructure could adversely impact our operations, customers and global commerce.

Our ability to serve customers and to compete effectively depends to a large part upon the reliability and speed of our technology network. While we have built a multi-layered architecture to support swiftly-expanding worldwide operations and we ensure that our infrastructure is robust, reliable and redundant, there are risks of malicious or unintentional disruptions to the Internet or our technology infrastructure which could adversely impact our operations and consequently, our customers.

We make significant capital investments in our business of which a significant portion is tied to projected volume levels.

We require significant capital investments in our business consisting of aircraft, vehicles, technology, facilities and sorting and other types of equipment to support both our existing and anticipated growth of our business. Forecasting projected volume involves many factors which are subject to uncertainty, such as general economic trends, changes in governmental regulation, and competition. If we do not accurately forecast our future capital investment needs, we could have excess capacity or insufficient capacity, either of which would negatively affect our revenues and profitability. In addition to forecasting our capital investment requirements, we adjust other elements of our operations and cost structure in response to adverse economic conditions; however, these adjustments may not be sufficient to allow us to maintain our operating margins in an adverse economy.

We derive a significant portion of our revenues from our international operations and are subject to the risks of doing business in emerging markets.

We have significant international operations and while the geographical diversity of our international operations helps ensure that we are not overly reliant on a single region or country, we are continually exposed to changing economic, political and social developments beyond our control. Emerging markets are typically more volatile than those in the developed world, and any broad-based downturn in these markets could reduce our revenues and adversely affect our business, financial position and results of operations.

We are subject to changes in markets and our business plans that have resulted, and may in the future result, in substantial write-downs of the carrying value of our assets, thereby reducing our net income.

Our regular review of the carrying value of our assets (including our intangible and tangible assets and investments) has resulted, from time to time, in significant impairments, and we may in the future be required to recognize additional impairment charges. Changes in business strategy, government regulations, or economic or

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market conditions have resulted and may result in further substantial impairment write-downs of our intangible or other assets at any time in the future. In addition, we have been and may be required in the future to recognize increased depreciation and amortization charges if we determine that the useful lives of our fixed assets are shorter than we originally estimated. Such changes could reduce our net income.

Employee health and retiree health and pension benefit costs represent a significant expense to us.

With approximately 408,000 employees, including approximately 340,000 in the U.S., our expenses relating to employee health and retiree health and pension benefits are significant. In recent years, we have experienced significant increases in certain of these costs, largely as a result of economic factors beyond our control, including, in particular, ongoing increases in health care costs well in excess of the rate of inflation. Continued increasing health-care costs, volatility in investment returns and discount rates, as well as changes in laws, regulations and assumptions used to calculate retiree health and pension benefit expenses, may adversely affect our business, financial position, results of operations or require significant contributions to our pension plans.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, increases in health care costs, changes in demographics, and increased benefits to participants. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations, or liquidity would result from our participation in these plans.

We may be subject to various claims and lawsuits that could result in significant expenditures.

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters. Any material litigation or a catastrophic accident or series of accidents could have a material adverse effect on our business, financial position and results of operations.

We may not realize the anticipated benefits of acquisitions, joint ventures or strategic alliances.

As part of our business strategy, we may acquire businesses and form joint ventures or strategic alliances. Whether we realize the anticipated benefits from these transactions depends, in part, upon the successful integration between the businesses involved, the performance of the underlying operation, capabilities or technologies and the management of the transacted operations. Accordingly, our financial results could be adversely affected by our failure to effectively integrate the acquired operations, unanticipated performance issues, transaction-related charges, or charges for impairment of long-term assets that we acquire.

Insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.

We have a combination of both self-insurance and high-deductible insurance programs for the risks arising out of the services we provide and the nature of our global operations, including claims exposure resulting from cargo loss, personal injury, property damage, aircraft and related liabilities, business interruption and workers' compensation. Workers' compensation, automobile and general liabilities are determined using actuarial estimates of the aggregate liability for claims incurred and an estimate of incurred but not reported claims, on an undiscounted basis. Our accruals for insurance reserves reflect certain actuarial assumptions and management judgments, which are subject to a high degree of variability. If the number or severity of claims for which we are retaining risk increases, our financial condition and results of operations could be adversely affected. If we lose our ability to self-insure these risks, our insurance costs could materially increase and we may find it difficult to obtain adequate levels of insurance coverage.

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Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

Operating Facilities

We own our headquarters, which are located in Atlanta, Georgia and consist of about 735,000 square feet of office space on an office campus, and our UPS Supply Chain Solutions group's headquarters, which are located in Alpharetta, Georgia and consist of about 310,000 square feet of office space.

We also own our 27 principal U.S. package operating facilities, which have floor spaces that range from about 310,000 to 693,000 square feet. In addition, we have a 1.9 million square foot operating facility near Chicago, Illinois, which is designed to streamline shipments between East Coast and West Coast destinations, and we own or lease over 1,100 additional smaller package operating facilities in the U.S. The smaller of these facilities have vehicles and drivers stationed for the pickup of packages and facilities for the sorting, transfer and delivery of packages. The larger of these facilities also service our vehicles and equipment and employ specialized mechanical installations for the sorting and handling of packages.

We own or lease almost 600 facilities that support our international package operations and over 900 facilities that support our freight forwarding and logistics operations. Our freight forwarding and logistics operations maintain facilities with about 35 million square feet of floor space. We own and operate a logistics campus consisting of approximately 3.5 million square feet in Louisville, Kentucky.

UPS Freight operates 202 service centers with a total of 5.6 million square feet of floor space. UPS Freight owns 140 of these service centers, while the remainder are occupied under operating lease agreements. The main offices of UPS Freight are located in Richmond, Virginia and consist of about 240,000 square feet of office space.

Our aircraft are operated in a hub and spokes pattern in the U.S. Our principal air hub in the U.S., known as Worldport, is located in Louisville, KY. The Worldport facility consists of over 4.1 million square feet and the site includes approximately 596 acres. We are able to sort over 350,000 packages per hour in the Worldport facility. We also have regional air hubs in Hartford, CT; Ontario, CA; Philadelphia, PA; and Rockford, IL. These hubs house facilities for the sorting, transfer and delivery of packages. Our European air hub is located in Cologne, Germany, and we maintain Asia-Pacific air hubs in Shanghai, China; Pampanga, Philippines; Taipei, Taiwan; Hong Kong; and Singapore. Our regional air hub in Canada is located in Hamilton, Ontario, and our regional air hub for Latin America and the Caribbean is in Miami, FL.

In 2009, we completed the first phase of our Worldport expansion, which increased the sorting capacity of the facility by 15%. The final phase of the Worldport expansion will be completed in 2010, and will increase the sorting capacity to approximately 416,000 packages per hour. The expansion involves the addition of two aircraft load / unload wings to the hub building, followed by the installation of high-speed conveyor and computer control systems. The overall size of the Worldport facility will increase to 5.2 million square feet. The total cost of the expansion approximates \$1 billion.

Over the past several years, UPS has made a successful transition to become the first wholly-owned foreign express carrier in China. In 2008, we opened the UPS International Air Hub at Pudong International Airport, which was built on a parcel totaling 1 million square feet with a planned sorting capacity of 17,000 packages per hour. The new hub links all of China via Shanghai to UPS's international network with direct service to the Americas, Europe and Asia. It also connects points served in China by UPS through a dedicated service provided by Yangtze River Express, a Chinese all-cargo airline.

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In the fourth quarter of 2008, we began construction of a new intra-Asia air hub at Shenzhen International Airport in China, which became operational in February 2010. The Shenzhen facility replaces our current intra-Asia air hub at Clark Air Force Base in the Philippines, and will serve as our primary transit hub in Asia. The facility was built on a parcel of almost 1 million square feet, and has a sorting capacity of 18,000 packages per hour.

Our primary information technology operations are consolidated in a 435,000 square foot owned facility, the Ramapo Ridge facility, which is located on a 39-acre site in Mahwah, New Jersey. We also own a 175,000 square foot facility located on a 25-acre site in Alpharetta, Georgia, which serves as a backup to the main information technology operations facility in New Jersey. This facility provides production functions and backup capacity in the event that a power outage or other disaster incapacitates the main data center. It also helps us to meet our internal communication needs.

We believe that our facilities are adequate to support our current operations.

Fleet

Aircraft

The following table shows information about our aircraft fleet as of December 31, 2009:

| Description | Owned and Capital Leases | Short- term Leased or Chartered From Others | On Order | Under Option |
|----------------------------------|--------------------------------|--|-------------|-----------------|
| Operating: | | | | |
| Boeing 747-400F | 10 | — | 2 | — |
| Boeing 747-400BCF | 2 | — | — | — |
| Boeing 757-200 | 75 | — | — | — |
| Boeing 767-300 | 34 | — | 25 | — |
| Boeing MD-11 | 38 | — | — | — |
| Airbus A300-600 | 53 | — | — | — |
| Other | — | 298 | — | — |
| Total | 212 | 298 | 27 | — |
| Held for Sale / Disposal: | | | | |
| McDonnell-Douglas DC-8-71 | 19 | — | — | — |
| McDonnell-Douglas DC-8-73 | 25 | — | — | — |
| Boeing 747-100 | 7 | — | — | — |
| Boeing 747-200 | 4 | — | — | — |
| Total | 55 | — | — | — |

We maintain an inventory of spare engines and parts for each aircraft.

All of the aircraft we own meet Stage III federal noise regulations and can operate at airports that have aircraft noise restrictions. We became the first major airline to successfully operate a 100% Stage III fleet more than three years in advance of the date required by federal regulations.

During 2009, we took delivery of three Boeing 747-400F aircraft and two Boeing 767-300F aircraft. We have firm commitments to purchase 25 Boeing 767-300ER freighters to be delivered between 2010 and 2014, and two Boeing 747-400F aircraft scheduled for delivery during 2011. Also during 2009, we removed from service the remainder of our McDonnell-Douglas DC-8-71 and DC-8-73 aircraft fleets, as well as our Boeing 747-100 and 747-200 aircraft fleets.

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Vehicles

We operate a ground fleet of approximately 101,900 package cars, vans, tractors and motorcycles. Our ground support fleet consists of 31,900 pieces of equipment designed specifically to support our aircraft fleet, ranging from non-powered container dollies and racks to powered aircraft main deck loaders and cargo tractors. We also have 35,800 containers used to transport cargo in our aircraft.

Safety

We promote safety throughout our operations. Our Automotive Fleet Safety Program is built with the following components:

- *Selection.* Five out of every six drivers come from our part-time ranks. Therefore, many of our new drivers are familiar with our philosophies, policies, practices and training programs.
- *Training.* Training is the cornerstone of our Fleet Safety Program. Our approach starts with training the trainer. All trainers are certified to ensure that they have the skills and motivation to effectively train novice drivers. A new driver's employment includes extensive classroom and on-line training as well as on-road training, followed by three safety training rides integrated into his or her training cycle.
- *Responsibility.* Our operations managers are responsible for their drivers' safety records. We investigate every accident. If we determine that an accident could have been prevented, we retrain the driver.
- *Preventive Maintenance.* An integral part of our Fleet Safety Program is a comprehensive Preventive Maintenance Program. Our fleet is tracked by computer to ensure that each vehicle is serviced before a breakdown or accident is likely to occur.
- *Honor Plan.* A well-defined safe driver honor plan recognizes and rewards our drivers when they achieve success. We have over 4,000 drivers who have driven for 25 years or more without an avoidable accident.

Our workplace safety program is built upon a comprehensive health and safety process. The foundation of this process is our employee-management health and safety committees. The workplace safety process focuses on employee conditioning and safety-related habits. Our employee co-chaired health and safety committees complete comprehensive facility audits and injury analyses, and recommend facility and work process changes.

Item 3. *Legal Proceedings*

Refer to Note 8 "Legal Proceedings and Contingencies" in the audited consolidated financial statements included in Part II, Item 8 of this Form 10-K.

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

None

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock is not listed on a national securities exchange or traded in an organized over-the-counter market, but each share of our Class A common stock is convertible into one share of our Class B common stock.

The following is a summary of our Class B common stock price activity and dividend information for 2009 and 2008. Our Class B common stock is listed on the New York Stock Exchange under the symbol “UPS.”

| | <u>High</u> | <u>Low</u> | <u>Close</u> | <u>Dividends Declared</u> |
|----------------|-------------|------------|--------------|---------------------------|
| 2009: | | | | |
| First Quarter | \$56.37 | \$37.99 | \$49.22 | \$ 0.45 |
| Second Quarter | \$57.89 | \$46.41 | \$49.99 | \$ 0.45 |
| Third Quarter | \$59.61 | \$46.78 | \$56.47 | \$ 0.45 |
| Fourth Quarter | \$59.75 | \$53.17 | \$57.37 | \$ 0.45 |
| 2008: | | | | |
| First Quarter | \$73.95 | \$65.37 | \$73.02 | \$ 0.45 |
| Second Quarter | \$75.08 | \$59.30 | \$61.47 | \$ 0.45 |
| Third Quarter | \$70.00 | \$56.11 | \$62.89 | \$ 0.45 |
| Fourth Quarter | \$64.41 | \$43.60 | \$55.16 | \$ 0.45 |

As of January 29, 2010, there were 165,947 and 219,086 record holders of Class A and Class B common stock, respectively.

The policy of our Board of Directors is to declare dividends out of current earnings. The declaration of dividends is subject to the discretion of the Board of Directors and will depend on various factors, including our net income, financial condition, cash requirements, future prospects, and other relevant factors.

On February 4, 2010, our Board declared a dividend of \$0.47 per share, which is payable on March 3, 2010 to shareowners of record on February 16, 2010. This represents an increase from the previous \$0.45 quarterly dividend in 2009.

In January 2008, the Board of Directors approved an increase in our share repurchase authorization to \$10.0 billion. Share repurchases may take the form of accelerated share repurchases, open market purchases, or other such methods as we deem appropriate. The timing of our share repurchases will depend upon market conditions. As a result of the uncertain economic environment, we have slowed our share repurchase activity. We currently intend to repurchase shares in 2010 at a rate that should approximately offset the dilution from our stock compensation programs. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program.

A summary of repurchases of our Class A and Class B common stock during the fourth quarter of 2009 is as follows (in millions, except per share amounts):

| | <u>Total Number of Shares Purchased(1)</u> | <u>Average Price Paid Per Share(1)</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Program</u> | <u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (as of month-end)</u> |
|-----------------------------------|--|--|---|---|
| October 1—October 31, 2009 | 0.9 | \$ 52.78 | 0.8 | \$ 6,136 |
| November 1—November 30, 2009 | 1.3 | 56.45 | 1.0 | 6,080 |
| December 1—December 31, 2009 | 1.3 | 58.28 | 1.3 | \$ 6,003 |
| Total October 1—December 31, 2009 | <u>3.5</u> | <u>\$ 56.31</u> | <u>3.1</u> | |

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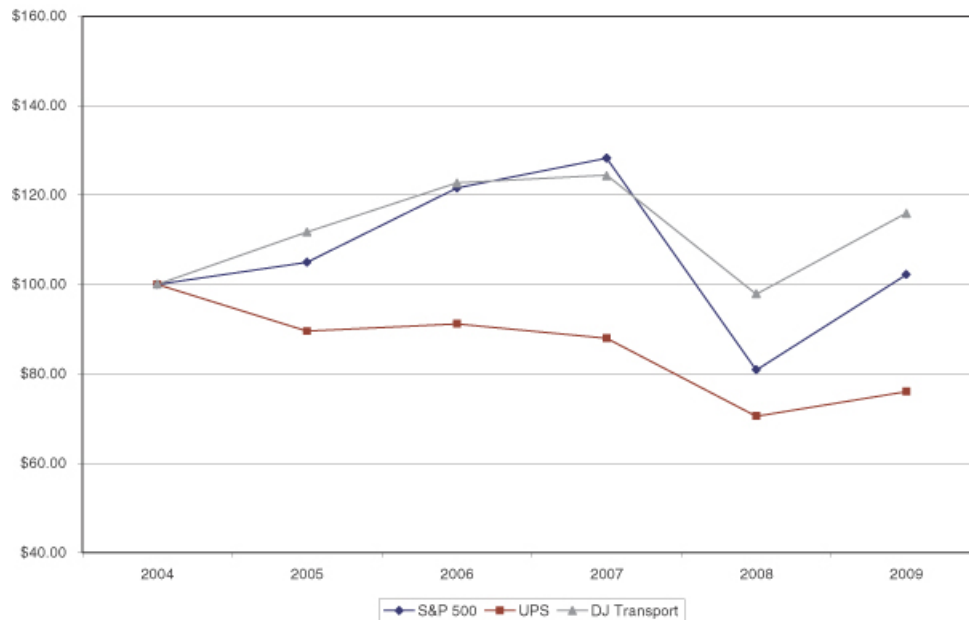
- (1) Includes shares repurchased through our publicly announced share repurchase program and shares tendered to pay the exercise price and tax withholding on employee stock options.

Shareowner Return Performance Graph

The following Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates such information by reference into such filing.

The following graph shows a five-year comparison of cumulative total shareowners' returns for our class B common stock, the S&P 500 Index, and the Dow Jones Transportation Average. The comparison of the total cumulative return on investment, which is the change in the quarterly stock price plus reinvested dividends for each of the quarterly periods, assumes that \$100 was invested on December 31, 2004 in the S&P 500 Index, the Dow Jones Transportation Average, and our class B common stock.

Comparison of Five Year Cumulative Total Return



| | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 |
|----------------------------------|-----------|-----------|-----------|-----------|----------|-----------|
| United Parcel Service, Inc. | \$ 100.00 | \$ 89.49 | \$ 91.06 | \$ 87.88 | \$ 70.48 | \$ 75.95 |
| S&P 500 Index | \$ 100.00 | \$ 104.91 | \$ 121.48 | \$ 128.15 | \$ 80.74 | \$ 102.11 |
| Dow Jones Transportation Average | \$ 100.00 | \$ 111.65 | \$ 122.61 | \$ 124.35 | \$ 97.72 | \$ 115.88 |

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Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the five years in the period ended December 31, 2009 (amounts in millions, except per share amounts). This financial data should be read together with our consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other financial data appearing elsewhere in this report.

| | Years Ended December 31, | | | | |
|---------------------------------------|--------------------------|-----------------|---------------|-----------------|-----------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Selected Income Statement Data | | | | | |
| Revenue: | | | | | |
| U.S. Domestic Package | \$28,158 | \$31,278 | \$30,985 | \$30,456 | \$28,610 |
| International Package | 9,699 | 11,293 | 10,281 | 9,089 | 7,977 |
| Supply Chain & Freight | 7,440 | 8,915 | 8,426 | 8,002 | 5,994 |
| Total revenue | 45,297 | 51,486 | 49,692 | 47,547 | 42,581 |
| Operating expenses: | | | | | |
| Compensation and benefits | 25,640 | 26,063 | 31,745 | 24,421 | 22,517 |
| Other | 15,856 | 20,041 | 17,369 | 16,491 | 13,921 |
| Total operating expenses | 41,496 | 46,104 | 49,114 | 40,912 | 36,438 |
| Operating profit (loss): | | | | | |
| U.S. Domestic Package | 2,138 | 3,907 | (1,531) | 4,923 | 4,493 |
| International Package | 1,367 | 1,580 | 1,831 | 1,710 | 1,494 |
| Supply Chain and Freight | 296 | (105) | 278 | 2 | 156 |
| Total operating profit | 3,801 | 5,382 | 578 | 6,635 | 6,143 |
| Other income (expense): | | | | | |
| Investment income | 10 | 75 | 99 | 86 | 104 |
| Interest expense | (445) | (442) | (246) | (211) | (172) |
| Income before income taxes | 3,366 | 5,015 | 431 | 6,510 | 6,075 |
| Income tax expense | (1,214) | (2,012) | (49) | (2,308) | (2,205) |
| Net income | <u>\$ 2,152</u> | <u>\$ 3,003</u> | <u>\$ 382</u> | <u>\$ 4,202</u> | <u>\$ 3,870</u> |
| Per share amounts: | | | | | |
| Basic earnings per share | \$ 2.16 | \$ 2.96 | \$ 0.36 | \$ 3.87 | \$ 3.48 |
| Diluted earnings per share | \$ 2.14 | \$ 2.94 | \$ 0.36 | \$ 3.86 | \$ 3.47 |
| Dividends declared per share | \$ 1.80 | \$ 1.80 | \$ 1.68 | \$ 1.52 | \$ 1.32 |
| Weighted average shares outstanding: | | | | | |
| Basic | 998 | 1,016 | 1,057 | 1,085 | 1,113 |
| Diluted | 1,004 | 1,022 | 1,063 | 1,089 | 1,116 |
| As of December 31, | | | | | |
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Selected Balance Sheet Data | | | | | |
| Cash and marketable securities | \$ 2,100 | \$ 1,049 | \$ 2,604 | \$ 1,983 | \$ 3,041 |
| Total assets | 31,883 | 31,879 | 39,042 | 33,210 | 34,947 |
| Long-term debt | 8,668 | 7,797 | 7,506 | 3,133 | 3,159 |
| Shareowners' equity | 7,696 | 6,780 | 12,183 | 15,482 | 16,884 |

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our U.S. Domestic Package, International Package, and Supply Chain & Freight segments were all negatively affected by the deteriorating worldwide economic situation in 2008 and 2009. Declines in world trade, U.S. industrial production and retail sales particularly affected our package delivery, LTL and forwarding operations. Our consolidated results are presented in the table below:

| | Year Ended December 31, | | | % Change | |
|---|-------------------------|----------|----------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Revenue (in millions) | \$45,297 | \$51,486 | \$49,692 | (12.0)% | 3.6% |
| Operating Expenses (in millions) | 41,496 | 46,104 | 49,114 | (10.0)% | (6.1)% |
| Operating Profit (in millions) | \$ 3,801 | \$ 5,382 | \$ 578 | (29.4)% | N/A |
| Operating Margin | 8.4% | 10.5% | 1.2% | | |
| Average Daily Package Volume (in thousands) | 15,064 | 15,539 | 15,750 | (3.1)% | (1.3)% |
| Average Revenue Per Piece | \$ 9.83 | \$ 10.70 | \$ 10.24 | (8.1)% | 4.5% |
| Net Income (in millions) | \$ 2,152 | \$ 3,003 | \$ 382 | (28.3)% | N/A |
| Basic Earnings Per Share | \$ 2.16 | \$ 2.96 | \$ 0.36 | (27.0)% | N/A |
| Diluted Earnings Per Share | \$ 2.14 | \$ 2.94 | \$ 0.36 | (27.2)% | N/A |

Volume and revenue trends began to improve in the latter half of 2009. Additionally, cost containment initiatives and better network efficiencies resulted in improving operating profit trends for our small package operations.

Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following items (amounts in millions):

| | Year Ended December 31, | | |
|---|-------------------------|------|---------|
| | 2009 | 2008 | 2007 |
| Operating Expenses: | | | |
| Aircraft Impairment Charges | \$181 | \$— | \$ 221 |
| Goodwill Impairment Charge | — | 548 | — |
| Intangible Impairment Charge | — | 27 | — |
| SVSO Charge | — | — | 68 |
| Pension Plan Withdrawal Charge | — | — | 6,100 |
| France Restructuring Charges | — | — | 46 |
| Interest Expense: | | | |
| Currency Remeasurement Charge | 77 | — | — |
| Income Tax Expense (Benefit) from the Items Above | (94) | — | (2,448) |

Aircraft Impairment Charges

In the first quarter of 2009, we completed an impairment assessment of our McDonnell-Douglas DC-8 aircraft fleet, and recorded an impairment charge of \$181 million, which affected our U.S. Domestic Package segment. In the first quarter of 2007, we completed an impairment assessment of our Boeing 727 and 747 aircraft fleets, and recognized an impairment charge of \$221 million, of which \$159 million impacted our U.S. Domestic Package segment and \$62 million impacted our International Package segment. These charges, as well as our accounting policies pertaining to long-lived assets, are discussed further in "Critical Accounting Policies and Estimates".

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Goodwill Impairment Charge

In the fourth quarter of 2008, we completed our annual goodwill impairment testing and determined that our UPS Freight reporting unit, which was formed through the acquisition of Overnite Corporation in 2005, had a goodwill impairment of \$548 million. This charge, as well as our accounting policies pertaining to goodwill, is discussed further in “Critical Accounting Policies and Estimates”.

Intangible Impairment Charge

In the fourth quarter of 2008, we completed an impairment assessment on a customer list intangible asset related to our domestic package entity in the United Kingdom. We recorded a \$27 million charge related to this assessment, which is further discussed in “Critical Accounting Policies and Estimates”.

Special Voluntary Separation Opportunity (“SVSO”) Charge

In December 2006, we offered the SVSO to approximately 640 employees who worked in non-operating functions. This program was established to improve the efficiency of non-operating processes by eliminating duplication and sharing expertise across the company. The SVSO ended in February 2007, and 195, or 30% of eligible employees, accepted the offer. As a result, we recorded a charge to expense of approximately \$68 million in the first quarter of 2007, to reflect the cash payout and the acceleration of stock compensation and certain retiree healthcare benefits under the SVSO program.

Pension Plan Withdrawal Charge

Our national master agreement with the Teamsters allowed us, upon ratification, to withdraw employees from the Central States Pension Fund and to establish a jointly trusted single-employer plan for this group (“UPS IBT Pension Plan”). Upon ratification of the contract in December 2007 and our withdrawal from the Central States Pension Fund, we recorded a \$6.1 billion charge to establish our withdrawal liability, and made a December 2007 payment in the same amount to the Central States Pension Fund to satisfy this liability.

The withdrawal liability was based on computations performed by independent actuaries employed by the Central States Pension Fund, in accordance with the plan document and the applicable requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”). We negotiated our withdrawal from the Central States Pension Fund as part of our national master agreement with the Teamsters, which included other modifications to hourly wage rates, healthcare and pension benefits, and work rules. We sought to negotiate our withdrawal from the Central States Pension Fund, as we believed the fund would likely continue to have funding challenges, and would present a risk to UPS of having to face higher future contribution requirements and a risk to the security of the pension benefits of those UPS employees who participated in the fund. We believe that we benefited financially from the ability to achieve a ratified national master agreement seven months before the expiration of the previous agreement, as well as by gaining better control over the future cost and funding of pension benefits by limiting our obligations solely to UPS Teamster employees through the new UPS IBT Pension Plan. As the UPS IBT Pension Plan matures, we believe that it will become cost beneficial from a cash flow and earnings standpoint compared with having remained in the Central States Pension Fund.

France Restructuring Charge

In the third quarter of 2007, we initiated a restructuring plan for our forwarding and logistics operations in France. The objective of this restructuring plan was to reduce our forwarding and logistics cost structure and focus on profitable revenue growth in the Europe region. The restructuring principally consisted of an employment reduction program, which was ratified by our company’s trade union representatives in France in July 2007. Employees participating in this program were entitled to severance benefits, including certain bonuses for employees participating in the voluntary termination phase. These severance benefits were formula-driven and were in accordance with French statutory laws as well as the applicable collective bargaining agreements. We recorded a restructuring charge of \$46 million in 2007 related to this program.

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Currency Remeasurement Charge

During the second quarter of 2009, we incurred a \$77 million non-cash, pre-tax currency remeasurement charge on certain foreign currency denominated obligations.

Results of Operations—Segment Review

The results and discussions that follow are reflective of how our executive management monitors the performance of our reporting segments. We supplement the reporting of our financial information determined under generally accepted accounting principles (“GAAP”) with certain non-GAAP financial measures, including operating profit, operating margin, pre-tax income, net income and earnings per share adjusted for the non-comparable items discussed previously. We believe that these adjusted measures provide meaningful information to assist investors and analysts in understanding our financial results and assessing our prospects for future performance. We believe these adjusted financial measures are important indicators of our recurring results of operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and provide a better baseline for analyzing trends in our underlying businesses.

U.S. Domestic Package Operations

| | Year Ended December 31, | | | % Change | |
|--|-------------------------|----------|------------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Revenue (in millions): | | | | | |
| Next Day Air | \$ 5,456 | \$ 6,559 | \$ 6,738 | (16.8)% | (2.7)% |
| Deferred | 2,859 | 3,325 | 3,359 | (14.0) | (1.0) |
| Ground | 19,843 | 21,394 | 20,888 | (7.2) | 2.4 |
| Total Revenue | \$28,158 | \$31,278 | \$30,985 | (10.0) | 0.9 |
| Average Daily Package Volume (in thousands): | | | | | |
| Next Day Air | 1,198 | 1,186 | 1,277 | 1.0% | (7.1)% |
| Deferred | 957 | 947 | 974 | 1.1 | (2.8) |
| Ground | 10,895 | 11,443 | 11,606 | (4.8) | (1.4) |
| Total Avg. Daily Package Volume | 13,050 | 13,576 | 13,857 | (3.9) | (2.0) |
| Average Revenue Per Piece: | | | | | |
| Next Day Air | \$ 18.00 | \$ 21.95 | \$ 20.94 | (18.0)% | 4.8% |
| Deferred | 11.81 | 13.93 | 13.69 | (15.2) | 1.8 |
| Ground | 7.20 | 7.42 | 7.14 | (3.0) | 3.9 |
| Total Avg. Revenue Per Piece | \$ 8.53 | \$ 9.14 | \$ 8.87 | (6.7) | 3.0 |
| Operating Profit (in millions): | | | | | |
| Operating Profit | \$ 2,138 | \$ 3,907 | \$ (1,531) | (45.3)% | N/A |
| Impact of Pension Plan Withdrawal | — | — | 6,100 | | |
| Impact of Aircraft Impairment Charges | 181 | — | 159 | | |
| Impact of SVSO Charge | — | — | 53 | | |
| Adjusted Operating Profit | \$ 2,319 | \$ 3,907 | \$ 4,781 | (40.6)% | (18.3)% |
| Operating Margin | 7.6% | 12.5% | (4.9)% | | |
| Adjusted Operating Margin | 8.2% | 12.5% | 15.4% | | |
| Operating Days in Period | 253 | 252 | 252 | | |

Volume:

2009 compared to 2008

In 2009, our overall volume declined as decreases in industrial production and retail sales reduced overall demand in the U.S. small package market. Our air product volume was stronger than our ground volume, as our air volume benefited from market share gains resulting from the recent departure of a competitor in the U.S. market, as well as improving economic trends in the latter half of the year. The growth in air volume was strongest in our less time-sensitive products, such as Next Day Air Saver and Three Day Select.

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Volume trends improved in the fourth quarter, largely as a result of overall economic improvements, as average daily volume for Next Day Air and Deferred products increased 2.8% and 4.3%, respectively, over 2008 levels. Ground volume demonstrated an improving trend over the previous quarters despite a 2.9% decline in the fourth quarter compared with 2008.

2008 compared to 2007

U.S. Domestic ground and air volume declined primarily as a result of the recession in the U.S. economy. Relatively high energy costs during most of 2008, combined with the deepening recession and weak output within the industrial production and retail sales sectors, adversely affected the small package market, which placed additional pressure on our domestic package volume. These declining volume trends worsened through the year with Next Day Air, Deferred, and Ground volume declining 8.6%, 3.5%, and 2.1%, respectively, during the fourth quarter.

Revenue Per Piece

2009 compared to 2008

Revenue per piece for our air products was negatively affected in 2009 by a decline in the fuel surcharge rate for air products. Additionally, the revenue per piece decline for our air products was impacted by lower average package weights and a mix shift toward lower yielding products, reflecting the economic recession in the United States. The decline in revenue per piece for our ground products was primarily due to a decrease in the fuel surcharge rate, but was also impacted by lower average package weights.

The factors decreasing revenue per piece for our ground and air products were partially offset by an increase in base rates that took effect on January 5, 2009. We increased the base rates 6.9% on UPS Next Day Air, UPS 2nd Day Air, and UPS 3 Day Select, and 5.9% on UPS Ground. Other pricing changes included an increase in the residential surcharge, and an increase in the delivery area surcharge on both residential and commercial services to certain ZIP codes. These rate changes are customary and occur on an annual basis.

The trend towards lower package weights began to stabilize in the fourth quarter, however product mix within our air and ground services continued to adversely impact revenue per piece, as the lower-yielding products within those categories represented a larger share of our overall package volume.

2008 compared to 2007

Revenue per piece for our air products increased primarily due to a base rate increase and a higher fuel surcharge rate for air products. This increase was adversely impacted by lower average package weights, a mix shift toward lower yielding products, and hedging losses. Revenue per piece for our ground products increased primarily due to the base rate increase, as well as a higher fuel surcharge rate.

A base rate increase became effective on December 31, 2007, which increased the base rates 6.9% on UPS Next Day Air, UPS 2nd Day Air, and UPS 3 Day Select, and 4.9% on UPS Ground. Other pricing changes included an increase in the residential surcharge, and an increase in the delivery area surcharge on both residential and commercial services to certain ZIP codes.

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Fuel Surcharges

UPS applies a fuel surcharge on our domestic air and ground services. The air fuel surcharge is based on the U.S. Energy Department's Gulf Coast spot price for a gallon of kerosene-type jet fuel, while the ground fuel surcharge is based on the U.S. Energy Department's On-Highway Diesel Fuel Price. Based on published rates, the average fuel surcharge for domestic air and ground products was as follows:

| | Year Ended December 31, | | | Change | |
|-------------------------|-------------------------|-------|-------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Next Day Air / Deferred | 4.0% | 25.2% | 12.2% | (21.2)% | 13.0% |
| Ground | 3.3% | 8.0% | 4.3% | (4.7) | 3.7% |

On January 5, 2009 and December 31, 2007, we modified the fuel surcharge on air services by reducing the index used to determine the fuel surcharge by 2%. The 2009 decrease and 2008 increase in the air and ground fuel surcharges are due to the significant variations in jet and diesel fuel prices (in addition to the reduction in the index on the air surcharge). Total domestic fuel surcharge revenue, net of the impact of hedging, decreased by \$1.924 billion in 2009, primarily due to the lower fuel surcharge rates discussed above, as well as the decline in volume for our air and ground products. In 2008, fuel surcharge revenue, net of the impact of hedging losses, increased by \$1.119 billion, primarily due to the higher fuel surcharge rates but partially offset by the decline in volume for our air and ground products.

Operating Profit and Margin

2009 compared to 2008

Operating profit in 2009 was adversely impacted by the U.S. economic recession, decreased network efficiencies due to the decline in volume, changes in package characteristics, and a shift in product mix away from our premium services. Operating profit was also negatively impacted as we incurred a larger decline in fuel surcharge revenue compared with the decline in fuel expense. We adjusted our air and ground networks to better match these lower volume levels, as well as reduced labor hours and employee headcount, resulting in cost savings. Operating profit trends improved during the fourth quarter of 2009 due to both improving volume trends and the positive impact of continued cost and production efficiencies, which combined to improve the operating margin to 10.1% for the quarter.

2008 compared to 2007

Operating profit in 2008 was adversely impacted by the U.S. recession, lower asset utilization due to the decline in volume, lower average package weights, and a shift in product mix away from our premium services, partially offset by the increase in the fuel surcharge relative to the cost of fuel. Because fuel costs decreased rapidly in the latter half of 2008, operating profit benefited from the approximate two month time lag between the fuel price changes and when the monthly surcharge rates are applied to package shipments. Because of this time lag, fuel positively impacted the change in operating profit during 2008, which is the opposite effect the company experienced in 2007, when fuel costs rose much faster than the fuel surcharge rate and operating profit was adversely impacted.

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International Package Operations

| | Year Ended December 31, | | | % Change | |
|---|-------------------------|----------|----------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Revenue (in millions): | | | | | |
| Domestic | \$2,111 | \$ 2,344 | \$ 2,177 | (9.9)% | 7.7% |
| Export | 7,176 | 8,294 | 7,488 | (13.5) | 10.8 |
| Cargo | 412 | 655 | 616 | (37.1) | 6.3 |
| Total Revenue | \$9,699 | \$11,293 | \$10,281 | (14.1) | 9.8 |
| Average Daily Package Volume (in thousands): | | | | | |
| Domestic | 1,218 | 1,150 | 1,132 | 5.9% | 1.6% |
| Export | 796 | 813 | 761 | (2.1) | 6.8 |
| Total Avg. Daily Package Volume | 2,014 | 1,963 | 1,893 | 2.6 | 3.7 |
| Average Revenue Per Piece: | | | | | |
| Domestic | \$ 6.85 | \$ 8.09 | \$ 7.63 | (15.3)% | 6.0% |
| Export | 35.63 | 40.48 | 39.05 | (12.0) | 3.7 |
| Total Avg. Revenue Per Piece | \$18.23 | \$ 21.50 | \$ 20.26 | (15.2) | 6.1 |
| Operating Profit (in millions): | | | | | |
| Operating Profit | \$1,367 | \$ 1,580 | \$ 1,831 | (13.5)% | (13.7)% |
| Impact of Intangible Impairment Charge | — | 27 | — | | |
| Impact of Aircraft Impairment Charge | — | — | 62 | | |
| Impact of SVSO Charge | — | — | 7 | | |
| Adjusted Operating Profit | \$1,367 | \$ 1,607 | \$ 1,900 | (14.9)% | (15.4)% |
| Operating Margin | 14.1% | 14.0% | 17.8% | | |
| Adjusted Operating Margin | 14.1% | 14.2% | 18.5% | | |
| Operating Days in Period | 253 | 252 | 252 | | |
| Currency Translation Benefit / (Cost)—(in millions)*: | | | | | |
| Revenue | \$ (376) | \$ 324 | | | |
| Operating Profit | (23) | 136 | | | |

* Net of currency hedging; amount represents the change compared to the prior year.

Volume

2009 compared to 2008

Export volume declined, primarily due to weakness in the Asia, Europe and U.S. export lanes, as the worldwide economic recession and slowdown in world trade more than offset market share gains. Transborder export volume was relatively stronger within the European Union and North America trade areas, while volume in the longer export trade lanes was comparatively weaker. Non-U.S. domestic volume increased for the year, largely due to the acquisition of Unsped Paket Servisi San ve Ticaret A.S. ("Unsped") in Turkey, as well as volume growth in Germany, France, Poland and Canada.

By the fourth quarter of 2009, export volume began to improve as global trade and economic activity accelerated. The Asia and U.S. export lanes demonstrated significant improvement, as those trade areas suffered a relatively greater decline in the early part of the year. Domestic volume continued to benefit from the Unsped acquisition, as well as market share gains and general economic improvement in Europe and the Americas. Volume was relatively stronger in the small and middle market customer segments.

2008 compared to 2007

Export volume increased in each region throughout the world in 2008, however volume began to slow in the latter half of 2008 due to difficult worldwide economic conditions. Intra-regional volume continued to experience solid growth, especially in Europe. Asian export volume continued to benefit from our geographic

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service expansion, including the connection of several cities to our new air hub in Shanghai, China. Export volume growth was negatively impacted by declines in shipments to the U.S. from other regions in the world, due to the slowing U.S. economy. Export volume trends weakened in the latter half of the year, due to the severe global economic slowdown, with fourth quarter export volume increasing at a much slower rate than what has been experienced over the last several years. Non-U.S. domestic volume increased, and was impacted by volume growth in our domestic businesses in the Euro zone and Canada, but negatively affected by the weak economic conditions in the United Kingdom.

Revenue Per Piece

2009 compared to 2008

Export revenue per piece decreased, largely due to the adverse impact of currency exchange rates, lower fuel surcharge rates, and product mix, but was partially offset by base rate increases that took effect in the first quarter of 2009. Currency-adjusted export revenue per piece declined 10.1% for 2009. Export revenue per piece was impacted by the lower revenue per piece transborder products comprising a relatively larger portion of our total volume, as we experienced larger volume declines on some of our longer export trade lanes with higher yields. Domestic revenue per piece decreased, which was primarily caused by adverse currency exchange rate fluctuations (currency-adjusted domestic revenue per piece declined 7.2% for the year), as well as the impact of lower fuel surcharge rates. Total average revenue per piece decreased 12.1% for the year on a currency-adjusted basis.

On January 5, 2009, we increased the base rates 6.9% for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service). Rate changes for shipments originating outside the U.S. were made throughout the year and varied by geographic market.

Export revenue per piece showed a significant improvement in the fourth quarter, as higher-yielding trade lanes, such as Asia to Europe and Asia to North America, comprised a larger proportion of our total export volume. Revenue per piece in the fourth quarter benefited from a weaker U.S. Dollar, but continued to be adversely impacted by lower fuel surcharge rates.

2008 compared to 2007

Export revenue per piece increased, largely due to base rate increases, higher fuel surcharge rates, and favorable currency exchange rates, but was adversely impacted by relatively higher growth in lower revenue per piece transborder products and a shift away from our premium services. Domestic revenue per piece increased, and was affected by rate increases, higher fuel surcharge rates, and favorable exchange rates. Total average revenue per piece increased 2.7% on a currency-adjusted basis.

On December 31, 2007, we increased the base rates 6.9% for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service).

Total revenue per piece declined 8.2% in the fourth quarter of 2008, primarily due to the strengthening of the U.S. Dollar (currency-adjusted revenue per piece declined 3.0%), but was also impacted by an acceleration in the shift away from our premium services and lower package weights.

Fuel Surcharges

On January 5, 2009 and December 31, 2007, we modified the fuel surcharge on certain U.S.-related international air services by reducing the index used to determine the fuel surcharge by 2%. The fuel surcharges for products originating outside the United States continue to be indexed to fuel prices in our different international regions, depending upon where the shipment takes place. Total international fuel surcharge revenue

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decreased by \$788 million in 2009, due to lower fuel surcharge rates caused by decreased fuel prices as well as a decrease in international air volume. Fuel surcharge revenue increased by \$586 million in 2008, due to higher fuel surcharge rates caused by increased fuel prices, as well as an increase in international air volume.

Operating Profit and Margin

2009 compared to 2008

The decline in operating profit for the year was caused primarily by a shift in product mix away from our premium services, and volume declines in some of the longer export trade lanes. Operating profit was also negatively impacted as we incurred a larger decline in fuel surcharge revenue compared with the decline in fuel expense. To reduce costs, we adjusted our air network and reduced block hours and flight segments in certain international regions. The volume trends began to improve later in the year, and in the fourth quarter operating profit increased 19% (excluding an impairment charge in 2008), as the impact of cost initiatives and network improvements drove an improvement in the operating margin to 16.7%.

2008 compared to 2007

The decline in operating profit and operating margin were affected by reduced asset utilization resulting from changes in economic conditions and trade flows, such as the reduced import volume into the United States. Operating profit and margin were also negatively affected by a shift in product mix away from our premium services, as well as expenses associated with integration activities in our delivery network.

Because fuel costs decreased rapidly in the latter half of 2008, operating profit benefited from the approximate two month time lag between the fuel price changes and when the monthly surcharge rates are applied to package shipments. As a result of this time lag, fuel positively impacted the change in operating profit during 2008, which is the opposite effect the company experienced in 2007, when fuel costs rose much faster than the fuel surcharge rate and operating profit was adversely impacted.

Supply Chain & Freight Operations

| | Year Ended December 31, | | | % Change | |
|--|-------------------------|----------|----------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Revenue (in millions): | | | | | |
| Forwarding and Logistics | \$ 5,080 | \$ 6,293 | \$ 5,911 | (19.3)% | 6.5% |
| Freight | 1,943 | 2,191 | 2,108 | (11.3) | 3.9 |
| Other | 417 | 431 | 407 | (3.2) | 5.9 |
| Total Revenue | \$ 7,440 | \$ 8,915 | \$ 8,426 | (16.5) | 5.8 |
| Freight LTL Statistics: | | | | | |
| Revenue (in millions) | \$ 1,807 | \$ 2,062 | \$ 2,013 | (12.4)% | 2.4% |
| Revenue Per Hundredweight | \$ 17.69 | \$ 18.68 | \$ 17.41 | (5.3) | 7.3 |
| Shipments (in thousands) | 9,880 | 10,036 | 10,481 | (1.6) | (4.2) |
| Shipments Per Day (in thousands) | 39.1 | 39.5 | 41.4 | (1.0) | (4.6) |
| Gross Weight Hauled (in millions of lbs) | 10,211 | 11,037 | 11,560 | (7.5) | (4.5) |
| Weight Per Shipment (in lbs) | 1,033 | 1,100 | 1,103 | (6.1) | (0.3) |
| Operating Days in Period | 253 | 254 | 253 | | |
| Operating Profit (in millions): | | | | | |
| Operating Profit | \$ 296 | \$ (105) | \$ 278 | N/A | N/A |
| Impact of Goodwill Impairment Charge | — | 548 | — | | |
| Impact of SVSO Charge | — | — | 8 | | |
| Impact of France Restructuring Charge | — | — | 46 | | |
| Adjusted Operating Profit | \$ 296 | \$ 443 | \$ 332 | (33.2)% | 33.4% |
| Operating Margin | 4.0% | (1.2)% | 3.3% | | |
| Adjusted Operating Margin | 4.0% | 5.0% | 3.9% | | |
| Currency Translation Benefit / (Cost)—(in millions)*: | | | | | |
| Revenue | \$ (52) | \$ 166 | | | |
| Operating Profit | (15) | 12 | | | |

* Net of currency hedging; amount represents the change compared to the prior year.

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Revenue

2009 compared to 2008

Forwarding and logistics revenue decreased for the year, and was caused primarily by weakness in demand for freight forwarding due to global economic weakness and declines in international trade. Forwarding revenue declined in all major transportation modes, including domestic and international air freight and ocean freight, and was impacted by lower volumes, lower fuel surcharges, and lower security and other accessorial charges. Logistics distribution and post-sales service revenue also declined, primarily resulting from the weak global economy, however mail services revenue increased for the year.

Freight revenue declined, primarily due to lower fuel surcharge rates and a decline in average daily LTL shipments. Total LTL weight per shipment declined for the year, reflecting the weak LTL market and the ongoing economic recession in the United States in 2009. Average LTL shipments per day also declined, as market share gains were more than offset by the impact of the weak economy. LTL revenue per hundredweight decreased, primarily as a result of the lower fuel surcharge rates, as total fuel surcharge revenue declined \$188 million for the year primarily resulting from lower diesel fuel prices. However, this decline was partially offset by an increase in base prices that took effect on January 5, 2009, as UPS Freight increased minimum charge, LTL and TL rates an average of 5.9%, covering non-contractual shipments in the United States and Canada.

The other businesses within Supply Chain & Freight, which include our retail franchising business and our financial business, experienced a decline in revenue, primarily caused by lower interest rates and decreased loan volume in our financial business.

Revenue trends for our forwarding, logistics, and LTL products improved in the fourth quarter of 2009, largely resulting from favorable comparisons with the prior year. The change in revenue for our forwarding and logistics businesses benefited from the weaker U.S. Dollar during the quarter, while revenue in the forwarding and LTL units continued to be adversely impacted by lower fuel surcharge revenue.

2008 compared to 2007

Forwarding and logistics revenue increased, primarily due to growth in international air freight, North American air freight, distribution services and mail services. Revenue growth in this business was affected by fuel and security surcharges, expanded air freight service offerings, overall market growth and improved customer retention rates. Growth was negatively impacted by weakness in the ocean freight business.

Freight increased revenue for the year, as a result of improved yields and higher fuel surcharge rates, but partially offset by a decline in average daily LTL shipments. Average LTL shipments per day decreased, reflecting the weak LTL market in the United States in 2008 as compared with 2007. However, LTL revenue per hundredweight increased, due to an increase in base rates in 2008 and an increase in fuel surcharge revenue as a result of higher diesel fuel prices. On February 4, 2008, UPS Freight increased minimum charge, LTL and TL rates by an average of 5.4% covering non-contractual shipments in the United States and Canada.

The other businesses within Supply Chain & Freight increased revenue, largely due to our contract to provide domestic air transportation services for the U.S. Postal Service.

Revenue declined by \$144 million in the fourth quarter of 2008, as difficult worldwide economic conditions, slowing world trade, and unfavorable currency exchange rate movements negatively impacted the forwarding and logistics businesses. The strengthening U.S. Dollar resulted in a \$58 million negative impact to the change in revenue in the fourth quarter.

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Operating Profit and Margin

2009 compared to 2008

The lower operating profit in the forwarding unit was impacted by the weak global demand for forwarding services, as well as capacity reductions by outside ocean and air freight carriers. During the latter half of 2009 and particularly in the fourth quarter, capacity constraints led to rapidly escalating rates on air freight which could not be passed on to customers, resulting in a negative impact to operating profit and margin. The operating profit for our logistics unit declined slightly, and was impacted by the loss incurred on the sale of some non-core European logistics operations. However, the operating margin in this business remained stable, as costs were reduced commensurate with the decline in revenues.

Our UPS Freight unit reported improved profitability for 2009, due to a reduction in vacation accruals resulting from modifications in vacation policies and changes in the workforce coverage of our individual plans. Excluding this reduction in vacation liabilities, the UPS Freight unit reported a small operating loss due to the economic recession and difficult LTL market in the United States.

The combined operating income for all of our other businesses in this segment increased during the year. The increase was primarily driven by a gain on sale of substantially all of our international Mail Boxes Etc operations during the second quarter.

2008 compared to 2007

Operating profit improved in the forwarding and logistics businesses, primarily resulting from revenue management initiatives and a focus on asset utilization. Operating profit was lower at UPS Freight during the year, largely as a result of the slowing LTL market in the United States. The overall segment operating margin improved, excluding the goodwill impairment charge, due to the improved margins in the forwarding and logistics businesses.

Operating Expenses

| | Year Ended December 31, | | | % Change | |
|--|-------------------------|----------|----------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Operating Expenses (in millions): | | | | | |
| Compensation and Benefits | \$25,640 | \$26,063 | \$31,745 | (1.6)% | (17.9)% |
| Impact of Pension Plan Withdrawal Charge | — | — | (6,100) | | |
| Impact of SVSO Charge | — | — | (68) | | |
| Impact of France Restructuring Charge | — | — | (46) | | |
| Adjusted Compensation and Benefits | 25,640 | 26,063 | 25,531 | (1.6)% | 2.1% |
| Repairs and Maintenance | 1,075 | 1,194 | 1,157 | (10.0)% | 3.2% |
| Depreciation and Amortization | 1,747 | 1,814 | 1,745 | (3.7)% | 4.0% |
| Purchased Transportation | 5,379 | 6,550 | 5,902 | (17.9)% | 11.0% |
| Fuel | 2,365 | 4,134 | 2,974 | (42.8)% | 39.0% |
| Other Occupancy | 985 | 1,027 | 958 | (4.1)% | 7.2% |
| Other Expenses | 4,305 | 5,322 | 4,633 | (19.1)% | 14.9% |
| Impact of Aircraft Impairment Charges | (181) | — | (221) | | |
| Impact of Goodwill and Intangible Impairment Charges | — | (575) | — | | |
| Adjusted Other Expenses | 4,124 | 4,747 | 4,412 | (13.1)% | 7.6% |
| Total Operating Expenses | \$41,496 | \$46,104 | \$49,114 | (10.0)% | (6.1)% |
| Adjusted Total Operating Expenses | 41,315 | 45,529 | 42,679 | (9.3)% | 6.7% |
| Currency Translation (Benefit) Cost | \$ (390) | \$ 342 | | | |

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Compensation and Benefits

The decrease in compensation and benefits expense during 2009 compared with 2008 was impacted by several items. A large component of this decrease was related to employee payroll costs, as union labor hours declined as a result of lower U.S. Domestic Package volume, and management payroll declined as a result of a reduction in the total number of management employees through attrition combined with a wage freeze. Benefits expense increased due to higher employee health and welfare program costs, which were impacted by higher union contribution rates, and increased pension expense. Pension expense increases resulted from higher union contribution rates for multi-employer pension plans, combined with increased interest costs, a decrease in our expected return on plan assets and the amortization of actuarial losses for company-sponsored plans. The interest cost grew due to continued service accruals, while the decrease in expected return on plan assets and the actuarial losses were primarily due to the negative asset returns experienced in 2008. The overall increase in benefits expense was partially offset by a freeze in the company contributions to our primary employee defined contribution savings plan.

Compensation and benefits expense increased in 2008 compared with 2007, excluding charges for the multi-employer pension plan withdrawal, the SVSO and the France restructuring. Increased benefit expenses were largely due to higher employee health and welfare program costs, which was impacted by medical cost inflation. Employee payroll costs increased due to contractual wage increases for our union employees and normal merit increases for our non-union employees.

Repairs and Maintenance

Repairs and maintenance expense declined in 2009, largely due to reduced vehicle maintenance expenses resulting from a reduction in miles driven. The 2008 increase in repairs and maintenance was largely due to increased aircraft maintenance, somewhat offset by reduced vehicle maintenance expense.

Depreciation and Amortization

Depreciation and amortization expense decreased in 2009, primarily as a result of lower depreciation expense on equipment and facilities, as certain Worldport assets became fully depreciated, as well as lower software amortization resulting from fewer new capitalized software projects. These decreases were partially offset by higher depreciation expense on aircraft and vehicles, resulting from new deliveries in 2008 and 2009.

The increase in depreciation and amortization in 2008 resulted primarily from higher depreciation expense on aircraft and vehicles due to new deliveries, but was partially offset by reduced amortization expense on capitalized software resulting from a decrease in software development projects.

Purchased Transportation

The decrease in purchased transportation in 2009 was driven by a combination of lower volume in our international package and forwarding businesses, a stronger U.S. Dollar, and decreased fuel surcharge rates charged to us by third-party carriers as a result of lower fuel prices. The increase in purchased transportation in 2008 was attributable to a combination of higher volume in our international package and forwarding businesses, a weaker U.S. Dollar, and increased fuel surcharge rates charged to us by third-party carriers resulting from higher fuel prices.

Fuel

The decrease in fuel expense in 2009 was impacted by significantly lower prices for jet-A fuel, diesel, and unleaded gasoline, as well as lower usage of these products in our operations. The increase in fuel expense in 2008 resulted from higher prices for jet-A fuel, diesel, and unleaded gasoline as well as lower hedging gains.

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Other Occupancy

The decrease in other occupancy expense in 2009 was primarily caused by lower electricity and natural gas costs, as well as lower rent expense. The 2008 increase in other occupancy expense resulted from higher rent, property tax, electricity and natural gas expense. The changes in both years were significantly impacted by changes in energy commodity prices.

Other Expenses

The decline in other expenses in 2009, exclusive of impairment charges, was due in part to certain variable costs that declined as a result of lower package volume, such as the expense associated with customer claims for lost or damaged packages, rent expense for transportation equipment, cargo handling costs, and aircraft landing fees. Additionally, certain other costs declined primarily as a result of cost containment programs, such as employee expense reimbursements, office supplies, professional services, and advertising costs.

The increase in other expenses in 2008, exclusive of impairment charges, was attributable to increased expenses for leased transportation equipment, data processing, advertising, professional services, and bad debts.

Investment Income and Interest Expense

| | Year Ended December 31, | | | % Change | |
|---|-------------------------|---------|---------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Investment Income and Interest Expense (in millions): | | | | | |
| Investment Income | \$ 10 | \$ 75 | \$ 99 | (86.7)% | (24.2)% |
| Interest Expense | \$(445) | \$(442) | \$(246) | 0.7% | 79.7% |
| Impact of Currency Remeasurement Charge | 77 | — | — | | |
| Adjusted Interest Expense | (368) | (442) | (246) | (16.7)% | 79.7% |

Investment Income

The 2009 decline was largely due to a lower average balance of interest-earning investments, a significantly lower yield earned on our invested assets as a result of declines in short-term interest rates in the United States, and a loss on the fair value adjustments of certain investment partnerships. The 2008 decline was primarily due to a lower average balance of interest-earning investments, a lower yield earned on our investments, and impairment losses.

During the second quarter of 2009, we recorded impairment losses on certain perpetual preferred securities, and an auction rate security collateralized by preferred securities, issued by large financial institutions. The impairment charge resulted from conversion offers from the issuers of these securities at prices well below the stated redemption value of the preferred shares. These securities, which had a cost basis of \$42 million, were written down to their fair value of \$25 million as of June 30, 2009, resulting in an other-than-temporary impairment of \$17 million.

During the third quarter of 2008, we recorded impairment losses on two auction rate securities that were collateralized by preferred stock issued by the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). The impairment resulted from actions by the U.S. Treasury Department and the Federal Housing Finance Agency to place FNMA and FHLMC under conservatorship. Additionally, we recorded impairment losses on a municipal auction rate security and on holdings of several medium term notes issued by Lehman Brothers Inc., which declared bankruptcy during the third quarter of 2008. The total of these credit-related impairment losses was \$23 million.

Interest Expense

Excluding the currency remeasurement charge, the 2009 decrease in interest expense was largely due to lower average debt balances and lower average interest rates incurred on variable rate debt and interest rate swaps.

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The 2008 increase in interest expense was largely due to a higher average balance of outstanding debt. In early 2008, we completed the issuance of \$4.0 billion in long-term debt, the proceeds of which were used to reduce our commercial paper balance. Our commercial paper balances had previously increased to fund the \$6.1 billion Central States Pension Fund withdrawal payment in December 2007. The impact of increased debt balances was partially mitigated, however, by lower average rates incurred on our variable rate debt and interest rate swap agreements as a result of declines in short-term interest rates in the United States throughout 2008.

Income Tax Expense

| | Year Ended December 31, | | | % Change | |
|--------------------|-------------------------|---------|-------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 / 2008 | 2008 / 2007 |
| Income Tax Expense | \$1,214 | \$2,012 | \$ 49 | (39.7)% | N/A |
| Effective Tax Rate | 36.1% | 40.1% | 11.4% | | |

2009 compared to 2008

Income tax expense declined primarily due to lower pre-tax income. The decrease in our effective tax rate was primarily due to the goodwill and intangible impairment charges described previously, which were not deductible for tax purposes and resulted in the effective tax rate increasing by 4.1%.

2008 compared to 2007

Income tax expense increased primarily due to higher pre-tax income. Pre-tax income in 2007 was adversely impacted by the Central States withdrawal charge, as noted previously. The increase in the effective tax rate was primarily due to several factors resulting from the Central States withdrawal charge in 2007. These factors included having proportionally lower tax credits in 2008, and the effect of having a much higher proportion of our taxable income in 2008 being subject to tax in the United States, whereas a relatively greater proportion of taxable income in 2007 was subject to tax outside the United States, where effective tax rates are generally lower. The effective tax rate in 2008 was also 4.1% higher due to the lack of tax deductibility of the goodwill and intangible impairment charges discussed previously.

Liquidity and Capital Resources

Operating Activities

Cash from operating activities remained strong throughout the 2007 to 2009 time period, however in 2007 operating cash flow was adversely impacted by the payment made to withdraw from the Central States Pension Fund, as previously discussed. In 2009, operating cash flow was adversely impacted by the decline in profitability for our three reporting segments. However, the impact of this decline was partially offset by reduced working capital needs. Most of the remaining variability in our operating cash flows was primarily due to changes in pension contributions and the timing of income tax payments. The following table provides a summary of the major items affecting our operating cash flows (in millions):

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|-----------------|
| Net income | \$2,152 | \$3,003 | \$ 382 |
| Non-cash operating activities(a) | 3,863 | 4,539 | 2,989 |
| Pension and postretirement plan contributions (UPS-sponsored plans) | (924) | (246) | (687) |
| Income tax receivables and payables | 245 | 1,167 | (1,267) |
| Changes in working capital and other noncurrent assets and liabilities | (137) | (6) | (180) |
| Other operating activities | 86 | (31) | (114) |
| Net cash from operating activities | <u>\$5,285</u> | <u>\$8,426</u> | <u>\$ 1,123</u> |

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- (a) Represents depreciation and amortization, gains and losses on derivative transactions and foreign exchange, deferred income taxes, provisions for uncollectible accounts, pension and postretirement benefit expense, stock compensation expense, impairment charges, and other non-cash items.

Contributions to our company-sponsored pension plans have largely varied based on whether any minimum funding requirements are present for individual pension plans. The increase in contributions in 2009 was largely due to minimum funding requirements related to the UPS IBT Pension Plan. As discussed further in the "Contractual Commitments" section, we have minimum funding requirements in the next several years, primarily related to the UPS IBT Pension Plan. During the 2007 to 2009 period, we made no significant discretionary contributions to our plans.

The Central States Pension Fund withdrawal payment was made in December 2007, and significantly impacted operating cash flow. The payment was deductible for U.S. Federal and state income tax purposes, and we therefore received cash tax benefits in the form of refunds or lower estimated payments during 2008 and 2007. The impact of the Central States Pension Fund withdrawal payment on our cash flow from operations was as follows (in millions):

| | 2009 | 2008 | 2007 |
|--|------------|----------------|------------------|
| Impact of Central States Pension Fund Withdrawal Payment: | | | |
| Central States Pension Fund withdrawal payment | \$— | \$ — | \$(6,100) |
| Cash income tax benefits from withdrawal payment | — | 1,228 | 1,100 |
| Impact of the Central States Pension Fund withdrawal payment and associated taxes on cash flow from operations | <u>\$—</u> | <u>\$1,228</u> | <u>\$(5,000)</u> |

Investing Activities

Our primary uses of cash flows for investing activities were for capital expenditures, as follows (amounts in millions):

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| Net cash used in investing activities | <u>\$1,248</u> | <u>\$3,179</u> | <u>\$2,199</u> |
| Capital Expenditures: | | | |
| Buildings and facilities | \$ 568 | \$ 968 | \$ 853 |
| Aircraft and parts | 611 | 852 | 1,137 |
| Vehicles | 209 | 539 | 492 |
| Information technology | 214 | 277 | 338 |
| | <u>\$1,602</u> | <u>\$2,636</u> | <u>\$2,820</u> |
| Capital Expenditures as a % of Revenue | 3.5% | 5.1% | 5.7% |
| Other Investing Activities: | | | |
| Net (increase) decrease in finance receivables | \$ 261 | \$ (49) | \$ (39) |
| Net (purchases) sales of marketable securities | \$ (11) | \$ (278) | \$ 621 |
| Other items | \$ 104 | \$ (216) | \$ 39 |

We have commitments for the purchase of aircraft, vehicles, equipment and real estate to provide for the replacement of existing capacity and anticipated future growth. We generally fund our capital expenditures with our cash from operations. In 2009, we reduced capital spending to a level commensurate with our current anticipated operating needs. Future capital spending for anticipated growth and replacement assets will depend on a variety of factors, including economic and industry conditions.

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Capital expenditures on buildings and facilities primarily resulted from our Worldport hub expansion, as well as the expansion and new construction projects at other facilities in Europe, Canada and China. In 2009, we completed the first phase of our Worldport expansion, which increased the sorting capacity by 15%. The final phase of the Worldport expansion will be completed in 2010, and will increase sorting capacity approximately 20% more. In 2008, we opened our new international air hub in Shanghai, China, and also began construction of our new intra-Asia air hub in Shenzhen, China, which became operational in February 2010.

Capital spending on aircraft over the 2007 to 2009 period was largely due to scheduled deliveries of previous orders for the Boeing 767-300 and 747-400, and MD-11 aircraft. Capital spending on vehicles was primarily for replacement assets in our package delivery and LTL operations. We anticipate that our capital expenditures for 2010 will be approximately \$1.8 billion.

The net change in finance receivables is primarily due to customer paydowns and new loan origination activity, primarily in our commercial lending, asset-based lending and leasing portfolios. The purchases and sales of marketable securities are largely determined by liquidity needs, and will therefore fluctuate from period to period.

Other investing activities include the cash settlement of derivative contracts used in our energy and currency hedging programs, the timing of aircraft purchase contract deposits on our Boeing 767-300 and Boeing 747-400 aircraft orders, and changes in restricted cash balances. We maintain an escrow agreement with an insurance carrier to guarantee our self-insurance obligations, and we deposited \$95 and \$191 million in cash collateral with the insurance carrier under this agreement during 2009 and 2008, respectively. We received (paid) cash related to purchases and settlements of energy and currency derivative contracts used in our hedging programs of \$117, \$(208), and \$(140) million during 2009, 2008, and 2007, respectively.

Financing Activities

Our primary uses of cash flows for financing activities are to repurchase shares, pay cash dividends, and repay debt principal, as follows (amounts in millions, except per share data):

| | 2009 | 2008 | 2007 |
|---|-------------------|-------------------|-----------------|
| Net cash provided by (used in) financing activities | <u>\$ (3,045)</u> | <u>\$ (6,702)</u> | <u>\$ 2,297</u> |
| Share Repurchases: | | | |
| Cash expended for shares repurchased | \$ (561) | \$ (3,570) | \$ (2,639) |
| Number of shares repurchased | (10.9) | (53.6) | (35.9) |
| Shares outstanding at year-end | 994 | 996 | 1,041 |
| Percent reduction in shares outstanding | (0.2)% | (4.3)% | (2.7)% |
| Dividends: | | | |
| Dividends declared per share | \$ 1.80 | \$ 1.80 | \$ 1.68 |
| Cash expended for dividend payments | \$ (1,751) | \$ (2,219) | \$ (1,703) |
| Borrowings: | | | |
| Net borrowings (repayments) of debt principal | \$ (522) | \$ (921) | \$ 6,509 |
| Other Financing Activities: | | | |
| Cash received for common stock issuances | \$ 149 | \$ 169 | \$ 174 |
| Other items | \$ (360) | \$ (161) | \$ (44) |
| Capitalization: | | | |
| Total debt outstanding at year-end | \$ 9,521 | \$ 9,871 | \$11,018 |
| Total shareowners' equity at year-end | <u>7,696</u> | <u>6,780</u> | <u>12,183</u> |
| Total capitalization | \$17,217 | \$16,651 | \$23,201 |
| Debt to Total Capitalization % | 55.3% | 59.3% | 47.5% |

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As a result of the uncertain economic environment, we have slowed our share repurchase activity. We currently intend to repurchase shares in 2010 at a rate that should approximately offset the dilution from our stock compensation programs. In January 2008, the Board of Directors approved an increase in our share repurchase authorization to \$10.0 billion. Share repurchases may take the form of accelerated share repurchases, open market purchases, or other such methods as we deem appropriate. The timing of our share repurchases will depend upon market conditions. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program.

The declaration of dividends is subject to the discretion of the Board of Directors and will depend on various factors, including our net income, financial condition, cash requirements, future prospects, and other relevant factors. We expect to continue the practice of paying regular cash dividends. In 2008, the Board of Directors approved an earlier payment schedule for the November dividend declaration, as in past years this dividend was payable the following January. As a result, a total of five dividend payments were made in 2008. In February 2010, we increased our quarterly dividend payment from \$0.45 to \$0.47 per share.

In 2007, we increased our commercial paper borrowings to fund the \$6.1 billion withdrawal payment to the Central States Pension Fund upon ratification of our labor contract with the Teamsters. In 2008, we repaid most of this commercial paper with the proceeds from a \$4.0 billion senior fixed rate notes offering, as well as an \$850 million U.S. federal tax refund received. In 2009, we completed an additional \$2.0 billion senior fixed rate notes offering.

Other than commercial paper, repayments of debt consisted primarily of scheduled principal payments on our capital lease obligations, redemption of facilities bonds and certain tranches of UPS Notes, and principal payments on debt related to our investment in certain partnerships. We consider the overall fixed and floating interest rate mix of our portfolio and the related overall cost of borrowing when planning for future issuances and non-scheduled repayments of debt.

Other financing activities include certain hedging activities and cash received from common stock issuances to employees. In conjunction with the senior fixed rate debt offerings in 2009 and 2008, we settled several interest rate derivatives that were designated as hedges of these debt offerings, which resulted in cash outflows of \$243 and \$84 million in 2009 and 2008, respectively.

Sources of Credit

We are authorized to borrow up to \$10.0 billion under our U.S. commercial paper program. As of December 31, 2009, we had \$672 million of commercial paper outstanding, with an average interest rate of 0.10% and a weighted average maturity of 17 days. The amount of commercial paper outstanding in 2010 is expected to fluctuate. We also maintain a European commercial paper program under which we are authorized to borrow up to €1.0 billion in a variety of currencies, however no amounts were outstanding under this program as of December 31, 2009.

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of \$3.0 billion, and expires on April 15, 2010. Interest on any amounts we borrow under this facility would be charged at 90-day LIBOR plus a percentage determined by quotations for our 1-year credit default swap spread, subject to certain minimum rates and maximum rates based on our public debt ratings from Standard & Poor's and Moody's. If our public debt ratings are A / A2 or above, the minimum applicable margin is 1.00% and the maximum applicable margin is 2.00%; if our public debt ratings are lower than A / A2, the minimum applicable margin is 1.50% and the maximum applicable margin is 3.00%.

The second agreement provides revolving credit facilities of \$1.0 billion, and expires on April 19, 2012. Interest on any amounts we borrow under this facility would be charged at 90-day LIBOR plus 15 basis points. At December 31, 2009, there were no outstanding borrowings under either of these facilities.

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In addition to these credit facilities, we have an automatically effective registration statement on Form S-3 filed with the SEC that is available for registered offerings of short or long-term debt securities.

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. As of December 31, 2009 and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of December 31, 2009, 10% of net tangible assets is equivalent to \$2.296 billion, however we have no covered sale-leaseback transactions or secured indebtedness outstanding. Additionally, we are required to maintain a minimum net worth, as defined, of \$5.0 billion on a quarterly basis. As of December 31, 2009, our net worth, as defined, was equivalent to \$12.757 billion. We do not expect these covenants to have a material impact on our financial condition or liquidity.

Guarantees and Other Off-Balance Sheet Arrangements

We do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, which we believe could have a material impact on financial condition or liquidity.

Contractual Commitments

We have contractual obligations and commitments in the form of capital leases, operating leases, debt obligations, purchase commitments, and certain other liabilities. We intend to satisfy these obligations through the use of cash flow from operations. The following table summarizes the expected cash outflow to satisfy our contractual obligations and commitments as of December 31, 2009 (in millions):

| <u>Commitment Type</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>After 2014</u> | <u>Total</u> |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|
| Capital Leases | \$ 122 | \$ 30 | \$ 31 | \$ 32 | \$ 33 | \$ 218 | \$ 466 |
| Operating Leases | 364 | 279 | 211 | 155 | 113 | 468 | 1,590 |
| Debt Principal | 755 | 5 | 8 | 1,752 | 1,021 | 5,592 | 9,133 |
| Debt Interest | 317 | 317 | 316 | 296 | 270 | 4,662 | 6,178 |
| Purchase Commitments | 680 | 541 | 480 | 370 | 62 | 20 | 2,153 |
| Pension Fundings | 980 | 908 | 1,075 | 509 | 211 | — | 3,683 |
| Other Liabilities | 71 | 69 | 67 | 64 | 58 | 81 | 410 |
| Total | <u>\$ 3,289</u> | <u>\$ 2,149</u> | <u>\$ 2,188</u> | <u>\$ 3,178</u> | <u>\$ 1,768</u> | <u>\$ 11,041</u> | <u>\$ 23,613</u> |

Our capital lease obligations relate primarily to leases on aircraft. Capital leases, operating leases, and purchase commitments, as well as our debt principal obligations, are discussed further in Note 7 to our consolidated financial statements. The amount of interest on our debt was calculated as the contractual interest payments due on our fixed-rate debt, in addition to interest on variable rate debt that was calculated based on interest rates as of December 31, 2009. The calculations of debt interest take into account the effect of interest rate swap agreements. For debt denominated in a foreign currency, the U.S. Dollar equivalent principal amount of the debt at the end of the year was used as the basis to calculate future interest payments.

Purchase commitments represent contractual agreements to purchase goods or services that are legally binding, the largest of which are orders for aircraft, engines, and parts. As of December 31, 2009, we maintain orders for 25 Boeing 767-300ER freighters to be delivered between 2010 and 2014, and 2 Boeing 747-400F aircraft scheduled for delivery during 2010. These aircraft purchase orders will provide for the replacement of existing capacity and anticipated future growth.

Pension fundings represent the anticipated required cash contributions that will be made to the UPS IBT Pension Plan, which was established upon ratification of the national master agreement with the Teamsters, as well as the UPS Retirement Plan and the UPS Pension Plan. These plans are discussed further in Note 5 to the

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consolidated financial statements. The pension funding requirements were estimated under the provisions of the Pension Protection Act of 2006 and the Employee Retirement Income Security Act of 1974, using discount rates, asset returns, and other assumptions appropriate for these plans. To the extent that the funded status of these plans in future years differs from our current projections, the actual contributions made in future years could materially differ from the amounts shown in the table above. Additionally, we have not included minimum funding requirements beyond 2014, because these projected contributions are not reasonably determinable.

We are not subject to any minimum funding requirement for cash contributions in 2010 in the UPS Retirement Plan or UPS Pension Plan. The amount of any minimum funding requirement, as applicable, for these plans could change significantly in future periods, depending on many factors, including future plan asset returns and discount rates. A sustained significant decline in the world equity markets, and the resulting impact on our pension assets and investment returns, could result in our domestic pension plans being subject to significantly higher minimum funding requirements. Such an outcome could have a material adverse impact on our financial position and cash flows in future periods.

The contractual payments due for "other liabilities" primarily include commitment payments related to our investment in certain partnerships. The table above does not include approximately \$266 million of unrecognized tax benefits that have been recognized as liabilities, because we are uncertain if or when such amounts will ultimately be settled in cash. In addition, although we have recognized and disclosed unrecognized tax benefits, we also have outstanding recognized tax benefits in excess of the recorded liabilities such that we do not believe a net contractual obligation exists to the taxing authorities. Recognized and unrecognized tax benefits are further discussed in Note 12 to the consolidated financial statements.

As of December 31, 2009, we had outstanding letters of credit totaling approximately \$1.973 billion issued in connection with routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2009, we had \$501 million of surety bonds written. As of December 31, 2009, we had unfunded loan commitments totaling \$761 million associated with our financial business.

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

Contingencies

We are a defendant in a number of lawsuits filed in state and federal courts containing various class-action allegations under state wage-and-hour laws. In one of these cases, *Marlo v. UPS*, which was certified as a class action in a California federal court in September 2004, plaintiffs allege that they improperly were denied overtime, and seek penalties for missed meal and rest periods, and interest and attorneys' fees. Plaintiffs purport to represent a class of 1,300 full-time supervisors. In August 2005, the court granted summary judgment in favor of UPS on all claims, and plaintiffs appealed the ruling. In October 2007, the appeals court reversed the lower court's ruling. In April 2008, the Court decertified the class and vacated the trial scheduled for that month. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In another case, *Hohider v. UPS*, which in July 2007 was certified as a class action in a Pennsylvania federal court, plaintiffs have challenged certain aspects of the Company's interactive process for assessing requests for reasonable accommodation under the Americans with Disabilities Act. Plaintiffs purport to represent a class of over 35,000 current and former employees, and seek back-pay, and compensatory and punitive damages, as well as attorneys' fees. In August 2007, the Third Circuit Court of Appeals granted our petition to hear the appeal of the trial court's certification order. In July 2009, the Third Circuit issued its decision decertifying the class and remanding the case to the trial court for further proceedings. We have denied any liability with respect to these

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claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

UPS and our subsidiary Mail Boxes Etc., Inc. are defendants in various lawsuits brought by franchisees who operate Mail Boxes Etc. centers and The UPS Store locations. These lawsuits relate to the rebranding of Mail Boxes Etc. centers to The UPS Store, The UPS Store business model, the representations made in connection with the rebranding and the sale of The UPS Store franchises, and UPS's sale of services in the franchisees' territories. In one of the actions, which is pending in California state court, the court certified a class consisting of all Mail Boxes Etc. branded stores that rebranded to The UPS Store in March 2003. We have denied any liability with respect to these claims and intend to defend ourselves vigorously. At this time, we have not determined the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In January 2008, a class action complaint was filed in the United States District Court for the Eastern District of New York alleging price-fixing activities relating to the provision of freight forwarding services. UPS was not named in this case. On July 21, 2009, the plaintiffs filed a first amended complaint naming numerous global freight forwarders as defendants. UPS and UPS Supply Chain Solutions are among the 60 defendants named in the amended complaint. We intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In *Barber Auto Sales v. UPS*, which a federal court in Alabama certified as a class action in September 2009, the plaintiff asserts a breach of contract claim arising from UPS's assessment of shipping charge corrections when UPS determines that the "dimensional weight" of packages is greater than reported by the shipper. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

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

We file income tax returns in the U.S. federal jurisdiction, most U.S. state and local jurisdictions, and many non-U.S. jurisdictions. We have substantially resolved all U.S. federal income tax matters for tax years prior to 2003. During the third quarter of 2009, we received a refund of \$271 million as a result of the resolution of tax years 1999 through 2002 with the Internal Revenue Service ("IRS") Appeals Office. For the tax years 2003 through 2004, we anticipate concluding the limited number of unagreed issues with the IRS Appeals Office by the end of the second quarter of 2010. Along with the audit for tax years 2005 through 2007, the IRS is currently examining non-income based taxes, including employment and excise taxes, which could lead to proposed assessments. The IRS has not presented an official position with regard to these taxes at this time, and therefore we are not able to determine the technical merit of any potential assessment. We anticipate receipt of the IRS reports on these matters by the end of the second quarter of 2010. We have filed all required U.S. state and local returns reporting the result of the resolution of the U.S. federal income tax audit of the tax years 1999 through 2002. A limited number of U.S. state and local matters are the subject of ongoing audits, administrative appeals or litigation.

At this time, we do not expect any of the above tax matters to have a material adverse effect on our financial condition, results of operations, or liquidity.

As of December 31, 2009, we had approximately 254,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood

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of Teamsters (“Teamsters”). These agreements run through July 31, 2013. We have approximately 2,800 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association, which becomes amendable at the end of 2011. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable in November 2006. We began formal negotiations with Teamsters Local 2727 in October 2006. In addition, the majority (approximately 3,400) of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers (“IAM”). In June of 2009, we reached a new agreement with the IAM, which was subsequently ratified in July 2009. The new agreement runs through July 31, 2014.

Other Matters

We received grand jury subpoenas from the Antitrust Division of the U.S. Department of Justice (“DOJ”) regarding the DOJ’s investigations into certain pricing practices in the air cargo industry in July 2006, and into certain pricing practices in the freight forwarding industry in December 2007.

In October 2007, June 2008, and February 2009, we received information requests from the European Commission (“Commission”) relating to its investigation of certain pricing practices in the freight forwarding industry, and subsequently responded to each request. On February 9, 2010, UPS received a Statement of Objections by the Commission. This document contains the Commission’s preliminary view with respect to alleged anticompetitive behavior in the freight forwarding industry by 18 freight forwarders, including UPS. The Statement of Objections enables the addressees to respond. Although it alleges anticompetitive behavior, it does not prejudice the Commission’s final decision, as to facts or law (which is subject to appeal to the European courts). We intend to vigorously defend ourselves in this proceeding.

We also received and responded to related information requests from competition authorities in other jurisdictions.

We are cooperating with each of these inquiries.

At this time, we are unable to determine the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

New Accounting Pronouncements

Recently Adopted Accounting Standards

Provisions within the following accounting standards were adopted during the years covered by these financial statements:

Financial Instruments: The Financial Accounting Standards Board (“FASB”) issued guidance in February 2007 that gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, this guidance allowed for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. We adopted this standard on January 1, 2008, and elected to apply the fair value option to our investment in certain investment partnerships that were previously accounted for under the equity method. Accordingly, we recorded a \$16 million reduction to retained earnings as of January 1, 2008. These investments are reported in “other non-current assets” on the consolidated balance sheet.

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Compensation-Retirement Benefits: We previously utilized the early measurement date option available in accounting for our pension and postretirement medical benefit plans, and we measured the funded status of our plans as of September 30 each year. Under guidance issued by the FASB, we were required to use a December 31 measurement date for all of our pension and postretirement benefit plans beginning in 2008. As a result of this change in measurement date, we recorded a cumulative effect after-tax \$44 million reduction to retained earnings as of January 1, 2008.

Beginning in 2009, new guidance was adopted that required disclosures about plan assets of a defined benefit pension or other postretirement plan, investment policies and strategies, major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets and significant concentrations of risk within plan assets. These disclosures are provided in Note 5 to the consolidated financial statements.

Income Taxes: Effective beginning in 2007, guidance issued by the FASB required that we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. We adopted this new standard on January 1, 2007, and the cumulative effect of adopting this standard was to recognize a \$104 million decrease in the January 1, 2007 balance of retained earnings.

Fair Value Measurements and Disclosures: The FASB issued guidance on fair value measurements that took effect on January 1, 2008 and are presented in Notes 2, 3, 4, 5, and 14 to the consolidated financial statements. On January 1, 2009, we implemented the previously deferred provisions of this guidance for nonfinancial assets and liabilities recorded at fair value. The accounting requirements for determining fair value when the volume and level of activity for an asset or liability have significantly decreased, and for identifying transactions that are not orderly, contained the FASB's guidance were adopted on April 1, 2009, but had an immaterial impact on our financial statements.

Derivatives and Hedging: The FASB issued certain disclosure requirements for derivatives and hedging transactions that took effect on January 1, 2009 and are presented in Note 14 to the consolidated financial statements.

Business Combinations: The FASB issued new accounting requirements for business combinations, which took effect on January 1, 2009. This new guidance was applied to business combinations completed in 2009, but had an immaterial impact on our financial statements.

Consolidation: The FASB issued accounting and presentation requirements for noncontrolling interests, which took effect on January 1, 2009, however this new guidance had an immaterial impact on our financial statements.

Accounting Standards Issued But Not Yet Effective

Other new pronouncements issued but not effective until after December 31, 2009, are not expected to have a significant effect on our consolidated financial position or results of operations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America. As indicated in Note 1 to our consolidated financial statements, the amounts of assets, liabilities, revenue, and expenses reported in our financial statements are affected by estimates and judgments that are necessary to comply with generally accepted accounting principles. We base our estimates on prior experience and other assumptions that we consider reasonable to our circumstances. Actual results could differ from our estimates, which would affect the related amounts reported in our financial statements. While estimates and judgments are applied in arriving at many reported amounts, we believe that the following matters may involve a higher degree of judgment and complexity.

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Contingencies

As discussed in Note 8 to our consolidated financial statements, we are involved in various legal proceedings and contingencies. We record a liability based on our estimate of the probable cost of the resolution of a contingency. The actual resolution of these contingencies may differ from our estimates. If a contingency is settled for an amount greater than our estimate, a future charge to income would result. Likewise, if a contingency is settled for an amount that is less than our estimate, a future credit to income would result.

The events that may impact our contingent liabilities are often unique and generally are not predictable. At the time a contingency is identified, we consider all relevant facts as part of our evaluation. We record a liability for a loss when the loss is probable of occurring and reasonably estimable. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs from our previously estimated liability. These factors could result in a material difference between estimated and actual operating results. Contingent losses that are probable and estimable, excluding those related to income taxes and self insurance which are discussed further below, were not material to the Company's financial position as of December 31, 2009. In addition, we have certain contingent liabilities that have not been recognized as of December 31, 2009, because a loss is not reasonably estimable.

Goodwill and Intangible Impairment

We perform impairment testing of goodwill for each of our reporting units on an annual basis. Our reporting units are comprised of the Europe, Asia, and Americas reporting units in the International Package reporting segment, and the Forwarding & Logistics, UPS Freight, MBE / UPS Store, and UPS Capital reporting units in the Supply Chain & Freight reporting segment. Our annual goodwill impairment testing date is October 1st for each reporting unit. The impairment test involves a two-step process. First, a comparison of the fair value of the applicable reporting unit with the aggregate carrying values, including goodwill, is performed. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step includes comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

We primarily determine the fair value of our reporting units using a discounted cash flow model ("DCF model"), and supplement this with observable valuation multiples for comparable companies, as applicable. The completion of the DCF model requires that we make a number of significant assumptions to produce an estimate of future cash flows. These assumptions include projections of future revenue, costs and working capital changes. In addition, we make assumptions about the estimated cost of capital and other relevant variables, as required, in estimating the fair value of our reporting units. The projections that we use in our DCF model are updated annually and will change over time based on the historical performance and changing business conditions for each of our reporting units. The determination of whether goodwill is impaired involves a significant level of judgment in these assumptions, and changes in our business strategy, government regulations, or economic or market conditions could significantly impact these judgments. We will continue to monitor market conditions and other factors to determine if interim impairment tests are necessary in future periods. If impairment indicators are present in future periods, the resulting impairment charges could have a material impact on our results of operations.

In the fourth quarter of 2008, we completed our annual goodwill impairment testing and determined that our UPS Freight reporting unit, which was formed through the acquisition of Overnite Corporation in 2005, had a goodwill impairment of \$548 million. This impairment charge resulted from several factors, including a lower cash flow forecast due to a longer estimated economic recovery time for the LTL sector, and significant deterioration in equity valuations for other similar LTL industry participants. At the time of acquisition of Overnite Corporation, LTL equity valuations were higher and the economy was significantly stronger. We invested in operational improvements and technology upgrades to enhance service and performance, as well as expand service offerings. However, this process took longer than initially anticipated, and thus financial results had been below our expectations. Additionally, the LTL sector in 2008 had been adversely impacted by the economic recession in the U.S., lower industrial production and retail sales, volatile fuel prices, and significant

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levels of price-based competition. By the fourth quarter of 2008, the combination of these internal and external factors reduced our near term expectations for this unit, leading to the goodwill impairment charge.

None of the other reporting units incurred an impairment of goodwill in 2008, nor did we have any goodwill impairment charges in 2009 or 2007. Changes in our forecasts could cause book values of our reporting units to exceed their fair values in future periods, potentially resulting in a goodwill impairment charge. A 10% decrease in the estimated fair value of our reporting units as of our most recent goodwill testing date (October 1, 2009) would not result in a goodwill impairment charge.

All of our recorded intangible assets other than goodwill are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable based on the undiscounted future cash flows of the intangible. If the carrying amount of the intangible is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on a DCF model. As a result of weak performance in our domestic U.K. package operations, we reviewed our intangible assets for impairment within our U.K. domestic package entity. Based on recent performance and near-term projections, the value assigned to the customer list intangible asset acquired within the UK domestic package business was determined to be impaired. This was the result of both higher than anticipated customer turnover and reduced operating margins associated with the acquired business. Accordingly, an intangible asset impairment charge of \$27 million was recorded for the year ended December 31, 2008. No other intangible asset impairments were recognized in 2008, nor were any such impairments recognized in 2009 or 2007.

Self-Insurance Accruals

We self-insure costs associated with workers' compensation claims, automotive liability, health and welfare, and general business liabilities, up to certain limits. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Recorded balances are based on reserve levels, which incorporate historical loss experience and judgments about the present and expected levels of cost per claim. Trends in actual experience are a significant factor in the determination of such reserves. We believe our estimated reserves for such claims are adequate, but actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations.

Workers' compensation, automobile liability and general liability insurance claims may take several years to completely settle. Consequently, actuarial estimates are required to project the ultimate cost that will be incurred to fully resolve the claims. A number of factors can affect the actual cost of a claim, including the length of time the claim remains open, trends in health care costs and the results of related litigation. Furthermore, claims may emerge in future years for events that occurred in a prior year at a rate that differs from previous actuarial projections. Changes in state legislation with respect to workers compensation can affect the adequacy of our self-insurance accruals. All of these factors can result in revisions to prior actuarial projections and produce a material difference between estimated and actual operating results.

We sponsor a number of health and welfare insurance plans for our employees. These liabilities and related expenses are based on estimates of the number of employees and eligible dependents covered under the plans, anticipated medical usage by participants and overall trends in medical costs and inflation. Actual results may differ from these estimates and, therefore, produce a material difference between estimated and actual operating results.

Fair Value Measurements

In the normal course of business, we hold and issue financial instruments that contain elements of market risk, including derivatives, marketable securities, finance receivables, other investments, and debt. Certain of these financial instruments are required to be recorded at fair value, principally derivatives, marketable securities,

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pension assets, and certain other investments. Fair values are based on listed market prices, when such prices are available. To the extent that listed market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations. Certain financial instruments, including over-the-counter derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlations, time value, credit spreads, and yield curve volatility factors. Changes in the fixed income, equity, foreign exchange, and commodity markets will impact our estimates of fair value in the future, potentially affecting our results of operations. A quantitative sensitivity analysis of our exposure to changes in commodity prices, foreign currency exchange rates, interest rates, and equity prices is presented in the "Market Risk" section of this report.

Pension and Postretirement Medical Benefits

As discussed in Note 5 to our consolidated financial statements, we maintain several single-employer defined benefit and postretirement benefit plans. Our pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, health care cost trend rates, inflation, rates of compensation increase, expected return on plan assets, mortality rates, and other factors. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in such future periods. We believe that the assumptions utilized in recording the obligations under our plans are reasonable, and represent our best estimates, based on information as to historical experience and performance as well as other factors that might cause future expectations to differ from past trends. Differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expense. A 25 basis point change in the assumed discount rate, expected return on assets, and health care cost trend rate for the U.S. pension and postretirement benefit plans would result in the following increases (decreases) on the Company's costs and obligations for the year 2009 (in millions):

| | 25 Basis Point Increase | 25 Basis Point Decrease |
|---|----------------------------|----------------------------|
| Pension Plans | | |
| <i>Discount Rate:</i> | | |
| Effect on net periodic benefit cost | \$ (43) | \$ 77 |
| Effect on projected benefit obligation | (631) | 656 |
| <i>Return on Assets:</i> | | |
| Effect on net periodic benefit cost | (41) | 41 |
| Postretirement Medical Plans | | |
| <i>Discount Rate:</i> | | |
| Effect on net periodic benefit cost | (6) | 5 |
| Effect on accumulated postretirement benefit obligation | (83) | 85 |
| <i>Health Care Cost Trend Rate:</i> | | |
| Effect on net periodic benefit cost | 4 | (4) |
| Effect on accumulated postretirement benefit obligation | 21 | (22) |

Depreciation, Residual Value, and Impairment of Fixed Assets

As of December 31, 2009, we had \$17.979 billion of net fixed assets, the most significant category of which is aircraft. In accounting for fixed assets, we make estimates about the expected useful lives and the expected residual values of the assets, and the potential for impairment based on the fair values of the assets and the cash flows generated by these assets.

In estimating the lives and expected residual values of aircraft, we have relied upon actual experience with the same or similar aircraft types. Subsequent revisions to these estimates could be caused by changes to our

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maintenance program, changes in the utilization of the aircraft, governmental regulations on aging aircraft, and changing market prices of new and used aircraft of the same or similar types. We periodically evaluate these estimates and assumptions, and adjust the estimates and assumptions as necessary. Adjustments to the expected lives and residual values are accounted for on a prospective basis through depreciation expense.

We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows, or external appraisals, as applicable. We review long-lived assets for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. The circumstances that would indicate potential impairment may include, but are not limited to, a significant change in the extent to which an asset is utilized, a significant decrease in the market value of an asset, and operating or cash flow losses associated with the use of the asset. In estimating cash flows, we project future volume levels for our different air express products in all geographic regions in which we do business. Adverse changes in these volume forecasts, or a shortfall of our actual volume compared with our projections, could result in our current aircraft capacity exceeding current or projected demand. This situation would lead to an excess of a particular aircraft type, resulting in an aircraft impairment charge or a reduction of the expected life of an aircraft type (thus resulting in increased depreciation expense).

In 2008, we had announced that we were in negotiations with DHL to provide air transportation services for all of DHL's express, deferred and international package volume within the United States, as well as air transportation services between the United States, Canada and Mexico. In early April 2009, UPS and DHL mutually agreed to terminate further discussions on providing these services. Additionally, our U.S. Domestic Package air delivery volume had declined for several quarters as a result of persistent economic weakness and shifts in product mix from our premium air services to our lower cost ground services. As a result of these factors, the utilization of certain aircraft fleet types had declined and was expected to be lower in the future.

Based on the factors noted above, as well as FAA aging aircraft directives that would require significant future maintenance expenditures, we determined that a triggering event had occurred that required an impairment assessment of our McDonnell-Douglas DC-8-71 and DC-8-73 aircraft fleets. We conducted an impairment analysis as of March 31, 2009, and determined that the carrying amount of these fleets was not recoverable due to the accelerated expected retirement dates of the aircraft. Based on anticipated residual values for the airframes, engines, and parts, we recognized an impairment charge of \$181 million in the first quarter of 2009. The DC-8 fleets were subsequently retired from service.

As a result of business changes that occurred in the first quarter of 2007, including capacity-optimization programs in our domestic and international air freight forwarding business as well as changes to our aircraft orders and planned delivery dates, we began a review process of our aircraft fleet types to ensure that we maintain the optimum mix of aircraft types to service our international and domestic package businesses. The review was completed in March 2007, and based on the results of our evaluation, we accelerated the planned retirement of certain Boeing 727 and 747 aircraft, and recognized an impairment and obsolescence charge of \$221 million for the aircraft and related engines and parts in 2007.

Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of income by legal entity and jurisdiction, tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to these uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

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We assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover a substantial majority of the deferred tax assets recorded on our consolidated balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Once it is determined that the position meets the recognition threshold, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an additional charge to the tax provision.

Allowance for Doubtful Accounts

Losses on accounts receivable are recognized when they are incurred, which requires us to make our best estimate of the probable losses inherent in our customer receivables at each balance sheet date. These estimates require consideration of historical loss experience, adjusted for current conditions, trends in customer payment frequency, and judgments about the probable effects of relevant observable data, including present economic conditions and the financial health of specific customers and market sectors. Our risk management process includes standards and policies for reviewing major account exposures and concentrations of risk. Continued deterioration in macro economic variables could result in our ultimate loss exposures on our accounts receivable being significantly higher than what we have currently estimated and reserved for in our allowance for doubtful accounts. Our total allowance for doubtful accounts as of December 31, 2009 and 2008 was \$138 and \$155 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2009, 2008, and 2007 was \$254, \$277, and \$225 million, respectively.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates, interest rates, and equity prices. All of these market risks arise 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 commodity, foreign exchange, and interest rate forward contracts, options, and swaps. A discussion of our accounting policies for derivative instruments and further disclosures are provided in Note 14 to the consolidated financial statements.

Commodity Price Risk

We are exposed to changes in the prices of refined fuels, principally jet-A, diesel, and unleaded gasoline. Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes. Additionally, we periodically use a combination of options contracts to provide partial protection from changing fuel and energy prices. As of December 31, 2009 and 2008, however, we had no commodity option contracts outstanding.

In the fourth quarter of 2008, we terminated several energy derivatives and received \$87 million in cash. This transaction was reported in other investing activities in the statement of cash flows. As these derivatives qualified for hedge accounting, were designated as hedges, and maintained their effectiveness, the gains associated with these hedges were recognized in income over the original term of the hedges, which extended through the first quarter of 2009.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue, operating expenses, and financing transactions in currencies other than the local currencies in which we operate. We are exposed to currency risk from the potential changes in functional currency values of our foreign currency-denominated assets, liabilities, and cash flows. Our most significant foreign currency exposures relate to the Euro, the British Pound Sterling and the Canadian Dollar. We use a combination of purchased and written options and forward contracts to hedge forecasted cash flow currency exposures. These derivative instruments generally cover forecasted foreign currency exposures for periods of 12 to 24 months. Additionally, we utilize cross-currency interest rate swaps to hedge the currency risk inherent in the interest and principal payments associated with foreign currency denominated debt obligations. The term of these swap agreements is commensurate with the underlying debt obligations.

Interest Rate Risk

We have issued debt instruments, including debt associated with capital leases, that accrue expense at fixed and floating rates of interest. We use a combination of interest rate swaps as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The notional amount, interest payment, and maturity dates of the swaps match the terms of the associated debt. We also utilize forward starting swaps and similar instruments to lock in all or a portion of the borrowing cost of anticipated debt issuances. Our floating rate debt and interest rate swaps subject us to risk resulting from changes in short-term (primarily LIBOR) interest rates.

We also are subject to interest rate risk with respect to our pension and postretirement benefit obligations, as changes in interest rates will effectively increase or decrease our liabilities associated with these benefit plans, which also results in changes to the amount of pension and postretirement benefit expense recognized each period.

We have investments in debt and preferred equity securities (including auction rate securities), as well as cash-equivalent instruments, some of which accrue income at variable rates of interest. Additionally, we hold a portfolio of finance receivables that accrue income at fixed and floating rates of interest.

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Equity Price Risk

We hold investments in various common equity securities that are subject to price risk. These securities are primarily in the form of equity index funds.

Credit Risk

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

Sensitivity Analysis

The following analysis provides quantitative information regarding our exposure to commodity price risk, foreign currency exchange risk, interest rate risk, and equity price risk embedded in our existing financial instruments. We utilize valuation models to evaluate the sensitivity of the fair value of financial instruments with exposure to market risk that assume instantaneous, parallel shifts in exchange rates, interest rate yield curves, and commodity and equity prices. For options and instruments with non-linear returns, models appropriate to the instrument are utilized to determine the impact of market shifts.

There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that exchange rates change in a parallel fashion and that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled. While this is our best estimate of the impact of the specified interest rate scenarios, these estimates should not be viewed as forecasts. We adjust the fixed and floating interest rate mix of our interest rate sensitive assets and liabilities in response to changes in market conditions. Additionally, changes in the fair value of foreign currency derivatives and commodity derivatives are offset by changes in the cash flows of the underlying hedged foreign currency and commodity transactions.

| (amounts in millions) | Shock-Test Result | |
|----------------------------------|-------------------|---------|
| | 2009 | 2008 |
| Change in Fair Value: | | |
| Currency Derivatives(1) | \$(16) | \$(239) |
| Change in Annual Expense: | | |
| Variable Rate Debt(2) | \$ 14 | \$ 39 |
| Interest Rate Derivatives(2) | \$ 38 | \$ 2 |

- (1) The potential change in fair value from a hypothetical 10% weakening of the U.S. Dollar against local currency exchange rates across all maturities.
(2) The potential change in annual interest expense resulting from a hypothetical 100 basis point increase in short-term interest rates, applied to our variable rate debt and swap instruments (excluding hedges of anticipated debt issuances).

The sensitivity of our pension and postretirement benefit obligations to changes in interest rates is quantified in "Critical Accounting Policies and Estimates". The sensitivity in the fair value and interest income of our marketable securities due to changes in equity prices and interest rates, respectively, was not material as of December 31, 2009 or 2008. The sensitivity in the fair value and interest income of our finance receivables due to changes in interest rates was also not material as of December 31, 2009 or 2008.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareowners
United Parcel Service, Inc.
Atlanta, Georgia

We have audited the internal control over financial reporting of United Parcel Service, Inc. and subsidiaries (the “Company”) as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Parcel Service, Inc. and its subsidiaries as of December 31, 2009, and the related statements of consolidated income, comprehensive income (loss), and cash flows for the year ended December 31, 2009 and our report dated February 26, 2010 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 26, 2010

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareowners
United Parcel Service, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of United Parcel Service, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related statements of consolidated income, comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of United Parcel Service Inc. and subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 26, 2010

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions)

| | December 31, | |
|---|-----------------|-----------------|
| | 2009 | 2008 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,542 | \$ 507 |
| Marketable securities | 558 | 542 |
| Accounts receivable, net | 5,369 | 5,547 |
| Finance receivables, net | 287 | 480 |
| Deferred income tax assets | 585 | 494 |
| Income taxes receivable | 266 | 167 |
| Other current assets | 668 | 1,108 |
| Total Current Assets | 9,275 | 8,845 |
| Property, Plant and Equipment, Net | 17,979 | 18,265 |
| Goodwill | 2,089 | 1,986 |
| Intangible Assets, Net | 596 | 511 |
| Non-Current Finance Receivables, Net | 337 | 476 |
| Other Non-Current Assets | 1,607 | 1,796 |
| Total Assets | <u>\$31,883</u> | <u>\$31,879</u> |
| LIABILITIES AND SHAREOWNERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term debt and commercial paper | \$ 853 | \$ 2,074 |
| Accounts payable | 1,766 | 1,855 |
| Accrued wages and withholdings | 1,416 | 1,436 |
| Self-insurance reserves | 757 | 732 |
| Income taxes accrued | 258 | 37 |
| Other current liabilities | 1,189 | 1,683 |
| Total Current Liabilities | 6,239 | 7,817 |
| Long-Term Debt | 8,668 | 7,797 |
| Pension and Postretirement Benefit Obligations | 5,457 | 6,323 |
| Deferred Income Tax Liabilities | 1,293 | 588 |
| Self-Insurance Reserves | 1,732 | 1,710 |
| Other Non-Current Liabilities | 798 | 864 |
| Shareowners' Equity: | | |
| Class A common stock (285 and 314 shares issued in 2009 and 2008) | 3 | 3 |
| Class B common stock (711 and 684 shares issued in 2009 and 2008) | 7 | 7 |
| Additional paid-in capital | 2 | — |
| Retained earnings | 12,745 | 12,412 |
| Accumulated other comprehensive loss | (5,127) | (5,642) |
| Deferred compensation obligations | 108 | 121 |
| Less: Treasury stock (2 shares in 2009 and 2008) | (108) | (121) |
| Total Equity for Controlling Interests | 7,630 | 6,780 |
| Noncontrolling Interests | 66 | — |
| Total Shareowners' Equity | <u>7,696</u> | <u>6,780</u> |
| Total Liabilities and Shareowners' Equity | <u>\$31,883</u> | <u>\$31,879</u> |

See notes to consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(In millions, except per share amounts)

| | Years Ended December 31, | | |
|----------------------------------|--------------------------|-----------------|----------------|
| | 2009 | 2008 | 2007 |
| Revenue | \$45,297 | \$51,486 | \$49,692 |
| Operating Expenses: | | | |
| Compensation and benefits | 25,640 | 26,063 | 31,745 |
| Repairs and maintenance | 1,075 | 1,194 | 1,157 |
| Depreciation and amortization | 1,747 | 1,814 | 1,745 |
| Purchased transportation | 5,379 | 6,550 | 5,902 |
| Fuel | 2,365 | 4,134 | 2,974 |
| Other occupancy | 985 | 1,027 | 958 |
| Other expenses | 4,305 | 5,322 | 4,633 |
| Total Operating Expenses | <u>41,496</u> | <u>46,104</u> | <u>49,114</u> |
| Operating Profit | <u>3,801</u> | <u>5,382</u> | <u>578</u> |
| Other Income and (Expense): | | | |
| Investment income | 10 | 75 | 99 |
| Interest expense | (445) | (442) | (246) |
| Total Other Income and (Expense) | <u>(435)</u> | <u>(367)</u> | <u>(147)</u> |
| Income Before Income Taxes | 3,366 | 5,015 | 431 |
| Income Tax Expense | <u>1,214</u> | <u>2,012</u> | <u>49</u> |
| Net Income | <u>\$ 2,152</u> | <u>\$ 3,003</u> | <u>\$ 382</u> |
| Basic Earnings Per Share | <u>\$ 2.16</u> | <u>\$ 2.96</u> | <u>\$ 0.36</u> |
| Diluted Earnings Per Share | <u>\$ 2.14</u> | <u>\$ 2.94</u> | <u>\$ 0.36</u> |

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
(In millions)

| | Years Ended December 31, | | |
|---|--------------------------|-----------------|---------------|
| | 2009 | 2008 | 2007 |
| Net income | \$2,152 | \$ 3,003 | \$ 382 |
| Change in foreign currency translation adjustment | 75 | (119) | 190 |
| Change in unrealized gain (loss) on marketable securities, net of tax | 33 | (69) | (3) |
| Change in unrealized gain (loss) on cash flow hedges, net of tax | (93) | 143 | (318) |
| Change in unrecognized pension and postretirement benefit costs, net of tax | 500 | (3,597) | 323 |
| Comprehensive income (loss) | <u>\$2,667</u> | <u>\$ (639)</u> | <u>\$ 574</u> |

See notes to consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(In millions)

| | Years Ended December 31, | | |
|--|--------------------------|----------------|-----------------|
| | 2009 | 2008 | 2007 |
| Cash Flows From Operating Activities: | | | |
| Net income | \$ 2,152 | \$ 3,003 | \$ 382 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Depreciation and amortization | 1,747 | 1,814 | 1,745 |
| Pension and postretirement benefit expense | 872 | 726 | 513 |
| Pension and postretirement benefit contributions | (924) | (246) | (687) |
| Self-insurance reserves | 47 | 87 | 69 |
| Deferred taxes, credits and other | 471 | 187 | (249) |
| Stock compensation expense | 430 | 516 | 447 |
| Asset impairment charges | 181 | 575 | 221 |
| Other (gains) losses | 115 | 634 | 243 |
| Changes in assets and liabilities, net of effect of acquisitions: | | | |
| Accounts receivable | (30) | 197 | (380) |
| Income taxes receivable | 27 | 1,161 | (1,191) |
| Other current assets | 136 | (144) | (3) |
| Accounts payable | (107) | 87 | (37) |
| Accrued wages and withholdings | (102) | 44 | 108 |
| Other current liabilities | 184 | (184) | 56 |
| Other operating activities | 86 | (31) | (114) |
| Net cash from operating activities | <u>5,285</u> | <u>8,426</u> | <u>1,123</u> |
| Cash Flows From Investing Activities: | | | |
| Capital expenditures | (1,602) | (2,636) | (2,820) |
| Proceeds from disposals of property, plant and equipment | 60 | 147 | 85 |
| Purchases of marketable securities | (2,251) | (3,391) | (9,017) |
| Sales and maturities of marketable securities | 2,240 | 3,113 | 9,638 |
| Net (increase) decrease in finance receivables | 261 | (49) | (39) |
| Other investing activities | 44 | (363) | (46) |
| Net cash (used in) investing activities | <u>(1,248)</u> | <u>(3,179)</u> | <u>(2,199)</u> |
| Cash Flows From Financing Activities: | | | |
| Net change in short-term debt | (1,738) | (2,016) | 2,613 |
| Proceeds from long-term borrowings | 3,160 | 3,613 | 4,094 |
| Repayments of long-term borrowings | (1,944) | (2,518) | (198) |
| Purchases of common stock | (561) | (3,570) | (2,639) |
| Issuances of common stock | 149 | 169 | 174 |
| Dividends | (1,751) | (2,219) | (1,703) |
| Other financing activities | (360) | (161) | (44) |
| Net cash provided by (used in) financing activities | <u>(3,045)</u> | <u>(6,702)</u> | <u>2,297</u> |
| Effect Of Exchange Rate Changes On Cash And Cash Equivalents | <u>43</u> | <u>(65)</u> | <u>12</u> |
| Net Increase (Decrease) In Cash And Cash Equivalents | <u>1,035</u> | <u>(1,520)</u> | <u>1,233</u> |
| Cash And Cash Equivalents: | | | |
| Beginning of period | 507 | 2,027 | 794 |
| End of period | <u>\$ 1,542</u> | <u>\$ 507</u> | <u>\$ 2,027</u> |
| Cash Paid During The Period For: | | | |
| Interest (net of amount capitalized) | <u>\$ 390</u> | <u>\$ 359</u> | <u>\$ 248</u> |
| Income taxes | <u>\$ 443</u> | <u>\$ 760</u> | <u>\$ 1,351</u> |

See notes to consolidated financial statements.

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statements and Business Activities

The accompanying financial statements include the accounts of United Parcel Service, Inc., and all of its consolidated subsidiaries (collectively “UPS” or the “Company”). All intercompany balances and transactions have been eliminated.

UPS concentrates its operations in the field of transportation services, primarily domestic and international letter and package delivery. Through our Supply Chain & Freight subsidiaries, we are also a global provider of specialized transportation, logistics, and financial services.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

U.S. Domestic and International Package Operations—Revenue is recognized upon delivery of a letter or package.

Forwarding and Logistics—Freight forwarding revenue and the expense related to the transportation of freight are recognized at the time the services are performed. Material management and distribution revenue is recognized upon performance of the service provided. Customs brokerage revenue is recognized upon completing documents necessary for customs entry purposes.

Freight—Revenue is recognized upon delivery of a less-than-truckload (“LTL”) or truckload (“TL”) shipment.

We utilize independent contractors and third party carriers in the performance of some transportation services. In situations where we act as principal party to the transaction, we recognize revenue on a gross basis; in circumstances where we act as an agent, we recognize revenue net of the cost of the purchased transportation.

Financial Services—Income on loans and direct finance leases is recognized on the effective interest method. Accrual of interest income is suspended at the earlier of the time at which collection of an account becomes doubtful or the account becomes 90 days delinquent. Income on operating leases is recognized on the straight-line method over the terms of the underlying leases.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash. We consider securities with maturities of three months or less, when purchased, to be cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

Investments

Marketable securities are classified as available-for-sale and are carried at fair value, with related unrealized gains and losses reported, net of tax, as accumulated other comprehensive income (“AOCI”), a separate component of shareholders’ equity. The amortized cost of debt securities is adjusted for amortization of

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income, along with interest and dividends. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in investment income.

We periodically review our investments for indications of other than temporary impairment considering many factors, including the extent and duration to which a security's fair value has been less than its cost, overall economic and market conditions, and the financial condition and specific prospects for the issuer. Impairment of investment securities results in a charge to income when a market decline below cost is other than temporary.

Accounts Receivable

Losses on accounts receivable are recognized when they are incurred, which requires us to make our best estimate of the probable losses inherent in our customer receivables at each balance sheet date. These estimates require consideration of historical loss experience, adjusted for current conditions, trends in customer payment frequency, and judgments about the probable effects of relevant observable data, including present economic conditions and the financial health of specific customers and market sectors. Our risk management process includes standards and policies for reviewing major account exposures and concentrations of risk.

Our total allowance for doubtful accounts as of December 31, 2009 and 2008 was \$138 and \$155 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2009, 2008, and 2007 was \$254, \$277, and \$225 million, respectively.

Inventories

Jet fuel, diesel, and unleaded gasoline inventories are valued at the lower of average cost or market. Fuel and other materials and supplies inventories are recognized as inventory when purchased, and then charged to expense when used in our operations. Total inventories were \$281 and \$332 million as of December 31, 2009 and 2008, respectively, and are included in "other current assets" on the consolidated balance sheet.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles—6 to 15 years; Aircraft—12 to 30 years; Buildings—20 to 40 years; Leasehold Improvements—terms of leases; Plant Equipment—6 to 8 1/4 years; Technology Equipment—3 to 5 years. The costs of major airframe and engine overhauls, as well as routine maintenance and repairs, are charged to expense as incurred.

Interest incurred during the construction period of certain property, plant and equipment is capitalized until the underlying assets are placed in service, at which time amortization of the capitalized interest begins, straight-line, over the estimated useful lives of the related assets. Capitalized interest was \$37, \$48, and \$67 million for 2009, 2008, and 2007, respectively.

We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows, or external appraisals, as applicable. We review long-lived assets for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill and Intangible Assets

Costs of purchased businesses in excess of net assets acquired (goodwill), and indefinite-lived intangible assets are tested for impairment at least annually, unless changes in circumstances indicate an impairment may have occurred sooner. We are required to test goodwill on a “reporting unit” basis. A reporting unit is the operating segment unless, for businesses within that operating segment, discrete financial information is prepared and regularly reviewed by management, in which case such a component business is the reporting unit.

A fair value approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its fair value. We primarily determine the fair value of our reporting units using a discounted cash flow model, and supplement this with observable valuation multiples for comparable companies, as applicable.

Finite-lived intangible assets, including trademarks, licenses, patents, customer lists, non-compete agreements, and franchise rights are amortized on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 20 years. Capitalized software is amortized over periods ranging from 3 to 5 years.

Self-Insurance Accruals

We self-insure costs associated with workers’ compensation claims, automotive liability, health and welfare, and general business liabilities, up to certain limits. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Recorded balances are based on reserve levels, which incorporate historical loss experience and judgments about the present and expected levels of cost per claim.

Pension and Postretirement Benefits

We incur certain employment-related expenses associated with pension and postretirement medical benefits. These pension and postretirement medical benefit costs for company-sponsored benefit plans are calculated using various actuarial assumptions and methodologies, including discount rates, expected return on plan assets, health care cost trend rates, inflation, rates of compensation increase, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis, unless circumstances require an interim remeasurement date for any of our plans.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Our contributions to these plans are determined in accordance with the respective collective bargaining agreements. We recognize expense for the contractually required contribution for each period, and we recognize a liability for any contributions due and unpaid (included in “other current liabilities”).

Income Taxes

Income taxes are accounted for on an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, we generally consider all expected future events other than proposed changes in the tax law or rates. Valuation allowances are provided if it is more likely than not that a deferred tax asset will not be realized.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Once it is determined that the position meets the recognition threshold, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an additional charge to the tax provision.

Foreign Currency Translation

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Balance sheet currency translation adjustments are recorded in AOCI. Net currency transaction gains and losses included in other operating expenses were pre-tax gains (losses) of \$(45), \$46, and \$26 million in 2009, 2008 and 2007, respectively.

Stock-Based Compensation

All share-based awards to employees are to be measured based on their fair values and expensed over the period during which an employee is required to provide service in exchange for the award (the vesting period). We issue employee share-based awards under the UPS Incentive Compensation Plan that are subject to specific vesting conditions; generally, the awards cliff vest or vest ratably over a five year period, “the nominal vesting period,” or at the date the employee retires (as defined by the plan), if earlier. Compensation cost is recognized immediately for awards granted to retirement-eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

Fair Value Measurements

Our financial assets and liabilities measured at fair value on a recurring basis have been categorized based upon a fair value hierarchy. Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Level 2 inputs are based on other observable market data, such as quoted prices for similar assets and liabilities, and inputs other than quoted prices that are observable, such as interest rates and yield curves. Level 3 inputs are developed from unobservable data reflecting our own assumptions, and include situations where there is little or no market activity for the asset or liability.

Certain non-financial assets and liabilities are measured at fair value on a nonrecurring basis, including property, plant, and equipment, goodwill, and intangible assets. These assets are not measured at fair value on a recurring basis, however they are subject to fair value adjustments in certain circumstances, such as when there is evidence of an impairment. A general description of the valuation methodologies used for assets and liabilities measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy, is included in each footnote with fair value measurements present.

Derivative Instruments

All financial derivative instruments are recorded on our balance sheet at fair value. Derivatives not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge,

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

depending on the nature of the hedge, changes in its fair value that are considered to be effective, as defined, either offset the change in fair value of the hedged assets, liabilities, or firm commitments through income, or are recorded in AOCI until the hedged item is recorded in income. Any portion of a change in a derivative's fair value that is considered to be ineffective, or is excluded from the measurement of effectiveness, is recorded immediately in income.

Recently Adopted Accounting Standards

Provisions within the following accounting standards were adopted during the years covered by these financial statements:

Financial Instruments: The Financial Accounting Standards Board ("FASB") issued guidance in February 2007 that gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, this guidance allowed for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. We adopted this standard on January 1, 2008, and elected to apply the fair value option to our investment in certain investment partnerships that were previously accounted for under the equity method. Accordingly, we recorded a \$16 million reduction to retained earnings as of January 1, 2008. These investments are reported in "other non-current assets" on the consolidated balance sheet.

Compensation-Retirement Benefits: We previously utilized the early measurement date option available in accounting for our pension and postretirement medical benefit plans, and we measured the funded status of our plans as of September 30 each year. Under guidance issued by the FASB, we were required to use a December 31 measurement date for all of our pension and postretirement benefit plans beginning in 2008. As a result of this change in measurement date, we recorded a cumulative effect after-tax \$44 million reduction to retained earnings as of January 1, 2008.

Beginning in 2009, new guidance was adopted that required disclosures about plan assets of a defined benefit pension or other postretirement plan, investment policies and strategies, major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets and significant concentrations of risk within plan assets. These disclosures are provided in Note 5.

Income Taxes: Effective beginning in 2007, guidance issued by the FASB required that we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. We adopted this new standard on January 1, 2007, and the cumulative effect of adopting this standard was to recognize a \$104 million decrease in the January 1, 2007 balance of retained earnings.

Fair Value Measurements and Disclosures: The FASB issued guidance on fair value measurements that took effect on January 1, 2008 and are presented in Notes 2, 3, 4, 5, and 14. On January 1, 2009, we implemented the previously deferred provisions of this guidance for nonfinancial assets and liabilities recorded at fair value. The accounting requirements for determining fair value when the volume and level of activity for an asset or liability have significantly decreased, and for identifying transactions that are not orderly, contained the FASB's guidance were adopted on April 1, 2009, but had an immaterial impact on our financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivatives and Hedging: The FASB issued certain disclosure requirements for derivatives and hedging transactions that took effect on January 1, 2009 and are presented in Note 14.

Business Combinations: The FASB issued new accounting requirements for business combinations, which took effect on January 1, 2009. This new guidance was applied to business combinations completed in 2009, but had an immaterial impact on our financial statements.

Consolidation: The FASB issued accounting and presentation requirements for noncontrolling interests, which took effect on January 1, 2009, however this new guidance had an immaterial impact on our financial statements.

Accounting Standards Issued But Not Yet Effective

Other new pronouncements issued but not effective until after December 31, 2009, are not expected to have a significant effect on our consolidated financial position or results of operations.

Changes in Presentation

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

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 2. CASH AND INVESTMENTS

The following is a summary of marketable securities classified as available-for-sale at December 31, 2009 and 2008 (in millions):

| | <u>Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> |
|--|--------------|-----------------------------|------------------------------|---------------------------------|
| 2009 | | | | |
| Current marketable securities: | | | | |
| U.S. government and agency debt securities | \$126 | \$ — | \$ (1) | \$ 125 |
| Mortgage and asset-backed debt securities | 158 | 2 | (1) | 159 |
| Corporate debt securities | 213 | 6 | — | 219 |
| U.S. state and local municipal debt securities | 22 | — | — | 22 |
| Other debt and equity securities | 28 | 5 | — | 33 |
| Current marketable securities | <u>547</u> | <u>13</u> | <u>(2)</u> | <u>558</u> |
| Non-current marketable securities: | | | | |
| Mortgage and asset-backed debt securities | 150 | — | (38) | 112 |
| U.S. state and local municipal debt securities | 115 | — | (26) | 89 |
| Common equity securities | 21 | 10 | — | 31 |
| Preferred equity securities | 16 | — | (1) | 15 |
| Non-current marketable securities | <u>302</u> | <u>10</u> | <u>(65)</u> | <u>247</u> |
| Total marketable securities | <u>\$849</u> | <u>\$ 23</u> | <u>\$ (67)</u> | <u>\$ 805</u> |
| 2008 | | | | |
| Current marketable securities: | | | | |
| U.S. government and agency debt securities | \$ 93 | \$ 2 | \$ — | \$ 95 |
| Mortgage and asset-backed debt securities | 278 | 3 | (11) | 270 |
| Corporate debt securities | 158 | 5 | (3) | 160 |
| Other debt and equity securities | 30 | — | (13) | 17 |
| Current marketable securities | <u>559</u> | <u>10</u> | <u>(27)</u> | <u>542</u> |
| Non-current marketable securities: | | | | |
| Mortgage and asset-backed debt securities | 150 | — | (34) | 116 |
| U.S. state and local municipal debt securities | 116 | — | (29) | 87 |
| Common equity securities | 25 | 3 | — | 28 |
| Preferred equity securities | 21 | — | (8) | 13 |
| Non-current marketable securities | <u>312</u> | <u>3</u> | <u>(71)</u> | <u>244</u> |
| Total marketable securities | <u>\$871</u> | <u>\$ 13</u> | <u>\$ (98)</u> | <u>\$ 786</u> |

The gross realized gains on sales of marketable securities totaled \$16, \$19, and \$23 million in 2009, 2008, and 2007, respectively. The gross realized losses totaled \$12, \$10, and \$9 million in 2009, 2008, and 2007, respectively. Impairment losses recognized on marketable securities and short-term investments totaled \$17 and \$23 million during 2009 and 2008 (discussed further below), with no such losses recognized in 2007.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Auction Rate Securities

At December 31, 2009, we held \$281 million in principal value of investments in auction rate securities. Some of these investments take the form of debt securities, and are structured as direct obligations of local governments or agencies (classified as “U.S. state and local municipal securities”). Other auction rate security investments are structured as obligations of asset-backed trusts (classified as “Asset-backed debt securities”), generally all of which are collateralized by student loans and are guaranteed by the U.S. Government or through private insurance. The remaining auction rate securities take the form of preferred stock, and are collateralized by securities issued directly by large corporations or money market securities. Substantially all of our investments in auction rate securities maintain investment-grade ratings of BBB / Baa or higher by Standard & Poor’s Rating Service (“Standard & Poor’s”) and Moody’s Investors Service (“Moody’s”), respectively.

During the first quarter of 2008, market auctions, including auctions for substantially all of our auction rate securities portfolio, began to fail due to insufficient buyers. As a result of the persistent failed auctions, and the uncertainty of when these investments could successfully be liquidated at par, we reclassified all of our investments in auction rate securities to non-current marketable securities (which are reported in “Other Non-Current Assets” in the consolidated balance sheet), as noted in the table above, as of March 31, 2008. As market auctions have continued to fail, we have retained the non-current classification of these securities as of December 31, 2009. The securities for which auctions have failed will continue to accrue interest and be auctioned at each respective reset date until the auction succeeds, the issuer redeems the securities, or the securities mature.

Historically, the par value of the auction rate securities approximated fair value due to the frequent resetting of the interest rate. While we will continue to earn interest on these investments in failed auction rate securities (often at the maximum contractual interest rate), the estimated fair value of the auction rate securities no longer approximates par value due to the lack of liquidity. We estimated the fair value of these securities after considering several factors, including the credit quality of the securities, the rate of interest received since the failed auctions began, the yields of securities similar to the underlying auction rate securities, and the input of broker-dealers in these securities. As a result, we recorded an after-tax unrealized loss of approximately \$40 million on these securities as of December 31, 2009 in other comprehensive income (\$65 million pre-tax), reflecting the decline in the estimated fair value of these securities.

Investment Other-Than-Temporary Impairments

During the second quarter of 2009, we recorded impairment losses on certain perpetual preferred securities, and an auction rate security collateralized by preferred securities, issued by large financial institutions. The impairment charge results from conversion offers from the issuers of these securities at prices well below the stated redemption value of the preferred shares. These securities, which had a cost basis of \$42 million, were written down to their fair value of \$25 million as of June 30, 2009, as an other-than-temporary impairment. The \$17 million total impairment charge during the second quarter was recorded in investment income (loss) on the income statement.

During the third quarter of 2008, we recorded impairment losses on two auction rate securities that were collateralized by preferred stock issued by the Federal National Mortgage Association (“FNMA”) and the Federal Home Loan Mortgage Corporation (“FHLMC”). The impairment resulted from actions by the U.S. Treasury Department and the Federal Housing Finance Agency to place FNMA and FHLMC under conservatorship. Additionally, we recorded impairment losses on a municipal auction rate security and on holdings of several medium term notes issued by Lehman Brothers Inc., which declared bankruptcy during the

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

third quarter of 2008. We do not hold any other securities in any of these entities. The total of these credit-related impairment losses during the year was \$23 million, which was recorded in investment income on the income statement.

For the remaining auction rate securities and other debt securities, we have concluded that no additional other-than-temporary impairment losses existed as of December 31, 2009. In making this determination, we considered the financial condition and prospects of the issuer, the magnitude of the losses compared with the investments' cost, the probability that we will be unable to collect all amounts due according to the contractual terms of the security, the credit rating of the security, and our ability and intent to hold these investments until the anticipated recovery in market value occurs.

Unrealized Losses

The following table presents the age of gross unrealized losses and fair value by investment category for all securities in a loss position as of December 31, 2009 (in millions):

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---------------------|-------------------|-------------------|-------------------|--------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. government and agency securities | \$ 84 | \$ (1) | \$— | \$ — | \$ 84 | \$ (1) |
| Mortgage and asset-backed securities | 50 | — | 135 | (39) | 185 | (39) |
| Corporate securities | 44 | — | 3 | — | 47 | — |
| U.S. state and local municipal securities | — | — | 89 | (26) | 89 | (26) |
| Other debt securities | 4 | — | — | — | 4 | — |
| Total debt securities | 182 | (1) | 227 | (65) | 409 | (66) |
| Common equity securities | — | — | — | — | — | — |
| Preferred equity securities | — | — | 15 | (1) | 15 | (1) |
| | <u>\$ 182</u> | <u>\$ (1)</u> | <u>\$242</u> | <u>\$ (66)</u> | <u>\$424</u> | <u>\$ (67)</u> |

The unrealized losses in the U.S. state and local municipal securities, preferred equity securities, and mortgage and asset-backed securities primarily relate to the auction rate securities discussed previously. The unrealized losses for the non-auction rate securities within those categories are primarily related to various fixed income securities, and are primarily due to changes in market interest rates. We have both the intent and ability to hold the securities contained in the previous table for a time necessary to recover the cost basis.

Maturity Information

The amortized cost and estimated fair value of marketable securities at December 31, 2009, by contractual maturity, are shown below (in millions). Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

| | Cost | Estimated Fair Value |
|--|--------------|----------------------|
| Due in one year or less | \$ 13 | \$ 13 |
| Due after one year through three years | 221 | 222 |
| Due after three years through five years | 62 | 64 |
| Due after five years | 497 | 436 |
| | 793 | 735 |
| Equity securities | 56 | 70 |
| | <u>\$849</u> | <u>\$ 805</u> |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Restricted Cash

Restricted cash and cash equivalents relate to our self-insurance requirements. In 2008, we entered into an escrow agreement with an insurance carrier to guarantee our self-insurance obligations. This agreement requires us to provide cash collateral to the insurance carrier, which is classified as other non-current assets on our consolidated balance sheet. Additional cash collateral provided is reflected in other investing activities in the cash flow statement. This restricted cash is invested in money market funds and similar cash equivalent type assets. As of December 31, 2009 and 2008, we had \$286 and \$191 million in restricted cash, respectively.

Fair Value Measurements

Marketable securities utilizing Level 1 inputs include active exchange-traded equity securities and equity index funds, and most U.S. Government debt securities, as these securities all have quoted prices in active markets. Marketable securities utilizing Level 2 inputs include non-auction rate asset-backed securities, corporate bonds, and municipal bonds. These securities are valued using market corroborated pricing, matrix pricing, or other models that utilize observable inputs such as yield curves.

We have classified our auction rate securities portfolio as utilizing Level 3 inputs, as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. The valuation may be revised in future periods as market conditions evolve. These securities were valued as of December 31, 2009 considering several factors, including the credit quality of the securities, the rate of interest received since the failed auctions began, the yields of securities similar to the underlying auction rate securities, and the input of broker-dealers in these securities.

We maintain holdings in certain investment partnerships that are measured at fair value utilizing Level 3 inputs (classified as “other investments” in the tables below, and as “Other Non-Current Assets” in the consolidated balance sheet). These partnership holdings do not have any quoted prices, nor can they be valued using inputs based on observable market data. These investments are valued internally using a discounted cash flow model based on each partnership’s financial statements and cash flow projections.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents information about our investments measured at fair value on a recurring basis as of December 31, 2009 and 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in millions).

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2009 |
|--|--|---|--|------------------------------------|
| 2009 | | | | |
| Marketable Securities: | | | | |
| U.S. Government and Agency Debt Securities | \$ 125 | \$ — | \$ — | \$ 125 |
| Mortgage and Asset-Backed Debt Securities | — | 159 | 112 | 271 |
| Corporate Debt Securities | — | 219 | — | 219 |
| U.S. State and Local Municipal Debt Securities | — | 22 | 89 | 111 |
| Other Debt and Equity Securities | 54 | 10 | 15 | 79 |
| Other investments | — | — | 301 | 301 |
| Total | <u>\$ 179</u> | <u>\$ 410</u> | <u>\$ 517</u> | <u>\$ 1,106</u> |

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2008 |
|--|--|---|--|------------------------------------|
| 2008 | | | | |
| Marketable Securities: | | | | |
| U.S. Government and Agency Debt Securities | \$ 90 | \$ 5 | \$ — | \$ 95 |
| Mortgage and Asset-Backed Debt Securities | — | 270 | 116 | 386 |
| Corporate Debt Securities | — | 160 | — | 160 |
| U.S. State and Local Municipal Debt Securities | — | — | 87 | 87 |
| Other Debt and Equity Securities | 43 | 2 | 13 | 58 |
| Other investments | — | — | 331 | 331 |
| Total | <u>\$ 133</u> | <u>\$ 437</u> | <u>\$ 547</u> | <u>\$ 1,117</u> |

The following table presents the changes in the above Level 3 instruments measured on a recurring basis for the year ended December 31, 2009 (in millions).

| | Marketable Securities | Other Investments | Total |
|--|--------------------------|----------------------|--------------|
| Balance on January 1, 2009 | \$ 216 | \$ 331 | \$547 |
| Transfers into (out of) Level 3 | — | — | — |
| Net realized and unrealized gains (losses): | | | |
| Included in earnings (in investment income) | (5) | (30) | (35) |
| Included in accumulated other comprehensive income (pre-tax) | 7 | — | 7 |
| Purchases, issuances, and settlements | (2) | — | (2) |
| Balance on December 31, 2009 | <u>\$ 216</u> | <u>\$ 301</u> | <u>\$517</u> |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 3. FINANCE RECEIVABLES

The following is a summary of finance receivables at December 31, 2009 and 2008 (in millions):

| | <u>2009</u> | <u>2008</u> |
|-----------------------------------|--------------|--------------|
| Commercial term loans | \$305 | \$420 |
| Investment in finance leases | 92 | 126 |
| Asset-based lending | 151 | 345 |
| Receivable factoring | 107 | 90 |
| Gross finance receivables | 655 | 981 |
| Less: Allowance for credit losses | (31) | (25) |
| Balance at December 31 | <u>\$624</u> | <u>\$956</u> |

Outstanding receivable balances at December 31, 2009 and 2008 are net of unearned income of \$19 and \$26 million, respectively.

When we “factor” (i.e., purchase) a customer invoice from a client, we record the customer receivable as an asset and also establish a liability for the funds due to the client, which is recorded in accounts payable on the consolidated balance sheet. The following is a reconciliation of receivable factoring balances at December 31, 2009 and 2008 (in millions):

| | <u>2009</u> | <u>2008</u> |
|------------------------------|--------------|--------------|
| Customer receivable balances | \$107 | \$ 90 |
| Less: Amounts due to client | (88) | (62) |
| Net funds employed | <u>\$ 19</u> | <u>\$ 28</u> |

Non-earning finance receivables were \$115 and \$94 million at December 31, 2009 and 2008, respectively, of which \$81 and \$57 million are U.S. government guaranteed portions of loans. The following is a rollforward of the allowance for credit losses on finance receivables (in millions):

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|--------------|--------------|
| Balance at January 1 | \$ 25 | \$ 13 |
| Provisions charged to operations | 25 | 28 |
| Charge-offs, net of recoveries | (19) | (16) |
| Balance at December 31 | <u>\$ 31</u> | <u>\$ 25</u> |

The carrying value of finance receivables at December 31, 2009, by contractual maturity, is shown below (in millions). Actual maturities may differ from contractual maturities because some borrowers have the right to prepay these receivables without prepayment penalties.

| | <u>Carrying Value</u> |
|--|-----------------------|
| Due in one year or less | \$ 294 |
| Due after one year through three years | 54 |
| Due after three years through five years | 38 |
| Due after five years | 269 |
| | <u>\$ 655</u> |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Based on interest rates for financial instruments with similar terms and maturities, the estimated fair value of finance receivables is approximately \$623 and \$957 million as of December 31, 2009 and 2008, respectively. At December 31, 2009, we had unfunded loan commitments totaling \$761 million, consisting of standby letters of credit of \$115 million and other unfunded lending commitments of \$646 million.

During 2009, impaired finance receivables with a carrying amount of \$13 million were written down to a net fair value of \$8 million, based on the fair value for the related collateral which was determined using unobservable inputs (Level 3).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31 consists of the following (in millions):

| | 2009 | 2008 |
|--|------------------|------------------|
| Vehicles | \$ 5,480 | \$ 5,508 |
| Aircraft (including aircraft under capitalized leases) | 13,777 | 14,564 |
| Land | 1,079 | 1,068 |
| Buildings | 3,076 | 2,836 |
| Building and leasehold improvements | 2,800 | 2,702 |
| Plant equipment | 6,371 | 5,720 |
| Technology equipment | 1,591 | 1,620 |
| Equipment under operating leases | 145 | 136 |
| Construction-in-progress | 488 | 944 |
| | <u>34,807</u> | <u>35,098</u> |
| Less: Accumulated depreciation and amortization | <u>(16,828)</u> | <u>(16,833)</u> |
| | <u>\$ 17,979</u> | <u>\$ 18,265</u> |

We continually monitor our aircraft fleet utilization in light of current and projected volume levels, aircraft fuel prices, and other factors. In 2008, we had announced that we were in negotiations with DHL to provide air transportation services for all of DHL's express, deferred and international package volume within the United States, as well as air transportation services between the United States, Canada and Mexico. In early April 2009, UPS and DHL mutually agreed to terminate further discussions on providing these services. Additionally, our U.S. Domestic Package air delivery volume had declined for several quarters as a result of persistent economic weakness and shifts in product mix from our premium air services to our lower cost ground services. As a result of these factors, the utilization of certain aircraft fleet types had declined and was expected to be lower in the future.

Based on the factors noted above, as well as FAA aging aircraft directives that would require significant future maintenance expenditures, we determined that a triggering event had occurred that required an impairment assessment of our McDonnell-Douglas DC-8-71 and DC-8-73 aircraft fleets. We conducted an impairment analysis as of March 31, 2009, and determined that the carrying amount of these fleets was not recoverable due to the accelerated expected retirement dates of the aircraft. Based on anticipated residual values for the airframes, engines, and parts, we recognized an impairment charge of \$181 million in the first quarter of 2009. This charge is included in the caption "Other expenses" in the Statement of Consolidated Income, and impacted our U.S. Domestic Package segment. The DC-8 fleets were subsequently retired from service. We currently continue to utilize and operate all of our other aircraft fleets.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The impaired airframes, engines, and parts had a net carrying value of \$192 million, and were written down to an aggregate fair value of \$11 million. The fair values for the impaired airframes, engines, and parts were determined using unobservable inputs (Level 3).

As a result of business changes that occurred in the first quarter of 2007, including capacity-optimization programs in our domestic and international air freight forwarding business as well as changes to our aircraft orders and planned delivery dates, we began a review process of our aircraft fleet types to ensure that we maintain the optimum mix of aircraft types to service our international and domestic package businesses. The review was completed in March 2007, and based on the results of our evaluation, we accelerated the planned retirement of certain Boeing 727 and 747 aircraft, and recognized an impairment and obsolescence charge of \$221 million for the aircraft and related engines and parts in 2007. This charge is included in the caption “Other expenses” in the Statement of Consolidated Income, of which \$159 million impacted our U.S. Domestic Package segment and \$62 million impacted our International Package segment.

NOTE 5. EMPLOYEE BENEFIT PLANS

We sponsor various retirement and pension plans, including defined benefit and defined contribution plans which cover our employees worldwide.

U.S. Pension Benefits

In the U.S. we maintain the following single-employer defined benefit pension plans: UPS Retirement Plan, UPS Pension Plan, UPS IBT Pension Plan, and the UPS Excess Coordinating Benefit Plan, a non-qualified plan.

The UPS Retirement Plan is noncontributory and includes substantially all eligible employees of participating domestic subsidiaries who are not members of a collective bargaining unit, as well as certain employees covered by a collective bargaining agreement. This plan generally provides for retirement benefits based on average compensation levels earned by employees prior to retirement. Benefits payable under this plan are subject to maximum compensation limits and the annual benefit limits for a tax qualified defined benefit plan as prescribed by the Internal Revenue Service.

The UPS Pension Plan is noncontributory and includes certain eligible employees of participating domestic subsidiaries and members of collective bargaining units that elect to participate in the plan. This plan provides for retirement benefits based on service credits earned by employees prior to retirement.

The UPS IBT Pension Plan is noncontributory and includes employees that were previously members of the Central States, Southeast and Southwest Areas Pension Fund (“Central States Pension Fund”), a multi-employer pension plan, in addition to other eligible employees who are covered under certain collective bargaining agreements.

Our national master agreement with the International Brotherhood of Teamsters (“Teamsters”) allowed us, upon ratification, to withdraw employees from the Central States Pension Fund and establish this jointly trustee single-employer plan for this group of employees. We recorded a pre-tax charge of \$6.1 billion to establish our withdrawal liability upon ratification of the national master agreement, and made a \$6.1 billion payment to the Central States Pension Fund in December 2007. In connection with the national master agreement and upon establishment of the UPS IBT Pension Plan, we restored certain benefit levels to our employee group within the new plan, which resulted in the initial recognition of a \$1.701 billion pension liability and a corresponding \$1.062 billion reduction of AOCI and \$639 million reduction of deferred tax liabilities.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The withdrawal liability was based on computations performed by independent actuaries employed by the Central States Pension Fund, in accordance with the plan document and the applicable requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”). We negotiated our withdrawal from the Central States Pension Fund as part of our national master agreement with the Teamsters, which included other modifications to hourly wage rates, healthcare and pension benefits, and work rules. We sought to negotiate our withdrawal from the Central States Pension Fund, as we believed the fund would likely continue to have funding challenges, and would present a risk to UPS of having to face higher future contribution requirements and a risk to the security of the pension benefits of those UPS employees who participated in the fund. We believe that we benefited financially from the ability to achieve a ratified national master agreement seven months before the expiration of the previous agreement, as well as by gaining better control over the future cost and funding of pension benefits by limiting our obligations solely to UPS Teamster employees through the new UPS IBT Pension Plan. As the UPS IBT Pension Plan matures, we believe that it will become cost beneficial from a cash flow and earnings standpoint compared with having remained in the Central States Pension Fund.

The UPS Excess Coordinating Benefit Plan is a non-qualified plan that provides benefits to certain participants in the UPS Retirement Plan for amounts that exceed the benefit limits described above.

U.S. Postretirement Medical Benefits

We also sponsor postretirement medical plans in the U.S. that provide health care benefits to our retirees who meet certain eligibility requirements and who are not otherwise covered by multi-employer plans. Generally, this includes employees with at least 10 years of service who have reached age 55 and employees who are eligible for postretirement medical benefits from a Company-sponsored plan pursuant to collective bargaining agreements. We have the right to modify or terminate certain of these plans. These benefits have been provided to certain retirees on a noncontributory basis; however, in many cases, retirees are required to contribute all or a portion of the total cost of the coverage.

International Pension Benefits

We also sponsor various defined benefit plans covering certain of our international employees. The majority of our international obligations are for defined benefit plans in Canada and the United Kingdom. In addition, many of our international employees are covered by government-sponsored retirement and pension plans. We are not directly responsible for providing benefits to participants of government-sponsored plans.

Multi-Employer Benefit Plans

We also contribute to several multi-employer pension plans for which the subsequent disclosure information is not determinable. Amounts charged to operations for pension contributions to these multi-employer plans were \$1.125, \$1.069, and \$7.642 billion during 2009, 2008, and 2007, respectively. The 2007 amount includes the \$6.1 billion payment to withdraw from the Central States Pension Fund, as previously discussed.

We also contribute to several multi-employer health and welfare plans that cover both active and retired employees for which the subsequent disclosure information is not determinable. Amounts charged to operations for contributions to multi-employer health and welfare plans were \$1.031 billion, \$990 million, and \$919 million during 2009, 2008, and 2007, respectively.

Defined Contribution Plans

We also sponsor several defined contribution plans for all employees not covered under collective bargaining agreements, and for certain employees covered under collective bargaining agreements. The

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Company matches, in shares of UPS common stock or cash, a portion of the participating employees' contributions. In early 2009, we indefinitely suspended the company matching contributions to the primary employee defined contribution plan. Matching contributions charged to expense were \$21, \$116, and \$128 million for 2009, 2008, and 2007, respectively.

Contributions are also made to defined contribution money purchase plans under certain collective bargaining agreements. Amounts charged to expense were \$80, \$78, and \$72 million for 2009, 2008, and 2007, respectively.

Net Periodic Benefit Cost

Information about net periodic benefit cost for the company-sponsored pension and postretirement benefit plans is as follows (in millions):

| | U.S. Pension Benefits | | | U.S. Postretirement Medical Benefits | | | International Pension Benefits | | |
|---------------------------|-----------------------|---------------|---------------|--------------------------------------|--------------|--------------|--------------------------------|--------------|--------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Net Periodic Cost: | | | | | | | | | |
| Service cost | \$ 689 | \$ 707 | \$ 520 | \$ 85 | \$ 96 | \$101 | \$ 17 | \$ 26 | \$ 31 |
| Interest cost | 1,130 | 1,051 | 835 | 211 | 202 | 182 | 28 | 31 | 31 |
| Expected return on assets | (1,488) | (1,517) | (1,302) | (27) | (49) | (46) | (26) | (35) | (31) |
| Amortization of: | | | | | | | | | |
| Transition obligation | 4 | 5 | 3 | — | — | — | — | — | — |
| Prior service cost | 178 | 184 | 57 | 6 | (4) | (8) | 1 | 1 | 1 |
| Actuarial (gain) loss | 46 | 8 | 109 | 14 | 20 | 22 | — | — | 5 |
| Other | 3 | — | — | — | — | 3 | 1 | — | — |
| Net periodic benefit cost | <u>\$ 562</u> | <u>\$ 438</u> | <u>\$ 222</u> | <u>\$289</u> | <u>\$265</u> | <u>\$254</u> | <u>\$ 21</u> | <u>\$ 23</u> | <u>\$ 37</u> |

Actuarial Assumptions

The table below provides the weighted-average actuarial assumptions used to determine the net periodic benefit cost.

| | Pension Benefits | | | Postretirement Medical Benefits | | | International Pension Benefits | | |
|-------------------------------|------------------|-------|-------|---------------------------------|-------|-------|--------------------------------|-------|-------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Discount rate | 6.75% | 6.47% | 6.00% | 6.66% | 6.25% | 6.00% | 6.17% | 5.57% | 4.97% |
| Rate of compensation increase | 4.50% | 4.50% | 4.50% | N/A | N/A | N/A | 3.65% | 3.64% | 3.40% |
| Expected return on assets | 8.96% | 8.96% | 8.96% | 9.00% | 9.00% | 9.00% | 7.09% | 7.54% | 7.53% |

The table below provides the weighted-average actuarial assumptions used to determine the benefit obligations of our plans.

| | Pension Benefits | | Postretirement Medical Benefits | | International Pension Benefits | |
|-------------------------------|------------------|-------|---------------------------------|-------|--------------------------------|-------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Discount rate | 6.58% | 6.75% | 6.43% | 6.66% | 5.84% | 6.17% |
| Rate of compensation increase | 4.50% | 4.50% | N/A | N/A | 3.62% | 3.65% |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A discount rate is used to determine the present value of our future benefit obligations. In 2008 and prior years, the discount rate for U.S. plans was determined by matching the expected cash flows to a yield curve based on long-term, high quality fixed income debt instruments available as of the measurement date. In 2008, we reduced the population of bonds from which the yield curve was developed to better reflect bonds we would more likely consider to settle our obligations. In 2009, we further enhanced this process for plans in the U.S. by using a bond matching approach to select specific bonds that would satisfy our projected benefit payments. We believe the bond matching approach more closely reflects the process we would employ to settle our pension and postretirement benefit obligations. These modifications had an impact of increasing the pension benefits and postretirement medical benefits discount rate on average 31 and 51 basis points for 2009 and 25 and 17 basis points for 2008. For 2009, each basis point increase in the discount rate decreases the projected benefit obligation by approximately \$25 million and \$3 million for pension and postretirement medical benefits, respectively. For our international plans, the discount rate is selected based on high quality fixed income indices available in the country in which the plan is domiciled. These assumptions are updated annually.

An assumption for expected return on plan assets is used to determine a component of net periodic benefit cost for the fiscal year. This assumption for our U.S. plans was developed using a long-term projection of returns for each asset class, and taking into consideration our target asset allocation. The expected return for each asset class is a function of passive, long-term capital market assumptions and excess returns generated from active management. The capital market assumptions used are provided by independent investment advisors, while excess return assumptions are supported by historical performance, fund mandates and investment expectations. In addition, we compare the expected return on asset assumption with the average historical rate of return these plans have been able to generate.

For the UPS Retirement Plan, we use a market-related valuation method for recognizing investment gains or losses. Investment gains or losses are the difference between the expected and actual return based on the market-related value of assets. This method recognizes investment gains or losses over a five year period from the year in which they occur, which reduces year-to-year volatility in pension expense. Our expense in future periods will be impacted as gains or losses are recognized in the market-related value of assets.

For plans outside the U.S., consideration is given to local market expectations of long-term returns. Strategic asset allocations are determined by country, based on the nature of liabilities and considering the demographic composition of the plan participants.

Health care cost trends are used to project future postretirement benefits payable from our plans. For year-end 2009 U.S. plan obligations, future postretirement medical benefit costs were forecasted assuming an initial annual increase of 8.0%, decreasing to 5.0% by the year 2016 and with consistent annual increases at those ultimate levels thereafter.

Assumed health care cost trends have a significant effect on the amounts reported for the U.S. postretirement medical plans. A one-percent change in assumed health care cost trend rates would have the following effects (in millions):

| | <u>1% Increase</u> | <u>1% Decrease</u> |
|---|--------------------|--------------------|
| Effect on total of service cost and interest cost | \$ 10 | \$ (10) |
| Effect on postretirement benefit obligation | \$ 83 | \$ (87) |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Benefit Obligations and Fair Value of Plan Assets

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets as of the respective measurement dates in each year (in millions).

| | U.S. Pension Benefits | | U.S. Postretirement Medical Benefits | | International Pension Benefits | |
|--|-----------------------|-----------------|---|----------------|--------------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Benefit Obligations: | | | | | | |
| Net benefit obligation at beginning of year | \$16,303 | \$15,469 | \$3,166 | \$3,153 | \$438 | \$ 574 |
| Service cost | 689 | 707 | 85 | 96 | 17 | 26 |
| Interest cost | 1,130 | 1,051 | 211 | 202 | 28 | 31 |
| Gross benefits paid | (504) | (418) | (202) | (192) | (12) | (14) |
| Plan participants' contributions | — | — | 16 | 14 | 2 | 2 |
| Plan amendments | 1 | 20 | (21) | 182 | — | — |
| Actuarial (gain)/loss | 141 | (782) | 80 | (324) | 53 | (70) |
| Foreign currency exchange rate changes | — | — | — | — | 48 | (113) |
| Curtailments and settlements | — | — | — | — | (3) | (4) |
| Effect of eliminating early measurement date | — | 256 | — | 34 | — | 12 |
| Other | 3 | — | 1 | 1 | 4 | (6) |
| Net benefit obligation at end of year | <u>\$17,763</u> | <u>\$16,303</u> | <u>\$3,336</u> | <u>\$3,166</u> | <u>\$575</u> | <u>\$ 438</u> |
| Fair Value of Plan Assets: | | | | | | |
| Fair value of plan assets at beginning of year | \$12,809 | \$17,954 | \$ 349 | \$ 598 | \$343 | \$ 470 |
| Actual return on plan assets | 2,258 | (5,124) | 44 | (145) | 60 | (83) |
| Employer contributions | 788 | 120 | 91 | 82 | 45 | 44 |
| Plan participants' contributions | — | — | 16 | 14 | 1 | 2 |
| Gross benefits paid | (504) | (418) | (202) | (192) | (12) | (14) |
| Foreign currency exchange rate changes | — | — | — | — | 44 | (103) |
| Curtailments and settlements | — | — | — | — | (3) | (4) |
| Effect of eliminating early measurement date | — | 277 | — | (8) | — | 31 |
| Other | — | — | — | — | 3 | — |
| Fair value of plan assets at end of year | <u>\$15,351</u> | <u>\$12,809</u> | <u>\$ 298</u> | <u>\$ 349</u> | <u>\$481</u> | <u>\$ 343</u> |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Funded Status

The following table discloses the funded status, as of the respective measurement dates in each year, of our plans and the amounts recognized in our balance sheet as of December 31 (in millions):

| | U.S. Pension Benefits | | U.S. Postretirement Medical Benefits | | International Pension Benefits | |
|---|-----------------------|-------------------|--------------------------------------|-------------------|--------------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Funded Status: | | | | | | |
| Fair value of plan assets | \$ 15,351 | \$ 12,809 | \$ 298 | \$ 349 | \$ 481 | \$ 343 |
| Benefit obligation | (17,763) | (16,303) | (3,336) | (3,166) | (575) | (438) |
| Funded status recognized at December 31 | <u>\$ (2,412)</u> | <u>\$ (3,494)</u> | <u>\$ (3,038)</u> | <u>\$ (2,817)</u> | <u>\$ (94)</u> | <u>\$ (95)</u> |
| Funded Status Amounts Recognized in our Balance Sheet: | | | | | | |
| Pension and postretirement benefit assets | \$ — | \$ — | \$ — | \$ — | \$ 15 | \$ 10 |
| Other current liabilities | (11) | (10) | (87) | (78) | (4) | (5) |
| Pension and postretirement benefit obligations | (2,401) | (3,484) | (2,951) | (2,739) | (105) | (100) |
| Net asset (liability) at December 31 | <u>\$ (2,412)</u> | <u>\$ (3,494)</u> | <u>\$ (3,038)</u> | <u>\$ (2,817)</u> | <u>\$ (94)</u> | <u>\$ (95)</u> |
| Amounts Recognized in AOCI: | | | | | | |
| Unrecognized net transition obligation | \$ — | \$ (4) | \$ — | \$ — | \$ — | \$ — |
| Unrecognized net prior service cost | (1,839) | (2,017) | (109) | (137) | (9) | (10) |
| Unrecognized net actuarial loss | (5,289) | (5,963) | (584) | (534) | (70) | (42) |
| Gross unrecognized cost at December 31 | (7,128) | (7,984) | (693) | (671) | (79) | (52) |
| Deferred tax asset at December 31 | 2,680 | 3,002 | 261 | 252 | 22 | 16 |
| Net unrecognized cost at December 31 | <u>\$ (4,448)</u> | <u>\$ (4,982)</u> | <u>\$ (432)</u> | <u>\$ (419)</u> | <u>\$ (57)</u> | <u>\$ (36)</u> |

The accumulated benefit obligation for our pension plans as of the measurement dates in 2009 and 2008 was \$16.968 and \$15.301 billion, respectively.

Employer contributions and benefits paid under the pension plans include \$15 and \$24 million paid from employer assets in 2009 and 2008, respectively. Employer contributions and benefits paid (net of participant contributions) under the postretirement medical benefit plans include \$90 and \$81 million paid from employer assets in 2009 and 2008, respectively.

At December 31, 2009 and 2008, the projected benefit obligation, the accumulated benefit obligation, and the fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets were as follows (in millions):

| | Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets | |
|---------------------------------------|--|----------|
| | 2009 | 2008 |
| U.S. Pension Benefits | | |
| Projected benefit obligation | \$ 4,995 | \$ 4,274 |
| Accumulated benefit obligation | 4,963 | 4,249 |
| Fair value of plan assets | 2,962 | 1,908 |
| International Pension Benefits | | |
| Projected benefit obligation | \$ 82 | \$ 165 |
| Accumulated benefit obligation | 69 | 137 |
| Fair value of plan assets | 18 | 89 |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The accumulated postretirement benefit obligation exceeds plan assets for all of our U.S. postretirement benefit plans.

Accumulated Other Comprehensive Income

The amounts in AOCI expected to be amortized and recognized as a component of net periodic benefit cost in 2010 are as follows (in millions):

| | <u>U.S. Pension Benefits</u> | <u>U.S. Postretirement Medical Benefits</u> | <u>International Pension Benefits</u> |
|--------------------------------|------------------------------|---|---|
| Transition obligation | \$ — | \$ — | \$ — |
| Prior service cost / (benefit) | 172 | 4 | 1 |
| Actuarial loss | 78 | 16 | 3 |
| | <u>\$ 250</u> | <u>\$ 20</u> | <u>\$ 4</u> |

Pension and Postretirement Plan Assets

The applicable benefit plan committees establish investment guidelines and strategies, and regularly monitor the performance of the funds and portfolio managers. Our investment guidelines address the following items: governance, general investment beliefs and principles, investment objectives, specific investment goals, process for determining/maintaining the asset allocation policy, long-term asset allocation, rebalancing, investment restrictions/prohibited transactions (the use of derivatives and the use of leverage as types of investments are generally prohibited), portfolio manager structure and diversification (which addresses limits on the amount of investments held by any one manager to minimize risk), portfolio manager selection criteria, plan evaluation, portfolio manager performance review and evaluation, and risk management (including various measures used to evaluate risk tolerance).

Our investment strategy with respect to pension assets is to invest the assets in accordance with applicable laws and regulations. The long-term primary objectives for our pension assets are to: (1) provide for a reasonable amount of long-term growth of capital, with prudent exposure to risk; and protect the assets from erosion of purchasing power; (2) provide investment results that meet or exceed the plans' actuarially assumed long-term rate of return; and (3) match the duration of the liabilities and assets of the plans to reduce the potential risk of large employer contributions being necessary in the future. The plans strive to meet these objectives by employing portfolio managers to actively manage assets within the guidelines and strategies set forth by the benefit plan committees. Performance of these managers is compared to applicable benchmarks.

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The fair values of U.S. pension and postretirement benefit plan assets by asset category as of December 31, 2009 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations.

| Asset Category: | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total Assets</u> | <u>Percentage of Plan Assets - 2009</u> | <u>Percentage of Plan Assets - 2008</u> | <u>Target Allocation 2010</u> |
|-------------------------------|----------------|----------------|----------------|---------------------|---|---|-------------------------------|
| Cash and cash equivalents | \$ — | \$ 307 | \$ — | \$ 307 | 1.9% | 1.4% | 0-5% |
| Equity Securities: | | | | | | | |
| U.S. Large Cap | 2,028 | 2,983 | — | 5,011 | | | |
| U.S. Small Cap | 763 | 22 | — | 785 | | | |
| International Core | 1,078 | 793 | — | 1,871 | | | |
| Emerging Markets | 140 | 402 | — | 542 | | | |
| International Small Cap | 90 | 162 | — | 252 | | | |
| Total Equity Securities | <u>4,099</u> | <u>4,362</u> | <u>—</u> | <u>8,461</u> | 54.1 | 44.2 | 40-60 |
| Fixed Income Securities: | | | | | | | |
| U.S. Government Securities | 585 | 210 | — | 795 | | | |
| Corporate Bonds | 42 | 2,554 | 201 | 2,797 | | | |
| Mortgage-Backed Securities | — | 130 | — | 130 | | | |
| Total Fixed Income Securities | <u>627</u> | <u>2,894</u> | <u>201</u> | <u>3,722</u> | 23.8 | 29.6 | 20-40 |
| Other Investments: | | | | | | | |
| Hedge Funds | — | — | 1,284 | 1,284 | 8.2 | 10.3 | 5-15 |
| Real Estate | 97 | 83 | 550 | 730 | 4.7 | 7.1 | 1-10 |
| Private Equity | — | — | 1,145 | 1,145 | 7.3 | 7.4 | 1-10 |
| Total U.S. Plan Assets | <u>\$4,823</u> | <u>\$7,646</u> | <u>\$3,180</u> | <u>\$15,649</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100%</u> |

Equity securities include UPS Class A shares of common stock in the amounts of \$351 million (2.2% of total plan assets) and \$338 million (2.6% of total plan assets), as of December 31, 2009 and December 31, 2008, respectively.

Pension assets utilizing Level 1 inputs include fair values of equity investments, corporate debt instruments, and U.S. government securities that were determined by closing prices for those securities traded on national stock exchanges, while securities traded in the over-the-counter market and listed securities for which no sale was reported on the valuation date are valued at the mean between the last reported bid and asked prices.

Level 2 assets include certain bonds that are valued based on yields currently available on comparable securities of other issues with similar credit ratings, mortgage-backed securities that are valued based on cash flow and yield models using acceptable modeling and pricing conventions, and certain investments that are pooled with other investments held by the trustee in a commingled employee benefit trust fund. The investments in the commingled funds are valued by taking the percentage owned by the respective plan in the underlying net asset value of the trust fund, which was determined in accordance with the paragraph above.

Certain investments' estimated fair value is based on unobservable inputs that are not corroborated by observable market data and are thus classified as Level 3. These investments include commingled funds comprised of corporate and government bonds, hedge funds, real estate investments and private equity funds.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The commingled funds are valued using net asset values, adjusted, as appropriate, for investment fund specific inputs determined to be significant to the valuation. Investments in hedge funds are valued using reported net asset values as of December 31. These assets are primarily invested in a portfolio of diversified, direct investments and funds of hedge funds. Real estate investments and private equity funds are valued using fair values per the most recent partnership audited financial reports, adjusted as appropriate for any lag between the date of the financial reports and December 31. The real estate investments consist of U.S. and non-U.S. real estate investments and are broadly diversified. The fair values may, due to the inherent uncertainty of valuation for those alternative investments, differ significantly from the values that would have been used had a ready market for the alternative investments existed, and the differences could be material.

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed during 2009 due to the following (in millions):

| | Corporate Bonds | Hedge Funds | Real Estate | Private Equity | Total |
|-----------------------------------|--------------------|-----------------|---------------|-------------------|----------------|
| Balance on January 1, 2009 | \$ 95 | \$ 1,312 | \$ 802 | \$1,015 | \$3,224 |
| Actual Return on Assets: | | | | | |
| Assets Held at End of Year | 30 | 33 | (185) | 110 | (12) |
| Assets Sold During the Year | — | 11 | (1) | — | 10 |
| Purchases, Sales, and Settlements | 76 | (72) | (66) | 20 | (42) |
| Transfers Into (Out of) Level 3 | — | — | — | — | — |
| Balance on December 31, 2009 | <u>\$ 201</u> | <u>\$ 1,284</u> | <u>\$ 550</u> | <u>\$1,145</u> | <u>\$3,180</u> |

The fair value disclosures above have not been provided for our international pension benefits plans since asset allocations are determined and managed at the individual country level. However, in general, the asset allocations for these plans (approximately 65% equity securities, 30% debt securities and 5% cash) are similar to our U.S. plans. The amount of assets having significant unobservable inputs (Level 3), if any, in these plans would be immaterial to our financial statements.

Expected Cash Flows

Information about expected cash flows for the pension and postretirement benefit plans is as follows (in millions):

| | U.S. Pension Benefits | U.S. Postretirement Medical Benefits | International Pension Benefits |
|--------------------------------------|--------------------------|---|-----------------------------------|
| Employer Contributions: | | | |
| 2010 (expected) to plan trusts | \$ 980 | \$ — | \$ 47 |
| 2010 (expected) to plan participants | 11 | 90 | 5 |
| Expected Benefit Payments: | | | |
| 2010 | \$ 526 | \$ 199 | \$ 16 |
| 2011 | 600 | 218 | 16 |
| 2012 | 677 | 232 | 18 |
| 2013 | 759 | 252 | 19 |
| 2014 | 848 | 238 | 20 |
| 2015 - 2019 | 5,819 | 1,434 | 119 |

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
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Expected benefit payments for pensions will be primarily paid from plan trusts. Expected benefit payments for postretirement medical benefits will be paid from plan trusts and corporate assets. Our funding policy for U.S. plans is to contribute amounts annually that are at least equal to the amounts required by applicable laws and regulations, or to directly fund payments to plan participants, as applicable. International plans will be funded in accordance with local regulations. Additional discretionary contributions will be made when deemed appropriate to meet the long-term obligations of the plans.

NOTE 6. BUSINESS ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS

The following table indicates the allocation of goodwill by reportable segment (in millions):

| | U.S. Domestic Package | International Package | Supply Chain & Freight | Consolidated |
|---------------------------|--------------------------|--------------------------|---------------------------|--------------|
| December 31, 2007 balance | — | \$ 295 | \$ 2,282 | \$ 2,577 |
| Acquired | — | 4 | — | 4 |
| Impairments | — | — | (548) | (548) |
| Currency / Other | — | (11) | (36) | (47) |
| December 31, 2008 balance | \$ — | \$ 288 | \$ 1,698 | \$ 1,986 |
| Acquired | — | 82 | — | 82 |
| Disposals | — | — | (6) | (6) |
| Currency / Other | — | 4 | 23 | 27 |
| December 31, 2009 balance | \$ — | \$ 374 | \$ 1,715 | \$ 2,089 |

Business Acquisitions

The goodwill acquired in the International Package segment in 2009 was primarily due to the acquisition of an agent in Turkey, as discussed further below. We also acquired an agent in Slovenia during the second quarter of 2009. The increase in goodwill in the Supply Chain & Freight segment was due to the impact of fluctuations in the U.S. Dollar with other currencies on the translation of non-U.S. Dollar goodwill balances, partially offset by the allocation of goodwill to the sale of certain non-U.S. Mail Boxes Etc. franchise relationships.

In August 2009, we completed the formation of a new joint venture headquartered in Dubai to develop and grow UPS express package, freight forwarding and contract logistics services across the Middle East, Turkey and portions of Central Asia. We own 80% of this joint venture, and we consolidate the financial statements of the joint venture. In conjunction with the formation of this joint venture, the joint venture acquired the small package operations of Unsped Paket Servisi San ve Ticaret A.S. (“Unsped”), our existing service agent in Turkey. We are contributing certain existing UPS operations in the region to the new joint venture, along with cash consideration of \$40 million and an additional \$40 million that will be due on a deferred basis. We maintain an option to purchase the remaining 20% of the joint venture, and the joint venture partner maintains a put option to require us to purchase the remaining 20% interest. Upon exercise of the call or put option, a payment of \$20 million will be required. An additional payment may be due depending upon the earnings of the joint venture. The 20% portion of the joint venture that we do not own, which represents temporary equity, is recorded as a noncontrolling interest in shareowners’ equity. The express package business operations of Unsped are included in our International Package segment, while the freight forwarding business of Unsped is included in our Supply Chain & Freight segment.

The goodwill acquired in the International Package segment during 2008 was due to our purchase of a package delivery company in Romania and our buyout of a joint venture in Korea. The currency / other balance

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

includes the translation effect on goodwill from fluctuations in currency exchange rates, as well as escrow reimbursements and the resolutions of certain tax contingencies from acquisitions completed previously.

Pro forma results of operations have not been presented for these acquisitions, because the effects of these transactions were not material. The results of operations of these acquired companies have been included in our statements of consolidated income from the date of acquisition.

Goodwill Impairment

We test our goodwill for impairment annually, as of October 1st, on a reporting unit basis. Our reporting units are comprised of the Europe, Asia, and Americas reporting units in the International Package reporting segment, and the Forwarding & Logistics, UPS Freight, MBE / UPS Store, and UPS Capital reporting units in the Supply Chain & Freight reporting segment. The impairment test involves a two-step process. First, a comparison of the fair value of the applicable reporting unit with the aggregate carrying values, including goodwill, is performed. We primarily determine the fair value of our reporting units using a discounted cash flow model, and supplement this with observable valuation multiples for comparable companies, as applicable. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step includes comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

In the fourth quarter of 2008, we completed our annual goodwill impairment testing and determined that our UPS Freight reporting unit, which was formed through the acquisition of Overnite Corporation in 2005, had a goodwill impairment of \$548 million which is included in the caption "other expenses" in the consolidated income statement. This impairment charge resulted from several factors, including a lower cash flow forecast due to a longer estimated economic recovery time for the LTL sector, and significant deterioration in equity valuations for other similar LTL industry participants. At the time of acquisition of Overnite Corporation, LTL equity valuations were higher and the economy was significantly stronger. We invested in operational improvements and technology upgrades to enhance service and performance, as well as expand service offerings. However, this process took longer than initially anticipated, and thus financial results have been below our expectations. Additionally, the LTL sector in 2008 was adversely impacted by the economic recession in the U.S., lower industrial production and retail sales, volatile fuel prices, and significant levels of price-based competition. By the fourth quarter of 2008, the combination of these internal and external factors reduced our near term expectations for this unit, leading to the goodwill impairment charge.

None of the other reporting units incurred an impairment of goodwill in 2008, nor did we have any goodwill impairment charges in 2009 or 2007. Cumulatively, our Supply Chain & Freight reporting segment has recorded goodwill impairment charges of \$622 million, while our International and U.S. Domestic Package segments have not recorded any impairment charges.

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Intangible Assets

The following is a summary of intangible assets at December 31, 2009 and 2008 (in millions):

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value | Weighted- Average Amortization Period (in years) |
|--|--------------------------|-----------------------------|-----------------------|--|
| December 31, 2009: | | | | |
| Trademarks, licenses, patents, and other | \$ 132 | \$ (9) | \$ 123 | 5.0 |
| Customer lists | 107 | (52) | 55 | 9.0 |
| Franchise rights | 109 | (46) | 63 | 20.0 |
| Capitalized software | 1,812 | (1,457) | 355 | 3.2 |
| Total Intangible Assets, Net | <u>\$ 2,160</u> | <u>\$ (1,564)</u> | <u>\$ 596</u> | <u>4.4</u> |
| December 31, 2008: | | | | |
| Trademarks, licenses, patents, and other | \$ 47 | \$ (40) | \$ 7 | |
| Customer lists | 113 | (48) | 65 | |
| Franchise rights | 110 | (41) | 69 | |
| Capitalized software | 1,728 | (1,358) | 370 | |
| Total Intangible Assets, Net | <u>\$ 1,998</u> | <u>\$ (1,487)</u> | <u>\$ 511</u> | |

All of our recorded intangible assets other than goodwill are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable. In 2008, as a result of weak performance in our domestic package operations in the United Kingdom, we reviewed our long-lived assets, including intangible assets, for impairment within our U.K. domestic package entity. Based on recent performance and near-term projections, the value assigned to the customer list intangible asset acquired within the U.K. domestic package business was determined to be impaired. This was the result of both higher than anticipated customer turnover and reduced operating margins associated with the acquired business. Accordingly, an intangible asset impairment charge of \$27 million was recorded for the year ended December 31, 2008, which is included in the caption "other expenses" in the consolidated income statement. There were no impairments of intangible assets in 2009 or 2007.

Amortization of intangible assets was \$185, \$202, and \$236 million during 2009, 2008 and 2007, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2009 for the next five years is as follows (in millions): 2010—\$219; 2011—\$160; 2012—\$102; 2013—\$39; 2014—\$27. Amortization expense in future periods will be affected by business acquisitions, software development, and other factors.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 7. DEBT OBLIGATIONS AND COMMITMENTS

The carrying value of our debt obligations, as of December 31, consists of the following (in millions):

| | <u>Maturity</u> | <u>2009</u> | <u>2008</u> |
|----------------------------|-----------------|-----------------|-----------------|
| Commercial paper | 2010 | \$ 672 | \$ 2,922 |
| 4.50% senior notes | 2013 | 1,773 | 1,739 |
| 3.875% senior notes | 2014 | 1,023 | — |
| 5.50% senior notes | 2018 | 758 | 745 |
| 5.125% senior notes | 2019 | 991 | — |
| 6.20% senior notes | 2038 | 1,480 | 1,479 |
| 8.375% debentures | 2020 / 2030 | 739 | 741 |
| Floating rate senior notes | 2049 – 2053 | 409 | 438 |
| Capital lease obligations | 2010 – 2021 | 369 | 425 |
| Facility notes and bonds | 2015 – 2036 | 320 | 433 |
| UPS Notes | 2010 – 2024 | 175 | 198 |
| Pound Sterling notes | 2031 / 2050 | 791 | 730 |
| Other debt | 2010 – 2012 | 21 | 21 |
| Total debt | | <u>9,521</u> | <u>9,871</u> |
| Less current maturities | | <u>(853)</u> | <u>(2,074)</u> |
| Long-term debt | | <u>\$ 8,668</u> | <u>\$ 7,797</u> |

Commercial Paper

The weighted average interest rate on the commercial paper outstanding as of December 31, 2009 and 2008 was 0.10% and 0.55%, respectively. As of December 31, 2009, the entire commercial paper balance was classified as a current liability. At December 31, 2008, we had classified \$1.0 billion of this commercial paper balance as long-term debt, based on our intent and ability to refinance this debt on a long-term basis, with the remaining \$1.922 billion classified as a current liability in our consolidated balance sheet. The amount of commercial paper outstanding in 2010 is expected to fluctuate. We are authorized to borrow up to \$10.0 billion under the U.S. commercial paper program we maintain as of December 31, 2009. We also maintain a European commercial paper program under which we are authorized to borrow up to €1.0 billion in a variety of currencies, however no amounts were outstanding under this program as of December 31, 2009.

Fixed Rate Senior Notes

In January 2008, we completed an offering of \$1.750 billion of 4.50% senior notes due January 2013, \$750 million of 5.50% senior notes due January 2018, and \$1.500 billion of 6.20% senior notes due January 2038. All of the notes pay interest semiannually, and allow for redemption of the notes by UPS at any time by paying the greater of the principal amount or a “make-whole” amount, plus accrued interest. After pricing and underwriting discounts, we received a total of \$3.961 billion in cash proceeds from the offering. The proceeds from the offering were used to reduce our outstanding commercial paper balance. In 2009, we entered into interest rate swaps on the 2013 and 2018 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the swaps during 2009 was 2.51% and 2.16% for the 2013 and 2018 notes, respectively.

In March 2009, we completed an offering of \$1.0 billion of 3.875% senior notes due April 2014 and \$1.0 billion of 5.125% senior notes due April 2019. These notes pay interest semiannually, and we may redeem the

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
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notes at any time by paying the greater of the principal amount or a “make-whole” amount, plus accrued interest. After pricing and underwriting discounts, we received a total of \$1.989 billion in cash proceeds from the offering. The proceeds from the offering were used for general corporate purposes, including the reduction of our outstanding commercial paper balance. We subsequently entered into interest rate swaps on the 2014 and portions of the 2019 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the swaps during 2009 was 1.02% and 1.93% for the 2014 and 2019 notes, respectively.

8.375% Debentures

On January 22, 1998, we exchanged \$276 million of an original \$700 million in debentures for new debentures of equal principal with a maturity of April 1, 2030. The new debentures have the same interest rate as the 8.375% debentures due 2020 until April 1, 2020, and, thereafter, the interest rate will be 7.625% for the final 10 years. The 2030 debentures are redeemable in whole or in part at our option at any time. The redemption price is equal to the greater of 100% of the principal amount and accrued interest or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark treasury yield plus five basis points plus accrued interest. The remaining \$424 million of 2020 debentures are not subject to redemption prior to maturity. Interest is payable semiannually on the first of April and October for both debentures and neither debenture is subject to sinking fund requirements.

Floating Rate Senior Notes

The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rates for 2009 and 2008 were 0.01% and 2.48%, respectively. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after 10 years at a stated percentage of par value. The notes have maturities ranging from 2049 through 2053.

Capital Lease Obligations

We have certain aircraft subject to capital leases. Some of the obligations associated with these capital leases have been legally defeased. The recorded value of aircraft subject to capital leases, which are included in Property, Plant and Equipment is as follows as of December 31 (in millions):

| | <u>2009</u> | <u>2008</u> |
|--------------------------|----------------|----------------|
| Aircraft | \$2,571 | \$2,571 |
| Accumulated amortization | <u>(565)</u> | <u>(491)</u> |
| | <u>\$2,006</u> | <u>\$2,080</u> |

These capital lease obligations have principal payments due at various dates from 2010 through 2021.

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Facility Notes and Bonds

We have entered into agreements with certain municipalities to finance the construction of, or improvements to, facilities that support our U.S. Domestic Package and Supply Chain & Freight operations in the United States. These facilities are located around airport properties in Louisville, Kentucky; Dallas, Texas; and Philadelphia, Pennsylvania. Under these arrangements, we enter into a lease or loan agreement that covers the debt service obligations on the bonds issued by the municipalities, as follows:

- Bonds with a principal balance of \$149 million issued by the Louisville Regional Airport Authority associated with our Worldport facility in Louisville, Kentucky. The bonds, which are due in January 2029, bear interest at a variable rate, and the average interest rates for 2009 and 2008 were 0.31% and 1.86%, respectively.
- Bonds with a principal balance of \$43 million issued by the Louisville Regional Airport Authority associated with our air freight facility in Louisville, Kentucky. The bonds were issued in November 2006 and are due in November 2036. The bonds bear interest at a variable rate, and the average interest rates for 2009 and 2008 were 0.25% and 2.11%, respectively.
- Bonds with a principal balance of \$29 million issued by the Dallas / Forth Worth International Airport Facility Improvement Corporation associated with our Dallas, Texas airport facilities. The bonds are due in May 2032 and bear interest at a variable rate, however the variable cash flows on the obligation have been swapped to a fixed 5.11%.
- Bonds with a principal balance of \$100 million issued by the Delaware County, Pennsylvania Industrial Development Authority associated with our Philadelphia, Pennsylvania airport facilities. The bonds, which are due in December 2015, bear interest at a variable rate, and the average interest rates for 2009 and 2008 were 0.20% and 1.75%, respectively.

In October 2009, \$62 million in facility notes and bonds matured, and an additional \$46 million that were originally scheduled to mature in 2018 were called for early redemption. The bonds were issued by the city of Dayton, Ohio and were associated with a Dayton airport facility.

UPS Notes

The UPS Notes program involves the periodic issuance of fixed rate notes in \$1,000 increments with various terms and maturities. At December 31, 2009, the coupon rates of the outstanding notes varied between 3.00% and 6.00%, and the interest payments are made either monthly, quarterly or semiannually. The maturities of the notes range from 2010 to 2024. Some of the fixed obligations associated with the notes were previously swapped to floating rates, based on different LIBOR indices plus or minus a spread. The average interest rate payable on the notes, including the effect of any associated interest rate swaps, for 2009 and 2008 was 3.95% and 2.48%, respectively. In December 2009, we called for early redemption notes with a principal value of \$55 million, which were redeemed in January 2010.

Pound Sterling Notes

The Pound Sterling notes were issued in 2001 with a principal balance of £500 million, accrue interest at a 5.50% fixed rate, and are due on February 12, 2031. In May 2007, we completed an exchange offer for the existing notes. Holders of £434 million of the notes accepted the exchange offer, and as a result, these notes were exchanged for new notes with a principal amount of £455 million, bearing interest at 5.13% and due in February 2050. The new notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount and accrued interest, or the sum of the present values of the remaining scheduled payout of principal and

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interest thereon discounted to the date of redemption at a benchmark U.K. government bond yield plus 15 basis points and accrued interest. The £66 million of existing notes that were not exchanged continue to bear interest at 5.50% and are due in 2031. We maintain cross-currency interest rate swaps to hedge the foreign currency risk associated with the bond cash flows. The average fixed interest rate payable on the swaps is 5.72%.

Other Debt

The other debt balance primarily relates to loans entered into in conjunction with our investment in various partnerships. Substantially all of this debt is classified as a current liability. The implied interest rates on this debt range from 3.20% to 6.43%.

Contractual Commitments

We lease certain aircraft, facilities, land, equipment and vehicles under operating leases, which expire at various dates through 2055. Certain of the leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was \$622, \$834, and \$896 million for 2009, 2008, and 2007, respectively.

The following table sets forth the aggregate minimum lease payments under capital and operating leases, the aggregate annual principal payments due under our long-term debt, and the aggregate amounts expected to be spent for purchase commitments (in millions).

| Year | Capital Leases | Operating Leases | Debt Principal | Purchase Commitments |
|---|-------------------|---------------------|-------------------|-------------------------|
| 2010 | \$ 122 | \$ 364 | \$ 755 | \$ 680 |
| 2011 | 30 | 279 | 5 | 541 |
| 2012 | 31 | 211 | 8 | 480 |
| 2013 | 32 | 155 | 1,752 | 370 |
| 2014 | 33 | 113 | 1,021 | 62 |
| After 2014 | 218 | 468 | 5,592 | 20 |
| Total | 466 | <u>\$ 1,590</u> | <u>\$ 9,133</u> | <u>\$ 2,153</u> |
| Less: imputed interest | (97) | | | |
| Present value of minimum capitalized lease payments | 369 | | | |
| Less: current portion | (106) | | | |
| Long-term capitalized lease obligations | <u>\$ 263</u> | | | |

As of December 31, 2009, we had outstanding letters of credit totaling approximately \$1.973 billion issued in connection with our self-insurance reserves and other routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2009, we had \$501 million of surety bonds written.

Available Credit

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of \$3.0 billion, and expires on April 15, 2010. Interest on any amounts we borrow under this facility would be charged at 90-day LIBOR plus a percentage determined by quotations for our 1-year credit

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default swap spread, subject to certain minimum rates and maximum rates based on our public debt ratings from Standard & Poor's and Moody's. If our public debt ratings are A / A2 or above, the minimum applicable margin is 1.00% and the maximum applicable margin is 2.00%; if our public debt ratings are lower than A / A2, the minimum applicable margin is 1.50% and the maximum applicable margin is 3.00%.

The second agreement provides revolving credit facilities of \$1.0 billion, and expires on April 19, 2012. Interest on any amounts we borrow under this facility would be charged at 90-day LIBOR plus 15 basis points. At December 31, 2009, there were no outstanding borrowings under either of these facilities.

In addition to these credit facilities, we have an automatically effective registration statement on Form S-3 filed with the SEC that is available for registered offerings of short or long-term debt securities.

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. As of December 31, 2009 and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of December 31, 2009, 10% of net tangible assets is equivalent to \$2.296 billion, however we have no covered sale-leaseback transactions or secured indebtedness outstanding. Additionally, we are required to maintain a minimum net worth, as defined, of \$5.0 billion on a quarterly basis. As of December 31, 2009, our net worth, as defined, was equivalent to \$12.757 billion. We do not expect these covenants to have a material impact on our financial condition or liquidity.

Fair Value of Debt

Based on the borrowing rates currently available to the Company for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, is approximately \$10.216 and \$10.287 billion as of December 31, 2009 and 2008, respectively.

NOTE 8. LEGAL PROCEEDINGS AND CONTINGENCIES

We are a defendant in a number of lawsuits filed in state and federal courts containing various class-action allegations under state wage-and-hour laws. In one of these cases, *Marlo v. UPS*, which was certified as a class action in a California federal court in September 2004, plaintiffs allege that they improperly were denied overtime, and seek penalties for missed meal and rest periods, and interest and attorneys' fees. Plaintiffs purport to represent a class of 1,300 full-time supervisors. In August 2005, the court granted summary judgment in favor of UPS on all claims, and plaintiffs appealed the ruling. In October 2007, the appeals court reversed the lower court's ruling. In April 2008, the Court decertified the class and vacated the trial scheduled for that month. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In another case, *Hohider v. UPS*, which in July 2007 was certified as a class action in a Pennsylvania federal court, plaintiffs have challenged certain aspects of the Company's interactive process for assessing requests for reasonable accommodation under the Americans with Disabilities Act. Plaintiffs purport to represent a class of over 35,000 current and former employees, and seek back-pay, and compensatory and punitive damages, as well as attorneys' fees. In August 2007, the Third Circuit Court of Appeals granted our petition to hear the appeal of the trial court's certification order. In July 2009, the Third Circuit issued its decision decertifying the class and

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remanding the case to the trial court for further proceedings. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

UPS and our subsidiary Mail Boxes Etc., Inc. are defendants in various lawsuits brought by franchisees who operate Mail Boxes Etc. centers and The UPS Store locations. These lawsuits relate to the rebranding of Mail Boxes Etc. centers to The UPS Store, The UPS Store business model, the representations made in connection with the rebranding and the sale of The UPS Store franchises, and UPS's sale of services in the franchisees' territories. In one of the actions, which is pending in California state court, the court certified a class consisting of all Mail Boxes Etc. branded stores that rebranded to The UPS Store in March 2003. We have denied any liability with respect to these claims and intend to defend ourselves vigorously. At this time, we have not determined the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In Barber Auto Sales v. UPS, which a federal court in Alabama certified as a class action in September 2009, the plaintiff asserts a breach of contract claim arising from UPS's assessment of shipping charge corrections when UPS determines that the "dimensional weight" of packages is greater than reported by the shipper. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

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

As of December 31, 2009, we had approximately 254,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("Teamsters"). These agreements run through July 31, 2013. We have approximately 2,800 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"), which becomes amendable at the end of 2011. In February 2010, we announced plans to furlough at least 300 of our airline pilots, after efforts between the Company and the IPA failed to identify sufficient operating cost savings. If the furloughs go forward, they would be phased in order to better match our resources to current economic conditions. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable in November 2006. We began formal negotiations with Teamsters Local 2727 in October 2006. In addition, the majority (approximately 3,400) of our ground mechanics who are not employed under agreements with the Teamsters are employed under collective bargaining agreements with the International Association of Machinists and Aerospace Workers ("IAM"). In July 2009, a new agreement with the IAM was ratified, which runs through July 31, 2014.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, changes in demographics, and increased benefits to participants. At this time, we are unable to determine the amount of additional future contributions, if any, or whether any material adverse effect on our financial condition, results of operations, or liquidity would result from our participation in these plans.

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In January 2008, a class action complaint was filed in the United States District Court for the Eastern District of New York alleging price-fixing activities relating to the provision of freight forwarding services. UPS was not named in this case. On July 21, 2009, the plaintiffs filed a first amended complaint naming numerous global freight forwarders as defendants. UPS and UPS Supply Chain Solutions are among the 60 defendants named in the amended complaint. We intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

Other Matters

We received grand jury subpoenas from the Antitrust Division of the U.S. Department of Justice (“DOJ”) regarding the DOJ’s investigations into certain pricing practices in the air cargo industry in July 2006, and into certain pricing practices in the freight forwarding industry in December 2007.

In October 2007, June 2008, and February 2009, we received information requests from the European Commission (“Commission”) relating to its investigation of certain pricing practices in the freight forwarding industry, and subsequently responded to each request. On February 9, 2010, UPS received a Statement of Objections by the Commission. This document contains the Commission’s preliminary view with respect to alleged anticompetitive behavior in the freight forwarding industry by 18 freight forwarders, including UPS. The Statement of Objections enables the addressees to respond. Although it alleges anticompetitive behavior, it does not prejudge the Commission’s final decision, as to facts or law (which is subject to appeal to the European courts). We intend to vigorously defend ourselves in this proceeding.

We also received and responded to related information requests from competition authorities in other jurisdictions.

We are cooperating with each of these inquiries.

At this time, we are unable to determine the amount of any liability that may result from these matters or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

NOTE 9. SHAREOWNERS’ EQUITY

Capital Stock, Additional Paid-In Capital, and Retained Earnings

We maintain two classes of common stock, which are distinguished from each other by their respective voting rights. Class A shares of UPS are entitled to 10 votes per share, whereas Class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, and these shares are fully convertible into Class B shares at any time. Class B shares are publicly traded on the New York Stock Exchange (NYSE) under the symbol “UPS.” Class A and B shares both have a \$0.01 par value, and as of December 31, 2009, there were 4.6 billion Class A shares and 5.6 billion Class B shares authorized to be issued. Additionally, there are 200 million preferred shares authorized to be issued, with a par value of \$0.01 per share; as of December 31, 2009, no preferred shares had been issued.

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The following is a rollforward of our common stock, additional paid-in capital, and retained earnings accounts (in millions, except per share amounts):

| | 2009 | | 2008 | | 2007 | |
|--|------------|------------------|------------|------------------|------------|------------------|
| | Shares | Dollars | Shares | Dollars | Shares | Dollars |
| Class A Common Stock | | | | | | |
| Balance at beginning of year | 314 | \$ 3 | 349 | \$ 3 | 401 | \$ 4 |
| Common stock purchases | (10) | — | (11) | — | (18) | (1) |
| Stock award plans | 5 | — | 6 | — | 3 | — |
| Common stock issuances | 4 | — | 3 | — | 3 | — |
| Conversions of Class A to Class B common stock | (28) | — | (33) | — | (40) | — |
| Class A shares issued at end of year | <u>285</u> | <u>\$ 3</u> | <u>314</u> | <u>\$ 3</u> | <u>349</u> | <u>\$ 3</u> |
| Class B Common Stock | | | | | | |
| Balance at beginning of year | 684 | \$ 7 | 694 | \$ 7 | 672 | \$ 7 |
| Common stock purchases | (1) | — | (43) | — | (18) | — |
| Conversions of Class A to Class B common stock | 28 | — | 33 | — | 40 | — |
| Class B shares issued at end of year | <u>711</u> | <u>\$ 7</u> | <u>684</u> | <u>\$ 7</u> | <u>694</u> | <u>\$ 7</u> |
| Additional Paid-In Capital | | | | | | |
| Balance at beginning of year | | \$ — | | \$ — | | \$ — |
| Stock award plans | | 381 | | 497 | | 462 |
| Common stock purchases | | (569) | | (694) | | (627) |
| Common stock issuances | | 190 | | 197 | | 165 |
| Balance at end of year | | <u>\$ 2</u> | | <u>\$ —</u> | | <u>\$ —</u> |
| Retained Earnings | | | | | | |
| Balance at beginning of year | | \$ 12,412 | | \$ 14,186 | | \$ 17,676 |
| Net income attributable to controlling interests | | 2,152 | | 3,003 | | 382 |
| Cumulative adjustment for accounting changes | | — | | (60) | | (104) |
| Dividends (\$1.80, \$1.80, and \$1.68 per share) | | (1,819) | | (1,853) | | (1,778) |
| Common stock purchases | | — | | (2,864) | | (1,990) |
| Balance at end of year | | <u>\$ 12,745</u> | | <u>\$ 12,412</u> | | <u>\$ 14,186</u> |

On January 1, 2007, we adopted a new accounting standard for income taxes, which resulted in a reduction to retained earnings of \$104 million. On January 1, 2008, we recognized a \$44 million reduction to retained earnings as a result of changing our measurement date under new accounting guidance related to retirement benefits. Also on January 1, 2008, we recognized a \$16 million reduction to retained earnings as a result of adopting a new accounting standard for financial instruments. These accounting changes are discussed further in Note 1.

As a result of the uncertain economic environment, we have slowed our share repurchase activity. We currently intend to repurchase shares in 2010 at a rate that should approximately offset the dilution from our stock compensation programs. For the years ended December 31, 2009, 2008 and 2007, we repurchased a total of 10.9, 53.6, and 35.9 million shares of Class A and Class B common stock for \$569 million, \$3.558 billion, and \$2.618 billion, respectively. In January 2008, our Board of Directors authorized an increase in our share

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repurchase authority to \$10.0 billion. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program. As of December 31, 2009, we had \$6.003 billion of our share repurchase authorization remaining.

Accumulated Other Comprehensive Income (Loss)

We incur activity in AOCI for unrealized holding gains and losses on available-for-sale securities, foreign currency translation adjustments, unrealized gains and losses from derivatives that qualify as hedges of cash flows, and unrecognized pension and postretirement benefit costs. The activity in AOCI is as follows (in millions):

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|--------------------------|--------------------------|--------------------------|
| Foreign currency translation gain (loss): | | | |
| Balance at beginning of year | \$ (38) | \$ 81 | \$ (109) |
| Aggregate adjustment for the year | 75 | (119) | 190 |
| Balance at end of year | <u>37</u> | <u>(38)</u> | <u>81</u> |
| Unrealized gain (loss) on marketable securities, net of tax: | | | |
| Balance at beginning of year | (60) | 9 | 12 |
| Current period changes in fair value (net of tax effect of \$3, \$(33), and \$4) | 25 | (78) | 6 |
| Reclassification to earnings (net of tax effect of \$5, \$5, and \$(5)) | 8 | 9 | (9) |
| Balance at end of year | <u>(27)</u> | <u>(60)</u> | <u>9</u> |
| Unrealized gain (loss) on cash flow hedges, net of tax: | | | |
| Balance at beginning of year | (107) | (250) | 68 |
| Current period changes in fair value (net of tax effect of \$4, \$(33), and \$(177)) | 6 | (54) | (294) |
| Reclassification to earnings (net of tax effect of \$(60), \$118, and \$(14)) | (99) | 197 | (24) |
| Balance at end of year | <u>(200)</u> | <u>(107)</u> | <u>(250)</u> |
| Unrecognized pension and postretirement benefit costs, net of tax: | | | |
| Balance at beginning of year | (5,437) | (1,853) | (2,176) |
| Reclassification to earnings (net of tax effect of \$93, \$81, and \$73) | 156 | 133 | 122 |
| Net actuarial gain (loss) and prior service cost resulting from remeasurements of plan assets and liabilities (net of tax effect of \$214, \$(2,235), and \$111) | 344 | (3,717) | 201 |
| Balance at end of year | <u>(4,937)</u> | <u>(5,437)</u> | <u>(1,853)</u> |
| Accumulated other comprehensive income (loss) at end of year | <u><u>\$ (5,127)</u></u> | <u><u>\$ (5,642)</u></u> | <u><u>\$ (2,013)</u></u> |

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Deferred Compensation Obligations and Treasury Stock

We maintain a deferred compensation plan whereby certain employees were previously able to elect to defer the gains on stock option exercises by deferring the shares received upon exercise into a rabbi trust. The shares held in this trust are classified as treasury stock, and the liability to participating employees is classified as “deferred compensation obligations” in the shareowners’ equity section of the balance sheet. The number of shares needed to settle the liability for deferred compensation obligations is included in the denominator in both the basic and diluted earnings per share calculations. Employees are generally no longer able to defer the gains from stock options exercised subsequent to December 31, 2004. Activity in the deferred compensation program for the years ended December 31, 2009, 2008, and 2007 is as follows (in millions):

| | 2009 | | 2008 | | 2007 | |
|--|------------|----------------|------------|----------------|------------|----------------|
| | Shares | Dollars | Shares | Dollars | Shares | Dollars |
| Deferred Compensation Obligations | | | | | | |
| Balance at beginning of year | | \$ 121 | | \$ 137 | | \$ 147 |
| Reinvested dividends | | 3 | | 5 | | 4 |
| Benefit payments | | (16) | | (21) | | (14) |
| Balance at end of year | | <u>\$ 108</u> | | <u>\$ 121</u> | | <u>\$ 137</u> |
| Treasury Stock | | | | | | |
| Balance at beginning of year | (2) | \$(121) | (2) | \$(137) | (3) | \$(147) |
| Reinvested dividends | — | (3) | — | (5) | — | (4) |
| Benefit payments | — | 16 | — | 21 | 1 | 14 |
| Balance at end of year | <u>(2)</u> | <u>\$(108)</u> | <u>(2)</u> | <u>\$(121)</u> | <u>(2)</u> | <u>\$(137)</u> |

Noncontrolling Interests

We have noncontrolling interests in certain consolidated subsidiaries in our International Package and Supply Chain & Freight segments. The noncontrolling interests acquired in 2009 primarily relate to the formation of a joint venture in Dubai that will operate in the Middle East, Turkey, and portions of the Central Asia region, as discussed in Note 6. The activity related to our noncontrolling interests is presented below:

| | 2009 | 2008 |
|---|--------------|------------|
| Noncontrolling Interests | | |
| Balance at beginning of period | \$— | \$— |
| Acquired noncontrolling interests | 66 | — |
| Dividends attributable to noncontrolling interests | — | — |
| Net income attributable to noncontrolling interests | — | — |
| Balance at end of period | <u>\$ 66</u> | <u>\$—</u> |

NOTE 10. STOCK-BASED COMPENSATION

Incentive Compensation Plan

The UPS Incentive Compensation Plan permits the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock and stock units, restricted performance shares and units, and management incentive awards to eligible employees. The number of shares reserved for issuance under the Incentive Compensation Plan is 80 million. Each share issued pursuant to an option and each share issued subject to the

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exercised portion of a stock appreciation right will reduce the share reserve by one share. Each share issued pursuant to restricted stock and stock units, and restricted performance shares and units, will reduce the share reserve by 2.76 shares. As of December 31, 2009, management incentive awards, stock options, restricted performance units, and restricted stock units had been granted under the Incentive Compensation Plan. We had 65.7 million shares available to be issued under the Incentive Compensation Plan as of December 31, 2009.

Management Incentive Awards & Restricted Stock Units

Persons earning the right to receive management incentive awards are determined annually by the Compensation Committee of the UPS Board of Directors. Our management incentive awards program provides that half of the annual management incentive award, with certain exceptions, be made in restricted stock units (“RSUs”), which generally vest over a five-year period. The other half of the award is in the form of cash or unrestricted shares of class A common stock and is fully vested at the time of grant. These management incentive awards are generally granted in the fourth quarter of each year.

Upon vesting, RSUs result in the issuance of the equivalent number of UPS class A common shares after required tax withholdings. Except in the case of death, disability, or retirement, RSUs granted for our management incentive awards generally vest over a five year period with approximately 20% of the award vesting at each anniversary date of the grant. The entire grant is expensed on a straight-line basis over the requisite service period. All RSUs granted are subject to earlier cancellation or vesting under certain conditions. Dividends earned on management incentive award RSUs are reinvested in additional RSUs at each dividend payable date.

We also award RSUs in conjunction with our long-term incentive performance awards program to certain eligible employees. The RSUs ultimately granted under the long-term incentive performance award will be based upon the achievement of certain performance measures, including growth in consolidated revenue and operating return on invested capital, each year during the performance award cycle, and other measures, including growth in consolidated earnings, over the entire three year performance award cycle.

As of December 31, 2009, we had the following RSUs outstanding, including reinvested dividends:

| | Shares (in thousands) | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|--------------------------------|--------------------------|---|--|--|
| Nonvested at January 1, 2009 | 13,440 | \$ 61.77 | | |
| Vested | (4,748) | 65.93 | | |
| Granted | 4,965 | 56.57 | | |
| Reinvested Dividends | 478 | N/A | | |
| Forfeited / Expired | (254) | 59.90 | | |
| Nonvested at December 31, 2009 | <u>13,881</u> | <u>\$ 58.82</u> | <u>2.10</u> | <u>\$ 796</u> |
| RSUs Expected to Vest | <u>13,395</u> | <u>\$ 58.93</u> | <u>2.06</u> | <u>\$ 768</u> |

The fair value of each RSU is the New York Stock Exchange (“NYSE”) closing price on the date of grant. The weighted-average grant date fair value of RSUs granted during 2009, 2008, and 2007 was \$56.57, \$46.56, and \$74.94, respectively. The total fair value of RSUs vested was \$246, \$141, and \$145 million in 2009, 2008, and 2007, respectively. As of December 31, 2009, there was \$586 million of total unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted average period of 3 years and 4 months.

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Nonqualified Stock Options

We maintain fixed stock option plans, under which options are granted to purchase shares of UPS class A common stock. Stock options granted in connection with the Incentive Compensation Plan must have an exercise price at least equal to the NYSE closing price of UPS class B common stock on the date the option is granted.

Persons earning the right to receive stock options are determined each year by the Compensation Committee. Except in the case of death, disability, or retirement, options granted under the Incentive Compensation Plan prior to 2008 are generally exercisable three to five years from the date of grant and before the expiration of the option 10 years after the date of grant. Beginning in 2008, option awards have been made to a more limited group of employees, and options granted will generally vest over a five year period with approximately 20% of the award vesting at each anniversary date of the grant. All options granted are subject to earlier cancellation or exercise under certain conditions. Option holders may exercise their options via the tender of cash or class A common stock, and new class A shares are issued upon exercise. Options granted to eligible employees will generally be granted annually during the second quarter of each year at the discretion of the Compensation Committee.

The following is an analysis of options to purchase shares of class A common stock issued and outstanding:

| | Shares (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|-------------------------------------|--------------------------|--|--|--|
| Outstanding at January 1, 2009 | 18,297 | \$ 66.65 | | |
| Exercised | (918) | 50.08 | | |
| Granted | 265 | 55.83 | | |
| Forfeited / Expired | (446) | 60.73 | | |
| Outstanding at December 31, 2009 | <u>17,198</u> | <u>\$ 67.52</u> | <u>4.47</u> | <u>\$ 2</u> |
| Options Vested and Expected to Vest | <u>17,018</u> | <u>\$ 67.46</u> | <u>4.44</u> | <u>\$ 2</u> |
| Exercisable at December 31, 2009 | <u>10,829</u> | <u>\$ 64.00</u> | <u>3.23</u> | <u>\$ 1</u> |

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The weighted average assumptions used, by year, and the calculated weighted average fair values of options are as follows:

| | 2009 | 2008 | 2007 |
|--|---------|---------|---------|
| Expected dividend yield | 3.25% | 2.39% | 2.28% |
| Risk-free interest rate | 3.22% | 3.79% | 4.65% |
| Expected life in years | 7.5 | 7.5 | 7.5 |
| Expected volatility | 23.16% | 22.24% | 19.15% |
| Weighted average fair value of options granted | \$10.86 | \$16.77 | \$16.85 |

Expected volatilities are based on the historical returns on our stock and the implied volatility of our publicly-traded options. The expected dividend yield is based on the recent historical dividend yields for our stock, taking into account changes in dividend policy. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant. The expected life represents an estimate of the period of time options are expected to remain outstanding, and we have relied upon a combination of the observed exercise behavior of our prior grants with similar characteristics, the vesting schedule of the grants, and an index of peer companies with similar grant characteristics.

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We received cash of \$27, \$46, and \$52 million during 2009, 2008, and 2007, respectively, from option holders resulting from the exercise of stock options. We received a tax benefit of \$1, \$4, and \$9 million during 2009, 2008, and 2007, respectively, from the exercise of stock options, which is reported as cash from financing activities in the cash flow statement.

The total intrinsic value of options exercised during 2009, 2008, and 2007 was \$5, \$13, and \$31 million, respectively. As of December 31, 2009, there was \$26 million of total unrecognized compensation cost related to nonvested options. That cost is expected to be recognized over a weighted average period of 2 years.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2009:

| Exercise Price Range | Options Outstanding | | | Options Exercisable | |
|----------------------|--------------------------|----------------------------|------------------------------|--------------------------|------------------------------|
| | Shares (in thousands) | Average Life (in years) | Average Exercise Price | Shares (in thousands) | Average Exercise Price |
| \$30.00 - \$50.00 | 15 | 0.49 | \$47.89 | 15 | \$47.89 |
| \$50.01 - \$60.00 | 2,432 | 2.10 | 56.85 | 2,167 | 56.97 |
| \$60.01 - \$70.00 | 5,014 | 2.79 | 61.23 | 5,014 | 61.23 |
| \$70.01 - \$80.00 | 7,493 | 5.82 | 71.22 | 3,237 | 70.96 |
| \$80.01 - \$90.00 | 2,244 | 6.33 | 80.92 | 396 | 81.10 |
| | <u>17,198</u> | 4.47 | \$67.52 | <u>10,829</u> | \$64.00 |

Restricted Performance Units

We issue restricted performance units (“RPU”) under the Incentive Compensation Plan. Upon vesting, RPUs result in the issuance of the equivalent number of UPS class A common shares after required tax withholdings. Persons earning the right to receive RPUs are determined each year by the Compensation Committee. Except in the case of death, disability, or retirement, all RPUs granted prior to 2008 vest five years after the date of grant. Beginning in 2008, RPU awards granted will generally vest over a five year period with approximately 20% of the award vesting at each anniversary date of the grant. All RPUs granted are subject to earlier cancellation or vesting under certain conditions. Dividends earned on RPUs are reinvested in additional restricted performance units at each dividend payable date. RPUs granted to eligible employees will generally be granted annually during the second quarter of each year at the discretion of the Compensation Committee.

As of December 31, 2009, we had the following RPUs outstanding, including reinvested dividends:

| | Shares (in thousands) | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|--------------------------------|--------------------------|---|---|--|
| Nonvested at January 1, 2009 | 5,286 | \$ 72.88 | | |
| Vested | (1,660) | 70.60 | | |
| Granted | 2,548 | 55.83 | | |
| Reinvested Dividends | 244 | N/A | | |
| Forfeited / Expired | (57) | 69.13 | | |
| Nonvested at December 31, 2009 | <u>6,361</u> | <u>\$ 67.25</u> | <u>1.84</u> | <u>\$ 365</u> |
| RPUs Expected to Vest | <u>6,056</u> | <u>\$ 67.28</u> | <u>1.81</u> | <u>\$ 347</u> |

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The fair value of each RPU is the NYSE closing price on the date of grant. The weighted-average grant date fair value of RPUs granted during 2009, 2008, and 2007 was \$55.83, \$71.06, and \$70.90, respectively. The total fair value of RPUs vested during 2009, 2008, and 2007 was \$72, \$83, and \$19 million, respectively. As of December 31, 2009, there was \$185 million of total unrecognized compensation cost related to nonvested RPUs. That cost is expected to be recognized over a weighted average period of 3 years and 5 months.

Discounted Employee Stock Purchase Plan

We maintain an employee stock purchase plan for all eligible employees, which was modified in 2009. Under the modified plan, shares of UPS class A common stock may be purchased at quarterly intervals at 95% of the NYSE closing price of UPS class B common stock on the last day of each quarterly period. Prior to the modification in the second quarter of 2009, shares could be purchased at quarterly intervals at 90% of the lower of the NYSE closing price of the UPS class B common stock on the first or the last day of each quarterly period. Employees purchased 0.6, 1.9, and 1.8 million shares at average prices of \$44.30, \$55.27, and \$64.20 per share during 2009, 2008, and 2007, respectively. Subsequent to the modification, the plan is no longer considered to be compensatory, and therefore no compensation cost is measured for the modified employees' purchase rights. Prior to the modification, compensation cost was measured for the fair value of employees' purchase rights under our discounted employee stock purchase plan using the Black-Scholes option pricing model, and we determined the weighted average fair value of the employee purchase rights to be \$7.52, \$8.85, and \$9.80 per share for 2009, 2008, and 2007, respectively.

NOTE 11. SEGMENT AND GEOGRAPHIC INFORMATION

We report our operations in three segments: U.S. Domestic Package operations, International Package operations, and Supply Chain & Freight operations. Package operations represent our most significant business and are broken down into regional operations around the world. Regional operations managers are responsible for both domestic and export operations within their geographic area.

U.S. Domestic Package

Domestic Package operations include the time-definite delivery of letters, documents, and packages throughout the United States.

International Package

International Package operations include delivery to more than 200 countries and territories worldwide, including shipments wholly outside the United States, as well as shipments with either origin or distribution outside the United States. Our International Package reporting segment includes the operations of our Europe, Asia, and Americas operating segments.

Supply Chain & Freight

Supply Chain & Freight includes our forwarding and logistics operations, UPS Freight, and other aggregated business units. Our forwarding and logistics business provides services in more than 175 countries and territories worldwide, and includes supply chain design and management, freight distribution, customs brokerage, mail and consulting services. UPS Freight offers a variety of LTL and TL services to customers in North America. Other aggregated business units within this segment include Mail Boxes, Etc. (the franchisor of Mail Boxes, Etc. and The UPS Store) and UPS Capital.

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In evaluating financial performance, we focus on operating profit as a segment's measure of profit or loss. Operating profit is before investment income, interest expense, and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies (see Note 1), with certain expenses allocated between the segments using activity-based costing methods. Unallocated assets are comprised primarily of cash, marketable securities, and certain investment partnerships.

Segment information as of, and for the years ended, December 31 is as follows (in millions):

| | 2009 | 2008 | 2007 |
|---|-----------------|-----------------|-----------------|
| Revenue: | | | |
| U.S. Domestic Package | \$28,158 | \$31,278 | \$30,985 |
| International Package | 9,699 | 11,293 | 10,281 |
| Supply Chain & Freight | 7,440 | 8,915 | 8,426 |
| Consolidated | <u>\$45,297</u> | <u>\$51,486</u> | <u>\$49,692</u> |
| Operating Profit (Loss): | | | |
| U.S. Domestic Package | \$ 2,138 | \$ 3,907 | \$ (1,531) |
| International Package | 1,367 | 1,580 | 1,831 |
| Supply Chain & Freight | 296 | (105) | 278 |
| Consolidated | <u>\$ 3,801</u> | <u>\$ 5,382</u> | <u>\$ 578</u> |
| Assets: | | | |
| U.S. Domestic Package | \$18,572 | \$18,796 | \$23,756 |
| International Package | 5,882 | 5,723 | 5,994 |
| Supply Chain & Freight | 6,620 | 6,775 | 7,606 |
| Unallocated | 809 | 585 | 1,686 |
| Consolidated | <u>\$31,883</u> | <u>\$31,879</u> | <u>\$39,042</u> |
| Depreciation and Amortization Expense: | | | |
| U.S. Domestic Package | \$ 1,064 | \$ 1,031 | \$ 979 |
| International Package | 500 | 588 | 546 |
| Supply Chain & Freight | 183 | 195 | 220 |
| Consolidated | <u>\$ 1,747</u> | <u>\$ 1,814</u> | <u>\$ 1,745</u> |

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Revenue by product type for the years ended December 31 is as follows (in millions):

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|------------------|
| U.S. Domestic Package: | | | |
| Next Day Air | \$ 5,456 | \$ 6,559 | \$ 6,738 |
| Deferred | 2,859 | 3,325 | 3,359 |
| Ground | 19,843 | 21,394 | 20,888 |
| Total U.S. Domestic Package | <u>28,158</u> | <u>31,278</u> | <u>30,985</u> |
| International Package: | | | |
| Domestic | 2,111 | 2,344 | 2,177 |
| Export | 7,176 | 8,294 | 7,488 |
| Cargo | 412 | 655 | 616 |
| Total International Package | <u>9,699</u> | <u>11,293</u> | <u>10,281</u> |
| Supply Chain & Freight: | | | |
| Forwarding and Logistics | 5,080 | 6,293 | 5,911 |
| Freight | 1,943 | 2,191 | 2,108 |
| Other | 417 | 431 | 407 |
| Total Supply Chain & Freight | <u>7,440</u> | <u>8,915</u> | <u>8,426</u> |
| Consolidated | <u>\$ 45,297</u> | <u>\$ 51,486</u> | <u>\$ 49,692</u> |

Geographic information as of, and for the years ended, December 31 is as follows (in millions):

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-----------------------|-------------|-------------|-------------|
| United States: | | | |
| Revenue | \$ 34,375 | \$ 38,553 | \$ 37,741 |
| Long-lived assets | \$ 17,336 | \$ 17,422 | \$ 21,662 |
| International: | | | |
| Revenue | \$ 10,922 | \$ 12,933 | \$ 11,951 |
| Long-lived assets | \$ 4,935 | \$ 5,136 | \$ 5,189 |
| Consolidated: | | | |
| Revenue | \$ 45,297 | \$ 51,486 | \$ 49,692 |
| Long-lived assets | \$ 22,271 | \$ 22,558 | \$ 26,851 |

Long-lived assets include property, plant and equipment, pension and postretirement benefit assets, long-term investments, goodwill, and intangible assets.

No countries outside of the United States, nor any individual customers, provided 10% or more of consolidated revenue in 2009, 2008 or 2007.

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NOTE 12. INCOME TAXES

The income tax expense (benefit) for the years ended December 31 consists of the following (in millions):

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|----------------------|----------------|----------------|--------------|
| Current: | | | |
| U.S. Federal | \$ 715 | \$1,510 | \$ 35 |
| U.S. State and Local | 30 | 173 | 67 |
| Non-U.S. | 147 | 155 | 107 |
| Total Current | <u>892</u> | <u>1,838</u> | <u>209</u> |
| Deferred: | | | |
| U.S. Federal | 231 | 115 | (79) |
| U.S. State and Local | 32 | 4 | (36) |
| Non-U.S. | 59 | 55 | (45) |
| Total Deferred | <u>322</u> | <u>174</u> | <u>(160)</u> |
| Total | <u>\$1,214</u> | <u>\$2,012</u> | <u>\$ 49</u> |

Income before income taxes includes the following components (in millions):

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------|----------------|----------------|--------------|
| United States | \$3,027 | \$4,547 | \$ (32) |
| Non-U.S. | 339 | 468 | 463 |
| | <u>\$3,366</u> | <u>\$5,015</u> | <u>\$431</u> |

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended December 31 consists of the following:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|--------------|--------------|--------------|
| Statutory U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| U.S. state and local income taxes (net of federal benefit) | 1.4 | 2.5 | 0.5 |
| Non-U.S. tax rate differential | (1.5) | 1.0 | (21.6) |
| Nondeductible/nontaxable items | 0.9 | 5.1 | 3.1 |
| U.S. federal tax credits | (3.2) | (3.0) | (22.0) |
| Other | 3.5 | (0.5) | 16.4 |
| Effective income tax rate | <u>36.1%</u> | <u>40.1%</u> | <u>11.4%</u> |

In the fourth quarter of 2008, we completed our annual goodwill impairment testing and determined that our UPS Freight reporting unit, which was formed through the acquisition of Overnite Corporation in 2005, had a goodwill impairment of \$548 million. The impairment was not deductible for tax purposes and therefore negatively impacted our effective tax rate in 2008.

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Deferred tax liabilities and assets are comprised of the following at December 31 (in millions):

| | <u>2009</u> | <u>2008</u> |
|--|----------------|---------------|
| Property, plant and equipment | \$3,141 | \$3,047 |
| Goodwill and intangible assets | 791 | 694 |
| Other | 401 | 352 |
| Gross deferred tax liabilities | <u>4,333</u> | <u>4,093</u> |
| Other postretirement benefits | 990 | 944 |
| Pension plans | 956 | 1,425 |
| Loss and credit carryforwards (non-U.S. and state) | 315 | 264 |
| Insurance reserves | 634 | 617 |
| Vacation pay accrual | 186 | 192 |
| Stock compensation | 244 | 214 |
| Other | <u>589</u> | <u>534</u> |
| Gross deferred tax assets | 3,914 | 4,190 |
| Deferred tax assets valuation allowance | <u>(237)</u> | <u>(117)</u> |
| Net deferred tax asset | <u>3,677</u> | <u>4,073</u> |
| Net deferred tax liability | <u>\$ 656</u> | <u>\$ 20</u> |
| Amounts recognized in the balance sheet: | | |
| Current deferred tax assets | <u>\$ 585</u> | <u>\$ 494</u> |
| Current deferred tax liabilities (included in other current liabilities) | <u>\$ 2</u> | <u>\$ —</u> |
| Non-current deferred tax assets (included in other non-current assets) | <u>\$ 54</u> | <u>\$ 74</u> |
| Non-current deferred tax liabilities | <u>\$1,293</u> | <u>\$ 588</u> |

The valuation allowance increased by \$120, \$61, and \$13 million during the years ended December 31, 2009, 2008 and 2007, respectively.

We have U.S. state and local operating loss and credit carryforwards as follows (in millions):

| | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| U.S. state and local operating loss carryforwards | \$ 1,178 | \$ 1,320 |
| U.S. state and local credit carryforwards | \$ 65 | \$ 74 |

The operating loss carryforwards expire at varying dates through 2029. The state credits can be carried forward for periods ranging from three years to indefinitely.

We also have non-U.S. loss carryforwards of approximately \$1.053 billion as of December 31, 2009, the majority of which may be carried forward indefinitely. As indicated in the table above, we have established a valuation allowance for certain non-U.S. and state loss carryforwards, due to the uncertainty resulting from a lack of previous taxable income within the applicable tax jurisdictions.

Undistributed earnings of our non-U.S. subsidiaries amounted to approximately \$2.178 billion at December 31, 2009. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. federal or state deferred income taxes have been provided thereon. Upon distribution of those earnings in the form of

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dividends or otherwise, we would be subject to U.S. income taxes and withholding taxes payable in various non-U.S. jurisdictions, which could potentially be offset by foreign tax credits. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

The following table summarizes the activity related to our unrecognized tax benefits (in millions):

| | <u>Tax</u> | <u>Interest</u> | <u>Penalties</u> |
|--|---------------|-----------------|------------------|
| Balance at January 1, 2007 | \$ 373 | \$ 88 | \$ 6 |
| Additions for tax positions of the current year | 13 | — | — |
| Additions for tax positions of prior years | 34 | 13 | 2 |
| Reductions for tax positions of prior years for: | | | |
| Changes based on facts and circumstances | (12) | 9 | — |
| Settlements during the period | (49) | (34) | (2) |
| Lapses of applicable statute of limitations | (4) | (1) | — |
| Balance at December 31, 2007 | <u>\$ 355</u> | <u>\$ 75</u> | <u>\$ 6</u> |
| Additions for tax positions of the current year | 28 | — | 1 |
| Additions for tax positions of prior years | 63 | 33 | 5 |
| Reductions for tax positions of prior years for: | | | |
| Changes based on facts and circumstances | (46) | (9) | (2) |
| Settlements during the period | (9) | (2) | — |
| Lapses of applicable statute of limitations | (3) | — | — |
| Balance at December 31, 2008 | <u>\$ 388</u> | <u>\$ 97</u> | <u>\$ 10</u> |
| Additions for tax positions of the current year | 41 | — | — |
| Additions for tax positions of prior years | 76 | 27 | 2 |
| Reductions for tax positions of prior years for: | | | |
| Changes based on facts and circumstances | (214) | (34) | (3) |
| Settlements during the period | (23) | (4) | — |
| Lapses of applicable statute of limitations | (2) | — | (1) |
| Balance at December 31, 2009 | <u>\$ 266</u> | <u>\$ 86</u> | <u>\$ 8</u> |

The total amount of gross unrecognized tax benefits as of December 31, 2009, 2008 and 2007 that, if recognized, would affect the effective tax rate was \$243, \$206 and \$189 million, respectively. We also had gross recognized tax benefits of \$329, \$583 and \$567 million recorded as of December 31, 2009, 2008 and 2007, respectively, associated with outstanding refund claims for prior tax years. Therefore, we had a net receivable recorded with respect to prior year income tax matters in the accompanying balance sheets. Additionally, we have recognized a receivable for interest of \$56, \$135 and \$116 million for the recognized tax benefits associated with outstanding refund claims as of December 31, 2009, 2008 and 2007, respectively. Our continuing practice is to recognize interest and penalties associated with income tax matters as a component of income tax expense.

We file income tax returns in the U.S. federal jurisdiction, most U.S. state and local jurisdictions, and many non-U.S. jurisdictions. We have substantially resolved all U.S. federal income tax matters for tax years prior to 2003. During the third quarter of 2009, we received a refund of \$271 million as a result of the resolution of tax years 1999 through 2002 with the Internal Revenue Service ("IRS") Appeals Office. For the tax years 2003 through 2004, we anticipate concluding the limited number of unagreed issues with the IRS Appeals Office by the end of the second quarter of 2010. Along with the audit for tax years 2005 through 2007, the IRS is currently examining non-income based taxes, including employment and excise taxes, which could lead to proposed

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assessments. The IRS has not presented an official position with regard to these taxes at this time, and therefore we are not able to determine the technical merit of any potential assessment. We anticipate receipt of the IRS reports on these matters by the end of the second quarter of 2010. We have filed all required U.S. state and local returns reporting the result of the resolution of the U.S. federal income tax audit of the tax years 1999 through 2002. A limited number of U.S. state and local matters are the subject of ongoing audits, administrative appeals or litigation.

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. Items that may cause changes to unrecognized tax benefits include the timing of interest deductions and the allocation of income and expense between tax jurisdictions. These changes could result from the settlement of ongoing litigation, the completion of ongoing examinations, the expiration of the statute of limitations, or other unforeseen circumstances. At this time, an estimate of the range of the reasonably possible change cannot be made.

NOTE 13. EARNINGS PER SHARE

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

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|----------------|----------------|----------------|
| Numerator: | | | |
| Net income attributable to common shareowners | \$2,152 | \$3,003 | \$ 382 |
| Denominator: | | | |
| Weighted average shares | 995 | 1,014 | 1,055 |
| Deferred compensation obligations | 2 | 2 | 2 |
| Vested portion of restricted shares | 1 | — | — |
| Denominator for basic earnings per share | <u>998</u> | <u>1,016</u> | <u>1,057</u> |
| Effect of dilutive securities: | | | |
| Restricted performance units | 2 | 2 | 2 |
| Restricted stock units | 4 | 3 | 2 |
| Stock options | — | 1 | 2 |
| Denominator for diluted earnings per share | <u>1,004</u> | <u>1,022</u> | <u>1,063</u> |
| Basic earnings per share | <u>\$ 2.16</u> | <u>\$ 2.96</u> | <u>\$ 0.36</u> |
| Diluted earnings per share | <u>\$ 2.14</u> | <u>\$ 2.94</u> | <u>\$ 0.36</u> |

Diluted earnings per share for the years ended December 31, 2009, 2008, and 2007 exclude the effect of 17.4, 11.7, and 8.9 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

NOTE 14. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

Risk Management Policies

We are exposed to market risk, primarily related to foreign exchange rates, commodity prices, equity prices, and interest rates. These exposures are actively monitored by management. To manage the volatility relating to

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

certain of these exposures, we enter into a variety of derivative financial instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates, commodity prices, equity prices, and interest rates. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. As we use price sensitive instruments to hedge a certain portion of our existing and anticipated transactions, we expect that any loss in value for those instruments generally would be offset by increases in the value of those hedged transactions. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Credit Risk Management

The forward contracts, swaps, and options discussed below contain an element of risk that the counterparties may be unable to meet the terms of the agreements. However, we minimize such risk exposures for these instruments by limiting the counterparties to banks and financial institutions that meet established credit guidelines, and monitoring counterparty credit risk to prevent concentrations of credit risk with any single counterparty. Additionally, the majority of our master agreements for derivatives provide for the early termination of any derivative transactions in the event that either the bank counterparty or UPS receives a credit rating below BBB by Standard & Poor's or Baa2 by Moody's, or ceases to be rated by either firm. We do not have any credit-risk triggers in our outstanding master agreements that require UPS or the bank counterparties to post collateral.

We have not historically incurred, and do not expect to incur in the future, any losses as a result of counterparty default.

Accounting Policy for Derivative Instruments

We recognize all derivative instruments as assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the derivative, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge, or a hedge of a net investment in a foreign operation.

A cash flow hedge refers to hedging the exposure to variability in expected future cash flows that is attributable to a particular risk. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI, and reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, or hedge components excluded from the assessment of effectiveness, are recognized in the income statement during the current period.

A fair value hedge refers to hedging the exposure to changes in the fair value of an existing asset or a liability on the balance sheet that is attributable to a particular risk. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument is recognized in the income statement during the current period, as well as the offsetting gain or loss on the hedged item.

A net investment hedge refers to the use of cross currency swaps, forward contracts, or foreign currency denominated debt to hedge portions of our net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in the cumulative translation adjustment within other AOCI. The remainder of the change in value of such instruments is recorded in earnings.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Types of Hedges

Commodity Risk Management

Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes on our business. We periodically enter into option contracts on energy commodity products to manage the price risk associated with forecasted transactions involving refined fuels, principally jet-A, diesel, and unleaded gasoline. The objective of the hedges is to reduce the variability of cash flows, due to changing fuel prices, associated with the forecasted transactions involving those products. We have designated and account for these contracts as cash flow hedges of the underlying forecasted transactions involving these fuel products and, therefore, the resulting gains and losses from these hedges are recognized as a component of fuel expense or revenue when the underlying transactions occur.

Foreign Currency Risk Management

To protect against the reduction in value of forecasted foreign currency cash flows from our international package business, we maintain a foreign currency cash flow hedging program. Our most significant foreign currency exposures relate to the Euro, the British Pound Sterling, and the Canadian Dollar. We hedge portions of our forecasted revenue denominated in foreign currencies with option contracts. We have designated and account for these contracts as cash flow hedges of anticipated foreign currency denominated revenue and, therefore, the resulting gains and losses from these hedges are recognized as a component of international package revenue when the underlying sales transactions occur.

We have foreign currency denominated debt obligations and capital lease obligations associated with our aircraft. For some of these debt obligations and leases, we hedge the foreign currency denominated contractual payments using cross-currency interest rate swaps, which effectively convert the foreign currency denominated contractual payments into U.S. Dollar denominated payments. We have designated and account for these swaps as cash flow hedges of the forecasted contractual payments and, therefore, the resulting gains and losses from these hedges are recognized in the income statement when the currency remeasurement gains and losses on the underlying debt obligations and leases are incurred.

Interest Rate Risk Management

Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The notional amount, interest payment, and maturity dates of the swaps match the terms of the associated debt being hedged. Interest rate swaps allow us to maintain a target range of floating rate debt within our capital structure.

We have designated and account for interest rate swaps that convert fixed rate interest payments into floating rate interest payments as hedges of the fair value of the associated debt instruments. Therefore, the gains and losses resulting from fair value adjustments to the interest rate swaps and fair value adjustments to the associated debt instruments are recorded to interest expense in the period in which the gains and losses occur. We have designated and account for interest rate swaps that convert floating rate interest payments into fixed rate interest payments as cash flow hedges of the forecasted payment obligations. The gains and losses resulting from fair value adjustments to the interest rate swap are recorded to AOCI.

We periodically hedge the forecasted fixed-coupon interest payments associated with anticipated debt offerings, using forward starting interest rate swaps, interest rate locks, or similar derivatives. These agreements

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

effectively lock a portion of our interest rate exposure between the time the agreement is entered into and the date when the debt offering is completed, thereby mitigating the impact of interest rate changes on future interest expense. These derivatives are settled commensurate with the issuance of the debt, and any gain or loss upon settlement is amortized as an adjustment to the effective interest yield on the debt.

Outstanding Positions

As of December 31, 2009, the notional amounts of our outstanding derivative positions were as follows:

| | Notional Value (in millions) |
|---------------------------------------|---|
| Currency Hedges: | |
| Euro | € 1,372 |
| British Pound Sterling | £ 692 |
| Canadian Dollar | C\$ 228 |
| Interest Rate Hedges: | |
| Fixed to Floating Interest Rate Swaps | \$ 3,751 |
| Floating to Fixed Interest Rate Swaps | \$ 28 |

As of December 31, 2009, we had no outstanding commodity hedge positions. The maximum term over which we are hedging exposures to the variability of cash flow is 41 years.

Balance Sheet Recognition

The following table indicates the location on the balance sheet in which our derivative assets and liabilities have been recognized, and the related fair values of those derivatives (in millions). The table is segregated between those derivative instruments that qualify and are designated as hedging instruments and those that are not, as well as by type of contract and whether the derivative is in an asset or liability position.

| Asset Derivatives | Balance Sheet Location | December 31, 2009 Fair Value |
|--|-------------------------------|---|
| Derivatives designated as hedges: | | |
| Foreign exchange contracts | Other current assets | \$ 63 |
| Interest rate contracts | Other non-current assets | 74 |
| Total Asset Derivatives | | <u>\$ 137</u> |
| Liability Derivatives | | |
| Derivatives designated as hedges: | | |
| Foreign exchange contracts | Other non-current liabilities | \$ (51) |
| Interest rate contracts | Other non-current liabilities | (13) |
| Derivatives not designated as hedges: | | |
| Interest rate contracts | Other non-current liabilities | (2) |
| Total Liability Derivatives | | <u>\$ (66)</u> |

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UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Statement Recognition

The following table indicates the amount and location in the income statement for 2009 in which derivative gains and losses, as well as the related amounts reclassified from AOCI, have been recognized for those derivatives designated as cash flow hedges (in millions).

Year Ended December 31, 2009:

| <u>Derivative Instruments in Cash Flow Hedging Relationships</u> | <u>Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)</u> | <u>Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</u> | <u>Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</u> |
|--|--|--|--|
| Interest rate contracts | \$ 127 | Interest Expense | \$ (15) |
| Foreign exchange contracts | (42) | Interest Expense | (4) |
| Foreign exchange contracts | (75) | Revenue | 96 |
| Commodity contracts | — | Revenue | 82 |
| Total | <u>\$ 10</u> | | <u>\$ 159</u> |

As of December 31, 2009, \$15 million of pre-tax gains related to cash flow hedges that are currently deferred in AOCI are expected to be reclassified to income over the 12 month period ended December 31, 2010. The actual amounts that will be reclassified to income over the next 12 months will vary from this amount as a result of changes in market conditions. The amount of ineffectiveness recognized in income on derivative instruments designated in cash flow hedging relationships was immaterial for the years ended December 31, 2009, 2008 and 2007.

The following table indicates the amount and location in the income statement in which derivative gains and losses, as well as the associated gains and losses on the underlying exposure, have been recognized for those derivatives designated as fair value hedges for the year ended December 31, 2009 (in millions).

| <u>Derivative Instruments in Fair Value Hedging Relationships</u> | <u>Location of Gain (Loss) Recognized in Income</u> | <u>Amount Recognized in Income</u> | <u>Hedged Items in Fair Value Hedging Relationships</u> | <u>Location of Gain (Loss) Recognized in Income</u> | <u>Amount Recognized in Income</u> |
|---|---|------------------------------------|---|---|------------------------------------|
| Interest rate contracts | Interest Expense | \$ 68 | Fixed-Rate Debt and Capital Leases | Interest Expense | \$ (68) |

Additionally, we maintain some interest rate swap and foreign exchange forward contracts that are not designated as hedges. The interest rate swap contracts are intended to provide an economic hedge of a portfolio of interest bearing receivables. The foreign exchange forward contracts are intended to provide an economic offset to foreign currency remeasurement risks for certain assets and liabilities in our balance sheet. For the twelve months ended December 31, 2009, we recognized \$15 million in losses, respectively, on the fair value of the foreign exchange forward contracts, which were reported in "other operating expenses" in the consolidated income statement, while the impact of the interest rate swap contracts was not material. The foreign exchange forward contracts are settled at the end of each month, and therefore no asset or liability was recorded on the balance sheet at December 31, 2009.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value Measurements

Our foreign currency, interest rate, and energy derivatives are largely comprised of over-the-counter derivatives, which are primarily valued using pricing models that rely on market observable inputs such as yield curves, currency exchange rates, and commodity forward prices, and therefore are classified as Level 2. The fair values of our derivative assets and liabilities as of December 31, 2009 and 2008 by hedge type are as follows (in millions):

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2009 |
|----------------------------|---|--|--|------------------------------------|
| 2009: | | | | |
| Assets | | | | |
| Foreign Exchange Contracts | \$ — | \$ 63 | \$ — | \$ 63 |
| Interest Rate Contracts | — | 74 | — | 74 |
| Total | <u>\$ —</u> | <u>\$ 137</u> | <u>\$ —</u> | <u>\$ 137</u> |
| Liabilities | | | | |
| Foreign Exchange Contracts | \$ — | \$ 51 | \$ — | \$ 51 |
| Interest Rate Contracts | — | 15 | — | 15 |
| Total | <u>\$ —</u> | <u>\$ 66</u> | <u>\$ —</u> | <u>\$ 66</u> |
| 2008: | | | | |
| Assets | | | | |
| Foreign Exchange Contracts | \$ — | \$ 241 | \$ — | \$ 241 |
| Interest Rate Contracts | — | 1 | — | 1 |
| Total | <u>\$ —</u> | <u>\$ 242</u> | <u>\$ —</u> | <u>\$ 242</u> |
| Liabilities | | | | |
| Foreign Exchange Contracts | \$ — | \$ 9 | \$ — | \$ 9 |
| Interest Rate Contracts | — | 380 | — | 380 |
| Total | <u>\$ —</u> | <u>\$ 389</u> | <u>\$ —</u> | <u>\$ 389</u> |

NOTE 15. RESTRUCTURING COSTS AND RELATED EXPENSES

We have incurred restructuring costs associated with the termination of employees, facility consolidations and other costs directly related to restructuring initiatives. These initiatives have resulted from the integration of acquired companies, as well as restructuring activities associated with cost containment and operational efficiency programs.

Supply Chain & Freight—France

In the third quarter of 2007, we initiated a restructuring plan for our forwarding and logistics operations in France to reduce our cost structure and focus on profitable revenue growth. The employment reduction program was ratified by the trade union representatives in France in July 2007. Affected employees received severance

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

benefits that were formula-driven and in accordance with French statutory laws as well as the applicable collective bargaining agreements. The employment reduction program resulted in 103 employees accepting a voluntary termination offer and 342 positions being subject to the involuntary termination program. The restructuring also included costs incurred related to contract terminations for leased facilities, vehicles and equipment as well as impairment charges associated with long-lived assets. We recorded a restructuring charge of \$42 million related to severance costs and \$4 million for impairments and other contract termination costs in the third quarter of 2007. This restructuring plan was completed during 2008.

UPS Special Voluntary Separation Opportunity

In December 2006, we offered a special voluntary separation opportunity (“SVSO”) to 640 employees to improve the efficiency of non-operating processes by eliminating duplication and sharing expertise across the company. The SVSO ended in February 2007, and 195, or 30% of eligible employees, accepted the offer. As a result, we recorded a charge to expense of \$68 million in the first quarter of 2007, to reflect the cash payout and the acceleration of stock compensation and certain retiree healthcare benefits under the SVSO program. The cash payout related to this program totaled \$28 million and \$35 million during 2008 and 2007, respectively. The \$68 million charge was included in the caption “Compensation and benefits” in the Statement of Consolidated Income, of which \$53 million impacted our U.S. Domestic Package segment, \$8 million impacted our Supply Chain & Freight segment, and \$7 million impacted our International Package segment.

Subsequent Events:

Supply Chain & Freight—Germany

In February 2010, we completed the sale of a specialized transportation and express freight business in Germany within our Supply Chain & Freight segment. As part of the sale transaction, we incurred certain costs associated with employee severance payments, other employee benefits, transition services, and leases on operating facilities and equipment. Additionally, we have provided a guarantee for a period of two years for certain employee benefit payments being assumed by the buyer. We will record a loss of approximately \$40 million for this transaction in the first quarter of 2010, which included the costs associated with the sale transaction and the fair value of the guarantee.

U.S. Domestic Package Restructuring

In an effort to improve performance in the U.S. Domestic Package segment, we announced a program to streamline our domestic management structure in January 2010. As part of this restructuring, we are reducing the number of domestic districts and regions in our U.S. small package operation, in order to better align our operations geographically and allow more local decision-making and resources to be deployed for our customers. Effective in April 2010, UPS will reduce its U.S. regions from five to three and its U.S. districts from 46 to 20. The restructuring will eliminate approximately 1,800 management and administrative positions in the U.S. Normal attrition will minimize some job displacements, and approximately 1,100 employees are being offered a voluntary separation package. In addition, other impacted employees will receive severance benefits and access to support programs based on length of service. We anticipate recording a charge of up to \$80 million in the first quarter of 2010 related to the costs of this program. Throughout the remainder of 2010, we will incur additional costs related to relocation of employees and other restructuring activities, however we believe those costs will be approximately offset by savings from the staffing reductions.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 16. QUARTERLY INFORMATION (unaudited)

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---------------------------------|---------------|----------|----------------|----------|---------------|----------|----------------|----------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | | | | | |
| U.S. Domestic Package | \$ 6,949 | \$ 7,735 | \$ 6,789 | \$ 7,714 | \$ 6,868 | \$ 7,841 | \$ 7,552 | \$ 7,988 |
| International Package | 2,240 | 2,759 | 2,246 | 2,948 | 2,422 | 2,949 | 2,791 | 2,637 |
| Supply Chain & Freight | 1,749 | 2,181 | 1,794 | 2,339 | 1,863 | 2,323 | 2,034 | 2,072 |
| Total revenue | 10,938 | 12,675 | 10,829 | 13,001 | 11,153 | 13,113 | 12,377 | 12,697 |
| Operating profit (loss): | | | | | | | | |
| U.S. Domestic Package | 384 | 959 | 476 | 899 | 514 | 1,117 | 764 | 932 |
| International Package | 294 | 421 | 293 | 407 | 313 | 386 | 467 | 366 |
| Supply Chain & Freight | 40 | 113 | 126 | 148 | 102 | 129 | 28 | (495) |
| Total operating profit | 718 | 1,493 | 895 | 1,454 | 929 | 1,632 | 1,259 | 803 |
| Net income | \$ 401 | \$ 906 | \$ 445 | \$ 873 | \$ 549 | \$ 970 | \$ 757 | \$ 254 |
| Earnings per share: | | | | | | | | |
| Basic | \$ 0.40 | \$ 0.87 | \$ 0.45 | \$ 0.86 | \$ 0.55 | \$ 0.96 | \$ 0.76 | \$ 0.25 |
| Diluted | \$ 0.40 | \$ 0.87 | \$ 0.44 | \$ 0.85 | \$ 0.55 | \$ 0.96 | \$ 0.75 | \$ 0.25 |

First quarter 2009 U.S. Domestic Package operating profit includes the \$181 million impairment charge on our McDonnell-Douglas DC-8-71 and DC-8-73 airframes, engines, and parts, as discussed in Note 4. This charge reduced first quarter net income by \$116 million, and basic and diluted earnings per share by \$0.12.

Second quarter 2009 interest expense includes a \$77 million charge for the remeasurement of certain obligations denominated in foreign currencies, in which hedge accounting was not able to be applied. This charge reduced second quarter net income by \$48 million, basic earnings per share by \$0.04, and diluted earnings per share by \$0.05.

Fourth quarter 2008 operating profit includes the goodwill impairment charge of \$548 million in our Supply Chain & Freight segment and the intangible asset impairment charge of \$27 million in our International Package segment, as discussed in Note 6. There were no tax benefits related to these two charges, therefore fourth quarter 2008 net income was reduced by \$575 million, which reduced basic and diluted earnings per share by \$0.58.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures:

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures and internal controls over financial reporting were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

Changes in Internal Control over Financial Reporting:

There were no changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting:

UPS management is responsible for establishing and maintaining adequate internal controls over financial reporting for United Parcel Service, Inc. and its subsidiaries ("the Company"). Based on the criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management has assessed the Company's internal control over financial reporting as effective as of December 31, 2009. The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheet of United Parcel Service, Inc. and its subsidiaries as of December 31, 2009 and the related consolidated statements of income, comprehensive income and cash flows for the year ended December 31, 2009, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

United Parcel Service, Inc.
February 26, 2010

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers of the Registrant

| <u>Name and Office</u> | <u>Age</u> | <u>Principal Occupation and Employment For the Last Five Years</u> |
|---|------------|--|
| David P. Abney Senior Vice President and Chief Operating Officer | 54 | Senior Vice President and Chief Operating Officer (2007 – present), President, UPS Airlines (2007 – 2008), Senior Vice President and President, UPS International (2003 – 2007). |
| David A. Barnes Senior Vice President and Chief Information Officer | 54 | Senior Vice President and Chief Information Officer (2005 – present), Corporate Information Services Portfolio Coordinator (2001 – 2004). |
| Daniel J. Brutto Senior Vice President and President, UPS International | 53 | Senior Vice President and President, UPS International (2008 – present), President, Global Freight Forwarding (2006-2007), Corporate Controller (2004 – 2006). |
| D. Scott Davis Chairman and Chief Executive Officer | 58 | Chairman and Chief Executive Officer (2008 – present), Vice Chairman (2006 – 2007), Senior Vice President, Chief Financial Officer and Treasurer (2001 – 2007), Director (2006 – present). |
| Alan Gershenhorn Senior Vice President | 51 | Senior Vice President, Worldwide Sales and Marketing (2008 – present), Senior Vice President and President, UPS International (2007), President, UPS Supply Chain Solutions – Asia and Europe (2006), President, UPS Supply Chain Solutions – Shared Services (2005), President, United Parcel Service Canada, Ltd. (2002 – 2004). |
| Myron Gray Senior Vice President | 52 | Senior Vice President, U.S. Operations (2009 – present), Vice President, Americas Region (2008 – 2009), Vice President, North Central Region (2004-2008). |
| Allen E. Hill Senior Vice President | 54 | Senior Vice President, Human Resources (2007 – present), Senior Vice President, Human Resources and Public Affairs (2006 – 2007), Senior Vice President, General Counsel and Corporate Secretary (2004 – 2006). |
| Kurt P. Kuehn Senior Vice President, Chief Financial Officer and Treasurer | 55 | Senior Vice President, Chief Financial Officer and Treasurer (2008 – present), Senior Vice President, Worldwide Sales and Marketing (2004 – 2007). |
| Teri P. McClure Senior Vice President, General Counsel and Corporate Secretary | 46 | Senior Vice President of Legal, Compliance and Public Affairs, General Counsel and Corporate Secretary (2006 – present), Corporate Legal Department Manager (2005 – 2006), Compliance Department Manager (2004 – 2005). |

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| <u>Name and Office</u> | <u>Age</u> | <u>Principal Occupation and Employment For the Last Five Years</u> |
|---|------------|---|
| John J. McDevitt Senior Vice President | 51 | Senior Vice President, Global Transportation Services and Labor Relations (2005 – present), Senior Vice President, Strategic Integration (2003 – 2005). |
| Christine M. Owens Senior Vice President | 54 | Senior Vice President, Communications and Brand Management (2005 – present), Corporate Transportation Group Manager (2004 – 2005). |
| Robert E. Stoffel Senior Vice President | 54 | Senior Vice President, Engineering, Strategy and Supply Chain Distribution (2007 – present), Senior Vice President of Supply Chain Group (2004 – 2007). |

Information about our directors is presented under the caption “Election of Directors” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

Information about our Audit Committee is presented under the caption “Election of Directors—Committees of the Board of Directors—Audit Committee” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

Information about our Code of Business Conduct is presented under the caption “Where You Can Find More Information” in Part I, Item 1 of this report.

Information about our compliance with Section 16 of the Exchange Act of 1934, as amended, is presented under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

Item 11. *Executive Compensation*

Information about executive compensation is presented under the captions “Compensation Discussion and Analysis,” “Compensation to Executive Officers,” “Compensation of Directors,” “Report of the Compensation Committee” and “Compensation Committee Interlocks and Insider Participation” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information about security ownership is presented under the caption “Beneficial Ownership of Common Stock” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

Information about our equity compensation plans is presented under the caption “Equity Compensation Plans” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information about transactions with related persons is presented under the caption “Related Person Transactions” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

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Information about director independence is presented under the caption “Election of Directors—Director Independence” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

Item 14. *Principal Accountant and Fees and Services*

Information about aggregate fees billed to us by our principal accountant is presented under the caption “Principal Accounting Firm Fees” in our definitive Proxy Statement for the Annual Meetings of Shareowners to be held on May 6, 2010 and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) *1. Financial Statements.*

See Item 8 for the financial statements filed with this report.

2. Financial Statement Schedules.

None.

3. List of Exhibits.

See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.

(b) *Exhibits required by Item 601 of Regulation S-K.*

See the Exhibit Index for a list of the exhibits incorporated by reference into or filed with this report.

(c) *Financial Statement Schedules.*

None.

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 2.1 | — Agreement and Plan of Merger, dated as of September 22, 1999, among United Parcel Service of America, Inc., United Parcel Service, Inc. and UPS Merger Subsidiary, Inc. (incorporated by reference to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended). |
| 2.2 | — Agreement and Plan of Merger, dated as of May 15, 2005, among United Parcel Service, Inc., Overnite Corporation, and Olympic Merger Sub, Inc. (incorporated by reference to Form 8-K, filed on May 18, 2005). |
| 3.1 | — Form of Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.1 to Form 10-Q for the Quarter Ended June 30, 2002). |
| 3.2 | — Amended and Restated Bylaws of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K, filed on November 12, 2008). |
| 4.1 | — Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended). |
| 4.2 | — Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999). |
| 4.3 | — Specimen Certificate of 8 ³ / ₈ % Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989). |
| 4.4 | — Indenture relating to 8 ³ / ₈ % Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989). |
| 4.5 | — Specimen Certificate of 8 ³ / ₈ % Debentures due April 1, 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997). |
| 4.6 | — Indenture relating to Exchange Offer Notes Due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997). |
| 4.7 | — Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369), filed on January 26, 1999). |
| 4.8 | — Form of Supplemental Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369-01), filed on March 15, 2000). |
| 4.9 | — Form of Second Supplemental Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4 to Form 10-Q for the Quarter Ended September 30, 2001). |
| 4.10 | — Form of Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 (No. 333-108272), filed on August 27, 2003). |
| 4.11 | — Underwriting Agreement relating to 1.75% Cash-Settled Convertible Senior Notes due September 27, 2007 (incorporated by reference to Exhibit 1 to Form 10-Q for the Quarter Ended September 30, 2000). |
| 4.12 | — Form of Underwriting Agreement relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 1.1 to Registration Statement on Form S-3 (No. 333-108272), filed on August 27, 2003). |
| 4.13 | — Distribution Agreement relating to UPS Notes with maturities of 9 months or more from date of issue (incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 30, 2008) and Form of Note (incorporated by reference to Exhibit 4.1 to Form 8-K filed on May 30, 2008). |

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| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 4.14 | — Underwriting agreement relating to 4.50% Senior Notes due January 15, 2013, 5.50% Senior Notes due January 15, 2018 and 6.20% Senior Notes due January 15, 2038 (incorporated by reference to Exhibit 1.1 to Form 8-K filed on January 15, 2008). |
| 4.15 | — Form of Note for 4.50% Senior Notes due January 15, 2013 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on January 15, 2008). |
| 4.16 | — Form of Note for 5.50% Senior Notes due January 15, 2018 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on January 15, 2008). |
| 4.17 | — Form of Note for 6.20% Senior Notes due January 15, 2038 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on January 15, 2008). |
| 4.18 | — Underwriting agreement relating to 3.875% Senior Notes due April 1, 2014 and 5.125% Senior Notes due April 1, 2019 (incorporated by reference to Exhibit 1.1 to Form 8-K filed on March 24, 2009). |
| 4.19 | — Form of Note for 3.875% Senior Notes due April 1, 2014 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on March 24, 2009). |
| 4.20 | — Form of Note for 5.125% Senior Notes due April 1, 2019 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on March 24, 2009). |
| 10.1 | — UPS Thrift Plan, as Amended and Restated, including Amendment Nos. 1 through 24 (incorporated by reference to Exhibit 10.1 to 2001 Annual Report on Form 10-K). (1) Amendment No. 25 to the UPS Thrift Plan (incorporated by reference to Exhibit 10.1(1) to 2002 Annual Report on Form 10-K). |
| †10.2 | — UPS Retirement Plan, as Amended and Restated, including Amendment Nos. 1 through 40. |
| 10.3 | — UPS Savings Plan, as Amended and Restated (incorporated by reference to Exhibit 10.3 to 2008 Annual Report on Form 10-K). †(1)Amendment No. 1 to the UPS Savings Plan. †(2)Amendment No. 2 to the UPS Savings Plan. |
| 10.4 | — Credit Agreement (364-Day Facility) dated April 16, 2009 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. as joint arrangers and book managers, Barclays Bank PLC and BNP Paribas as co-documentation agents, Citibank, N.A. as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent (incorporated by reference to Exhibit 10.1 to Form 10-Q for the Quarter Ended March 31, 2009). |
| 10.5 | — Credit Agreement (5-Year Facility) dated April 19, 2007 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. as joint arrangers and book managers, Barclays Bank PLC, BNP Paribas, Mellon Bank N.A., and Wells Fargo Bank, N.A. as co-documentation agents, Citibank, N.A. as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent (incorporated by reference to Exhibit 10.2 to Form 10-Q for the Quarter Ended March 31, 2007). |
| 10.6 | — UPS Excess Coordinating Benefit Plan, as amended and restated (incorporated by reference to Exhibit 10.6 to 2008 Annual Report on Form 10-K). †(1)Amendment No. 1 to the UPS Excess Coordinating Benefit Plan. |
| 10.7 | — UPS 1996 Stock Option Plan, as amended and restated (incorporated by reference to Exhibit 10.9 to 2003 Annual Report on Form 10-K). |

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| <u>Exhibit No.</u> | <u>Description</u> |
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| 10.8 | — UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-67479, filed November 18, 1998). (1) Amendment No. 17 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.9(17) to 2008 Annual Report on Form 10-K). |
| 10.9 | — Form of United Parcel Service, Inc. Incentive Compensation Plan (incorporated by reference to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended). (1) Form of Non-Qualified Stock Option Award Agreement and Restricted Performance Unit Award Agreement (incorporated by reference to Exhibit 10.11(1) to 2004 Annual Report on Form 10-K). (2) Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2005). (3) Form of Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on May 5, 2006). (4) Form of Restricted Performance Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on May 5, 2006). (5) Form of Restricted Stock Unit Award Agreement for the 2007 Long-Term Incentive Performance Awards under the Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to Form 8-K, filed on March 7, 2007). (6) Form of First Amendment to Restricted Stock Award Agreement for Non-Management Directors under the Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2007). (7) Form of Restricted Stock Unit Award Agreement for the 2008 Long-Term Incentive Performance Awards under the Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to Form 8-K, filed on March 20, 2008). (8) Form of Restricted Stock Unit Award Agreement for the 2009 Long-Term Incentive Performance Awards under the Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to Form 8-K, filed on February 17, 2009). |
| 10.10 | — United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan (incorporated by reference to Annex II to the Definitive Proxy Statement, filed on March 13, 2009). |
| 10.11 | — UPS Deferred Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10.10 to 2008 Annual Report on Form 10-K). |
| 10.12 | — United Parcel Service, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the registration statement on Form S-8 (No. 333-34054), filed on April 5, 2000). |
| 10.13 | — Discounted Employee Stock Purchase Plan, as amended and restated, effective October 1, 2002. (1) Amendment No. 1 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12(1) to the 2005 Annual Report on Form 10-K). †(2) Amendment No. 2 to the Discounted Employee Stock Purchase Plan. |
| 11 | — Statement regarding Computation of per Share Earnings (incorporated by reference to Note 13 to Part I, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K). |
| †12 | — Ratio of Earnings to Fixed Charges. |

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| <u>Exhibit No.</u> | <u>Description</u> |
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| †21 | — Subsidiaries of the Registrant. |
| †23 | — Consent of Deloitte & Touche LLP. |
| †31.1 | — Certificate of Chief Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| †31.2 | — Certificate of Chief Financial Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| †32.1 | — Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| †32.2 | — Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| ††101 | — The following financial information from the Annual Report on Form 10-K for the year ended December 31, 2009, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text. |
| † | Filed herewith. |
| †† | Furnished electronically herewith. |

AMENDMENT AND RESTATEMENT
TO THE
UPS RETIREMENT PLAN
EFFECTIVE JANUARY 1, 2010

WHEREAS, United Parcel Service of America, Inc. ("UPS") and its affiliated corporations established the UPS Retirement Plan ("Plan") for the benefit of its employees, in order to provide benefits to those employees upon their retirement, disability, or death, effective as of September 1, 1961; and

WHEREAS, the Plan has been amended on a number of occasions since September 1, 1961 and was most recently amended and restated effective as of January 1, 2008, and

WHEREAS, UPS desires to again amend and restate the Plan to (1) to incorporate provisions of the Pension Protection Act of 2006, the Heroes Earning Assistance and Relief Act of 2008 and the Worker, Retiree and Employer Recovery Act of 2008, (2) alphabetize the definition section of the Plan, and (3) generally clarify certain provisions of the Plan.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors by Section 7.1 of the UPS Retirement Plan (the "Plan"), the Plan is hereby amended and restated in the form attached.

Except as expressly provided otherwise in the Plan, the amended and restated Plan is effective as of January 1, 2010.

Except as amended by this amendment and restatement of the Plan, the Plan as in effect immediately prior to the date of this amendment shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action by the Board of Directors on December 18, 2009 has caused this Amendment and Restatement of the Plan to be adopted.

ATTEST:

UNITED PARCEL SERVICE
OF AMERICA, INC.

/s/ Teri P. McClure
Teri P. McClure
Secretary

/s/ D. Scott Davis
Scott Davis
Chairman

THE UPS RETIREMENT PLAN

**Amendment and Restatement
Effective as of January 1, 2010**

THE UPS RETIREMENT PLAN

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THE UPS RETIREMENT PLAN

WHEREAS, the Employer Companies have heretofore established this Retirement Plan for the benefits of their eligible employees, in order to provide benefits to those employees upon their retirement, disability, or death, effective as of September 1, 1961; and

WHEREAS, following the enactment of the Employee Retirement Income Security Act of 1974, the Plan was amended and restated in its entirety, replacing all of the provisions of the Plan then in effect, being effective as of January 1, 1976; and

WHEREAS, the Plan has subsequently been amended on a number of occasions, the most recent of which is Amendment No. 40;

NOW, THEREFORE, this amendment and restatement, effective January 1, 2010, hereby amends and restates the Plan to incorporate all amendments made to date, and make other amendments which are generally effective as to individuals with at least one Hour of Service as an Employee on or after January 1, 2010 and new Employees hired thereafter. The rights and benefits, if any, of an individual without at least one Hour of Service as an Employee on or after January 1, 2010 shall be determined in accordance with the terms of the Plan in effect on the date such Employee last earned an Hour of Service, except as expressly provided in this amended and restated Plan or as otherwise provided by the Code or ERISA.

**ARTICLE I
DEFINITIONS**

Section 1.1 Definitions. Whenever used herein, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

- (a) “Accrued Benefit” means the monthly benefit defined in Section 5.2(a).
- (b) “Actuarial Equivalent”
 - (i) General Optional Form of Payment For purposes of determining the amount of an Optional Form of Benefit, a benefit having in the aggregate equality in value to the amounts expected to be received under the Normal Form of benefit payment based upon an interest rate of 6% and the 1983 GAM Mortality Table for Males for Participants and the 1983 GAM Mortality Table for Females for beneficiaries and Alternate Payees.
 - (ii) Special Rules Optional Form of Payment Notwithstanding the foregoing, the following factors will apply to the Participants described below in determining the amount of the Optional Forms of Benefit described below:
 - (A) Grandfathered Participants and Pre-2001 Benefits For purposes of determining the amount payable to (I) any Grandfathered Participant or (II) any other Participant who had accrued a benefit under the Plan as of December 31, 2000 and who is not in pay status as of December 31, 2000, in the form of a Qualified Joint and Survivor Annuity, Joint and 50% Survivor Annuity or a Single Life Annuity with 120-Month Guarantee:
 - (1) Qualified and 50% Joint and Survivor Annuity. If the Optional Form of Benefit is a Qualified Joint and Survivor Annuity or a 50% Joint and Survivor Annuity the greater of (I) the amount determined under Section 1.1(b)(i) above or (II) the amount determined in accordance with paragraph (a) or (b) below:
 - a. 94 percent of the Participant’s monthly benefit in the Normal Form increased (or decreased) by 0.5 percent for each year the Spouse’s or beneficiary’s age is greater (or less) than the Participant’s age, to a minimum of 82 percent if the beneficiary is the Participant’s Spouse (but no minimum shall apply if the beneficiary is not the Participant’s Spouse), and a maximum of 99 percent (without regard to whether the beneficiary is the Participant’s Spouse), if the Normal Form of the

Participant's benefit is a Single Life Annuity with 120-Month Guarantee; and

- b. 90 percent of the Participant's monthly benefit in the Normal Form increased (or decreased) by 0.5 percent for each year the Spouse's or beneficiary's age is greater (or less) than the Participant's age, with no minimum but a maximum of 99 percent if the Normal Form of the Participant's benefit is a Single Life Only Annuity.
- (2) Single Life with 120-Month Guarantee. If the benefit is payable to a Participant described in Section 1.1(b)(ii)(A) with at least one Hour of Service as an Employee on or after January 1, 1992 in the form of a Single Life Annuity with 120-Month Guarantee, the greater of (I) the amount determined under Section 1.1(b)(i) above or (II) 95 percent of his monthly benefit payable in the Normal Form.
 - (3) Adjustment for Certain Qualified Joint and Survivor Annuities. If the benefit is payable on or after January 1, 2007 to a Participant described in Section 1.1(b)(ii)(A) with at least one Hour of Service as an Employee on or after January 1, 1992 in the form of a Qualified Joint and Survivor Annuity, then the amount of the benefit determined under Section 1.1(b)(ii)(A) shall be increased by five percent (5%) or such greater percentage as is required to make the Qualified Joint and Survivor Annuity equivalent to the most valuable benefit available to such Participant if such Participant retires after age 65.
- (B) Grandfathered Overnite Participant. For purposes of determining the benefit payable to any Grandfathered Overnite Participant with an Annuity Starting Date occurring on or after January 1, 2006:
 - (1) If the Optional Form of Payment is a Qualified Joint and Survivor Annuity or a 50% or 100% Joint and Survivor Annuity the greater of (A) the amount determined under Section 1.1(b)(i) above or (B) the amount determined using an interest rate of 7% and the UP 1984 Unisex Pension Mortality Table;
 - (2) If the Optional Form of Benefit is a Social Security Leveling Option, the greater of (A) the amount determined under Section 1.1(b)(i) above, (B) the amount determined using an interest rate of 7% and the UP 1984 Unisex Pension Mortality Table or (C) the amount determined

using the Applicable Interest Rate (determined as if the benefit commencement date is the date of distribution) and the Applicable Mortality Table.

(C) Grandfathered Motor Cargo Participant. For purposes of determining the benefit payable to any Grandfathered Motor Cargo Participant with an Annuity Starting Date occurring on or after January 1, 2006:

- (1) If the Optional Form of Benefit is a Qualified Joint and Survivor Annuity, a 50% or 100% Joint and Survivor Annuity or a Five Year Certain and Life Annuity, the greater of (A) the amount determined under Section 1.1(b)(i) above or (B) the amount determined using an interest rate of 8% and the UP 1984 Unisex Pension Mortality Table;
- (2) For purposes of the adjustment for a Postponed Retirement Benefit described in Section 5.2(d), an interest rate of 8% and the UP 1984 Unisex Pension Mortality Table.

(iii) Offsets from Other Plans. For any purpose other than as described above, for example, for the purpose of determining the amount of any offset under Section 5.7 or benefits provided under Article XIII, Actuarial Equivalence shall be determined based upon an interest rate of 6% and the 1971 Towers, Perrin, Forster and Crosby Forecast Mortality Table with ages set back one year.

(iv) Other Purposes. For any purpose other than described in Section 1.1(b)(iii) above, Actuarial Equivalence shall be determined under Section 1.1(b)(i) above.

(v) Portable Account. For purposes of converting a Portable Account to the Single Life Annuity form of payment and determining the amount of a Single Life Annuity payable from a Portable Account before Normal Retirement Date, Actuarial Equivalence is computed on the basis of the Applicable Mortality Table and the Applicable Interest Rate.

(c) "Actuary" means the individual actuary or firm of actuaries selected by the Committee to provide actuarial services in connection with the administration of the Plan.

(d) "Alternative Formula" means the benefit formula described in Section 5.3(f).

(e) "Annuity Starting Date" means (1) the first day of the first period for which an amount is payable as an annuity, or (2) in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to such benefit.

(f) “Applicable Interest Rate” means

- (i) for lump sum benefits paid before January 1, 2000, “Applicable Interest Rate” shall mean the lesser of (i) 6% or (ii) the interest rate or rates which would be used, as of the date distribution commences, by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a Participant’s benefits under the Plan if the Plan had terminated on the date distribution commences with insufficient assets to provide benefits guaranteed by the Pension Benefit Guaranty Corporation on that date; and
- (ii) for lump sum benefits paid and benefit commencement or other determination dates on or after January 1, 2000, the “Applicable Interest Rate” shall be as described in Code § 417(e)(3) for the “lookback month” preceding the “stability period” that includes the date the distribution is made. The term “lookback month” means August, which is the fifth month preceding the first day of the stability period containing the date of distribution. The term “stability period” means the calendar year in which the distribution is made. Notwithstanding the foregoing, for distributions made on or after January 1, 2000 and before July 1, 2001, the Applicable Interest Rate means the lesser of (i) the “applicable interest rate” as described in Code § 417(e)(3) for the second month preceding the month that includes the date the distribution is made or (ii) the “applicable interest rate” as described in Code § 417(e)(3) for the month of August preceding the calendar year that includes the date the distribution is made.
- (iii) for lump sum benefits paid, benefits commencing in the form of a Social Security Leveling Option or other determination dates on or after January 1, 2006 and before January 1, 2007 to a Grandfathered Overnite Participant or a Grandfathered Motor Cargo Participant, “Applicable Interest Rate” shall be the lesser of (a) the “applicable interest rate” as described in Code § 417(e)(3) for the November preceding the calendar year that includes the date the distribution is made or (b) the “applicable interest rate” as described in Code § 417(e)(3) for the month of August preceding the calendar year that includes the date the distribution is made.
- (iv) for lump sums paid, benefits commencing in the form of a Social Security Leveling Option or other determination dates on or after January 1, 2008, means the applicable interest rate structure established by the Internal Revenue Service under Code § 417(e)(3) in effect during August (the “lookback month”) preceding the calendar year that includes the Annuity Starting Date or other determination date, provided that for lump sum benefits paid and benefits paid in the form of a Social Security Leveling Option commencing during Plan Years beginning in 2008 through 2011,

the applicable interest rate or rates shall be determined taking into account the transition rules under Code § 417(e)(3)(D)(ii) and (iii).

- (g) “Applicable Mortality Table” means
- (i) for lump sums paid before January 1, 2000, the 1971 Towers, Perrin, Forster, and Crosby Forecast Mortality Table with ages set back one year; and
 - (ii) for lump sums paid and benefit commencement or other determination dates on or after January 1, 2000, the “applicable mortality table” prescribed by the Secretary of the Treasury for purposes of Code § 417(e)(3).
 - (iii) for lump sums paid, benefits commencing in the form of a Social Security Leveling Option or other determination dates on or after January 1, 2008, means the applicable mortality table as may be established by the Internal Revenue Service from time to time under Code § 417(e)(3) for the calendar year that includes the Annuity Starting Date or other determination date.
- (h) “Benefit Service” means, subject to the special rules described below, the number of a Participant’s years (including fractions of a year) of (i) employment as an Employee with one or more Employer Companies while such Employer Company is an Employer Company, and (ii) employment with one or more Employer Companies while such Employer Company is an Employer Company, but not as an Employee, provided that such employment precedes the Participant’s period of employment as an Employee. No Benefit Service credit will be given with respect to service with an Employer Company that follows a Participant’s period of employment as an Employee, unless the Participant subsequently becomes an Employee and earns at least one month of Benefit Service in such capacity. Except as specifically provided otherwise, no Benefit Service credit will be given with respect to employment with an Employer Company prior to the date it first becomes an Employer Company.
- (i) General. Years and months of Benefit Service shall be determined based on Hours of Service earned by a Participant in the capacities described above in accordance with the following charts:

(A) Before 1992. For any Participant without at least one Hour of Service as an Employee on or after January 1, 1992:

| <u>Hours of Service in Each Calendar Year</u> | <u>Months of Benefit Service</u> |
|---|----------------------------------|
| Less than 1000 | 0 months |
| 1000 - 1050 | 6 months |

| | |
|--------------|-----------|
| 1051 - 1200 | 7 months |
| 1201 - 1350 | 8 months |
| 1351 - 1500 | 9 months |
| 1501 - 1650 | 10 months |
| 1651 - 1800 | 11 months |
| 1801 or over | 12 months |

(B) On and After 1992. For a Participant with at least one Hour of Service as an Employee on or after January 1, 1992:

| <u>Hours of Service in Each Calendar Year</u> | <u>Months of Benefit Service</u> |
|---|----------------------------------|
| Less Than 125 | 0 months |
| 125 - 249 | 1 month |
| 250 - 374 | 2 months |
| 375 - 499 | 3 months |
| 500 - 624 | 4 months |
| 625 - 749 | 5 months |
| 750 - 874 | 6 months |
| 875 - 999 | 7 months |
| 1000 - 1124 | 8 months |
| 1125 - 1249 | 9 months |
| 1250 - 1374 | 10 months |
| 1375 - 1499 | 11 months |
| 1500 - over | 12 months |

Participants eligible for Benefit Service credit in accordance with this subparagraph (B) shall receive such credit with respect to Hours of Service both preceding and following January 1, 1992.

(ii) Break in Service. If a Participant with no vested interest, as determined under Section 6.1, incurs one or more consecutive Breaks in Service:

- (A) Rule of Parity. Benefit Service credit prior to the Break in Service shall not be taken into account for purposes of calculating years of Benefit Service if the number of consecutive Breaks in Service equals or exceeds the greater of (i) the aggregate number of the Participant's Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (ii) six;
- (B) One-Year Hold Out. Prior to July 1, 2000, Benefit Service before such Break in Service shall not be taken into account for purposes of calculating years of Benefit Service until the Participant completes one Year of Service after the Break in Service.

- (iii) LTD Participant. Benefit Service with respect to an LTD Participant whose Retirement Benefits commence after December 31, 2000 shall be calculated in accordance with the applicable table in subparagraph (i) above, but there shall be included as Benefit Service for purposes of benefit accrual and early retirement subsidies under a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula all years and months while the Participant is an LTD Participant and continues to be "totally disabled" for purposes of the UPS Income Protection Plan (or a successor long term disability plan), as amended from time to time. Such Benefit Service shall be determined as if such LTD Participant had worked at least 1500 Hours of Service in each calendar year and at least 216 Hours of Service in each month in excess of a calendar year. Provided, however, the total Benefit Service credited under this Section 1.1(h)(iii) to an LTD Participant when aggregated with his actual Benefit Service under other Sections of this definition shall not exceed thirty-five (35) years or if lesser, the maximum service cap imposed by the particular benefit formula applicable to the LTD Participant. No Benefit Service will be credited to a Disabled Participant while such Participant is receiving Disability Retirement Benefits.
- (iv) Special Rules for Acquisitions/Mergers. The Benefit Service of certain Participants who became Participants as a result of certain acquisitions or mergers shall include the additional Benefit Service if any, described in the Appendix applicable to such Participants.
- (v) Terminated and Rehired Employees. An Employee who is transferred to a non-Employee position (whether on, before or after January 1, 2008) and then is transferred back to an Employee position or rehired as an Employee on or after January 1, 2008 shall continue to earn Benefit Service for purposes of determining early retirement subsidies, but not benefit accrual, under a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula for the benefit accrued before he terminated service or transferred to the non-Employee position until he terminates employment with the Employer Company and all Related Employers.

(i) "Beneficiary" means a beneficiary designated by the Participant or the Plan in accordance with Section 5.10.

(j) "Board of Directors" means the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc.

(k) "Break in Service" means, with respect to a Participant with at least one Hour of Service as an Employee on or after January 1, 1992, a Plan Year during which the Participant does not complete more than 124 Hours of Service. With respect to a Participant without at least one Hour of Service as an Employee on or after January 1, 1992, "Break in Service" means a Plan Year during which a Participant does not complete more than 500 Hours of Service (375 Hours of Service in the

case of a Participant employed on a part-time basis for whom the regular time hour equivalency described in the definition of Hour of Service is used).

- (l) “Code” means the Internal Revenue Code of 1986 as amended.
- (m) “Committee” means the Administrative Committee of the Plan, the establishment and responsibilities of which are set forth in Article IX. The Committee shall be and is the Plan Administrator, the agent for service of process on or with respect to the Plan and a named fiduciary with respect to this Plan.
- (n) “Company” means all of the following corporations collectively:
 - (i) United Parcel Service of America, Inc.; and
 - (ii) any corporation or trade or business that is considered to be a single employer with United Parcel Service of America, Inc., under Code § 414(b), (c), (m) or (o).
- (o) “Compensation” means, generally, remuneration currently earned and actually paid by an Employer Company or a domestic Related Employer to an employee who is a Participant in the Plan, and reported on such employee’s Form W-2 for the applicable calendar year, including basic salary or wages (without reducing wages to account for the Participant’s elective deferral of a portion of his salary or wages, if any, pursuant to a cash or deferred arrangement described in Code § 401(k), a plan described in Code § 125, the UPS Deferred Compensation Plan and/or the UPS Deferred Compensation Plan 2000), overtime pay, certain incentive and bonus payments, and including the value of awards made pursuant to the UPS Managers’ Incentive Plan or management incentive awards under the United Parcel Service, Inc. Incentive Compensation Plan. Notwithstanding anything to the contrary in the immediately preceding sentence, effective for management incentive awards made under the United Parcel Service, Inc. Incentive Compensation Plan on or after November 1, 2005, Compensation shall include the value (as of the award date) of the restricted stock unit portion of the award, even if unvested and not reported on the employee’s Form W-2 related to the year of the award. Compensation shall not include any other payments received by the Participant, including, but not limited to, the following, notwithstanding that such payments may be included in the Participant’s Form W-2 for the applicable year:
 - (i) Payments in the nature of compensation from an insurance carrier, from a state unemployment or worker’s compensation fund, or from any health and welfare or other benefit program or plan maintained by an Employer Company or a Related Employer other than the United Parcel Service, Inc. Incentive Compensation Plan for management incentive awards thereunder;
 - (ii) Disability payments from an insurance carrier, a state disability insurance fund, this Plan or any other disability plan maintained by an Employer

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- Company or a Related Employer except, effective January 1, 2007, payments from a state disability insurance fund that are applied to offset salary continuation benefits from the UPS Income Protection Plan;
- (iii) 'Foreign service differentials' or other supplemental payments made by an Employer Company or a Related Employer to a Participant working outside his country of citizenship on account of such foreign service;
 - (iv) Payment or reimbursement by an Employer Company or a Related Employer of relocation expenses incurred by a Participant or his family;
 - (v) The value of employee fringe benefits provided by an Employer Company or a Related Employer, including but not limited to the payment of life insurance premiums, whether or not the value of such fringe benefits is includable in an employee's taxable income;
 - (vi) Payments made under deferred compensation plans or programs;
 - (vii) Employer contributions to any pension, profit-sharing or stock bonus plan to which the Employer Company or a Related Employer contributes;
 - (viii) Employer contributions to any welfare benefit plan to which an Employer Company or a Related Employer contributes;
 - (ix) Income attributable to awards under the UPS Stock Option Plan or the United Parcel Service, Inc. Incentive Compensation Plan other than management incentive awards; provided, however, that income attributable to the vesting of that portion of a management incentive award that is made in restricted stock units shall be excluded; and
 - (x) Effective January 1, 2006, bonuses paid pursuant to retention agreements paid in connection with mergers or acquisitions and any other bonuses or payments that are not directly related to the performance of the Participant's duties including, but not limited to:
 - (A) any bonuses paid under a general bonus payroll code;
 - (B) gift card awards;
 - (C) loss prevention awards;
 - (D) referral bonuses; and
 - (E) sales lead incentive bonuses.

In no event shall the Compensation of any participant taken into account under the Plan for any Plan Year exceed the applicable dollar amounts for such Plan Year determined under Code § 401(a)(17) increased by the applicable cost-of-

living adjustment, if any, for the calendar year sanctioned by Code § 401(a)(17). For Plan Years commencing before January 1, 1997, in determining the Compensation of a Participant, the rules of Code § 414(q)(6) (as in effect immediately prior to January 1, 1997) shall apply, except that in applying such rules, the term "family" shall include only the Participant's Spouse and any lineal descendants of the Participants who have not attained age 19 before the close of the Plan Year. If, as a result of the application of such rules the applicable Compensation limitation is exceeded, then such limitation shall be prorated among the affected individuals in proportion to each such individual's Compensation as determined under this Section prior to the application of this limitation.

In determining a Participant's Final Average Compensation, the \$200,000 Compensation limitation shall apply retroactively with respect to Compensation earned prior to 2002 by a Participant with at least one Hour of Service on or after January 1, 2002. Similarly, the \$150,000 Compensation limitation shall apply retroactively with respect to Compensation earned prior to 1994 by a Participant with at least one Hour of Service on or after January 1, 1994 (but without an Hour of Service on or after January 1, 2002) and the \$200,000 Compensation limitation in effect for 1989 shall be applied retroactively with respect to Compensation earned prior to 1989 by a Participant with at least one Hour of Service on or after January 1, 1989 (but without any Hours of Service on or after January 1, 1994). However, a Participant's Benefit shall not be less than that which had accrued or earned as of December 31, 2001 (December 31, 1993 in the case of a Participant without at least one Hour of Service on or after January 1, 2002 or December 31, 1988 in the case of a Participant without at least one Hour of Service on or after January 1, 1994), based on his Benefit Service and Final Average Compensation determined as of such date.

Solely for the purpose of avoiding a double proration, within the meaning of Department of Labor Regulations Section 2530.204-2(d), in calculating a Participant's benefit; to the extent that a Participant is credited with less than a full year's Benefit Service for a calendar year, then the Participant's Compensation taken into account for such year for purposes of the Final Average Compensation Formula shall be annualized by dividing such Compensation by the number of months of Benefit Service earned by the Participant for such calendar year and multiplying the result by 12.

The Compensation of an individual who became a Participant as a result of an acquisition or merger shall include compensation, if any, earned prior to the date such individual first became a Participant to the extent described in the applicable Appendix or in the definition of Final Average Compensation and for purposes of determining Final Average Compensation, Compensation for periods prior to such acquisition or merger shall be determined in accordance with this Section unless otherwise specified in the Appendix applicable to such Participants.

Effective January 1, 2009, a Participant receiving a differential wage payment (as described in Code § 414(u)(12)) shall be treated as an employee of the Employer Company making the differential wage payment and, for purposes of this Plan, the differential wage payment shall be treated as Compensation.

- (p) “Crewmember” means a “crewmember” as defined in Appendix M and only to the extent of benefits described in Appendix M.
- (q) “Deferred Vested Benefit” means the benefit, if any, described in Section 5.2(c).
- (r) “Disability” or “Disabled” means:
 - (i) for determinations made prior to January 1, 2003, total and permanent disability that renders the Participant unable to engage in any substantially gainful activity for the Employer Company by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration, and it is not the result of military service or the commission of a crime by the Participant. The Committee may require such proof of disability as will be satisfactory to it, and may withhold payments until such proof is provided; and
 - (ii) for determinations made on or after January 1, 2003, a total and permanent physical or mental impairment that qualifies a Participant (and continues to qualify him) for a monthly disability insurance benefit under the United States Social Security Act. The determination by the Social Security Administration as to whether and when a Participant has a total and permanent disability shall be conclusive. No other medical findings will be considered.
- (s) “Disability Retirement Benefit” means the benefit, if any, described in Section 5.5 or for certain Participants who became Participants as a result of certain acquisitions or mergers, the disability benefit described in the applicable Appendix.
- (t) “Domestic Partner” means, effective January 1, 2006, an individual other than a Spouse, in a relationship with a Participant that meets the following conditions:
 - (i) Both the individual and the Participant are at least 18 years old and mentally competent to consent to a contract,
 - (ii) The individual and the Participant have been in a committed and exclusive relationship of mutual caring and support for at least the immediately preceding 12 months and intend to remain in the partnership permanently,
 - (iii) The individual and the Participant are jointly responsible for each other’s financial, emotional and physical well-being,

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- (iv) The individual has lived with the Participant continuously for at least the immediately preceding 12 months and intends to do so indefinitely,
 - (v) The individual is not related to the employee by blood or other relationship that would violate applicable state law if the individual and the Participant were married (other than laws related to gender),
 - (vi) Neither the individual nor the Participant has had a Spouse or has been in another relationship with an individual that would qualify as a "domestic partner" under this definition in the immediately preceding 12 months,
 - (vii) The relationship is registered in the applicable state or local registry, if available,
 - (viii) The individual and the Participant are the same sex,
 - (ix) Not be in the relationship solely for the purpose of obtaining benefits coverage, and
 - (x) Be unable to enter into a legal marriage because the Employee's State of residence at his death does not recognize same sex marriages.

Upon the Participant's death, the Domestic Partner must provide an affidavit certifying the above conditions were satisfied at the time of the Participant's death and provide such other documentation as is requested by the Committee to evidence the relationship.

- (u) "Early Commencement Service Requirement" means for each Participant, the completion of the service requirement specified in the definition of Early Retirement Date applicable to such Participant.
- (v) "Earliest Commencement Age" means for each Participant, the minimum age for the Early Retirement Date, if any, applicable to such Participant. If a Participant has not satisfied the service requirements for an Early Retirement Date, the Earliest Commencement Age is equal to the Participant's Normal Retirement Age.
- (w) "Early Retirement Benefit" means the benefit payable under Section 5.2(b).
- (x) "Early Retirement Date" means the first day of any calendar month coincident with or next following the attainment of 55 years of age and the completion of ten Years of Service, or, for a Grandfathered Motor Cargo Participant, five Years of Service, but not later than Normal Retirement Date.
- (y) "Effective Date" means September 1, 1961.
- (z) "Employee" means (1) an individual who is employed by a domestic Employer Company, or (2) a Foreign Employee, neither of whose terms and conditions of

employment are governed by a collective bargaining agreement to which the Employer Company is a party, unless the collective bargaining agreement expressly provides for coverage under this Plan (for periods after January 1, 1992, changes to the Plan's benefit formula shall not apply to employees subject to a collective bargaining agreement and participating in this Plan except to the extent so provided in the applicable collective bargaining agreement), and neither of whom is an active participant on whose behalf contributions are being made by the Employer Company under any other qualified pension or retirement plan, except any cash or deferred plan described in Code § 401(k).

Notwithstanding the foregoing:

- (i) Except to the extent provided otherwise in an Appendix for an acquisition or merger, any individual who becomes an Employee for the first time as a result of employment with an Employer Company which first elected to participate in this Plan as of January 1, 1985, or later, shall not be considered an Employee until such individual has completed one Year of Service during or after the first Plan Year for which the Employer has agreed to participate.
- (ii) Subject to ratification of the National Master United Parcel Service Agreement, for the Period : August 1, 2008 through July 31, 2013, between United Parcel Service, Inc. an Ohio Corporation and a New York Corporation, in their Common Carrier Operations, and the Teamsters United Parcel Service National Negotiating Committee, representing Local Unions affiliated with the International Brotherhood of Teamsters, an individual who:
 - (A) is employed by a domestic Employer Company;
 - (B) is represented for purposes of collective bargaining by International Brotherhood of Teamsters, Local 135;
 - (C) is employed on a basis pursuant to such collective bargaining agreement; and
 - (D) has at least one Hour of Service under such collective bargaining agreement on or after October 8, 2007shall be treated as an Employee from October 8, 2007 through the earlier of his termination of employment or December 31, 2007; and
- (iii) Effective January 1, 2008, an individual who is a Crewmember shall be an Employee only to the extent of the benefits described in Appendix M.

The term "Employee" shall not include (1) an individual employed as a leased employee as that term is defined in Code § 414(n)(2); (2) any person while assigned to Overnite's or UPS Freight's Special Services Division or OMC

Logistics who either (i) first became an employee of Overnite on or after September 1, 2002, or (ii) has a termination of employment and was re-employed as an employee on or after September 1, 2002, without retaining credit for Years of Vesting Service and years of Benefit Service completed prior to such termination of employment; and (3) any person employed by Overnite or UPS Freight who is classified as a "work at home customer service employee".

Under no circumstances will an individual who performs services for a Employer Company, but who is not classified on the payroll as an employee of the Employer Company, for example, an individual performing services for a Employer Company under a leasing arrangement, be treated as an Eligible Employee even if such individual is treated as an "employee" of a Employer Company as a result of common law principals or the leased employee rules under Code § 414(n). Further, if an individual performing services for a Employer Company is retroactively reclassified as an employee of a Employer Company for any reason, such reclassified individual shall not be treated as an Eligible Employee for any period prior to the actual date (and not the effective date) of such reclassification unless the Employer Company determines that retroactive reclassification is necessary to correct a payroll classification error.

- (aa) "Employer Company" means any Company which (1) is listed on Appendix H or (2) by action of its board of directors has elected to participate in this Plan with the consent of United Parcel Service of America, Inc. An entity shall cease to be an Employer Company when it withdraws from the Plan in accordance with Section 7.2 or when it ceases to be a Company.
- (bb) "ERISA" means Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time
- (cc) "Final Average Compensation" means,
 - (i) Before 2007. For calendar years prior to January 1, 2007, Final Average Compensation means a Participant's average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last consecutive ten calendar years of employment (or actual number of consecutive years of employment if less than ten) preceding the earlier of the calendar year in which:
 - (A) the Participant terminated his period of employment with the Employer Company and all Related Employers, whether by reason of retirement or other termination of employment, or
 - (B) the Plan terminated, whether in whole or in part.Notwithstanding the forgoing, if the Participant received Compensation for the entire calendar year in which his termination of employment occurred, his Compensation for such calendar year shall be included in the

calculation of his Final Average Compensation if it is to his advantage to do so.

- (ii) On or After 2007. For calendar years beginning on and after January 1, 2007, Final Average Compensation means a Participant's average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last ten consecutive calendar years of employment preceding the earlier of the calendar year in which:
- (A) the Participant terminated his period of employment with the Employer Company and all Related Employers, or
 - (B) the Plan terminated, whether in whole or in part.
- Notwithstanding the foregoing, if the Participant received Compensation for the entire calendar year in which his termination of employment occurred, his Compensation for such calendar year shall be included in the calculation of his Final Average Compensation if it is to his advantage to do so. Further, if a Participant's Compensation is zero for any calendar year that is included in the last consecutive ten calendar years, such calendar year shall be included in determining the consecutive five-year period but shall not be included in determining the average annual Compensation for such five-year period.
- The Final Average Compensation of a Participant who is reemployed by an Employer Company or a Related Employer on or after January 1, 2008 shall not be increased as a result of his period of employment following such reemployment.
- (iii) Special Grandfather Rule. For a Grandfathered Participant and each other Participant who has an accrued benefit under the Plan as of December 31, 2000, his accrued benefit in no event shall be less than his accrued benefit determined as of December 31, 2000 using his average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last consecutive ten calendar years of employment (or actual number of consecutive years of employment if less than ten) preceding the calendar year in which occurs the earlier of (A) the Participant terminated his most recent period of employment included in the calculation of Benefit Service prior to December 31, 2000, whether by reason of retirement or other termination of employment with an Employer Company, or by transfer to a position in which such individual is no longer an Employee or (B) December 31, 2000.
- (iv) Special Rule for Grandfathered Overnite Participants and Grandfathered Motor Cargo Participants. For purposes of avoiding a double proration,

within the meaning of Department of Labor Regulations, Section 2530.204-2(d) in calculating a Grandfathered Overnite Participant; or Grandfathered Motor Cargo Participant's benefit, if calendar years before 2006 are taken into account to determine Final Average Compensation, only those years in which a Grandfathered Overnite Participant or a Grandfathered Motor Cargo Participant received a year of benefit service credit under the Overnite Plan or the Motor Cargo Plan, respectively, shall be included and any years in which the Participant did not earn a year of benefit service shall be ignored.

- (dd) "Final Average Compensation Formula" means the RPA Benefit Formula, the UPS Freight Formula, the Pre-2006 Motor Cargo Formula, the Alternative Formula and/or the Integrated Formula.
- (ee) "Five Year Certain and Life Annuity" means a reduced monthly benefit payable to a Participant for his lifetime, with a guarantee of 60 payments. If the Participant dies after the Annuity Starting Date but before receiving 60 monthly payments, the monthly payments shall be paid to the Participant's Beneficiary, until the Participant and his Beneficiary have received a total of 60 monthly payments.
- (ff) "Foreign Employee" means a citizen of the United States transferred from a domestic Employer Company to employment by a foreign corporation shall be considered an Employee of the domestic Employer Company which has entered into an agreement under Code § 3121(1) to provide social security coverage for all citizens of the United States employed by such foreign corporation, during such time as such individual remains employed by the foreign corporation and the foreign corporation remains covered under such agreement.
- (gg) "Fund", "Trust", or "Trust Fund" means all of the assets of the Plan that are held by the Trustee for the purposes of the Plan.
- (hh) "Grandfathered Participant" means any Participant
 - (i) who performed an Hour of Service as an Employee on or before December 31, 2000 or was classified as an employee on the payroll of an Employer Company on or before December 31, 2000, but was not an Employee because the terms or conditions of his employment were governed by a collective bargaining agreement which did not expressly provide for coverage under the Plan;
 - (ii) who performs an Hour of Service as an Employee (other than an Hour of Service as a Crewmember) on or after January 1, 2001; and
 - (iii) whose Hours of Service as an Employee prior to January 1, 2001 are not disregarded (without regard to whether such Participant received a month of Benefit Service with respect to such Hours of Service).

An individual who is treated as an employee solely as a result of the application of Code Section 414(n) shall under no circumstances be treated as a Grandfathered Participant. For purposes of clarification, a Participant shall not be treated as performing an Hour of Service as an Employee or as having been classified as an employee on the payroll of an Employer Company before the first date as of which such Employer Company became an Employer Company.

(ii) “Grandfathered Motor Cargo Participant” means a Participant who was a participant in the Motor Cargo Plan on December 31, 2005.

(jj) “Grandfathered Overnite Participant” means a Participant who was a participant in the Overnite Plan on December 31, 2005.

(kk) “Hour of Service” means each hour for which an employee is paid or entitled to be paid for the performance of duties for an Employer Company or a Related Employer; each hour for which an employee is paid or entitled to be paid by an Employer Company or a Related Employer for periods during which no duties are performed due to vacation, holiday, illness, short-term disability or incapacity pursuant to which payments are received in the form of salary continuation or from a short-term disability plan or worker’s compensation plan sponsored by the Employer Company or a Related Employer or to which the Employer Company or a Related Employer contributes, layoff, jury duty, military duty which gives rise to reemployment rights under Federal law, or paid leave of absence (including a period where an employee remains on salary continuation during a period of illness or incapacity); each hour for which back pay is awarded or agreed to by an Employer Company or a Related Employer if not already credited under this sentence; and each hour for periods during which an employee is on an unpaid leave of absence.

Notwithstanding any of the foregoing, no more than 1040 Hours of Service will be credited to a Participant for any single continuous period during which the employee performs no duties; and no credit shall be given for a payment which is made or due under a plan maintained solely for the purpose of complying with unemployment compensation or disability insurance laws or which solely reimburses an employee for medical or medically related expenses incurred by the employee; provided, however, Hours of Service shall be credited as required under the Uniformed Services Employment and Reemployment Rights Act of 1994 effective December 12, 1994.

A payment shall be deemed to be made by or due from the Employer Company whether made by or due from the Employer Company directly or indirectly through a trust fund, insurer or other entity to which the Employer Company contributes or pays premiums, regardless of whether such contributions are for the benefit of particular employees or are on behalf of a group of employees in the aggregate. Stated generally, Hours of Service credited to a Participant during a period of absence as described above shall be credited at the same rate at which the Participant would have normally been credited with Hours of Service but for

the absence; provided however, that the crediting of Hours of Service shall in all events be consistent with the terms of Department of Labor Regulations, Section 2530.200b-2 and 3.

Notwithstanding the foregoing and, except as provided below, only for the purpose of determining whether a Break in Service has occurred for purposes of eligibility for participation under Section 2.1 or vesting under Section 6.2 of the Plan, there shall be treated as Hours of Service, with respect to a Participant who is an Employee on or after January 1, 1985, and who is absent from work (i) by reason of the pregnancy of the Participant, (ii) by reason of the birth of a child of the Participant, (iii) by reason of the placement of a child with the Participant in connection with the adoption of a child by the Participant, or (iv) for purposes of caring for a child of the Participant immediately following its birth or placement, either:

- (i) the Hours of Service which otherwise, normally would have been credited to such Participant but for the absence, or
- (ii) if the Plan is unable to determine the number of Hours of Service described in (1), eight hours per day of absence.

No credit will be given with respect to any pregnancy or placement of a child unless the Participant complies with any reasonable request which the Committee may make for information needed to establish (i) the reason for the Participant's absence or (ii) the number of days of absence attributable to a reason for which Hours of Service will be credited under this paragraph. No more than 501 Hours of Service shall be credited to a Participant by reason of any one pregnancy or placement and no Hours of Service shall be credited under this paragraph if such Hours of Service also are credited under the first paragraph of this Section.

In determining the Hours of Service for an Employee classified on the payroll as a part-time employee for which specific records of hours are not kept, an Employee shall be credited with 190 Hours of Service for each regularly-scheduled calendar work month on or after January 1, 2000 in which such Participant would, under the rules described above, have earned at least one Hour of Service. Prior to January 1, 2000, such Participant shall be credited with 108 Hours of Service for each such month; provided however, if crediting such Participant with 190 Hours of Service for such month would result in a greater benefit, then such Participant shall be credited with 190 Hours of Service.

In determining the Hours of Service for an Employee classified on the payroll as (i) a full-time employee for which specific records of hours are not kept, or (ii) as non-management employees who are paid on a basis other than hourly, an Employee shall be credited with 216 Hours of Service, for each regularly-scheduled calendar month in which such Employee would, under the rules described above, have earned at least one Hour of Service.

An individual who is treated as an employee of an Employer Company or a Related Employer solely as a result of the operation of the rules under Code Section 414(n) shall be credited with Hours of Service with an Employer Company or a Related Company as required under Code Section 414(n).

For an individual who became a Participant as a result of a certain acquisition or merger, credit, if any, for hours of service completed before such Participant became an Employee shall be determined in accordance with the applicable Appendix.

- (ll) “Integrated Formula” means the benefit formula described in Section 5.3(e).
- (mm) “Interest Credits” means the amount credited to the Participant’s Portable Account for each Plan Year, as described in Section 5.3(g)(iv).
- (nn) “Interest Credit Percentage” means the annual rate of interest on 30-year Treasury securities for the month of August preceding the applicable Plan Year, but not less than 2.5% per annum.
- (oo) “Joint and Survivor Annuity”, “Joint and 50% Survivor Annuity”, “Joint and 75% Survivor Annuity” and “Joint and 100% Survivor Annuity” means the Optional Form of Benefit described in Section 5.4(d)(ii).
- (pp) “LTD Participant” means a Participant who, as of the time employment is terminated with all Employer Companies and Related Employers, has (i) completed five Years of Service, (ii) is a full-time Employee and (iii) has been approved for disability benefits under the UPS Income Protection Plan (or a successor long term disability plan), as amended from time to time.
- (qq) “Motor Cargo Plan” means the Plan for Employees of Motor Cargo as in effect on December 31, 2005.
- (rr) “Normal Form” means
 - (i) For a Participant without at least one Hour of Service as an Employee on or after January 1, 1992, the Single Life Annuity and 120-Monthly Guarantee; and
 - (ii) For a Participant with at least one Hour of Service as an Employee on or after January 1, 1992, a Single Life Only Annuity.
- (ss) “Normal Retirement Benefit” means the benefit described in Section 5.2(a).
- (tt) “Normal Retirement Age” means, for individuals who become Participants on or after January 1, 1989, the later of (i) the date the Participant attains age 65 or (ii) the date the Participant earns five Years of Service or, if earlier, the fifth anniversary of his participation in this Plan. For an individual who became a Participant prior to 1989, a Grandfathered Overnite Participant, or a

Grandfathered Motor Cargo Participant, Normal Retirement Age means the date the Participant attains of age 65.

- (uu) "Normal Retirement Date" means the first day of the calendar month coincident with or next following the Participant's attainment of Normal Retirement Age.
- (vv) "Optional Form of Benefit" means an optional form of benefit other than a single sum amount.
- (ww) "Reserved"
- (xx) "Overnite" means Overnite Corporation or Overnite Transportation Company.
- (yy) "Overnite Plan" means the Retirement Plan for Employees of Overnite Transportation Company as in effect on December 31, 2005.
- (zz) "Participant" means an Employee who has satisfied the eligibility requirements of Article II hereof.
- (aaa) "Pre-2001 Participant" means a Participant who does not have an Hour of Service on or after January 1, 2001.
- (bbb) "Pre-2006 Motor Cargo Benefit Service" means for each Grandfathered Motor Cargo Participant the least of (i) 30 minus his actual number of years of UPS Freight Service completed after 2005, (ii) his actual number of years of pre-2006 Benefit Service described in Appendix K, or (iii) 25 years.
- (ccc) "Pre-2006 Motor Cargo Formula" means the benefit formula described in Section 5.3(c).
- (ddd) "Pre-2006 Overnite Benefit Service" means the pre-2006 Benefit Service described in Appendix J.
- (eee) "Plan" means the United Parcel Service Retirement Plan, also called the UPS Retirement Plan, as set forth herein, as the same may hereafter be amended from time to time by written resolution of the Board of Directors.
- (fff) "Plan Year" means a calendar year, except that the first Plan Year shall begin September 1, 1961 and end December 31, 1961.
- (ggg) "Portable Account" means the "cash balance account" established for a Portable Account Participant, the balance of which will equal the sum of the annual compensation credits (as described in Section 5.3(g)(iii)) and Interest Credits allocated under the Portable Account Formula in Section 5.3(g) to such account.
- (hhh) "Portable Account Benefit" means the benefit described in Section 5.3(g)

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- (iii) “Portable Account Formula” means the benefit formula described in Section 5.3(g).
- (jjj) “Portable Account Participant” means a Participant who is eligible to accrue a Portable Account Benefit as described in Section 5.3(g).
- (kkk) “Portable Account Points” means for any Plan Year, the sum of a Portable Account Participant’s age as of his most recent birthday and his whole Years of Service as of January 1 of such Plan Year.
- (lll) “Postponed Retirement Benefit” means the benefit payable under Section 5.2(d).
- (mmm) “Postponed Retirement Date” means the first day of the calendar month coincident with or next following a Participant’s actual retirement, when that retirement is later than his Normal Retirement Date.
- (nnn) “Preretirement Survivor Annuity” means the benefit described in Section 5.6.
- (ooo) “Present Value” The term “Present Value” means the single sum amount of such benefit based on the Applicable Interest Rate and the Applicable Mortality Table in effect for the Plan Year that includes the determination date. Notwithstanding the foregoing, with respect to distributions made on or after January 1, 2000 and before July 1, 2000 and with respect to distributions made to Participants who terminated prior to January 1, 2000, the single sum amount shall be the greater of the amount determined without regard to Section 1.1(e)(ii) and 1.1(f)(ii) or the amount determined taking into account Sections 1.1(e)(ii) and 1.1(f)(ii). Additionally, the single sum amount of the Participant’s benefit shall not be less than the single sum benefit the Participant would have received based on his benefit accrued as of the earlier of his date of termination or June 30, 2000 calculated using an interest rate of 6% and the Applicable Mortality Table under Section 1.1(f)(i).
- (ppp) “Qualified Joint and Survivor Annuity” means a reduced monthly benefit payable to the Participant for his lifetime, and following his death, 50% of the monthly benefit paid to the Participant shall be payable to the person who was his Spouse as of the Annuity Starting Date, and to whom the Participant is married at his death provided such Spouse survives the Participant. The last payment of such benefit shall be made as of the first day of the month in which the death of the last to die of the Participant and his Spouse has occurred. This benefit shall be the Actuarial Equivalent of the Normal Form of the Participant’s benefit.
- (qqq) “Related Employer” means (1) any other corporation on and after the date that it, together with the Employer Company, is a member of a controlled group of corporations as described in Code § 414(b); (2) any other trade or business (whether or not incorporated) on and after the date that it and the Employer Company are under common control as described in Code § 414(c); and (3) any organization (whether or not incorporated) on and after the date that it, together

with the Employer Company, is a member of an affiliated group of employers as described in Code § 414(m).

- (rrr) “Retirement Benefit” means a Normal Retirement Benefit, Early Retirement Benefit, Deferred Vested Benefit, a Postponed Retirement Benefit or a Portable Account Benefit.
- (sss) “RPA Benefit Service” means the sum of (i) years of Benefit Service completed before 2001 and (ii) years of Benefit Service completed after 2000 for an Employer Company described in Appendix F as providing benefits under the RPA Benefit Formula, in each case excluding years of Benefit Service prior to the date an individual first became a Participant in the Plan as a result of an acquisition or merger unless expressly provided in the applicable Appendix.
- (ttt) “RPA Formula” means the benefit formula described in Section 5.3(a).
- (uuu) “RPA Points” has the meaning ascribed to such term in Section 5.3(a)(iii).
- (vvv) “Single Life Only Annuity” means a monthly benefit continuing for the life of the Participant only. The last payment of a Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.
- (www) “Single Life Annuity and 120-Monthly Guarantee” means the monthly benefit described in Section 5.4(d)(iii).
- (xxx) “Social Security Amount” with respect to an Employee who is a Participant, means the yearly Primary Old Age Insurance benefit which a Participant is eligible or may become eligible to receive at the age at which unreduced Primary Old Age Insurance benefits commence (whether or not such application is made by the Participant) under the provisions of the Federal Social Security Act (as it is in effect on his Normal Retirement Date or earlier termination of employment with the Employer Company or any member of an affiliated group of which the Employer Company is a part), which amount shall be determined by the Committee under rules adopted by it based upon:
- (i) the assumption that the Participant has made or will make proper and timely application for such benefits;
 - (ii) if a Participant documents his salary history to the Committee, such history, provided, however, that for such history to be used in lieu of the estimated amount determined under paragraphs (iii) and (iv) below, the Participant must supply such history to the Committee no later than one year following the later of (A) the Participant’s termination of employment or (B) the time when the Participant is notified of the Retirement Benefit to which he is entitled.
 - (iii) subject to paragraph (ii), above, an estimated pre-separation or preretirement salary history with respect to the Participant; and

- (iv) with respect to a Participant whose employment terminated for reason of retirement or otherwise prior to his Normal Retirement Date, on the assumption that the Participant continued in employment with the Employer Company to his Normal Retirement Date at the rate of compensation as in effect on his earlier date of retirement or termination of employment.

In determining a Participant's Social Security Amount based upon such Participant's salary history pursuant to paragraphs (ii), (iii) and (iv) above, the value of deferred compensation shall be disregarded, except that elective contributions (1) under a qualified cash or deferred arrangement described in Code § 401(k), or (2) to a tax sheltered annuity described in Code § 403(b), if any, may be considered as part of such salary history.

- (yyy) "Social Security Leveling Option" means for a Grandfathered Overnite Participant, the Optional Form of Benefit described in Section 5.4(d)(v).
- (zzz) "Spouse" means that one person who is recognized under applicable law of the State of the Employee's residence as the Employee's Spouse on the earlier of (a) his date of death, or (b) his Annuity Starting Date.
- (aaaa) "Trust Agreement" or "Trust Agreements" means the trust agreements establishing the UPS Retirement Plan Trust, as restated effective as of January 1, 1976, including any future amendments and modifications thereof, which form a part of this Plan.
- (bbbb) "Trustee" means the corporations or individuals so designated by the Board of Directors to hold assets of the Plan for the purposes of the Plan.
- (cccc) "UPS Freight Formula" means the benefit formula described in Section 5.3(b).
- (dddd) "UPS Freight Service" means the sum (not to exceed 30) of (i) the Pre-2006 Overnite Benefit Service and (ii) the number of years of Benefit Service completed after 2005 for an Employer Company described on Appendix G as providing benefits under the UPS Freight Formula.
- (eeee) "Year of Service" means, with respect to each Participant with at least one Hour of Service as an Employee on or after January 1, 1992, each calendar year in which he completes not less than 750 Hours of Service (whether or not as an Employee) with the Employer Company or any Related Employer. With respect to any other Participant without at least one Hour of Service as an Employee on or after January 1, 1992, a Year of Service means each calendar year in which he completes not less than 1,000 Hours of Service (whether or not as an Employee) with the Employer Company or a Related Employer.

An LTD Participant and a Participant who is receiving a Disability Retirement Benefit shall not earn Year of Service credit while he is an LTD Participant or receiving a Disability Retirement Benefit. Year of Service credit, if any, of an

individual who became a Participant as a result of an acquisition or merger shall include the additional Years of Service credit, if any, described in the Appendix applicable to such Participant.

Section 1.2 Construction. Where required words used in the masculine gender shall include the feminine gender. Words used in the singular or plural shall be construed as if plural or singular, respectively, where they would so apply.

ARTICLE II
ELIGIBILITY FOR PARTICIPATION

Section 2.1 Eligibility Requirements prior to January 1, 2008 Any Employee included as a Participant under the provisions of the Plan as in effect immediately prior to January 1, 1976 shall continue to participate in accordance with the provisions of this amended and restated Plan. Any other Employee who as of January 1, 1976 has both attained age 25 and completed not less than 1,000 hours of employment in the 12-month period following his date of employment or in any subsequent Plan Year shall become a Participant on January 1, 1976.

After January 1, 1976, in Plan Years beginning before January 1, 1985, the participation of any Employee eligible to become a Participant shall commence as of the earliest January 1 or July 1 as of which he had both attained age 25 and completed not less than 1,000 hours of employment in the 12-month period following his date of employment or in any subsequent Plan Year. Any Employee not included as a Participant on January 1, 1985, who as of such date has both attained age 21 and completed not less than 1,000 hours of employment in the 12-month period following his date of employment or in any subsequent Plan Year shall become a Participant on January 1, 1985.

In Plan Years beginning after December 31, 1984, but prior to January 1, 1992, the participation of any Employee eligible to become a Participant shall commence as of the earliest January 1 or July 1 as of which he had both attained age 21 and completed not less than 1,000 hours of employment in the 12-month period following his date of employment or in any subsequent Plan Year.

In Plan Years beginning after December 31, 1991, the participation of any Employee eligible to become a Participant shall commence immediately following the date as of which he has both attained age 21 and completed a 12-month period of employment, measured from his date of hire or the beginning of any subsequent Plan Year, during which he earned not less than 750 Hours of Service.

Notwithstanding the foregoing, any Employee who is covered by a collective bargaining agreement which does not provide for his inclusion in this Plan shall not be eligible to commence or continue actively to participate in this Plan, nor shall any Employee who is an active participant on whose behalf contributions are being made by a Company under any other qualified pension or retirement plan (except any cash or deferred plan described in Code § 401(k)) be eligible to commence or to continue actively to participate in this Plan.

Any person who leaves the Employer Company's service after becoming eligible to participate shall again become a Participant immediately upon his return to the Employer Company's service, unless he has no vested right under the Plan and the number of his consecutive Breaks in Service equals or exceeds the greater of (i) the aggregate number of his years of prior service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (ii) with respect to a Break in Service incurred by a person who is an Employee on or after January 1, 1985, regardless of when the Break in Service occurred, six. If the condition of clause (i) or clause (ii), as applicable, is satisfied, the Employee will be treated as a new Employee for purposes of this Section 2.1.

Each Grandfathered Overnite Participant and Grandfathered Motor Cargo Participant shall become a Participant as of January 1, 2006.

Section 2.2 Eligibility Requirements on or after January 1, 2008.

Any Employee included as a Participant under the provisions of the Plan as in effect immediately before January 1, 2008 will continue to participate in accordance with the provisions of this amended and restated Plan. A Crewmember will become a Participant as described in Appendix M but only to the extent of the benefits described in Appendix M. An individual hired as an Employee or transferred from a non-Employee position into a position as an Employee prior to January 1, 2008 will become a Participant in accordance with Section 2.1. An individual hired or rehired as an Employee or transferred from a non-Employee position into a position as an Employee on or after January 1, 2008 will immediately become a Participant in this Plan.

**ARTICLE III
FUNDING**

Section 3.1 Funding Method and Policy. The Employer Companies shall contribute to the Plan with respect to each Plan Year an amount sufficient to satisfy their obligations hereunder and the minimum funding standard, which shall be considered met if at the end of each Plan Year, the Plan insofar as it relates to each Employer Company does not have an accumulated funding deficiency, as defined in ERISA § 302. Additional amounts may be contributed, in the Employer Companies' discretion.

The funding method shall be contributions from the Employer Companies and the funding policy shall be such as is consistent with the objectives of the Plan.

Section 3.2 Establishment of Funding Standard Account. The Committee hereby establishes a funding standard account which shall be maintained in accordance with ERISA § 302. Each Employer Company shall contribute to the Plan with respect to each Plan Year an amount sufficient to prevent the occurrence of an accumulated funding deficiency insofar as it is concerned. The Committee shall notify each Employer Company of the existence of an accumulated funding deficiency but failure to so notify the Employer Company shall not relieve the Employer Company from their obligations hereunder. The Committee shall take whatever action is appropriate to prevent an accumulated funding deficiency, including making application for a variance from the minimum funding standard or an extension of amortization periods, or establishing an alternative minimum funding standard in accordance with ERISA §§ 303, 304 and 305.

Section 3.3 Payment of Contributions. An Employer Company may pay its contribution for any Plan Year on any date or dates, provided, however, that the total amount of the Employer Company's contribution for any Plan Year shall be paid in full not later than the last day for timely filing of its Federal income tax return for the year with respect to which the contribution is made, including extensions thereof granted by the Internal Revenue Service. In determining when to make its contributions as aforesaid, the Employer Company shall be mindful of the quarterly contribution rules described in Code § 412(m).

Section 3.4 Contributions by Employer. All contributions to this Plan to fund the benefits described in Article IV shall be made only by the Employer Companies. Except as described in Article XII with respect to medical benefits funded by means of this Plan, no Participant contributions shall be required or permitted.

Section 3.5 Permissible Contributions and Irrevocability. Any amounts contributed by the Employer Company pursuant to this Article III may be contributed by the Employer Company in cash or other property. In no such event and under no circumstances shall such contributions, or any part thereof, revert to or be recoverable by the Employer Company until all obligations under this Plan have been fully satisfied as provided in Section 7.5, except as follows:

- (a) in the case of a contribution, or any part thereof, made under a mistake of fact, the Employer Company may recover such contribution within one year of payment; and

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- (b) because all contributions are conditioned on deductibility, in the event that a contribution cannot be deducted by the Employer Company pursuant to Code § 404, the Employer Company shall recover such contribution, to the extent disallowed, within one year after the disallowance of the deduction.

The amount which may be returned to the Employer Company is the excess of: (a) the amount contributed by the Employer Company over (b) the amount that would have been contributed by the Employer Company had there not occurred a mistake of fact or a mistake in determining the deduction. Earnings attributable to the excess contribution may not be returned to the Employer Company, but losses attributable thereto must reduce the amount to be so returned.

**ARTICLE IV
ELIGIBILITY FOR BENEFITS**

Section 4.1 Application for Benefits. Each Participant shall make written application to the Committee, or its designated representative, for Retirement Benefits, other than a Disability Benefit, under this Plan at least sixty (60) days, but not more than ninety (90) days, prior to the first day of the month on which the benefits applied for are to be paid, on a form or forms to be provided by the Committee for this purpose. The Committee may require each applicant for Retirement Benefits to submit such information as may reasonably be required for the proper administration of the Plan. Except for good cause shown, or unless the delay is due to the failure of the Committee to furnish the necessary information to the Participant at his last known address as indicated on the Employer's records, failure to submit such an application within the time prescribed shall result in the removal of any obligation to pay any benefits that would have been payable, had the application been timely filed, prior to the date on which such an application is delivered to the Committee. The falsity of any statement material to an application or the furnishing of fraudulent information or proof shall be sufficient reason for the recapture, by means of suspension or discontinuance of benefits, or otherwise, of any excess benefits, if any, paid under this Plan.

Section 4.2 Normal Retirement Benefit. Each Participant who has attained his Normal Retirement Date may retire from the service of an Employer Company and all Related Employers and upon so retiring shall be paid a pension in an amount determined under Article V. Payment of such a pension shall commence:

- (a) In the case of a Participant who retires on his Normal Retirement Date, on that date, and
- (b) In the case of a Participant who retires later than his Normal Retirement Date, on his Postponed Retirement Date.

The benefit payable under this Section 4.2 shall not be less than his "early retirement benefit" determined in accordance with Code § 411(a)(9) and the regulations thereunder.

Section 4.3 Early Retirement Benefit for Final Average Compensation Formula and Pre-2006 Motor Cargo Formula. A Participant who attains his Early Retirement Date while in the active employ of an Employer Company and all Related Employers, and who retires at any time thereafter and prior to his Normal Retirement Date, may elect to receive an Early Retirement Benefit in an amount determined under Section 5.2(b), commencing on the first day of any month coincident with or immediately following his termination of employment with an Employer Company and all Related Employers, provided he has complied with the application provisions of Section 4.1.

Section 4.4 Deferred Vested Benefit for Final Average Compensation Formula and Pre-2006 Motor Cargo Formula

- (a) In general. A Participant who has five or more Years of Service will be eligible for a Deferred Vested Benefit if (i) his employment with an Employer Company

and all Related Employers is terminated other than by reason of death before the earliest date on which he would be eligible for retirement under the terms of Sections 4.2 or 4.3, and (ii) he does not later reenter the service of any Employer Company or Related Employer. Said benefit shall commence on the first day of any month after his Earliest Commencement Age, but no later than his Normal Retirement Date, provided he has complied with the provisions of Section 4.1. The amount of such benefit shall be determined under Article V.

Section 4.5 Postponed Retirement Benefit for Final Average Compensation Formula and Pre-2006 Motor Cargo Formula A Participant who terminates employment with an Employer Company and all Related Employers after his Normal Retirement Date shall be entitled to a benefit in an amount determined under Article V. Payment of such pension shall commence as of his Postponed Retirement Date.

Section 4.6 Disability Retirement Benefit.

- (a) Eligibility. A Participant with at least ten (10) Years of Service who is not approved for disability income benefits under the UPS Income Protection Plan (or a successor long term disability plan) or who has exhausted his benefits under the UPS Income Protection Plan (or successor long term disability plan) shall be eligible for a Disability Retirement Benefit determined under Article V if he terminates employment with the Employer Company due to a Disability before his Early Retirement Date or after December 31, 2006 and he makes an application for a Disability Retirement Benefit as described in Section 4.6(b). However, a Participant who has attained his Early Retirement Date or Normal Retirement Date prior to experiencing a Disability will be eligible to elect to receive his Early Retirement Benefit or Normal Retirement Benefit instead of a Disability Retirement Benefit.
- (b) Disability Application. A Participant must make a written application for a Disability Retirement Benefit to the Committee in accordance with Section 4.1. If the application for a Disability Retirement Benefit is approved by the Committee, the first monthly payment of the Disability Retirement Benefit shall begin with the first calendar month following the month in which the Committee determines the Participant is entitled to a Disability Retirement Benefit but the first such payment shall include a payment for each calendar month during which the Participant is Disabled from (i) the later of (A) the date the Participant made an application for Disability Retirement Benefits or (B) the date the Participant made an application for Social Security benefits through (ii) the benefit commencement date. No interest shall be paid on such make-up payments.
- (c) Termination of Disability. If a Participant receiving a Disability Retirement Benefit shall subsequently cease to be Disabled, his Disability Retirement Benefit shall cease, and he may, if he meets the eligibility requirements, apply for a Normal Retirement Benefit or an Early Retirement Benefit. If the Participant's application is approved, payments under either the Normal Retirement Benefit or Early Retirement Benefit shall commence as of the first day of the month

following the termination of the Disability Retirement Benefit (benefit payments cannot commence prior to the Early Retirement Date and will not commence retroactively if timely application is not made to the Plan.)

(d) Portable Account Formula Benefit This Section 4.6 shall not apply to a Portable Account Participant.

Section 4.7 Portable Account Benefit

A Portable Account Participant who has three or more Years of Service will be eligible for a Portable Account Benefit if his employment with an Employer Company and all Related Employers is terminated other than by reason of death and he does not later reenter the service of any Employer Company or Related Employer prior to payment of his Portable Account Benefit. The Portable Account Benefit may be paid or commence on the first day of the third month after his employment with an Employer Company and all Related Employers has terminated in the form of benefit described in Section 5.4(h). Alternatively, such a Participant may defer commencement of the Portable Account Benefit to his Earliest Commencement Age but no later than his Normal Retirement Date.

ARTICLE V
AMOUNT AND PAYMENT OF BENEFITS

Section 5.1 Benefits Limited by Plan Provisions in Effect; Retiree Benefit Increases

- (a) Benefits Subject to Limits of Plan Provisions in Effect The benefit to which a Participant under this Plan is entitled shall be determined by the provisions of the Plan which were in effect on the date of the Participant's retirement, death, or the date he otherwise ceases to accrue Benefit Service, whichever is the earliest. No amendment made to the Plan after such date shall affect the entitlement of a Participant to any benefit hereunder, unless the amendment specifically provides to the contrary.
- (b) Benefit Increase After December 31, 1984, for Retirees in Pay Status as of January 1, 1985 Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1984:
 - (i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire), and who was receiving benefit payments under this Plan as of January 1, 1985, or to a beneficiary of such Participant,
 - (ii) to a Participant who become totally and permanently disabled on or before January 1, 1985, while in service with an Employer Company, or to a beneficiary of such a Participant, and
 - (iii) to the beneficiary of a Participant who died on or before January 1, 1985, while in service with an Employer Company

shall be 110% of the benefit which would otherwise be payable under the provisions of the Plan.

For payments after December 31, 1988, to Participants (and their beneficiaries) entitled to the benefit described in paragraph (c) below, the benefit described in this paragraph (b) shall be superseded and replaced by the benefit described in paragraph (c).

- (c) Benefit Increase After December 31, 1988, for Retirees in pay Status as of September 1, 1979 Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1988:
 - (i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire) and who was receiving benefit payments under this Plan as of September 1, 1979, or to a beneficiary of such a Participant,

- (ii) to a Participant who became totally and permanently disabled on or before September 1, 1979, while in service with an Employer Company, or to a beneficiary of such a Participant, and
- (iii) to a beneficiary of a Participant who died on or before September 1, 1979, while in service with an Employer Company

shall be increased so that it is equal to the sum of (A), (B), and (C) below:

- (A) The Participant's original monthly benefit (or the Participant's beneficiary's share of such benefit, in the case of a beneficiary entitled to monthly payments) calculated under the Plan at the time of retirement, death or disability without regard to the 10% benefit increase provided by paragraph (b) above,
- (B) The amount in subparagraph (1) above multiplied by the applicable factor set forth in Appendix B to this Plan for the year the Participant retired, died or became totally and permanently disabled and as a result ceased to be employed by an Employer Company, which factor represents 75% of the actual percentage increase in the Consumer Price Index from the year in which the Participant retired, died or became disabled through December 31, 1987 (adjusted to take into account fluctuations in the Consumer Price Index within each such year), and
- (C) The amount of the 10% benefit increase provided pursuant to the paragraph (b) above.

For payments after December 31, 1994, to Participants (and their beneficiaries) entitled to the benefit described in paragraph (d) below, the benefit described in this paragraph (c) shall be superseded and replaced by the benefit described in paragraph (d).

- (d) Benefit Increase after December 31, 1994, for Retirees in Pay Status as of January 1, 1985 Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1994:
 - (i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire) and who was receiving benefit payments under this Plan as of January 1, 1985, or to a beneficiary of such a Participant;
 - (ii) to a Participant who became totally and permanently disabled on or before January 1, 1985, while in service with an Employer Company, or to a beneficiary of such a Participant, and
 - (iii) to the beneficiary of a Participant who died on or before January 1, 1985, while in service with an Employer Company

shall be increased so that it is equal to the sum of (A) and (B) below:

- (A) The Participant's original monthly benefit (or the Participant's beneficiary's share of such benefit, in the case of a beneficiary entitled to monthly payments) calculated under the Plan at the time of retirement, death or disability without regard to the 10% benefit increase provided by paragraph (b) above, and without regard to any increase provided by paragraph (c) above; and
- (B) The amount in subparagraph (1) above multiplied by the by the applicable factor set forth in Appendix C to this Plan for the year the Participant retired, died or became totally and permanently disabled and as a result ceased to be employed by an Employer Company, which factor represents 75% of the actual percentage increase in the Consumer Price Index from the year in which the Participant retired, died or became disabled through December 31, 1991 (adjusted to take into account fluctuations in the Consumer Price Index within each such year).

Section 5.2 Benefit Amounts.

- (a) Accrued Benefit. The amount of the monthly pension payable to a Participant in the Normal Form commencing as of his Normal Retirement Date or, if later, the date he actually retires determined as follows:
 - (i) General. For a Participant, other than a Grandfathered Participant or a Pre-2001 Participant, the sum of A, B, C and D, where:
 - (A) = the RPA Formula benefit, if any,
 - (B) = the UPS Freight Formula benefit, if any,
 - (C) = the Pre-2006 Motor Cargo Formula benefit, if any, and
 - (D) = the Portable Account Benefit, if any.

For Plan Years beginning after December 31, 2007, each Participant who has at least one Hour of Service on or after January 1, 2008 will accrue either a Portable Account Benefit or a Final Average Compensation Formula benefit, but not both. If a Participant is eligible to accrue a Portable Account Benefit, he shall not be eligible to accrue a Final Average Compensation Formula benefit.

Notwithstanding the foregoing, a Participant who is eligible for a Portable Account Benefit may continue to increase his Final Average Compensation and his years of Benefit Service earned after December 31, 2007 will be taken into account for early commencement of Final Average Compensation Formula benefits and Pre-2006 Motor Cargo Formula benefits.

- (ii) Grandfathered Participant. For a Grandfathered Participant, the greater of A, B or C, where
 - (A) = the benefit described in Section 5.2(a)(i) determined as if he were not a Grandfathered Participant;
 - (B) = the Alternative Formula benefit; and
 - (C) = the Integrated Formula benefit.
- (iii) Pre-2001 Participants. For a Pre-2001 Participant the greater of A or B, where
 - (A) = the Alternative Formula benefit; and
 - (B) = the Integrated Formula benefit.

(b) Early Retirement Benefit For Final Average Compensation Formula and Pre-2006 Motor Cargo Formula

- (i) Normal Commencement. A Participant who terminates employment with all Employer Companies and Related Employers on or after the Participant's Early Retirement Date but before his Normal Retirement Date shall be entitled to his Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula, determined as of his most recent termination of employment with all Employer Companies and Related Employers. The Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula shall be payable at his Normal Retirement Date.
- (ii) Early Commencement. A Participant who is eligible for an Early Retirement Benefit under Section 5.2(b)(i) may commence such benefit at any time on or after he terminates employment with all Employer Companies and Related Employers and before his Normal Retirement Date provided that the amount of such benefit shall be reduced for early commencement in accordance with the following:
 - (A) General. For a Participant other than a Grandfathered Participant or a Pre-2001 Participant, the early retirement benefit that commences before his Normal Retirement Date shall be the sum of his early retirement benefit under the RPA Formula, his early retirement benefit determined under the UPS Freight Formula and the early retirement benefit determined under the Pre-2006 Motor Cargo Formula.
 - (1) RPA Formula Benefit Reductions. The benefit determined under the RPA Formula shall be reduced as follows for early commencement:

- a. Less Than 20 Years of Benefit Service. With less than 20 years of Benefit Service as of his Annuity Starting Date, the benefit under the RPA Formula shall be reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
 - b. 20 Years or More of Benefit Service. With 20 or more years of Benefit Service as of his Annuity Starting Date, the benefit under the RPA Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
 - c. 25 or More Years of Benefit Service. With 25 or more Years of Benefit Service as of his Annuity Starting Date, the benefit shall be equal to the greater of i. or ii. below:
 - i. the benefit calculated under the Alternative Account Formula under Section 5.3(a) without any reduction applied; or
 - ii. the benefit calculated under the Integrated Account Formula under Section 5.3(b) reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his 60th birthday.
- (2) UPS Freight Formula Benefit Reductions. The benefit determined under the UPS Freight Formula shall be reduced as follows for early commencement:
- a. General. Except as provided below, the benefit under the UPS Freight Formula will be reduced in accordance with the following table:

| <u>Age at Annuity Starting Date</u> | <u>Factor</u> |
|-------------------------------------|---------------|
| 55 | 50% |
| 56 | 55% |
| 57 | 60% |
| 58 | 65% |

| | |
|----|-----|
| 59 | 70% |
| 60 | 75% |
| 61 | 80% |
| 62 | 85% |
| 63 | 90% |
| 64 | 95% |

(Amounts in the table above shall be prorated on a monthly basis for fractions of a year.)

- b. 30 years of Benefit Service. The benefit under the UPS Freight Formula for a Participant who has attained at least age 55 and completed at least 30 years of Benefit Service as of his Annuity Starting Date shall not be reduced.
- c. Service After 1999 and Age 60 or More. The benefit under the UPS Freight Formula for a Participant (i) who completes at least one Hour of Service on or after December 1, 2000, or if he is a Grandfathered Overnite Participant and his terms and conditions of employment are subject to collective bargaining (a "Represented Participant"), on or after October 22, 2004 (the "Approval Date"), and who has attained at least age 60 as of his termination of employment:
 - i. 25 or More Years of Benefit Service. If such Participant has completed at least 25 years of Benefit Service as of his termination of employment, the benefit determined under the UPS Freight Formula shall not be reduced; or
 - ii. Less Than 25 Years of Benefit Service. If such Participant has not completed at least 25 years of Benefit Service as of his termination of employment, the benefit determined under the UPS Freight Formula shall be reduced in accordance with the following table:

| <u>Age at Annuity Starting Date</u> | <u>Factor</u> |
|-------------------------------------|---------------|
| 55 | 50% |
| 56 | 55% |

| | |
|----|-----|
| 57 | 60% |
| 58 | 65% |
| 59 | 70% |
| 60 | 85% |
| 61 | 88% |
| 62 | 91% |
| 63 | 94% |
| 64 | 97% |

(Amounts in the table above shall be prorated on a monthly basis for fractions of a year.)

- iii. Represented Participant. If a Represented Participant's termination of employment occurs when he is a Represented Participant but before the Approval Date, the benefit payable to the Participant shall equal the benefit determined under Section 5.2(b)(ii)(A)(2) a. or b. without regard to subparagraph c.
- (3) Pre-2006 Motor Cargo Formula Benefit Reductions. The benefit determined under the Pre-2006 Motor Cargo Formula shall be reduced for early commencement by 0.375% for each month by which his Early Retirement Date precedes his Normal Retirement Date.
- (B) Grandfathered Participant. For a Grandfathered Participant the early retirement benefit that commences before his Normal Retirement Date shall be the greatest of his early retirement benefit determined under Section 5.2(b)(ii)(A) above determined as if he were not a Grandfathered Participant, his early retirement benefit determined under the Alternative Formula and his early retirement benefit determined under the Integrated Formula.
 - (1) Alternative Formula Reductions. The benefit determined under the Alternative Formula shall be reduced as follows for early commencement:
 - a. Less Than 25 Years of Benefit Service. With less than 25 years of Benefit Service, the benefit under the Alternative Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

- b. 25 or More Years of Benefit Service With 25 or more Years of Benefit Service as of his Annuity Starting Date, the benefit under the Alternative Formula shall be without any reduction.
- (2) Integrated Formula Reductions. The benefit determined under the Integrated Formula shall be reduced as follows for early commencement:
- a. Less Than 25 Years of Benefit Service. With less than 25 years of Benefit Service, the benefit under the Integrated Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
- b. 25 or More Years of Benefit Service. With 25 or more years of Benefit Service, the benefit under the Integrated Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his 60th birthday.
- (C) Pre-2001 Participant. The Early Retirement Benefit for a Pre-2001 Participant shall be the amount determined under (1) through (5) below, as applicable:
- (1) Retires After August 1979 With no Hours After 1984. For a Pre-2001 Participant who retires on or after September 1, 1979 but who earns no Hours of Service on or after January 1, 1985, the greater of the benefit calculated under the Alternative Formula or the Integrated Formula, each reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
- (2) Retires After 1984 With No Hours After 1991. Except as provided in Section 5.2(b)(ii)(C)(3) below, for a Pre-2001 Participant who retires on or after January 1, 1985 but who earns no Hours of Service as an Employee on or after January 1, 1992, the greater of the benefit calculated under the Alternative Formula or the Integrated Formula, each reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

- (3) Retires After 1984 With No Hours After 1991 and 29-1/2 Years of Benefit Service. For a Pre-2001 Participant who (I) retires on or after January 1, 1985, (II) who earns no Hours of Service as an Employee on or after January 1, 1992, (III) whose Annuity Starting Date precedes his Normal Retirement Date by 91 months or more, and (IV) who has at least 29 years and six months of Benefit Service (without regard to the rounding rules described in Section 5.2(e)), his Accrued Benefit shall be reduced in accordance with (2) above and for purposes of calculating such Participant's benefit amount under the Integrated Formula the term "50 percent of his Social Security Amount" shall be deemed to mean the applicable percentage of his Social Security Amount set forth in the following table:

| <u>Age at Retirement Date</u> | | <u>Applicable Percentage</u> |
|-------------------------------|---------------|------------------------------|
| <u>Years</u> | <u>Months</u> | |
| 55 | 0 | 49.19% |
| 55 | 1 | 49.21% |
| 55 | 2 | 49.22% |
| 55 | 3 | 49.24% |
| 55 | 4 | 49.27% |
| 55 | 5 | 49.29% |
| 55 | 6 | 49.30% |
| 55 | 7 | 49.32% |
| 55 | 8 | 49.35% |
| 55 | 9 | 49.36% |
| 55 | 10 | 49.38% |
| 55 | 11 | 49.40% |
| 56 | 0 | 49.42% |
| 56 | 1 | 49.45% |
| 56 | 2 | 49.48% |
| 56 | 3 | 49.51% |
| 56 | 4 | 49.54% |
| 56 | 5 | 49.56% |
| 56 | 6 | 49.60% |
| 56 | 7 | 49.63% |
| 56 | 8 | 49.65% |
| 56 | 9 | 49.69% |
| 56 | 10 | 49.71% |
| 56 | 11 | 49.74% |
| 57 | 0 | 49.78% |
| 57 | 1 | 49.81% |
| 57 | 2 | 49.84% |
| 57 | 3 | 49.89% |
| 57 | 4 | 49.92% |

| <u>Age at Retirement Date</u> | | <u>Applicable Percentage</u> |
|-------------------------------|---------------|----------------------------------|
| <u>Years</u> | <u>Months</u> | |
| 57 | 5 | 49.97% |

- (4) Hours After 1991 With Less Than 20 Years Benefit Service For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992 but with less than 25 years of Benefit Service, the Early Retirement Benefit shall be equal to the greater of the benefit determined under the Alternative Formula or the Integrated Formula, each reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
- (5) Hours After 1991 With 25 or More Years of Benefit Service For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992, and with 25 or more Years of Benefit Service as of his Annuity Starting Date, the Early Retirement Benefit shall be equal to the greater of
- the benefit calculated under the Integrated Formula reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his 60th birthday; or
 - the benefit calculated under the Alternative Formula without any reduction applied.

(c) Deferred Vested Benefit for Final Average Compensation Formula or Pre-2006 Motor Cargo Formula

- Normal Commencement. A Participant who terminates employment with all Employer Companies and Related Employers after he is vested as described in Section 4.4 shall be entitled to his Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula determined as of his most recent termination of employment with all Employer Companies and Related Employers. Such Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula shall be payable at his Normal Retirement Date.
- Early Commencement.

- (A) General. A Participant (other than a Grandfathered Participant or a Pre-2001 Participant) who is eligible for a Deferred Vested Benefit and who has satisfied the Early Commencement Service Requirement may commence such benefit as of the first day of any calendar month on or after he terminates employment with all Employer Companies and Related Employers and reaches Earliest Commencement Age but before his Normal Retirement Date, subject to the following reductions:
- (1) RPA Formula Benefit Reductions. The benefit determined under the RPA Formula shall be reduced for early commencement by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
 - (2) UPS Freight Formula Benefit Reductions. The benefit determined under the UPS Freight Formula shall be reduced in the same manner as the benefit reductions described in Section 5.2(b)(ii)(A)(2), the reduction for early commencement of the Early Retirement Benefit.
 - (3) Pre-2006 Motor Cargo Formula Benefit Reductions. The benefit determined under the Pre-2006 Motor Cargo Formula shall be reduced in the same manner as the benefit reductions described in Section 5.2(b)(ii)(A)(3), the same as the reduction for early commencement of the Early Retirement Benefit.
- (B) Grandfathered Participant. For a Grandfathered Participant the Deferred Vested Benefit that commences before his Normal Retirement Date shall be the greatest of:
- (1) his reduced Deferred Vested Benefit determined under Section 5.2(c)(ii)(A)(1) for Participants other than Grandfathered Participants,
 - (2) his benefit under the Alternative Formula reduced by one-half of one percent (0.5%) per month for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date and
 - (3) his benefit under the Integrated Formula reduced for early commencement by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
 - (4) December 31, 1991 Benefit. Notwithstanding the foregoing, the Deferred Vested Benefit of a Grandfathered

Participant shall not be less than the Deferred Vested Benefit, if any, the Participant would have earned under the provisions of this Plan immediately prior to January 1, 1992, taking into account for this purpose Compensation, if any, earned by the Participant through December 31, 1991 and Benefit Service earned by him through December 31, 1992, if any, reduced by one-quarter of one percent (0.25%) instead of one-half of one percent (0.50%).

(C) Pre-2001 Participant. For a Pre-2001 Participant, his reduced Deferred Vested Benefit shall be the greater of the benefit calculated under the Alternative Formula or the Integrated Formula reduced as described below:

- (1) No Hours After 1991. For a Pre-2001 Participant with at least one Hour of Service on or after September 1, 1979 but without at least one Hour of Service as an Employee on or after January 1, 1992, the benefit shall be reduced by the following percentage thereof for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date:
 - a. for terminations before January 1, 1985, one-half of one percent (0.5%); and
 - b. for terminations after December 31, 1984, one-quarter of one percent (0.25%).
- (2) Hours After 1991. For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992, the benefit shall be reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
- (3) December 31, 1991 Benefit. Notwithstanding the foregoing, the Deferred Vested Benefit of a Pre-2001 Participant shall not be less than the Deferred Vested Benefit, if any, the Participant would have earned under the provisions of this Plan immediately prior to January 1, 1992, taking into account for this purpose Compensation earned by the Participant through December 31, 1991 and Benefit Service earned by him through December 31, 1992 reduced by one-quarter of one percent (0.25%) instead of one-half of one percent (0.50%).

- (d) Postponed Retirement Benefit for Final Average Compensation Formula or Pre-2006 Motor Cargo Formula Subject to Section 5.9 regarding mandatory distributions, a Participant, other than a Grandfathered Motor Cargo Participant, who terminates employment with all Employer Companies and all Related Employers after his Normal Retirement Date shall receive a benefit as of his Postponed Retirement Date equal to his Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula determined as of his Postponed Retirement Date. Such benefit shall be payable as of his Postponed Retirement Date.

A Grandfathered Motor Cargo Participant who terminates employment with all Employer Companies and Related Employers after his Normal Retirement Date, and has not started benefit payments, shall be entitled to a benefit commencing as of his Postponed Retirement Date that is the Actuarial Equivalent of the Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula payable as of the later of his Normal Retirement Date or the last day of the prior Plan Year. Such Participant's Accrued Benefit as of the last day of each Plan Year following his Normal Retirement Date is the greater of: (1) his Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula taking into account benefits accrued after his Normal Retirement Date or (2) the Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula, determined as of the later of Normal Retirement Date or the end of the prior Plan Year, actuarially adjusted for late retirement using the factors described in Section 1.1(b)(ii)(C)(2).

If a Grandfathered Motor Cargo Participant commences benefits prior to his termination of employment, the benefit will be recalculated at the end of each Plan Year to reflect the actuarial increase. The additional amount accrued during each Plan Year will be offset by the benefit that is already in pay status.

- (e) Rounding Rules. Notwithstanding the foregoing, for purposes of determining the amount of the benefit under the Alternative Formula or the Integrated Formula, and the early commencement reductions applicable to benefits determined under such formulas for a Grandfathered Participant and a Pre-2001 Participant, such Participant's aggregate years and months of Benefit Service shall be rounded up to the next full year if he has 6 or more months of Benefit Service in excess of full years of Benefit Service and shall be rounded down to the next full year if he has 5 or fewer months of Benefit Service in excess of full years of Benefit Service.

Section 5.3 Formulas.

- (a) RPA Formula.

(i) Alternative Account Formula. The Alternative Account Formula is $(A + B) \div 120$, where

A = the Participant's Alternative Points times 1% of his Final Average Compensation up to \$48,000; and
B = the Participant's Alternative-PLUS Points times 1% of his Final Average Compensation in excess of \$48,000.

(ii) Integrated Account Formula. The Integrated Account Formula is $(C + D) \div 120$, where

C = the Participant's Integrated Points times 1% of his Final Average Compensation and

D = the Participant's Integrated-PLUS Points times 1% of his Final Average Compensation in excess of the Social Security Wage Base.

(iii) Accumulation of RPA Points. A Participant who has at least one Hour of Service as an Employee on or after January 1, 2001 shall accumulate Alternative Points, Alternative-PLUS Points, Integrated Points and Integrated-PLUS Points (collectively, "RPA Points") for each year and partial year of RPA Benefit Service without regard to whether such RPA Benefit Service was completed before January 1, 2001. The points accumulated for any year of RPA Benefit Service will be equal to the RPA Points described in Appendix F to this Plan (the "RPA Schedule") for the Employer Company or Employer Companies for which the Participant performed the RPA Benefit Service determined in accordance with this Section 5.3(a)(iii). Credit for each year of RPA Benefit Service completed before January 1, 2001 will be determined under Appendix F-1 as in effect on January 1, 2001 without regard to what Employer Company employed the Participant at the time the RPA Benefit Service was completed. No Participant shall earn credit for more than 12 months of RPA Benefit Service in any Plan Year.

(b) UPS Freight Formula. The UPS Freight Formula equals one twelfth of the product of (A) and (B), where:

A = 1.725% of the Participant's Final Average Compensation; and

B = the Participant's years and partial years of UPS Freight Benefit Service (up to a maximum of 30 years).

(c) Pre-2006 Motor Cargo Formula. The Pre-2006 Motor Cargo Benefit Formula shall equal one-twelfth of $A \times B$, where:

A = the Participant's years of Pre-2006 Motor Cargo Benefit Service (not to exceed 25 years); and

B = \$240.00.

- (d) Participation in Multiple Formulas in Same Plan Year If a Participant has RPA Benefit Service under more than one RPA Schedule or, effective January 1, 2006, a Participant has RPA Benefit Service and UPS Freight Service, in the same Plan Year, the benefit such Participant accrues that Plan Year will be determined as follows:
- (i) First, determine the RPA Benefit Service accrued under each RPA Schedule and the UPS Freight Service based on the Hours of Service with the Employer Company or Companies providing such RPA Schedule or such UPS Freight Formula;
 - (ii) Second, allocate the Benefit Service determined under (i) above to the UPS Freight Formula;
 - (iii) Third, allocate the excess of the Participant's Benefit Service determined under (i) above, over the UPS Freight Service allocated under (ii) above to the RPA Schedules starting with the actual service completed under the RPA Schedule that provides the highest point value and continuing with the actual Benefit Service under the RPA Schedule with the next highest point value until the sum of the Benefit Service allocated under (ii) and the Benefit Service allocated under this (iii) equals the total actual Benefit Service or 12 months, whichever is less;
- For example, assume a Participant has 2000 total Hours of Service for Employer Companies during the Plan Year, 874 hours are under the RPA Schedule with the lowest point value (Schedule 3), 874 hours are under the highest RPA Point value (Schedule 1) and 252 hours are UPS Freight Service. The Participant's total Benefit Service is 12 months. The Participant has 6 months of RPA Benefit Service under RPA Schedule 1 and Schedule 3, and 2 months of UPS Freight Service. The Participant will be credited with 2 months of UPS Freight Service, 6 months of RPA Benefit Service under RPA Schedule 1 and 4 months of RPA Benefit Service under Schedule 3;
- If the Participant had 874 hours of UPS Freight Service, 874 hours of RPA Benefit Service under the RPA Schedule with the highest point value (Schedule 1) and 252 hours of RPA Benefit Service under the RPA Schedule with the lowest point value (Schedule 3), the Participant will be credited with 6 months of UPS Freight Service, 6 months of RPA Benefit Service under RPA Schedule 1 and 0 months of RPA Benefit Service under RPA Schedule 3.
- (e) Integrated Formula. A Participant's benefit under the Integrated Formula shall be equal to the benefit determined under (i) or (ii) as applicable plus the Additional Monthly Retirement Benefit, if any, applicable to such Participant as contained in Appendix D of the Plan.

- (i) No Hours After 1996. For a Participant who does not have at least one Hour of Service as an Employee on or after January 1, 1997, the Integrated Formula is $1/12^{\text{th}}$ of 50 percent of such Participant's Final Average Compensation less $1/12^{\text{th}}$ of 50 percent of his Social Security Amount where such Participant has 30 or more years of Benefit Service. If such Participant has less than 30 years of Benefit Service at his Annuity Starting Date, the amount calculated above shall be multiplied by a fraction, the numerator of which is the number of years of Benefit Service to his Annuity Starting Date, and the denominator of which is 30.

In the case of a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 for whom the Normal Form of benefit is a Single Life Only Annuity, the Integrated Formula benefit shall not be less than such Participant's benefit under the Integrated Formula, if any, calculated in accordance with this Section 5.3(c) and payable in the form of a Single Life Only Annuity 120 Month Guarantee, but taking into account for this purpose only that Compensation earned by the Participant through December 31, 1991 and Benefit Service earned by him through December 31, 1992.

- (ii) Hours After 1996. For a Participant who has at least one Hour of Service as an Employee on or after January 1, 1997, the Integrated Formula is $1/12^{\text{th}}$ of 58.33 percent of such Participant's Final Average Compensation (as defined under the terms of this Plan as of the date of the Participant's retirement or other termination of employment) less $1/12^{\text{th}}$ of 58.33 percent of his Social Security Amount where such Participant has 35 or more years of Benefit Service. If such Participant has less than 35 years of Benefit Service at his Annuity Starting Date, the amount calculated above shall be multiplied by a fraction, the numerator of which is the number of years of Benefit Service to his Annuity Starting Date, and the denominator of which is 35.

- (f) Alternative Formula. A Participant's benefit under the Alternative Formula shall be equal to the benefit determined under (i) or (ii) as applicable plus the Additional Monthly Retirement Benefit, if any, applicable to such Participant as contained in Appendix D of the Plan.

- (i) Hours After August 1979.

- (A) Hours After August 1979 But Not After 1984. For a Participant with at least one Hour of Service on or after September 1, 1979 but without at least one Hour of Service on or after January 1, 1985, the Alternative Formula is \$24 per month for each year of Benefit Service completed by such Participant prior to his Normal Retirement Date to a maximum of \$600 per month; provided such Participant has 10 or more Years of Service prior to his Normal Retirement Date.

- (B) Hours After 1984 But Not After 1991. For a Participant with at least one Hour of Service on or after January 1, 1985 but without at least one Hour of Service as an Employee on or after January 1, 1992, the Alternative Formula is \$32 per month for each year of Benefit Service completed by such Participant prior to his Normal Retirement Date or (with respect to a Participant with at least one Hour of Service on or after January 1, 1987) Postponed Retirement Date to a maximum of \$960 per month; provided such Participant has 10 or more Years of Service prior to his Normal Retirement Date or Postponed Retirement Date.

If a Participant without at least one Hour of Service on or after January 1, 1989 has less than 10 Years of Service prior to his Normal Retirement Date or Postponed Retirement Date, the amount shall be determined as set forth in Section (A) or (B) above, as applicable, using the number of years of Benefit Service multiplied by a fraction, the numerator of which is his number of Years of Service to Normal Retirement Date (or, for a Participant with at least one Hour of Service on or after January 1, 1987, his actual retirement date) not in excess of 10, and the denominator of which is 10. If a Participant with at least one Hour of Service on or after January 1, 1989, and who first became a Participant in the Plan prior to January 1, 1989, has less than 5 Years of Service prior to his Normal Retirement Date, the amount shall be determined under subparagraph (B) using the number of years of Benefit Service multiplied by a fraction, the numerator of which is his number of Years of Service to his actual retirement date, not in excess of 5, and the denominator of which is 5. The foregoing sentence shall not apply to any individual who first became a Participant on or after January 1, 1989.

(ii) Hours After 1991.

- (A) Hours After 1991 But Not After 1996 For a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 but without at least one Hour of Service as an Employee on or after January 1, 1997, the Alternative Formula is the sum of
- (1) 1/12th of two percent (2%) of such Participant's Final Average Compensation up to \$48,000, multiplied by his years of Benefit Service to a maximum of 30; plus
 - (2) 1/12th of one-half of one percent (0.5%) of such Participant's Final Average Compensation in excess of \$48,000, multiplied by his years of Benefit Service to a maximum of 30.
- (B) Hours After 1996. For a Participant with at least one Hour of Service as an Employee on or after January 1, 1997, the Alternative Formula is the sum of

- (1) 1/12th of two percent (2%) of such Participant's Final Average Compensation up to the Threshold Amount, multiplied by his years of Benefit Service to a maximum of 35; plus
- (2) 1/12th of one-half of one percent (0.5%) of such Participant's Final Average Compensation in excess of the Threshold Amount, multiplied by his years of Benefit Service to a maximum of 35.

For purposes of this subparagraph, the term "the Threshold Amount" means \$48,000 for a Participant who was born in 1957 or later, \$54,000 for a Participant who was born in or after 1951 but before 1957, and \$60,000 for a Participant born in 1950 or earlier.

Notwithstanding the foregoing, the benefit amount calculated in accordance with this Section 5.3(e)(ii) shall not be less than the Participant's Accrued Benefit, if any, calculated in accordance with Section 5.3(e)(2)(i) and payable in the form of a Single Life Annuity and 120-Monthly Guarantee, taking into account all Benefit Service earned by the Participant through December 31, 1992.

(g) Portable Account Benefit

- (i) General. For Plan Years beginning after December 31, 2007, each Participant who has at least one Hour of Service on or after January 1, 2008 will accrue either a Portable Account Benefit or a Final Average Compensation Formula benefit, but not both. If a Participant is eligible to accrue a Portable Account Benefit, he shall not be eligible to accrue a Final Average Compensation Formula benefit.

Notwithstanding the foregoing, a Participant who is eligible for a Portable Account Benefit may continue to increase his Final Average Compensation.

- (ii) Eligibility for Portable Account Benefit. A Participant is eligible to accrue a Portable Account Benefit if:

(A) he is hired or rehired as an Employee on or after January 1, 2008; or

(B) he is transferred from a non-Employee position into an Employee position on or after January 1, 2008.

However, a Participant whose terms and conditions of employment are governed by a collective bargaining agreement shall not be eligible to accrue a Portable Account Benefit unless expressly provided by the collective bargaining agreement.

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- (iii) Annual Compensation Credits.
- (A) For each Plan Year during which a Participant is a Portable Account Participant and an Employee, his Portable Account will be credited with a percentage of his Compensation for such Plan Year (including the Plan Year in which the Participant terminates his employment) based on the number of Portable Account Points he has accumulated on the first day of such Plan Year and the applicable percentage from the Portable Account Points schedule set forth in Appendix F-7 for the Employer Company that is his employer. If a Portable Account Participant has service during a Plan Year under more than one Portable Account Points schedule, the applicable percentage will be the highest percentage for the Participant's Portable Account Points under any of the schedules under which the Participant had service during such Plan Year.
- (B) The Portable Account credit will be made annually as of the last day of the Plan Year or if a Participant terminates employment with all Employer Companies and Related Employers prior to the last day of the Plan Year, as of the date the Participant terminates employment.
- (C) If a terminated Participant who received a credit as described in (A) above is reemployed as an Employee during the same Plan Year, an additional credit will be made as of the last day of the Plan Year or date of subsequent termination, equal to the credit described in (A) above determined as of the last day of the Plan Year or subsequent termination date less the annual compensation credit previously allocated to such Participant for such Plan Year.
- (iv) Interest Credits. An Interest Credit will be allocated to each Portable Account Participant's Portable Account as of the last day of each Plan Year, calculated by multiplying his Account Balance as of the first day of that Plan Year by the Interest Credit Percentage for that Plan Year. A Portable Account will be credited with an Interest Credit for each Plan Year until the Portable Account Participant's benefit commencement date without regard to whether the Portable Account Participant is an Employee. If the Portable Account Participant's benefit commencement date is other than the last day of a Plan Year, the Interest Credit for the Plan Year that includes the benefit commencement date will be prorated based on the ratio of whole months expired in the year before the benefit commencement date, to 12. If a Participant described in the preceding sentence is reemployed as an Employee during the same Plan Year, no additional Interest Credit will be made for that Plan Year.
- (v) Accrued Benefit Attributable to Portable Account. The portion of the Portable Account Participant's Accrued Benefit that is attributable to his

Portable Account as of any date is the balance credited to his Portable Account. The balance credited to the Portable Account is payable at the times described in Section 4.7 in the form described in Section 5.4(h).

Section 5.4 Benefit Payment

- (a) Annuities. Except as provided in Section 5.4(e) for cash out of benefits and unless the Participant elects an Optional Form of Benefit pursuant to Section 5.4(b), a benefit described in Section 5.2 will be paid:
 - (i) If a Participant is married on his Annuity Starting Date, in the form of a Qualified Joint and Survivor Annuity and
 - (ii) If the Participant is not married on the Annuity Starting Date, in the Normal Form.
- (b) Election out of Normal Form of Benefit or Qualified Joint and Survivor Annuity. In lieu of the Normal Form or the Qualified Joint and Survivor Annuity, a Participant who is eligible for an annuity form of benefit, may elect, at any time within the 90-day period ending on the Annuity Starting Date, to waive the Normal Form or the Qualified Joint and Survivor Annuity in favor of one of the Actuarial Equivalent Optional Forms of Benefit described below.
 - (i) Form of Election. An election by a Participant under this Section must be in writing in a form approved by the Committee, and, if the Participant is married, such election shall not be effective unless:
 - (A) the Spouse of the Participant consents to the election, and such consent (1) is in writing, (2) acknowledges the Participant's selection of an alternate form of benefit and/or Beneficiary, which may not thereafter be changed without spousal consent unless the Spouse's prior consent expressly permits the Participant to change the Beneficiary without further consent by the Spouse, (3) acknowledges the effect of such election, and (4) is witnessed by a notary public; or
 - (B) it is established to the satisfaction of a representative of the Plan that the Spouse's consent cannot be obtained because (1) the Participant has no Spouse, (2) the Participant's Spouse cannot be located, or (3) one of the conditions prescribed in Treasury regulations is satisfied.

Notwithstanding the foregoing, no spousal consent shall be required if a participant elects a Joint and Survivor Annuity and his Spouse is the designated beneficiary.

- (ii) Spouse Affected by Election. A Participant's election to waive the Qualified Joint and Survivor Annuity shall be effective only with respect

to the Spouse who consented to the election or who was deemed to consent pursuant to Section 5.4(b)(i)(B).

- (iii) Revocation of Election. A Participant may revoke an election made under this Section 5.4(b) at any time prior to the Annuity Starting Date. A Spouse's consent to the waiver of the Qualified Joint and Survivor Annuity and to the specific Beneficiary and optional form designations made by the Participant is irrevocable unless the Participant revokes his waiver election.

- (c) Notice Requirements. Within 90 days prior to the Participant's Annuity Starting Date, the Committee shall provide the Participant with a written explanation of:

- (i) the terms and conditions of the Normal Form, the Qualified Joint and Survivor Annuity and the Joint and 75% Survivor Annuity with the Spouse as the Beneficiary;
- (ii) the Participant's right to make, and the effect of, an election to waive the Normal Form or the Qualified Joint and Survivor Annuity and the Joint and 75% Survivor Annuity with the Spouse as the Beneficiary;
- (iii) the requirement that the Participant's Spouse consent in writing to the election in accordance with the spousal consent provisions set forth in Section 5.4(b)(i); and
- (iv) the right to make, and the effect of, a revocation of an election not to receive the Normal Form or a Qualified Joint and Survivor Annuity.

- (d) Optional Forms of Benefit

- (i) Actuarial Equivalent. Each benefit payment form described in this Section 5.4(d) will be the Actuarial Equivalent of the Participant's benefit payable in the Normal Form.
- (ii) Joint and Survivor Annuity. Under the Joint and Survivor Annuity, a reduced monthly benefit shall be paid to the Participant for his lifetime, and his beneficiary, if such beneficiary survives at the Participant's death, shall be entitled to receive thereafter a lifetime survivorship benefit in a monthly amount equal to 50%, 75% or 100%, as selected by the Participant, of the monthly amount which had been payable to the Participant. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his beneficiary has occurred.

Notwithstanding the foregoing, a Participant may not select a Joint and Survivor Benefit with a Beneficiary who would not be eligible to receive the percentage survivor benefit selected under the requirements of proposed Treasury Regulation § 1.401(a)(9)-2.

- (iii) Single Life Annuity with 120-Month Guarantee. Under the Single Life Annuity with 120-Month Guarantee, a reduced monthly benefit shall be paid to the Participant for his lifetime, with a guarantee of 120 monthly payments. If the Participant dies after the Annuity Starting Date but before receiving 120 monthly payments, the monthly payments shall be paid to the Participant's Beneficiary, until the Participant and his Beneficiary have received a total of 120 monthly payments.
 - (iv) Single Life Only Annuity. Under the Single Life Only Annuity, a monthly benefit shall be paid to the Participant for his lifetime. The last payment of the Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.
 - (v) Grandfathered Overnite Participant Optional Forms In addition to the Optional Forms of Benefit available under Sections 5.4(d)(i) through (iv), a Grandfathered Overnite Participant whose Annuity Starting Date is prior to his Normal Retirement Date may elect, as an Optional Form of Benefit, a "social security leveling income option", which shall be a benefit for the Participant's lifetime providing for the adjustment of the Participant's Normal Retirement Benefit to produce, so far as practicable, a level combined pension from this Plan and the Participant's Social Security benefit (both before and after such Social Security benefit is payable).
 - (vi) Grandfathered Motor Cargo Participant Optional Forms In addition to the Optional Forms of Benefit available under Section 5.4(d)(i) through (iv), a Grandfathered Motor Cargo Participant may elect, as an Optional Form of Benefit, a Five Year Certain and Life Annuity for his entire Accrued Benefit.
- (e) Cash-Out of Benefits Notwithstanding any other provisions of this Plan, if following a Participant's termination of employment with the Employer Company and all Related Employers the Present Value of his entire vested benefit does not exceed \$1,000, the Committee shall, in lieu of such benefit, pay to the Participant, without his consent, such Present Value in a lump sum. In the case of a Participant who terminates employment prior to earning a vested benefit hereunder, said benefit shall be deemed to be distributed immediately following such termination of employment. In the event such nonvested Participant is reemployed, his Benefit Service shall be restored in accordance with the rules set forth in the definition of such term.
- (f) Repayment of Cash-Out. After a distribution described in Section 5.4(e), the Participant's service with respect to which the distribution was made shall be disregarded for purposes of the Plan unless, following reemployment, the Participant repays the amount of the distribution to the Trustee together with interest at the rate of 120 percent of the Federal mid-term rate, as in effect under Code § 1274 for the first month of the Plan Year in which the restoration occurs or otherwise in accordance with Code § 411(a)(7). Such repayment must be made

within five years of the Participant's resumption of employment. Notwithstanding the foregoing, a Participant may not repay any distribution of his Portable Account.

- (g) Special Transitional Rules for Certain Participants in Pay Status In the case of a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 and whose Annuity Starting Date is in 1992, the monthly amount of the Participant's Normal or Early Retirement Benefit, or Deferred Vested Benefit shall, if calculated in accordance with the terms of this Plan prior to the adoption of Amendment No. 15, be adjusted, retroactive to the Participant's Annuity Starting Date, to reflect his greater benefit, if any, determined in accordance with the terms of this Plan as amended by Amendment No. 15. Such increase shall be calculated based on the same payment form as selected by the Participant.
- (h) Portable Account Benefit
 - (i) Form of Payment If the Portable Account is paid before the Portable Account Participant's Earliest Commencement Age, it will be paid in (1) a single lump sum or (2) an immediate annuity in the Normal Form if the Portable Account Participant does not have a Spouse or in the Qualified Joint and Survivor Annuity or the Joint and 75% Survivor Annuity with the Spouse as the Beneficiary if the Portable Account Participant has a Spouse. If the Portable Account is paid on or after the Portable Account Participant's Earliest Commencement Age, the Portable Account may be paid in any Optional Form of Benefit described in Section 5.4(d) in addition to the forms described in the preceding sentence.
 - (ii) Conversion of Portable Account to Annuity Benefit The Portable Account balance will be adjusted for Interest Credits to the Annuity Starting Date. The adjusted Portable Account balance will be converted to an immediate Single Life Annuity commencing at the Annuity Starting Date using the Applicable Interest Rate and the Applicable Mortality Table for the Plan Year that includes the Annuity Starting Date. If the benefit will be paid in a form of annuity other than the Single Life Annuity, the reduced Single Life Annuity will be converted to the applicable Optional Form of Benefit using the Actuarial Equivalent factors in Section 1.1(b)(i).

Section 5.5 Disability Retirement Benefit Subject to the provisions of Section 5.9 and of Appendix J and K, the amount of monthly benefit to which a Participant is entitled under this Section 5.5 because of a Disability is:

- (a) With reference to a Disability occurring prior to January 1, 1978, the amount determined by multiplying \$8.00 by the number of years of Benefit Service, to a maximum of 25, completed by the Participant prior to his Disability, or

- (b) With reference to a Disability occurring on or after January 1, 1978, the amount determined by multiplying \$9.60 by the number of years of Benefit Service to a maximum of 25 (30, in case of Disability occurring on or after January 1, 1992), completed by the Participant prior to his Disability.

The benefit payable under this Section 5.5 shall be paid to the disabled Participant so long as he remains Disabled, but in no event beyond the date as of which the Participant commences an Early Retirement Benefit or he attains his Normal Retirement Date.

Section 5.6 Preretirement Survivor Annuity.

- (a) Final Average Compensation Formula or Pre-2006 Motor Cargo Formula If a vested Participant dies prior to his Annuity Starting Date, his Spouse or Domestic Partner will be entitled to receive a Preretirement Survivor Annuity for that portion of his benefit attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula commencing:
- (i) if the Participant dies after attaining his Earliest Commencement Age, as of the first day of the month coincident with or next following the date of the Participant's death; and
 - (ii) if the Participant dies on or before attaining his Earliest Commencement Age, as of the first day of the month coincident with or next following the date the Participant would have attained his Earliest Commencement Age
- (b) Amount of Preretirement Survivor Annuity for Final Average Compensation Formula or Pre-2006 Motor Cargo Formula The Preretirement Survivor Annuity to which the Participant's surviving Spouse or Domestic Partner shall be entitled hereunder shall be equal to, for a surviving Spouse, the amount which would have been payable to the Participant's Spouse under the Qualified Joint and Survivor Annuity or, for a Domestic Partner, the Joint and 50% Survivor Annuity:
- (i) if the Participant dies after he attains his Earliest Commencement Age, had the Participant retired and commenced receiving benefits attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula on the day immediately preceding his death;
 - (ii) if the Participant dies on or before attaining his Earliest Commencement Age, had the Participant:
 - (A) separated from service on the date of his death (or his actual date of separation, if earlier);
 - (B) survived to his Earliest Commencement Age;
 - (C) retired with an immediate Qualified Joint and Survivor Annuity for the Spouse or, in the case of a Participant with a Domestic Partner, the Joint and 50% Survivor Annuity at his Earliest Commencement

Age, based on his benefit attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula; and

(D) died on the day after he would have attained his Earliest Commencement Age; and

- (c) Special Rule for 25 Years of Service Notwithstanding the foregoing, if a Participant (other than a UPS Freight Participant) with at least one Hour of Service as an Employee on or after January 1, 1992 dies before attaining his Early Retirement Date while actively employed by an Employer Company after having earned at least 25 Years of Service, the Qualified Joint and Survivor Annuity or the Joint and 50% Survivor Annuity used as the basis for calculating the amount of the Preretirement Survivor Annuity shall be determined by using the early commencement reduction factors that would have been applicable to such Participant with respect to Early Retirement Benefits had he survived to his Early Retirement Date.
- (d) Deferring Commencement. The Participant's surviving Spouse or Domestic Partner may elect to defer commencement of the Preretirement Survivor Annuity attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula, but not later than the date the Participant would have attained his Normal Retirement Date.
- (e) Present Value Less Than \$1,000. In lieu of the Preretirement Survivor Annuity attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula, before the first payment with respect to such benefit, the Committee shall pay to the surviving Spouse or Domestic Partner, without his consent, the Present Value of the benefit if such Present Value is less than \$1,000.
- (f) Preretirement Survivor Annuity Attributable to Portable Account. If a vested Portable Account Participant dies (whether or not employed) or a nonvested Portable Account Participant dies while employed with an Employer Company or a Related Employer, the surviving Spouse or Domestic Partner of such Participant will be entitled to receive the Portable Account balance as a preretirement survivor annuity. The surviving Spouse or Domestic Partner may elect to have the Portable Account paid in a (1) single lump sum or (2) an immediate or deferred Single Life Annuity based on the life of the surviving Spouse or Domestic Partner. Payment may be made as of the first day of the month after the Portable Account Participant dies or as of the first day of any subsequent month on or before the Participant's Normal Retirement Date. If the Spouse or Domestic Partner selects an annuity benefit, the Portable Account will be converted to a Single Life Annuity for the life of the Spouse or Domestic Partner using the same methodology described in Section 5.4(h). If the deceased Participant did not have a Spouse or Domestic Partner at his death, the balance credited to the Portable Account will be paid in a single lump sum to the Participant's Beneficiary as soon as practicable after the death of the deceased Participant and the Beneficiary has completed an application for such benefit.

- (g) Death After Payment of Portable Account If the Portable Account Participant dies after payment of his Portable Account has been made or has begun, the surviving Spouse or Domestic Partner will not be entitled to a preretirement survivor annuity from the Portable Account.

Section 5.7 Benefit Payments Under Other Plans and Programs. The benefits otherwise provided in Sections 5.2 through 5.6 of this Plan shall be reduced by the amount of any benefits payable to or on behalf of a Participant, under any other non-government pension or retirement plan or program to which contributions have been made by an Employer Company on behalf of such person or under which service is counted in calculating benefits under this Plan, (other than benefits under the Portable Account Formula) except any cash or deferred plan described in Code § 401(k), to the extent that such benefits payable under such other plan or program are based on a period of time included in the calculation of Benefit Service, for purposes of this Plan and are not attributable to contributions made to such other plan or program by the Participant.

If a reduction in benefits is also called for in another plan or plans sponsored and maintained by the Employer Company by reason of the benefits payable to a Participant under this Plan, the reduction in benefits shall be made only in the benefits payable under the plan in which the Participant last participated, and if he participated in more than one such other plan, then the reduction shall be made in the reverse order of participation with no reduction in the benefits payable under the plan in which the Participant first participated.

If the Participant receives one form of benefit under this Plan and another form of benefit under any such other plan, any reduction hereunder shall be based on actuarially equivalent forms of benefit.

Section 5.8 Preservation of Benefits and Maximum Pensions. Anything to the contrary notwithstanding, a retirement benefit computed under this Article V shall be subject to the following:

- (a) Minimum Benefit for Participation as of the Effective Date. If a Participant was included under the provisions of the Plan prior to January 1, 1976, and a benefit becomes payable under this Plan resulting from termination of employment for any reason on or after the January 1, 1976, such benefit shall not be less than the actuarial equivalent of the benefit that would have been payable had the provisions of the Plan in effect immediately prior to January 1, 1976 remained in effect until the Participant's termination of employment, considering the years of continuous employment accumulated at termination of employment and the benefits in effect immediately prior to January 1, 1976.
- (b) Maximum Benefits. For limitation years beginning on or after July 1, 2007, refer to Appendix N, Maximum Benefits. For limitation years ending after December 31, 2002 and before July 1, 2007, this paragraph (b) shall apply.
- (i) General Limitation. For limitation years ending after December 31, 2002, the maximum annual benefit payable under this Plan shall not exceed the lesser of: (A) \$160,000 as adjusted, effective January 1 of each year, under

Code § 415(d) in such manner as the Secretary shall prescribe (the “dollar limitation”) or (B) 100% of the Participant’s average compensation (as defined in Treasury Regulation § 1.415-2(d)) and reduced, if necessary, to reflect the applicable annual compensation limitation under Code § 401(a)(17), paid for the three consecutive calendar years during which he was an active Participant in the Plan, and in which he received the greatest aggregate compensation (as defined above) from the Employer Company, subject to the following:

- (A) If the benefit is payable in any form other than a straight life annuity, a Qualified Joint and Survivor Annuity, or a joint and survivor annuity with the Spouse as the beneficiary, then the limitations of this subsection (1) shall be applied to the straight life annuity which is the actuarial equivalent of such benefit. The actuarially equivalent straight life annuity is equal to the greater of the annuity benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for adjusting benefits in the same form, and the annuity benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table. In determining the actuarially equivalent straight life annuity for a lump sum benefit, the Applicable Interest Rate will be substituted for 5 percent. No actuarial adjustment is required for the value of a qualified joint and survivor annuity, benefits that are not directly related to retirement benefits and the value of post-retirement cost-of-living increases made in accordance with Code § 415(d) and the regulations thereunder.
- (B) (1) If the retirement benefit of the Participant commences before the age 62, such dollar limitation shall be adjusted as described below so that it is the actuarial equivalent of an annual benefit of the dollar limitation beginning at age 62, reduced for each month by which benefits commence before the month in which the Participant attains age 62. The retirement benefit beginning prior to age 62 shall be determined as the lesser of the actuarial equivalent retirement benefit computed using the interest rate and mortality table (or other tabular factor) equivalence for early retirement benefits specified in the Plan, and the equivalent retirement benefit computed using a 5 percent interest rate and the Applicable Mortality Table. Any decrease in the adjusted defined benefit dollar limitation determined in accordance with this provision (B)(1) shall not reflect any mortality decrement to the extent that benefits will not be forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.

- (2) If the retirement benefit of a Participant commences after age 65, the defined benefit dollar limitation shall be adjusted so that it is the actuarial equivalent of a retirement benefit of such dollar limitation beginning at age 65. The actuarial equivalent retirement benefit beginning after age 65 shall be determined as the lesser of the actuarial equivalent retirement benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for purposes of determining actuarial equivalence for delayed retirement benefits, and the equivalent retirement benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table.
- (C) Subject to limitations imposed elsewhere in this Plan, an annual benefit of \$10,000 or less may be paid regardless of the limitations set forth in this subsection (b)(i) if the benefit paid the Participant from all defined benefit plans of the Employer Company does not exceed \$10,000 for the Plan Year or any prior Plan Year, and the Employer Company has not at any time maintained a defined contribution plan in which the Participant participated.
- (D) If a Participant has less than 10 Years of service with the Employer Company at the time the Participant begins to receive retirement benefits under the Plan, the average compensation limitation, as well as the \$10,000 benefit exception described in subparagraph (b)(i)(C) above, shall be reduced by multiplying such limitation by a fraction, the numerator of which is the number of Years of Service with the Employer Company as of and including the current limitation year, and the denominator of which is 10. In the case of the dollar limitation where the Participant has less than 10 years of participation in the Plan, such limitation shall be reduced by a fraction, the numerator of which is the number of years of participation in the Plan as of and including the current limitation year, and the denominator of which is 10.
- (ii) Limitation Adjustment. The rate of a Participant's benefit accrual will be automatically frozen or reduced to a level necessary to prevent the limitations of this subsection (b) from being exceeded; provided, that if the limitations of this subsection (b) will be exceeded only as a result of considering another defined benefit plan sponsored by the Employer Company and this Plan as one plan, the Participant's benefit accrual under this plan will not be frozen or reduced to a level necessary to prevent the limitations of this subsection (b) from being exceeded in the event that such other defined benefit plan provides for the freezing or reduction of benefit accruals.

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- (iii) Single Plan Rule. For purposes of this subsection (b), all defined benefit plans of the Employer Company (whether or not terminated) shall be considered as one defined benefit plan.
- (iv) Automatic Adjustment. The limitations imposed by this subsection (b) shall be adjusted automatically when permitted or required by law. With respect to increases in these limitations which are permitted by law to reflect the impact of inflation, in the event that a Participant's Normal Retirement Benefit or Early Retirement Benefit as of his Annuity Starting Date, must be reduced by reason of the foregoing limitations in effect at such time, the following rules shall apply:
- (A) A Participant's Normal Retirement Benefit or Early Retirement Benefit, taking into account the Compensation limitation under Code § 401(a)(17) (the "Compensation limitation"), and applying the applicable limitation or limitations of Section 5.8(b)(i) or Section 5.8(b)(i)(B)(1) (as applicable, the "415 limitations") shall, following the Annuity Starting Date, be adjusted upward as the result of any subsequent increase in the 415 limitations, provided however, that in no event shall such benefit exceed the Participant's Normal Retirement Benefit or Early Retirement Benefit, as the case may be, including the Compensation limitation.
- (B) Notwithstanding the foregoing, in no event shall a Participant's Normal Retirement Benefit or Early Retirement Benefit, for any particular year, exceed the 415 limitation for such year (based on the Participant's age on his Annuity Starting Date), and no increase as described in subparagraph (A) above shall be retroactive for any preceding year.
- (C) A Participant's Normal Retirement Benefit or Early Retirement Benefit shall not be adjusted upward as the result of any change to the Compensation limitation following the Annuity Starting Date.
- (v) Limitation Year. For purposes of this subsection (b), the limitation year is the calendar year.
- (vi) Employer Company. Solely for purposes of this Section 5.8(b), "Employer Company" means the Employer Company and each entity who would be determined to be a member of the Employer Company's controlled group under Code § 414(b) or (c) if the standard of "more than fifty percent" was substituted for the standard of "at least eighty percent."
- (vii) Transitional Rules.
- (A) The limitation under Section 5.8(b)(i) for an Employee who was a Participant in this Plan prior to January 1, 1983, shall be the greater

of (1) the limitation contained in such Section or (2) the Participant's accrued benefit, expressed as an annual benefit, as of December 31, 1982. For purposes of this paragraph (A), neither changes in the terms and conditions of this Plan nor cost of living adjustments occurring after July 1, 1982, shall be taken into account.

(B) The numerator of the defined contribution fraction shall, if necessary, be adjusted as permitted by Treasury Regulations so that the sum of the defined benefit fraction and the defined contribution fraction does not exceed 1.0 for the last limitation year beginning before January 1, 1983.

(c) Incorporation by Reference. Notwithstanding anything to the contrary in this Section 5.8, the limitations on the maximum benefits payable from this Plan shall be in accordance with Code § 415 and the regulations thereunder, which are incorporated into this Plan by reference.

Section 5.9 Limitations Regarding Time of Payment of Benefits All payments authorized under this Plan shall commence no later than the 60th day after the close of the Plan Year in which the Participant terminates his service with the Employer Company and all Related Employers, provided proper application under Section 4.1 is filed, or as required by the Required Minimum Distribution Addendum to Appendix M, which applies to all distributions under this Plan.

Section 5.10 Designation of Beneficiary.

(a) Beneficiary Designation for Optional Form of Benefit for other than the Portable Account. Each Participant who selects an Optional Form of Benefit that provides for payment to a beneficiary may designate beneficiaries (including a primary beneficiary and one or more contingent beneficiaries in the event of the death of the primary beneficiary) to receive such benefits, other than benefits under the Portable Account, as may be payable under the Optional Form of Benefit selected by the Participant. The designation of any beneficiary may be changed in accordance with Section 5.4(b). The consent of any previously designated beneficiary to such change shall not be required to effect the change. No designation of a beneficiary shall be effective to the extent that honoring such designation would conflict with the rights of the Participant's Spouse under Section 5.4, and no such designation shall be effective to the extent that, in conjunction with such spousal rights, it would require duplication of benefit payments.

In the event that a Participant who has selected the Single Life Annuity with 120-Month Guarantee, or a Motor Cargo Participant who has selected a Five Year Certain and Life Annuity, fails to designate a beneficiary or if a designated beneficiary does not survive the Participant or is not specified elsewhere in this Plan, payment will be made to the spouse or Domestic Partner of the deceased

Participant, if any, but if none survives the Participant, to his estate. If the designated beneficiary who has begun to receive payments under the Single Life Annuity with 120-Month Guarantee or the Five Years Certain Annuity dies before all payments are made, the balance due shall be paid in a lump sum or in installments, as the Committee shall direct, to the estate of the deceased beneficiary.

- (b) Beneficiary Designation for the Portable Account. The designated Beneficiary for the Portable Account, if any, shall be the Spouse or Domestic Partner of the deceased Participant. If no Spouse or Domestic Partner survives the Participant, payment will be made to the Participant's estate.

Section 5.11 Final Payment to Participant or Beneficiary. Any final payment or distribution to any Participant or a legal representative or Beneficiary of a Participant, or any one claiming under them, in accordance with this Plan, shall be in full satisfaction of all claims against the Trust Fund, the Trustee, the Committee, any Employer Company, and all representatives, officers, employees and agents thereof. The person receiving the payment or distribution may be required to execute a receipt and release of all claims under the Plan upon a final payment or distribution or a receipt and release to the extent of any partial payment or distribution. The form and content of such receipt or release shall be determined by the Committee.

Section 5.12 Suspension of Benefits.

(a) Subject to paragraph (b) below, if a Participant, other than a Grandfathered Motor Cargo Participant, entitled to receive benefits (which shall be deemed to include the actual receipt of such benefits) should (i) return to employment prior to January 1, 2009 or (ii) remain in employment after attaining Normal Retirement Age:

- (A) The payment of benefits to said Participant shall be suspended for the period in which the Participant remains employed but not beyond the required beginning date set forth in the Required Minimum Distribution Addendum to Appendix M of this Plan. Benefit payments will be resumed no later than the first day of the third calendar month after the month in which the Participant ceases to be employed, provided the Participant has informed the Plan Administrator that he has ceased such employment.
- (B) For purposes of this Section 5.12(a), a period of employment as to which benefits shall be suspended means any calendar month or a four or five week period ending in a calendar month, if the Participant completes at least forty hours of service (as defined in 29 CFR §2530.200b-2(a)(1) and (2)) with the Employer Company or a Related Employer in such month or payroll period.
- (C) Any Participant coming under this provision will be notified by first class mail or personal delivery within the first calendar month or payroll period in which the Plan withholds the payment of Retirement Benefits.

- (D) Any Participant may request a determination of whether or contest a determination that specific contemplated employment will be considered employment for purposes of this Section 5.12(a). Request for status determinations may be submitted in accordance with the claim procedures set forth in Section 9.4.
- (E) When the Participant is entitled to recommence benefits, his benefits shall be recalculated on the basis of Compensation earned and years of Benefit Service credited during such period of reemployment or continued employment, and no actuarial or other adjustment shall be made to such Participant's benefit so as to reflect payments so suspended. In addition, such resumed payment shall be offset by (I) any benefit paid with respect to a month in which the Participant was in service described in Section 5.12(a)(B) where the amount so paid has not been returned or repaid to the Plan by such Participant and (II) the Actuarial Equivalent of any payments made to the Participant before his Normal Retirement Date. A Participant whose benefits have been suspended during a period of reemployment or continued employment shall be entitled to elect the form of payment for his entire benefit, including amounts accrued both before and during reemployment, in accordance with Section 5.4.

(b) Portable Account Benefit. If a Participant returns to employment at any time after receiving payment of his Portable Account Benefit in a form other than a lump sum, his benefits attributable to the Portable Account Formula shall not be suspended.

Section 5.13 Withholding of Income Tax.

- (a) Notification of Withholding of Federal Income Tax. All Participants, Spouses, Domestic Partners and Beneficiaries entitled to receive benefits under the Plan (each, a "payee") shall be notified of the Plan's obligation to withhold federal income tax from any benefits payable pursuant to the terms of the Plan. Such notice shall be in writing, be given at the time set forth in subsection (b) and contain the information set forth in subsection (c) of this Section.
- (b) Time of Notice. The notice described in subsection (a) shall be provided not earlier than six months before such payment is to be made and not later than the time the payee is furnished with his claim for benefits application.
- (c) Content of the Notice. The notice required by subsection (a) shall, at a minimum:
 - (i) with respect to any distribution which is an eligible rollover distribution within the meaning of Code Section 3405(c)(3) (other than an eligible rollover distribution of less than \$200 which is exempt from withholding under regulations prescribed by the Secretary of the Treasury), advise the payee that there shall be withheld from such distribution an amount equal to 20 percent thereof (or such other amount as may from time to time be prescribed by the Code, or the Secretary of the Treasury or his delegate),

unless the payee directs the Committee to transfer such distribution as a direct rollover to an eligible retirement plan, within the meaning of Section 5.14 hereof, in accordance with such procedures as the Committee may prescribe (a "transfer direction"),

- (ii) with respect to any distribution which is not an eligible rollover distribution within the meaning of Code Section 3405(c)(3):
 - (A) advise the payee of his right to elect not to have withholding apply to any payment or distribution and explain the manner in which such election may be made, and include or indicate the source of any forms necessary to make the election;
 - (B) advise the payee of his right to revoke such an election at any time;
 - (C) advise the payee that any election remains effective until revoked;
 - (D) advise the payee that penalties may be incurred under the estimated tax payment rules if the payee's payments of estimated tax are not adequate and sufficient tax is not withheld from payments under this Plan; and
 - (E) advise the payee that the election not to have federal income tax withheld from benefits is prospective only and that any election made after a payment or distribution to the payee is not an election with respect to such payment or distribution.
- (d) Effective Date of Election. Any transfer direction, election or revocation of any election by a payee shall become effective immediately upon receipt by the Committee of the transfer direction, election or revocation. Thereafter, the Committee shall, unless otherwise provided by applicable law, regulation or other guidance by the Secretary of the Treasury or his delegate, instruct the Trustee to withhold federal income tax in accordance or consistent with the instructions filed by the payee.
- (e) Failure to Make Election.
 - (i) In the case of an eligible rollover distribution, if the payee fails to provide the Committee with a transfer direction, the Committee shall instruct the Trustee to withhold an amount equal to 20% of the amount of the distribution (or such other amount as may be from time to time prescribed by the Code, or the Secretary of the Treasurer or his delegate).
 - (ii) In the case of a distribution which is not an eligible rollover distribution, if the payee fails to provide the Committee with a withholding certificate, the Committee shall instruct the Trustee to withhold, in the case of a periodic distribution, the amount which would be required to be withheld from such payment if such payment were a payment of wages by an

employer to an employee for the appropriate payroll period, determined as if the payee were a married person claiming three withholding allowances. In the case of a nonperiodic distribution, 10% of the amount of the distribution shall be withheld.

- (f) Coordination with Internal Revenue Code and Regulations Notwithstanding the foregoing, the Committee shall discharge its withholding and notice obligations in accordance with the Code and regulations and such other guidance with respect thereto as may be promulgated from time to time by the Secretary of the Treasury or his delegate.

Section 5.14 Direct Rollover

- (a) With respect to any distribution described in this Article V which constitutes an eligible rollover distribution within the meaning of Code § 401(a)(31)(C), the distributee thereof shall, in accordance with procedures established by the Committee, be afforded the opportunity to direct that such distribution be transferred directly to the trustee of an eligible retirement plan, or effective for distributions made after December 31, 2007, to an individual retirement plan described in Code § 408A (a "Roth IRA") (a "direct rollover"). For purposes of the foregoing sentence, an "eligible retirement plan" is (1) a qualified trust within the meaning of Code § 402 which is a defined contribution plan the terms of which permit the acceptance of rollover distributions, (2) an individual retirement account or annuity within the meaning of Code § 408 (other than an endowment contract), (3) an annuity plan within the meaning of Code 403(a), which is specified by the distributee in such form and at such time as the Committee may prescribe, and effective for distributions made after December 31, 2001, (4) an annuity contract described in Code § 403(b) and (5) an eligible plan under Code § 457(b) which is maintained by a state, political subdivision of a state, or any agency instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. For distributions made after December 31, 2001, the definition of "eligible retirement plan" shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p).

Notwithstanding any contrary provision in the Plan, effective for distributions made after December 31, 2009, a Beneficiary who is not the Participant's or the former Participant's surviving Spouse and who is not the Participant's or former Participant's Spouse or former Spouse who is an alternate payee under a qualified domestic relations order, shall in accordance with procedures established by the Committee, be afforded the opportunity to have any portion of a distribution paid in a direct trustee-to-trustee transfer to an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), or a Roth IRA, each of which is established for the purpose of receiving such distribution on behalf of such Beneficiary and is treated as an inherited individual retirement account or individual retirement annuity (within the meaning of Code

§ 408(d)(3)(C) for purposes of Code § 402(c)(11) (each, an "Inherited IRA"). The minimum distribution rules of Code § 401(a)(9) as described in the Required Minimum Distribution Addendum to Appendix M shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

- (b) Notwithstanding the foregoing, if the distributee elects to have his eligible rollover distribution paid in part to him, and paid in part as a direct rollover:
 - (i) The direct rollover must be in an amount of \$500 or more.
 - (ii) A direct rollover to two or more eligible retirement plans shall not be permitted.
- (c) The Committee shall, within a reasonable period of time prior to making an eligible rollover distribution from this Plan, provide a written explanation to the distributee of the direct rollover option described above, as well as the provisions under which such distribution will not be subject to tax if transferred to an eligible retirement plan within 60 days after the date on which the distributee received the distribution.

Section 5.15 Recovery of Overpayments. No person is entitled to any benefit under this Plan except and to the extent expressly provided under this Plan. The fact that payments have been made from this Plan in connection with any claim for benefits under this Plan does not (a) establish the validity of the claim, (b) provide any right to have such benefits continue for any period of time, or (c) prevent the Plan from recovering the benefits paid to the extent that the Committee determines that there was no right to payment of the benefits under this Plan or that there was a mistake in the calculation of benefits under this Plan. Thus, if a benefit is paid under this Plan and it is thereafter determined by the Committee that such benefit should not have been paid, or that such benefit was overpaid (whether or not attributable to an error by the Participant, the Committee or any other person), then the Committee may take such action as it deems necessary or appropriate to remedy such situation, including, without limitation, deducting the amount of any overpayment theretofore made to or on behalf of the Participant from any succeeding payments to or on behalf of the Participant or instituting legal action to recover such overpayments. The period over which the Committee may recover any benefit overpayment shall not be limited by the period during which the error occurred.

ARTICLE VI VESTING

Section 6.1 Vesting. Each Participant shall have a 100% vested interest in his Accrued Benefit:

- (a) If he does not have a Portable Account, after completing at least five Years of Service; and
- (b) If he does have a Portable Account, after completing at least three Years of Service.

A Participant shall have no vested interest prior to the completion of the number of Years of Service specified above, except as provided in the applicable Appendix or in Article XI, Top-Heavy Provisions. In addition, a Participant's Accrued Benefit shall be fully vested upon his attainment of his Normal Retirement Age while employed by an Employer Company or a Related Employer.

Any Participant in the Plan on the date of adoption of any amendment to the vesting schedule may, within an election period which begins on the date of adoption of such amendment to the vesting schedule and ends on the sixtieth day after the latest of: (i) the date the amendment is adopted; (ii) the date the amendment becomes effective; or (iii) the date the Participant is given written notice of the amendment by the Committee, elect to have his vested percentage determined under his vesting schedule as in effect immediately prior to the effective date of amendment, provided he has completed three Years of Service prior to the end of the election period. Any election made will be irrevocable. Further no Participant shall have his vested percentage decreased by any change in the vesting schedule.

Section 6.2 Breaks in Service for Vesting Purposes If a Participant with no vested interest, as determined under Section 6.1, incurs one or more consecutive Breaks in Service:

- (a) Prior to 2000, Years of Service before such Break in Service shall not be taken into account for purposes of Section 6.1 until the Participant completes one Year of Service after the Break in Service; and
- (b) Years of Service prior to the Break in Service shall not be taken into account for purposes of Section 6.1 if the number of consecutive Breaks in Service equals or exceeds the greater of (i) the aggregate number of the Participant's Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (ii) with respect to a Break in Service incurred by a person who is an Employee on or after January 1, 1985, regardless of when the Break in Service occurred, six.

Section 6.3 Forfeitures. All forfeitures of nonvested interests in the Plan occurring during the Plan Year shall be applied to reduce future contributions and shall not be used or applied to increase the benefits to which any Participant would be entitled hereunder.

**ARTICLE VII
AMENDMENT, MODIFICATION AND TERMINATION; MERGER**

Section 7.1 Right to Amend or Terminate. The Employer Companies hope, and expect, to continue this Plan and the funding of benefits hereunder indefinitely; but such continuance is not assumed as a contractual obligation and, in order to protect both Participants and the Employer Companies against unforeseen contingencies, the Employer Companies expressly reserve the right, by action of their boards of directors, to discontinue contributions to this Plan or to terminate this Plan at any time with respect to its Participants, without the consent of any party. The right to amend this Plan in any respect or particular is vested exclusively in the Board of Directors which right is not conditional on the consent or approval of any other Employer Company. Additionally, any amendment or modification may be made retroactive, if necessary or appropriate to qualify or maintain the Plan as a qualified Plan within the meaning of Code § 401(a), and to qualify or maintain the Trust as tax exempt under Code § 501(a), and the regulations issued thereunder. Notice of any amendment or modification of the Plan may be given by posting, by mail, or by such other means as may be acceptable under ERISA.

Section 7.2 Withdrawal of Employer Company. Any Employer Company, by action of its board of directors, may withdraw from the Plan at any time.

Section 7.3 Liquidation of Trust Fund. Upon termination or partial termination of the Plan, each affected Participant's benefits, determined prior to the date of termination, shall become fully vested and non-forfeitable, to the extent funded and to the extent such benefit is not restricted pursuant to the provisions of Section 7.9 herein. The assets of the Trust Fund, shall be allocated among Participants and Beneficiaries, after payment of administration expenses of the Plan, in the following order of priority as modified by the provisions of Treasury Regulations § 1.414(l)-1(f) or (h) if a special schedule of benefits (as defined in the regulations) is in effect as a result of a plan merger within the five year period prior to the date of termination:

- (a) Benefits Payable Three Years Prior to Termination First, to provide benefits that become payable three or more years before the date of termination of the Plan, or that would have become payable had the Participant retired immediately prior to the beginning of such three year period, provided that
 - (i) the benefit payable to a Participant or Beneficiary (or that could have been payable) shall be based on the provisions of the Plan in effect during the five year period prior to the date of termination of the Plan; and further provided that,
 - (ii) the lowest benefit payable during such three year period shall be considered the benefit payable for purposes of this category (a).
- (b) Other Benefits Eligible for Termination Insurance. Second, to the extent that a benefit has not been provided in category (a), the remaining assets shall be allocated to provide any benefit provided under the Plan for Participants and Beneficiaries to the extent guaranteed by the Pension Benefit Guaranty Corporation pursuant to Title IV of ERISA.

- (c) Other Benefits. To the extent that a benefit under the Plan has not been provided in the foregoing categories, the assets of the Plan shall be allocated to provide all other non-forfeitable benefits under the Plan and, finally, to provide all other benefits under the Plan.

If the assets of the Trust Fund applicable to any of the above categories are insufficient to provide full benefits for all persons in such group, the benefits otherwise payable to such persons shall be allocated pro rata on the basis of the present value of benefits as of the termination date. The Actuary shall calculate the allocation of the assets of the Trust Fund in accordance with the above priority categories, and certify his calculations to the Committee. Each of the above classes shall be divided into subclasses, giving first preference within the class to those Participants over 65 and those beneficiaries receiving benefits; second preference to Participants over 60 years of age; third preference to Participants over 55 years of age; fourth preference to Participants under 55 years of age having a deferred vested benefit; and fifth preference to all others. The Committee may establish additional subclasses within the classes set forth in subsection (a), (b), and (c).

Section 7.4 Finality of Payment. Prior to making any distribution under the terms of Section 7.3, the Committee shall satisfy itself that this procedure complies with applicable law and shall obtain such waivers and authorizations from Participants and beneficiaries as it deems advisable.

Section 7.5 Non-diversion of Assets. Except as provided in Section 3.5 hereof, regarding return of contributions no part of the assets of the Trust, by reason of any amendment or otherwise, shall at any time be used for, or diverted to, purposes other than for the exclusive benefit of Participants, former Participants, or their Beneficiaries, and for the payment of administrative expenses under the Plan, or as will cause, or permit the assets of the Trust to revert to, or become the property of an Employer Company at any time prior to the satisfaction of all liabilities under the Plan. When all such liabilities have been satisfied, any assets remaining will revert to the Employer Companies.

Section 7.6 Committee Functions during Termination. If the Plan is terminated, the Committee in office at the time of such termination shall continue to act with its full powers hereunder until the completion of the allocation and distribution of the assets of the Trust Fund as in this Article VII provided; and a majority of the members of the Committee then in office shall have the power to fill any vacancies occurring in the Committee after such termination by resignation, death, or otherwise. In the event the Committee within a reasonable time after such termination shall not have provided for such allocation and distribution, the Board of Directors shall succeed to all powers and duties of the Committee and shall provide for such allocation and distribution of the assets of the Trust Fund.

Section 7.7 Notice of Termination. Notice of termination of the Plan, in whole or in part, shall be deemed adequately given if an Employer Company of the Committee mails written notice of the same to the latest address on file of each Participant or Beneficiary who is affected by such termination; or by such other means as may be acceptable under ERISA.

Section 7.8 Merger and Consolidation of Plan, Transfer of Assets In the case of any merger or consolidation with, or transfer of assets and liabilities to, any other plan, provisions shall be made so that each Participant in the Plan on the date thereof (if the Plan then terminated) would receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately prior to the merger, consolidation or transfer if the Plan had been terminated.

Section 7.9 Discontinuance of Plan Within Ten Years of Amendment In the event that the Plan is discontinued by any Employer Company within ten (10) years after any amendment to the Plan which increases the benefits payable under the Plan, or if the full current costs (including current service contributions and interest on any unfunded liability for the initial cost of retroactive increases in benefits not covered by current service contributions) are not met by such Employer Company during such ten (10) year period, the contributions which may be used to provide benefits for any one of the twenty-five (25) most highly compensated employees on the effective date of such amendment, whose anticipated retirement annuity based upon the rate of compensation as of that date would be more than \$1,500 per year, until such full current costs are funded for the first time, shall not exceed the greatest of:

- (a) The total contributions which would have been applied to provide a retirement annuity for any such employee if the Plan prior to such amendment had continued without change;
- (b) \$20,000; or
- (c) The amount which would have been provided by contributions under the Plan prior to such amendment if the Plan had been terminated the day before the effective date of such amendment, plus an amount computed by multiplying the number of years during which current costs beginning with the effective date of such amendment are met by (i) 20% of any such employee's annual compensation or (ii) \$10,000, whichever is less.

Any excess reserves resulting from the application of the foregoing provisions of this Section shall be used and applied toward the funding of the benefits due to other Participants in the Plan who are employees of such Employer Company, in accordance with the provisions of the Plan.

If the Plan is in full force and effect and the full current costs have been met, the foregoing conditions shall not restrict the current payment of full benefits called for by the Plan to any Participant. The limitations of this Section shall be inapplicable to the extent the Commissioner of Internal Revenue or his duly authorized representative may later rule that the limitations are no longer necessary for the Plan to meet the requirements for qualifications under the Code.

If this Plan is not terminated within the period specified above, the benefits, if any, which have been withheld from a Participant in accordance with this Section shall be turned over to the Participant or his representative at the end of said period or as soon thereafter as the full current costs of the Plan attributable to the said period have been met for the first time.

If this Plan is terminated within any of the said periods or thereafter, but before the full current costs of the Plan attributable to any of the said periods have been met for the first time, then any

benefits which have been withheld from a Participant in accordance with this Section shall, upon termination of this Plan, be distributed as provided in Section 7.3, except that no part of such funds shall be distributed or used to fund benefits for any Participant who is affected by the limitations of this Article.

**ARTICLE VIII
INVESTMENTS**

Section 8.1 Direction of Investments. The Committee shall, except to the extent it has expressly delegated such authority to Trustees, or an investment manager, have full and exclusive power and authority, to direct the Trustees as to the investment of the assets of the Trust, and the Trustees shall invest, reinvest, buy, sell, hypothecate or otherwise deal with the assets of the Trust Fund in accordance with the Committee's directions. Such directions shall be certified in writing by two members of the Committee. Investments shall not be restricted to investments now or hereafter legal for trust funds under the laws of the States of New York, New Jersey, Connecticut or any other jurisdiction. The Committee may, to the extent permitted by law, direct investment in:

- (a) Qualifying employer real property (as defined in ERISA § 407(d)(4));
- (b) Qualifying employer securities (as defined in ERISA § 407(d)(5));
- (c) Other securities and other investments as directed by the Committee, including but not limited to common trust funds and collective employee benefit trusts of the Trustee and contributions to the capital of any corporation all of whose stock is owned by the Trustee.

Section 8.2 Seventy-Five Percent Limitation.

- (a) In directing the investment of the assets of the Trust, the Committee may direct the investment of up to seventy-five percent (75%) of the total assets of the Trust in the investments described in Section 8.1(a) and/or (b); except that such investments shall constitute less than such percentage of the total assets of the Trust as provided by ERISA:
 - (i) To the extent required in order that contributions by the Employer Companies to the Plan will be deductible under the Code, or to qualify or maintain the qualification of the Plan under the Code or to establish or maintain the exempt status of the Trust under the Code; or
 - (ii) To the extent required to maintain and preserve liquidity to permit distributions in accordance with the terms of the Plan, or to provide suitable temporary investments for the assets of the Trust; or
 - (iii) To the extent otherwise directed by the Board of Directors.

Section 8.3 Annual Valuation of Trust Fund. As of December 31st in each year, or as of the end of any shorter accounting period that the Committee shall select, all of the assets in the Trust shall be valued by or under the supervision of the Committee. Such valuation shall be made in accordance with market quotations, when available, and on the basis of such other factors as the Committee deems appropriate.

ARTICLE IX
ADMINISTRATIVE COMMITTEE

Section 9.1 Establishment of Administrative Committee. The Plan shall be operated and administered by an Administrative Committee consisting of not less than three (3) members ("named fiduciaries"), who shall be appointed by the Board of Directors. The Administrative Committee shall be the Plan Administrator as that term is used in ERISA, agent for service of process on or with respect to the Plan and a named fiduciary with respect to the Plan. Committee members may be removed at any time by the Board of Directors and may resign at any time, such resignation to be effective when accepted by the Board of Directors. All vacancies shall be filled by the Board of Directors. The Committee may appoint from their number such committees, which may include individuals not members of the Committee, with such powers as they shall determine; may authorize one (1) or more of their number, or any agent, to execute or deliver any instrument, or to make any payment in their behalf; and may employ legal counsel (who shall not be an employee of an Employer Company), actuaries, agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. The Committee shall meet at least once during each calendar quarter. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee at a meeting shall be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by all of the members of the Committee.

The Committee, acting as agent for the Company, may from time to time appoint additional named fiduciaries with respect to the Plan for the purpose of facilitating the investment of Plan's assets and each named fiduciary appointed by the Committee shall have such powers, duties, obligations and responsibilities as the Committee shall prescribe in its appointment.

Section 9.2 Delegation of Specific Responsibilities. The members of the Committee may agree in a writing signed by each member to allocate to any one of their number or to other persons (including corporations) any of the responsibilities with which they are charged pursuant hereto, including the appointment of an investment manager to manage the investments of the Trust Fund, provided the responsibilities and duties so delegated are definitively set forth so that the person to whom the delegation is made is clearly aware of such duties and responsibilities. If such delegation is made to a person not a member of the Committee, that person or, in the case of a corporation, its responsible officer, shall acknowledge the acceptance and understanding of such duties and responsibilities.

Section 9.3 Power to Establish Regulations. The Committee shall establish rules and regulations for the administration of the Plan and the Committee. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and decide any matters arising in the administration and operation of the Plan, and any interpretations or decisions so made shall be conclusive and binding on all persons; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Employees and Participants similarly situated.

Section 9.4 Claims Procedure.

- (a) All claims for benefits hereunder shall be directed to the Committee or to a member of the Committee designated for that purpose. Within ninety (90) days following receipt of a claim for benefits (forty-five (45) days in the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003), the UPS Corporate Benefits Department manager responsible for the day-to-day operation of the Plan (the "Initial Reviewer") shall determine whether the claimant is entitled to benefits under the Plan, unless additional time is required for processing the claim. In this event, the Initial Reviewer shall, within the initial ninety (90)-day period (forty-five (45)-day period in the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003), notify the claimant that additional time is needed, explain the reason for the extension, and indicate when a decision on the claim will be made. In the case of claims other than for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the initial decision must be made within 180 days of the date the claim is filed. In the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the forty-five (45)-day period for the initial decision may be extended for up to thirty (30) additional days, provided the Initial Reviewer determines that the extension is necessary due to matters beyond the control of the Plan. If prior to the end of the initial thirty (30)-day extension, the Initial Reviewer determines that, due to matters beyond the control of the Plan, a decision cannot be made within the extension period, the period may be further extended for up to an additional thirty (30) days, provided that the Initial Reviewer notifies the claimant prior to the expiration of the first thirty (30)-day extension of the circumstances requiring the extension and the date as of which the Plan expects to make a decision. For a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the notice of extension for a disability retirement benefit claim must specifically explain the standards on which entitlement to a disability retirement benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues. The claimant shall have forty-five (45) days within which to provide the specified information unless the Initial Reviewer gives a longer period in the notification of the extension.
- (b) A denial by the Initial Reviewer of a claim for benefits shall be stated in writing and delivered or mailed to the claimant. Such notice shall set forth the specific reasons for the denial, written in a manner calculated to be understood by the claimant. The notice shall include specific reference to the Plan provisions on which the denial is based and a description of any additional material or information necessary to perfect the claim, an explanation of why this material or information is necessary, and the steps to be taken if the claimant wishes to submit his claim for review, and effective January 1, 2002, a description of the Plan's review procedures, and the time limits applicable to such procedures, and a statement of the claimant's right to bring a civil action under ERISA § 502(a) following an adverse benefit determination upon review.

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- (c) In the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the notice of denial also shall include the following:
- (i) If an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, the notice of denial will include either a copy of the specific rule, guideline, protocol or other similar criterion relied upon or a statement that such rule, guideline, protocol or other similar criterion was relied upon in making the decision and that a copy of such rule, guideline, protocol or other similar criterion will be provided to the claimant free of charge upon request.
 - (ii) If the denial is based on a medical necessity or experimental treatment or similar exclusion or limit, the notice of denial will include either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request.
- (d) The Committee shall afford a reasonable opportunity to any claimant whose request for benefits has been denied for a review of the decision denying the claim. The review must be requested by written application to the Committee within sixty (60) days (one hundred eighty (180) days in the case of review of a disability retirement benefit claim made on or after January 1, 2002 and before January 1, 2003) following receipt by the claimant of written notification of denial of his claim. Pursuant to this review, the claimant or his duly authorized representative may review any documents, records and other information which are pertinent to the denied claim and submit issues and comments in writing. Effective January 1, 2002, a claimant may also submit documents, records and other information relating to his claim, without regard to whether such information was submitted in connection with his original benefit claim.
- (e) In the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the Committee shall review the initial decision. In reviewing any denial based in whole or in part on a medical judgment, the Committee shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment. The health care professional engaged for this purpose shall be an individual who is neither an individual who was consulted in connection with the adverse benefit determination that is the subject of the review, nor the subordinate of any such individual. The Plan shall provide for the identification of medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the initial denial of a claimant's disability retirement benefit claim, without regard to whether the advice was relied upon in making the benefit determination.

- (f) A decision on the claimant's appeal of the denial of benefits (other than for a disability retirement benefit claim made on or after January 1, 2002 and before January 1, 2003) shall ordinarily be made by the Committee at the next regularly scheduled meeting that immediately follows the receipt of the request for review, unless the request for review is received within 30 days of such meeting date. In that case, the review will occur at the second regularly scheduled meeting following the Plan's receipt of the request for review. If an extension of time is required because of special circumstances, the Committee will provide the claimant with written notice of the extension describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. A benefit determination will be made no later than the third regularly scheduled meeting of the Committee following the Plan's receipt of the request for review.

In the case of a review of a disability retirement benefit made on or after January 1, 2002 and before January 1, 2003, a decision shall be made within forty-five (45) days of the Plan's receipt of the request for review, unless additional time is required for a decision on review, in which event the decision shall be rendered not later than ninety (90) days after receipt of the request for a ruling. Notice in writing of the extended time required shall be given to the claimant within forty-five (45) days of his request for review.

The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, specific reference to the Plan provisions on which the decision is based, and effective January 1, 2002, a statement that the claimant or his authorized personal representative may review any documents and records relevant to the claim determination, a statement describing further voluntary appeals procedures, if any, and a statement of the claimant's right to bring civil action under ERISA § 502(a).

- (g) The foregoing special claims procedures provisions with respect to claims for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003 shall have no effect with respect to claims for such a Disability Retirement Benefit made on or after January 1, 2003.

Section 9.5 Forfeiture in Case of Unlocatable Participant or Beneficiary. If the Committee is unable to pay benefits to any Participant or beneficiary who is entitled to benefits hereunder when such benefits are due because the identity or whereabouts of such person cannot be ascertained, the Committee shall proceed as follows:

- (a) As soon as administratively possible after the Committee has determined that a Participant or beneficiary cannot be paid due to the circumstances stated above, the Committee shall submit the last known address, and any other information the Committee deems appropriate, to a locator service in accordance with IRS procedures.

- (b) If the locator service provides the Committee with a new address for the Participant or beneficiary, the Committee shall mail the benefit payment to the new address as soon as administratively possible after such new address is known. If the locator service fails to identify a new address for the Participant or beneficiary, all amounts held for his benefit shall be forfeited as of the last day of the Plan Year in which the locator service notifies the Committee that it cannot locate the individual. Upon forfeiture, all liability for payment of the benefit shall thereupon terminate. In any such case, the funds released as a result of such forfeiture shall be dealt with as provided in Section 6.3. However, if an individual subsequently makes what the Committee determines to be a valid and proper claim to the Committee for such amounts, the account or accounts will be restored and will be distributable without interest in accordance with the terms of this Plan.

Section 9.6 Liability of the Committee. The Committee and the members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan solely in the interests of the Plan's Participants and their Beneficiaries, and for the exclusive purpose of providing benefits thereto in accordance with the terms of the Plan and to defray the reasonable administration expenses thereof. In all such actions or omissions the Committee and each member thereof shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims; provided, however, that no member shall be responsible for the actions or omissions of a member or any other party that is a fiduciary with respect to this Plan, other than himself, which are not in conformity hereto, unless such member knowingly participates in or knowingly conceals such conduct which he knows to be in breach of this standard, his own conduct has enabled the other member or other fiduciary to be in breach of this standard, or he has knowledge of such breach by another member or other fiduciary and fails to make reasonable efforts under the circumstances to remedy such breach.

Section 9.7 Fiduciary Responsibility Insurance; Bonding. If the Employer Company has not done so, the Committee may direct the purchase of appropriate insurance on behalf of the Plan and the Plan's fiduciaries, including the members of the Committee, to cover liability or losses occurring by reason of the acts or omissions of a fiduciary; provided, however, that to the extent purchased by the Plan such insurance must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary duty or obligation by such fiduciary. The cost of such insurance shall be borne by the Fund, unless the insurance is provided by and paid for by the Employer Company. The Trustees shall also obtain a bond covering all the Plan's fiduciaries, to be paid from the assets of the Trust Fund.

Section 9.8 Meetings of Committee. The Committee shall hold meetings at least once during each calendar quarter upon such notice, at such place or places, and at such time or times as it may determine from time to time. Notice of a meeting may be waived in writing.

Section 9.9 Compensation of Committee. The members of the Committee may receive reasonable compensation for their services as the Board of Directors may from time to time determine. Such compensation and all other expenses of the Committee, including the

compensation of officers, actuaries or counsel, agents or others that the Committee may employ, shall be paid out of the Trust Fund, unless paid by the Employer Company. Notwithstanding the foregoing, any Committee member who is employed on a full-time basis by an Employer Company shall receive no compensation, but may be reimbursed for expenses incurred.

Section 9.10 Reliance by Committee. Board of Directors and Committee members shall be fully protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any actuary, accountant, legal counsel (other than an employee of an Employer Company), or physician, and all action so taken or suffered shall be conclusive upon all Participants and beneficiaries, and any other person claiming under the Plan.

Section 9.11 Books and Records. The Committee shall keep appropriate books and records.

Section 9.12 Disbursements. The Committee shall determine the manner in which the Trust Fund shall be disbursed under the terms of the Plan and Trust Agreement.

Section 9.13 Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration. The fiduciaries hereunder, including the Trustee, the Employer Companies, the Board of Directors and the Committee, shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan or the Trust Agreement. In general, the Employer Companies shall have the sole responsibility for making the contributions necessary to provide benefits under the Plan as specified in Article V, and the Board of Directors shall have the sole authority to appoint and remove the Trustee, members of the Committee and to amend or terminate, in whole or in part, this Plan or the Trust, except as otherwise provided. The Committee shall have the sole responsibility for the appointment and removal of any Investment Manager which may be provided for under the Trust and the administration of this Plan, which responsibility is specifically described in this Plan and the Trust. Subject to any direction from the Committee, the Trustee shall have the responsibility for the administration of the Trust and the management of the assets held under the Trust, all as specifically provided in the Trust Agreement. Each fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust, as the case may be, authorizing or providing for such direction, information or action. Furthermore, each fiduciary may rely upon any such direction, information or action of another fiduciary as being proper under this Plan or the Trust, and is not required under this Plan or the Trust to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust that each fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust and shall not be responsible for any act or failure to act of another fiduciary. No fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

**ARTICLE X
GENERAL PROVISIONS**

Section 10.1 Prohibition Against Attachment

- (a) None of the benefits payable hereunder shall be subject to the claims of any creditor of any Participant or Beneficiary nor shall the same be subject to attachment, garnishment or other legal or equitable process by any creditor of the Participant or beneficiary, nor shall any Participant or beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of such benefits.
- (b) If any Participant or Beneficiary under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, the interest of such person in such benefit shall, in the discretion of the Committee, cease and terminate, and in that event the Committee may direct the Trustee to hold or apply the same or any part thereof to or for the benefit of such Participant or Beneficiary, his Spouse, Domestic Partner, children, or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.
- (c) Exception to general prohibition against attachment for Qualified Domestic Relations Orders.
 - (i) General rule. The restrictions of subsection (a) and subsection (b) of this Section 10.1 will not be violated by either (A) the creation of a right to payments from this Plan by reason of a Qualified Domestic Relations Order or (B) the making of such payments.
 - (ii) Definition of Qualified Domestic Relations Order. For purposes of this subsection (c), the term “Qualified Domestic Relations Order” means any judgment, decree, or order (including approval of a property settlement agreement), made pursuant to a State domestic relations law (including a community property law), which relates to the provision of child support, alimony payments, or marital property rights to a Spouse, former Spouse, child, or other dependent of a Participant (an “Alternate Payee”) and which:
 - (A) creates or recognizes the right of an Alternate Payee to, or assigns to any Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under this Plan;
 - (B) clearly specifies (i) the name and last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order, (ii) the amount or percentage of the Participant’s benefits to be paid by the Plan to each Alternate Payee, or the manner in which such amount or percentage is to be determined, (iii) the number of payments or

period to which such order applies, and (iv) that the order applies to this Plan;

- (C) does not require this Plan to provide any type or form of benefit, or any option, not otherwise provided under this Plan, unless, in the case of any payment before a Participant has separated from service, the order requires payment of benefits to an Alternate Payee (i) on or after the date the Participant attains (or would have attained) the earliest age on which he could elect to receive retirement benefits under the Plan, (ii) as if the Participant had retired on the date such payment is to begin under such order (but taking into account only the present value of the benefits actually accrued and not taking into account the present value of any employer subsidy for early retirement), and (iii) in any form in which such benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the Alternate Payee and his subsequent Spouse);
- (D) does not require this Plan to provide increased benefits (determined on the basis of actuarial equivalence); and
- (E) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another order previously determined to be a Qualified Domestic Relations Order.

Section 10.2 Facility of Payment. If any Participant or Beneficiary shall be physically or mentally incapable of receiving or acknowledging receipt of any payment due under the terms of the Plan, the Committee may direct the Trustee to make any such payment to a legal representative or, if no legal representative shall have been appointed for him, to any person or institution maintaining such Participant or beneficiary, and the payment to such person or institution in good faith shall constitute a valid and complete discharge for such payment.

Section 10.3 Payment to Minor Beneficiary. If the Beneficiary of any Participant shall be a minor and no guardian shall have been appointed for him, the Committee may direct the Trustee to retain any payment due under the Plan for his benefit until he attains majority. Such amount, as authorized by the Committee, may be held in cash, deposited in bank accounts, or invested or reinvested in direct obligations of the United States, and the income thereon may be accumulated and invested, or the income and principal may be expended and applied directly for the maintenance, education and support of such minor without the intervention of any guardian and without application to any court.

Section 10.4 No Rights of Employment. The Plan shall not confer upon any Employee or Participant any right of employment, nor shall any provision of the Plan interfere with the right of an Employer Company to discharge any Employee.

Section 10.5 Payments Only From Trust Fund. Except as otherwise required by law, no liability shall attach to the Employer Companies for payment of any benefits or claims hereunder and every Participant or Beneficiary or person claiming under them shall have recourse only to the Trust Fund for payment of any benefit hereunder and the rights of such persons are hereby expressly limited accordingly.

Section 10.6 Applicable Law. All provisions of the Plan, including definitions, shall be construed according to the laws of the State of Georgia, except to the extent preempted by Federal law.

Section 10.7 Titles. Titles of Articles and Sections are inserted for convenience only and shall not affect the meaning or construction of the Plan.

Section 10.8 Counterparts. This Plan may be executed by the Employer Companies in various counterparts to this document, each of which shall be deemed to be an original but all shall be deemed to be one document.

Section 10.9 No Access to Books and Records. Nothing herein or in the Trust Agreement contained shall give any Participant or Beneficiary or any other person the right or privilege to examine or have access to the books or records of any Company or of the Committee or the Trustee; nor shall any such person have any right, legal or equitable, against any Company or against any director, officer, employee, agent or representative thereof or against the Trustee or the Committee, except as herein expressly provided or permitted by law.

Section 10.10 Procedures for Qualified Domestic Relations Orders. The Committee shall develop and implement procedures (a) for determining whether an order received by the Plan is a "Qualified Domestic Relations Order" within the meaning of subsection (c) of Section 10.1, (b) for administering distributions under such orders, and (c) for holding amounts which would be payable under such orders pending the determination described in subsection (a) of this Section 10.10.

Section 10.11 USERRA. Notwithstanding anything in this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Code § 414(u).

Effective for Plan Years beginning after December 31, 2006, in the case of a Participant who dies while performing qualified military service (as defined in Code § 414(u)), the Participant's Beneficiary shall be entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan as if the Participant had resumed and then terminated employment on account of death.

ARTICLE XI
TOP-HEAVY PROVISIONS

Section 11.1 Effective Date of This Article. This Article shall be effective for all Plan Years beginning after December 31, 1983.

Section 11.2 Definitions. The following definitions apply to this Article:

- (a) “Top-Heavy Plan” — The Plan is a Top-Heavy Plan in any Plan Year in which:
 - (i) the Plan is a member of a Top-Heavy Group, if the Plan is described in Section 11.2(c)(i) or (ii), below; or
 - (ii) the Plan is not a member of an Aggregation Group as described in Section 11.2(c)(i) or (ii), below, and, as of the Determination Date, the Cumulative Accrued Benefit of the Plan for Key Employees exceeds sixty percent of the Cumulative Accrued Benefit of the Plan for all Participants.
- (b) “Key Employee” means an Employee or former Employee who at any time during the Plan Year or any of the four preceding Plan Years is:
 - (i) For Plan Years before January 1, 2002
 - (A) an officer of the Employer Company having an annual compensation from the Employer Company of more than \$45,000 (provided, however, that no more than the lesser of (A) 50 Employees or (B) the greater of three Employees or 10% of the Employees shall be treated as officers under this paragraph),
 - (B) one of the 10 Employees having an annual compensation from the Employer Company of more than \$30,000 and owning the largest interests in the Employer Company,
 - (C) an owner of five percent of the outstanding stock of the Employer Company or stock possessing more than five percent of the total combined voting power of all stock of the Employer Company, or
 - (D) an owner of one percent of the outstanding stock of the Employer Company or stock possessing more than one percent of the total combined voting power of all stock of the Employer Company, who has an annual compensation from the Employer Company of more than \$150,000.
 - (ii) For Plan Years beginning after December 31, 2001,
 - (A) an officer of the Employer Company having an annual compensation from the Employer Company of more than

\$130,000, as adjusted under Code § 416(i)(1) (provided, however, that no more than the lesser of (A) 50 Employees or (B) the greater of three Employees or 10% of the Employees shall be treated as officers under this paragraph),

- (B) an owner of five percent of the outstanding stock of the Employer Company or stock possessing more than five percent of the total combined voting power of all stock of the Employer Company, or
- (C) an owner of one percent of the outstanding stock of the Employer Company or stock possessing more than one percent of the total combined voting power of all stock of the Employer Company, who has an annual compensation from the Employer Company of more than \$150,000.

If two Employees have the same interest in the Employer Company, the Employee with the greater annual compensation shall be treated as having a larger interest. For purposes of determining ownership in the Employer Company (i) the constructive ownership rules of Code § 318, as modified by substituting “5 percent” for “50 percent” in subsection (a)(2)(C) thereof, shall apply, but (ii) the rules of subsections (b), (c), and (m) of Code § 414 shall not apply. Each beneficiary of a Key Employee designated under this Plan is a Key Employee.

- (c) “Aggregation Group” means a group of plans consisting of more than one plan and including:
 - (i) each plan of the Employer Company in which a Key Employee is a participant;
 - (ii) each other plan of the Employer Company which enables any plan described in (1) to meet the requirements of Code § 401(a)(4) or Code § 410; and
 - (iii) any plan not described in (i) or (ii) which the Employer Company elects to include, provided that such inclusion does not prevent the group from meeting the requirements of Code § 401(a)(4) and Code § 410.
- (d) “Top-Heavy Group” is an Aggregation Group for which, as of the Determination Date, the Total Benefit for Key Employees exceeds sixty percent of the Total Benefit for all Participants.
- (e) “Determination Date” is the last day of the preceding Plan Year.
- (f) “Account Aggregate” is, with respect to a defined contribution plan,
 - (i) For Plan Years beginning after December 31, 2001, the sum of employee accounts plus the sum of all distributions made from such accounts during the one-year period ending on the Determination Date, provided that (1)

rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the account of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the account of any individual who has not received any compensation from the Employer Company (other than benefits under any Plan maintained by the Employer Company) during the one-year period ending on the Determination Date, shall not be taken into account. In the case of a distribution made for a reason other than a termination of employment, death or disability, this subsection shall be applied by substituting "five-year period" for "one-year period."

- (ii) For Plan Years beginning before December 31, 2001, the sum of employee accounts plus the sum of all distributions made from such accounts during the five-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the account of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the account of any individual who has not received any compensation from the Employer Company (other than benefits under any Plan maintained by the Employer Company) during the five-year period ending on the Determination Date, shall not be taken into account.

A transfer from one plan of the Employer Company to any other such plan shall be considered neither a "distribution" nor a "rollover contribution" for purposes of this subsection, but a distribution from a terminated plan shall be considered a "distribution" for purposes of this subsection if such terminated plan, had it not been terminated, would have been described in Section 11.2(c)(i) or (ii).

- (g) "Cumulative Accrued Benefit" is, with respect to a defined benefit plan

- (i) For Plan Years beginning after December 31, 2001, the sum of the present values of all accrued benefits plus the sum of distributions made with respect to such benefits during the one-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the accrued benefit of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the accrued benefit of any individual who has not received any compensation from the Employer Company (other than benefits under any plan maintained by the Employer Company) during the five year period ending on the Determination Date, shall not be taken into account. In the case of a distribution made for a reason other than a termination of employment, death or disability, this

subsection shall be applied by substituting “five-year period” for “one-year period”.

- (ii) For Plan Years beginning on or before December 31, 2001, the sum of the present values of all accrued benefits plus the sum of distributions made with respect to such benefits during the five-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the accrued benefit of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the accrued benefit of any individual who has not received any compensation from the Employer Company (other than benefits under any plan maintained by the Employer Company) during the five year period ending on the Determination Date, shall not be taken into account.

A transfer from one plan of the Employer Company to any other such plan shall be considered neither a “distribution” nor a “rollover contribution” for purposes of this subsection, but a distribution from a terminated plan shall be considered a “distribution for purposes of this subsection if such terminated plan, had it not been terminated, would have been described in Section 11.2(c)(i) or (ii).

- (h) “Total Benefit” is the sum of the Account Aggregate of all plans within an Aggregation Group which are defined contribution plans, and the Cumulative Accrued Benefit of all plans within an Aggregation Group which are defined benefit plans.

Solely for the purpose of determining if the Plan, or any other plan included in a required aggregation group of which this Plan is a part, is Top-Heavy, the accrued benefit of an Employee other than a Key Employee shall be determined under (a) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Employer, or (b) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Code § 411(b)(1)(C).

- (i) “Total Compensation” is the Participant’s compensation as defined in Code § 415(c)(3), but shall not exceed the applicable dollar amount of Code § 401(a)(17).

- (j) “Testing Period” means a period of consecutive Years of Service (not exceeding five) during which the Participant had the greatest aggregate compensation from the Employer Company, except that such years shall not include (1) years beginning after the close of the last year in which the Plan was a Top-Heavy Plan, and (2) years ending in a Plan Year beginning before January 1, 1984.

- (k) “Employer Company” means, for purposes of this Article, the Employer Company and all Related Employers.

Section 11.3 Top-Heavy Vesting Schedule. For each Plan Year for which the Plan is a Top-Heavy Plan, the vesting schedule provided in this Section 11.3 (the “Top-Heavy Vesting Schedule”) shall apply, and for each Plan Year thereafter for which the Plan is not a Top-Heavy Plan, the vesting schedule provided in Section 6.1 (the “Regular Vesting Schedule”) shall apply; provided, however, that any change in a vesting schedule shall, with respect to each Participant, be subject to Section 6.1. The Top-Heavy Vesting Schedule is as follows:

| <u>NON-FORFEITABLE YEARS OF SERVICE</u> | |
|---|-----|
| Less Than 2 | 0 |
| 2 But Less Than 3 | 20 |
| 3 But Less Than 4 | 40 |
| 4 But Less Than 5 | 60 |
| 5 But Less Than 6 | 80 |
| 6 or More | 100 |

Section 11.4 Top-Heavy Minimum Benefit. For each Plan Year for which the Plan is a Top-Heavy Plan, the accrued benefit derived from Employer Company contributions for each Participant who is not a Key Employee, when expressed as a Single Life Only Annuity (with no ancillary benefits) beginning at his Normal Retirement Date, shall not be less than the product of (a) the Participant’s average compensation during the Testing Period and (b) the lesser of (1) 2% multiplied by the number of the Participant’s Years of Service with the Employer Company or (2) 20%. For purposes of this Section 11.4, a “Year of Service” shall not be taken into account if: (i) the Plan was not a Top-Heavy Plan for any Plan Year ending during such Year of Service, (ii) such Year of Service was completed in a Plan Year beginning before January 1, 1984, or (3) such Year of Service occurs during a Plan Year when the Plan benefits (within the meaning of Code § 410(b)) no Key Employee or former Key Employee.

Section 11.5 Top-Heavy Limitation on Compensation. For each Plan Year for which the Plan is a Top-Heavy Plan, the compensation of each Participant which is taken into account for purposes of determining contributions and benefits under this Plan shall be limited to either (a) the first \$200,000 of such compensation, or (b) if a different amount has been fixed by the Secretary of the Treasury pursuant to Code § 416(d)(2), such amount. The limit set by this Section shall be imposed after any reduction imposed elsewhere in this Plan on the compensation of a Participant which is taken into account for purposes of determining contributions and benefits.

Section 11.6 Top-Heavy Adjustment to § 415 Limitations. For each Plan Year for which the Plan is a Top-Heavy Plan prior to January 1, 2000, the limit imposed by Section 5.8(b)(2) shall be applied by substituting “1.0” for “1.25” in each place where it appears, unless the Employer Company elects to make, and does make, additional contributions sufficient to meet the requirements specified in subsection (b) hereof. Such election shall only be effective for those Plan Years in which:

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- (a) the Plan would not be a Top-Heavy Plan as defined in Section 11.2(a), above, if “ninety percent” were substituted for “sixty percent” in Section 11.2(a)(ii) and Section 11.2(d), and
 - (b) with respect to each plan described in Section 11.2(c)(i) or (ii): (1) the minimum benefit described in Code § 416(c)(2) (as modified by Code § 416(h)(2)(A)(ii)(II)) is provided by each such plan which is a defined contribution plan, and (2) the minimum benefit described in Code § 416(c)(1) (as modified by Code § 416(h)(2)(A)(ii)(I)) is provided by each such plan which is a defined benefit plan.

Section 11.7 Certain Benefits Disregarded The requirements of Section 11.3 and Section 11.4, above, must be met without taking into account contributions or benefits under Chapters 2 or 21 of the Code, Title II of the Social Security Act, or any other federal or state law.

ARTICLE XII
RETIREE MEDICAL BENEFITS

Section 12.1 Creation of Separate Account.

- (a) There is created, established and maintained under this Plan a separate account known as the Medical Benefits Account. The Trustee and Administrative Committee agree to hold and administer the Medical Benefits Account, and to receive contributions hereto, for the purpose of providing for the payment of certain medical expenses pursuant to Code § 401(h), for Retired Participants, within the meaning of Section 12.2(d), and their Covered Dependents. The separate Account shall be for record keeping purposes only. Funds contributed to the Medical Benefits Account need not be invested separately and may be invested in the Committee's discretion with funds in the funding standard account without identification of which investment properties are allocable to each account. However, where the investment properties are not allocated to each account, the earnings on such properties must be allocated between each account in a reasonable manner.
- (b)
 - (i) No part of the income or corpus of the Medical Benefits Account shall be (either within the taxable year of contribution or thereafter) used for, or diverted to, any purpose other than the providing of Medical Benefits (including the provision of any retirement benefits provided under the Plan), at any time prior to the satisfaction of all liabilities under this Plan with regard to the payment of Medical Benefits in accordance with this Article. Notwithstanding the above, the payment of any necessary or appropriate expenses attributable to the administration of the Medical Benefits Account may be made from the income or corpus of such Account.
 - (ii) Any amounts in the Medical Benefits Account which remain in such account following the satisfaction of all liabilities for the payment of Medical Benefits arising under this Article shall be returned to the Employer Companies.
- (c) No amounts shall be paid from the Plan for Medical Benefits to or on behalf of a Key Employee.

Section 12.2 Definitions. Whenever used in this Article XII, and in the Medical Benefits Schedule attached to and made a part of this Article, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

- (a) "Covered Dependent" means a Retired Participant's Spouse or Domestic Partner at the time of retirement (as described in the definition of Retired Participant), and a child of the Retired Participant who meets the following conditions:
 - (i) The child is unmarried, is the child of a Retired Participant, or the Retired Participant's Spouse, and is under 19 years of age. Said child shall be covered up to the end of the calendar year in which he attains age 19.

- (ii) The child is unmarried, is the child of a Retired Participant, or the Retired Participant's Spouse, is under 25 years of age, is dependent on the Retired Participant for his principal support and maintenance, and is a full-time student. Said child shall be covered up to the end of the calendar year in which he reaches age 25 or ceases to be a full-time student, whichever shall first occur.

The term child shall include an adopted child, step-child, or foster child who is dependent on the Retired Participant for his principal support and maintenance.

In no event will the term Covered Dependent include any person who is an eligible Retired Participant himself or herself nor any person who is employed full-time with an Employer Company. If both parents of any Covered Dependent child are eligible Retired Participants, then for the purposes of the coverage, the Covered Dependent child is considered as a Covered Dependent of only the Participant whose birth date is the earlier in the calendar year.

- (b) "Medical Benefits" means the payment of sickness, accident, hospitalization and other Medical Expenses, within the meaning of Code § 401(h), for Retired Participants and their Covered Dependents as set forth in the insurance contract or contracts between the insurance carrier or carriers and the Plan which are summarized in the Medical Benefits Schedule attached to and made a part of this Article.
- (c) "Medical Expense" means expenses for medical care as defined in Code § 213(d)(1) or any substitute therefore.
- (d) "Retired Participant" is defined, for purposes of this Article XII, as an individual who satisfies at least one of the subsections (i) through (vi):
 - (i) A Participant who (A) was actively working as an Employee until his Early, Normal or Postponed Retirement Date, or who retires pursuant to Section 13.1, (B) in the case of a Participant who first became an Employee on or after January 1, 1989, had at least ten (10) Years of Service (five (5) Years of Service in the case of a Participant retiring under the provisions of Section 13.1) and at least one Year of Service as a Participant in this Plan, and (C) retired from employment as an Employee and was thereupon immediately eligible to receive an Early, Normal or Postponed Retirement Benefit hereunder (including an Early Retirement Benefit under Section 13.1);
 - (ii) A Participant who attained his Early Retirement Date (with, in the case of a Participant who first became an Employee on or after January 1, 1989, at least 10 Years of Service at least one of which was as a Participant in this Plan) or his Normal Retirement Date (with, in the case of a Participant who first became an Employee on or after January 1, 1989, at least 5

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- Years of Service at least on of which was as a Participant in this Plan) and then dies while still employed as an Employee;
- (iii) A Participant who has at least one Year of Service, one year as a Participant in this Plan, has been an employee of an Employer Company or a Related Employer for at least 25 Years of Service (30 Years of Service for deaths prior to January 1, 2008) and then dies while still employed as such an employee shall be considered a "Retired Participant" whose Covered Dependents are eligible to receive Medical Benefits in accordance with this Article;
 - (iv) An individual who terminates employment as a result of ceasing to be eligible for his current job classification as the result of the application of a federal statutory or regulatory age limitation shall be eligible for Medical Benefits under this Article XII immediately upon termination of employment, provided, such individual has at least one Year of Service as a Participant in this Plan; or
 - (v) A Participant who terminated employment pursuant to the UPS Special Voluntary Separation Opportunity ("SVSO") on or after January 31, 2007 but prior to March 1, 2007 and who is entitled to benefits under the SVSO.
 - (vi) A Participant who (A) as of the time he terminates employment with all Employer Companies and Related Employers is a full-time Employee and has been approved for long-term disability benefits under the UPS Income Protection Plan (or a successor long-term disability benefits plan) and who remains "totally disabled" for purposes of the UPS Income Protection Plan (or successor plan) until his Early or Normal Retirement Date, (B) in the case of a Participant who first became an Employee on or after January 1, 1989, had at least ten (10) Years of Service and at least one Year of Service as a Participant in this Plan, and (C) is eligible to receive an early retirement benefit pursuant to Section 5.2(b) or a Normal Retirement Benefit;

Except as expressly provided in Sections 12.2(d)(i) through (vi) above, the following shall not be a Retired Participant:

- (A) A deferred vested Participant who terminated employment with an Employer Company prior to retirement;
- (B) An individual who first became an Employee on or after January 1, 1989 and who retired with less than 10 Years of Service with an Employer Company or less than One Year of Service as a Participant in this Plan;
- (C) An individual employed, at the time of his retirement, by an Employer Company pursuant to a collective bargaining agreement under which retirement benefits for the individual are to be

provided under this Plan, but which does not specifically state that Medical Benefits are also to be provided for said individual under this Article XII. For clarification, a member of one of the locals of the A.F.L.-C.I.O., International Association of Machinists or International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America ("IBT") identified on Appendix A hereto, which may be amended by resolution of the Administrative Committee from time to time, is employed by an Employer Company at the time of his retirement and is eligible, by reason of a collective bargaining agreement, for retirement benefits under this Plan, he shall not be eligible for Medical Benefits under this Plan;

(D) A Participant who is a Crewmember; or

(E) A Participant who is still employed by an Employer Company or Related Employer.

(e) "Grandfathered Retired Participant" means a Retired Participant within the meaning of Section 12.2(d) who is also a Grandfathered Participant within the meaning of Article I.

(f) "Key Employee" means a Retired Participant who at any time was a key employee, within the meaning of Code Section 415(i)(1), of any Employer Company, and also means the Covered Dependents of such Retired Participant.

Section 12.3 Duration of Coverage: Election to Continue Coverage

(a) Medical Benefits shall begin to be paid with respect to claims incurred by Retired Participants, or their Covered Dependents, after the date on which coverage for medical expenses ends for such individuals under the UPS Insurance Plan (or any successor health plan covering active Employees). Thereafter, and subject to subsections (b) and (c) below, Medical Benefits shall continue to be paid with respect to claims incurred up until the end of the calendar month in which the first of the following occurs:

(i) In the case of a Retired Participant, his death or;

(ii) In the case of a Covered Dependent who is the Spouse of the Retired Participant, the first to occur of (A) the divorce or legal separation of the Retired Participant and Spouse, (B) the remarriage of the Spouse following the Retired Participant's death, (C) the date upon which, following the Retired Participant's death, the Spouse becomes eligible for coverage under any other group health plan as the result of his employment, or (D) the death of the Spouse;

(iii) In the case of a Covered Dependent who is the child of the Retired Participant, the first to occur of (A) the date on which the Covered

Dependent ceases to be eligible for coverage as such, or (B) the date upon which, following the Retired Participant's death, the child becomes eligible for coverage under any other group health plan as the result of his employment, or the employment of the Retired Participant's surviving Spouse; and

- (iv) the date upon which this Plan ceases to provide Medical Benefits to all or an affected class of Retired Participants and/or Covered Dependents.
- (b) Notwithstanding the foregoing subsection (a), in the event that a Participant Contribution, as described in Section 12.10, is required to be paid with respect to Medical Benefits for any Retired Participant or Covered Dependent, payment of Medical Benefits shall cease to be made with respect to claims incurred by such individuals during any calendar month for which a Participant Contribution is due but is not timely paid. A Retired Participant may elect to discontinue Medical Benefits for his Covered Dependents (in favor of no or a reduced level of benefits as may be permitted from time to time by the Committee) by filing a form for this purpose with the Committee or its designee, and by providing such other information as the Committee or its designee shall require. In such event, payment of Medical Benefits shall cease to be made with respect to claims incurred by such Covered Dependents after the effective date of the discontinuance of coverage, or in the case of the election of a reduced level of benefits, when the applicable limitations with respect to such reduced benefit level have been exceeded or the Retired Participant (or Covered Dependent) ceases to pay any required Participant Contribution necessary to sustain the benefit level elected. The Committee may establish procedures for permitting Covered Dependents for whom Medical Benefits have been discontinued to later resume coverage, but only upon the provision of evidence satisfactory to the Committee of medical insurability.
- (c) Notwithstanding the foregoing Section 12.2(a), in certain circumstances and for a limited period of time, commencing on and after January 1, 1987, a Covered Dependent who would otherwise be ineligible for Medical Benefits under this Article due to the death or divorce of the Retired Participant, or who is no longer a Covered Dependent as defined in paragraphs (a)(i) or (ii) of Section 12.2, shall be entitled to elect to continue to be eligible for such Medical Benefits ("Continuation Coverage") upon the occurrence of the following Qualifying Events:
 - (i) In the event of the death of the Retired Participant, a Covered Dependent may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the Retired Participant's death, subject to the restrictions of subparagraph (iv).
 - (ii) In the event of the divorce of a Retired Participant from his Spouse, such Spouse may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the date upon which coverage

would otherwise cease under the terms of the Plan, subject to the restrictions of subparagraph (iv).

- (iii) Upon the attainment by a child of a Retired Participant of the date, as set forth in paragraphs (a)(i) and (ii) of Section 12.2, when he is no longer a Covered Dependent, such child may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following such date, subject to the restrictions of subparagraph (iv).
- (iv) Notwithstanding the foregoing paragraphs (i), (ii) and (iii), Continuation Coverage for a Covered Dependent shall cease upon the first to occur of the following:
 - (A) The date that such Covered Dependent becomes covered (as an employee or otherwise) under any other group health plan which does not contain any exclusion or limitation with respect to any preexisting condition of such individual.
 - (B) The date that such Covered Dependent becomes entitled to receive Medicare benefits under Title XVIII of the Social Security Act.
 - (C) The date upon which this Plan ceases to provide retiree medical benefits to any Retired Participant and his Covered Dependents, and the Employer Companies do not provide such benefits through another funding vehicle or group health plan or plans.
 - (D) The date upon which coverage ceases as a result of the Covered Dependent failing to make timely payment of the premium required pursuant to paragraph (d) of this Section.

(d) The Committee shall require the payment of a premium by a Covered Dependent for any period of Continuation Coverage, subject to the following restrictions:

- (i) The decision to require payment of a premium, and the amount of such premium, shall be applied consistently to all Covered Dependents of Retired Participants similarly situated;
- (ii) The premium shall not exceed 102 percent of the “applicable premium” for such period, as that term is defined in ERISA § 604; and
- (iii) The premium may, at the election of the Covered Dependent, be made in monthly installments.

If an election by a Covered Dependent to receive Continuation Coverage is made after the occurrence of the Qualifying Event, the Covered Dependent shall be permitted to pay for Continuation Coverage during the period preceding the election, such payment to be made within 45 days of the date of the election.

- (e) (i) The Committee, or its delegate, shall inform each Retired Participant and his Spouse (if any) of the rights provided under this Section 12.3, at the time of commencement of coverage under this Article or as otherwise provided by law.
- (ii) The Committee, or its delegate, shall notify each Covered Dependent eligible to elect Continuation Coverage of his rights under this Section 12.3 within 14 days after the Committee, or its delegate, is notified of the occurrence of a Qualifying Event as set forth in paragraph (c). Notification to a Covered Dependent who is the Spouse of the Retired Participant shall be treated as notification to all other Covered Dependents who may be eligible to elect Continuation Coverage and who reside with such Spouse at the time such notification is made.
- (f) A Covered Dependent must affirmatively elect, by a writing delivered to the Committee or its delegate, to receive Continuation Coverage. Such election must be made no later than 60 days after the later of (1) the date of the Qualifying Event or (2) the date such Covered Dependent receives notice under Section 12.3(e)(ii).

Section 12.4 Funding Method and Policy. All contributions to fund Medical Benefits provided under this Article shall be made by the Employer Companies, except those relating to (i) Continuation Coverage provided for in Section 12.3 hereof and (ii) that portion of coverage with respect to which Participant Contributions are required as provided for in Section 12.10 hereof. Subject to the restrictions of this Section 12.4 and Sections 12.5, and taking into account Participant Contributions and contributions for Continuation Coverage, the Employer Companies shall contribute to the Medical Benefits Account an annual amount which is reasonably estimated to cover the total cost of the Medical Benefits to be provided hereunder and which satisfies the general requirements applicable to deductions allowable under Code § 404 (as set forth in Treasury Regulation § 1.404(a)-1). The total cost of providing Medical Benefits shall be determined in accordance with any generally accepted actuarial method which is reasonable in view of the provisions and coverage of the Plan, the funding medium, and other applicable considerations. The amount deductible by each Employer Company on account of such contributions for any taxable year shall not exceed the greater of:

- (a) An amount determined by distributing the remaining unfunded costs of past and current service credits as a level amount, or as a level percentage of compensation, over the remaining future service of each Participant employed by the Employer Company.
- (b) 10 percent of the cost which would be required to completely fund or purchase Medical Benefits provided hereunder for the Participants employed by the Employer Company and their Covered Dependents.

In determining the amount deductible, an Employer Company must apply either paragraph (a) for all Participants or paragraph (b) for all Participants. If contributions paid by an Employer Company in a taxable year to fund Medical Benefits hereunder exceed the limitation of this Section, but otherwise satisfy the conditions for deduction under Code § 404, then the excess

contributions may be carried over in accordance with the provisions of Treasury Regulation § 1.404(a)(3)(f) and be deducted in a later year. For the purpose of applying paragraph (a), if the remaining future service of a Participant is one year or less, it shall be treated as one year.

Section 12.5 Subordination to Retirement Benefits.

- (a) It is intended that the Medical Benefits provided under this Article, when added to any Life Insurance Protection provided under this Plan be subordinate at all times to the retirement benefits provided under this Plan. Therefore, the aggregate of contributions (made after the effective date of this Article XII) for the funding of Medical Benefits pursuant to this Article XII, as well as any Life Insurance Protection, shall at no time exceed 25 percent of the aggregate contributions (made after such effective date) other than contributions to fund past service credits.
- (b) For purposes of this Section, "Life Insurance Protection" means any benefit paid under the Plan on behalf of a Participant as a result of the Participant's death to the extent such payment exceeds the amount of the reserve to provide the retirement benefits for such Participant existing at his death.

Section 12.6 Forfeitures. In the event that a Participant's interest in the Medical Benefits Account is forfeited prior to termination of such account, an amount equal to the amount of the forfeiture must be applied as soon as possible to reduce Employer contributions to fund the Medical Benefits provided under this Article.

Section 12.7 Benefits Provision. The benefits payable pursuant to this Article shall be limited to the payment of Medical Benefits for Retired Participants and their Covered Dependents. No benefit shall be provided which is not described in Code § 401(h) or the Regulations thereunder. It is anticipated that the same level of Medical Benefits shall be provided to all eligible Retired Participants, and in any event the Medical Benefits provided under this Article and the Employer contributions to fund said Benefits shall not discriminate in favor of the officers, shareholders, supervisory employees, or highly compensated employees of the Employer Companies within the meaning of Treasury Regulation § 1.401.14. The specific Medical Benefits payable shall be as described in the Medical Benefits Schedule attached to and made a part of this Article, which may be amended from time to time by action of the Board of Directors, consistent with the terms of this Article.

Section 12.8 Supervision of Account. The Administrative Committee shall have general supervision of the operation of the Medical Benefits Account and shall conduct the business of said Account, including the administration of claims, in accordance with Article IX and the other provisions of this Plan, except as otherwise provided in this Article, or in accordance with applicable law.

Section 12.9 Coordination with Employer-Maintained Group Medical Insurance for Active Participants and their Covered Dependents. Notwithstanding any other provision of this Article, if a Retired Participant, or his Covered Dependent, is eligible for Medical Benefits under this Article and also eligible for medical benefits under another group medical insurance plan

sponsored and maintained by an Employer Company for active employees and their covered dependents (for example, the UPS Insurance Plan) ("Alternate Plan"), then no Medical Benefits under this Article shall be paid. Payment of Medical Benefit under this Article shall commence on the day following the day eligibility for benefits under the Alternate Plan ceases.

Section 12.10 Participant Contributions.

- (a) The Committee may, from time to time, require Retired Participants and Covered Dependents to pay a portion of the cost of Medical Benefits as an annual contribution (a "Participant Contribution"), and shall in such event establish objective procedures for determining the amount and payment of Participant Contributions.
- (b) Effective for individuals who first become Retired Participants on or after January 1, 1993, and their Covered Dependents, an annual Participant Contribution shall be required in an amount equal to:
 - (i) the projected per-capita cost of providing Medical Benefits for Retired Participants and/or Covered Dependents, or specified classes thereof, for the Plan Year, as determined by the Committee in accordance with such reasonable nondiscriminatory procedures as it shall adopt from time to time; over
 - (ii) the Retired Participant's Defined Dollar Benefit ("DDB") balance, as described in subsection (c) or (d) below.
- (c) Subject to the rules of this Section 12.10(c), a Retired Participant will earn a DDB amount for each Year of Service with an Employer Company which will be applied to purchase Medical Benefits before the Retired Participant or his Covered Dependents become eligible for Medicare ("Pre-Medicare Eligible Coverage") and after the Retired Participant or his Covered Dependents become eligible for Medicare ("Medicare Eligible Coverage"). The DDB amount earned for each Year of Service with an Employer Company will be accumulated over the period that the Retired Participant is employed with an Employer Company as a DDB balance (the "Pre-Medicare Eligible Coverage DDB Balance" and "Medicare Eligible Coverage DDB Balance," collectively, the "DDB Balance").
- (d) A Retired Participant's DDB amount for any Year of Service after December 31, 2000 with an Employer Company will be equal to the DDB amount for the Employer Company for which the Retired Participant performed service during that Plan Year as set forth in Appendix F. If a Retired Participant performs service under more than one schedule in any Plan Year, the Retired Participant shall receive credit for his Year of Service, if any, completed in that Plan Year under the schedule with the highest DDB amount under which he has at least one Hour of Service. The DDB amount for each Year of Service with an Employer Company while it is an Employer Company completed prior January 1, 2001 shall be equal to \$250 for Pre-Medicare Eligible Coverage and \$42 for Medicare

Eligible Coverage. However, except as provided in Appendix F, no DDB amount shall be earned for Years of Service with an Employer Company that first becomes an Employer Company on or after January 1, 2001 before that Employer Company first began to offer Medical Benefits under this Plan. Except as provided Section 12.10(g)(ii), in no event shall the Pre-Medicare Eligible Coverage DDB Balance exceed \$7500 or the Medicare Eligible Coverage DDB Balance exceed \$1260. Notwithstanding the foregoing, a Grandfathered Retired Participant's DDB amount for any Year of Service (up to a maximum of \$7,500) with an Employer Company shall never be less than \$250 for Pre-Medicare Eligible Coverage and \$42 for Medicare Eligible Coverage.

- (e) The Retired Participant and his Spouse or Domestic Partner each may apply the DDB Balance to purchase Medical Benefits. If the Retired Participant has Covered Dependents who are children, they will be treated as a unit with the younger of the Retired Participant and his Spouse. If the Retired Participant does not have a Spouse or Domestic Partner, the Covered Dependents who are children will be treated as a separate unit and the Retired Participant and his Covered Dependent unit each may apply the DDB Balance to purchase Pre-Medicare Eligible Coverage or Medicare Eligible Coverage. Any unused DDB Balance may not be carried forward from one Plan Year to a future Plan Year.
- (f) The Pre-Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) prior to the calendar month in which the Retired Participant or his Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) from the first day of the calendar month in which the Retired Participant or his Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The DDB Balance of a Covered Dependent who is not a Spouse or Domestic Partner will be adjusted to the Medicare Eligible Coverage DDB Balance as of the first day of the calendar month in which the younger parent first becomes eligible for Medicare or if there is no Spouse or Domestic Partner, as of the first day of the calendar month in which the Retired Participant first becomes eligible for Medicare.
- (g) The DDB Balance credited to a Retired Participant is determined as follows:
 - (i) For a Retired Participant who did not complete at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is the sum of the DDB amounts for each of the Retired Participant's Years of Service with an Employer Company as determined under Section 12.10(d).
 - (ii) For each Grandfathered Retired Participant who completed at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is calculated as follows:

- (A) The sum of the DDB amounts for each of his Years of Service with an Employer Company as determined under Section 12.10(d) subject to the maximum DDB balance thereunder plus
- (B) Two times the DDB amount for each of his Years of Service with an Employer Company completed prior to January 1, 1993 (up to a maximum of \$15,000 for Pre-Medicare Eligible Coverage and \$2520 for Medicare Eligible Coverage).
- (iii) As a minimum, each Grandfathered Retired Participant described in Section 12.10(g)(ii) shall be credited with a minimum DDB Balance in accordance with the following table:

| <u>Age at Retirement from Employment with the Employer Company</u> | <u>Pre-Medicare Eligible</u> | <u>Minimum DDB Amount Medicare Eligible Coverage</u> |
|--|------------------------------|--|
| 65 or older | \$7500 | \$1260 |
| 64 | \$7250 | \$1218 |
| 63 | \$7000 | \$1176 |
| 62 | \$6750 | \$1134 |
| 61 | \$6500 | \$1092 |
| 60 | \$6250 | \$1050 |
| 59 | \$6000 | \$1008 |
| 58 | \$5750 | \$ 966 |
| 57 | \$5500 | \$ 924 |
| 56 | \$5250 | \$ 882 |
| 55 | \$5000 | \$ 840 |

- (h) Notwithstanding any contrary provision of this Section 12.10,
- (i) a Retired Participant hired by an Employer Company or a Related Employer on or after January 1, 2006 shall not earn a DDB amount;
- (ii) A Retired Participant hired by Overnite or by Motor Cargo after December 31, 2001 shall not earn a DDB amount;
- (iii) an LTD Participant or a Participant receiving a Disability Retirement Benefit shall not earn Year of Service credit or a DDB amount while he is a LTD Participant or is receiving a Disability Retirement Benefit; and
- (iv) an individual shall not earn a DDB amount while he is performing services for an Employer Company or a Related Employer, as a "leased employee" or who otherwise is not classified on the payroll as an employee of an

Employer Company or a Related Employer regardless of whether he is reclassified as an employee.

ARTICLE XIII
SPECIAL BENEFITS UPON VOLUNTARY TERMINATION OF EMPLOYMENT

Section 13.1 Special Early Retirement. A Participant (other than an Employee subject to a collective bargaining agreement and participating in this Plan, except to the extent so provided in the applicable collective bargaining agreement), who is actively employed by an Employer Company as of June 15, 1995, and who has not otherwise attained his Early Retirement Date shall be eligible to retire under the Early Retirement Benefit provisions of Section 4.3 and receive an Early Retirement Benefit in an amount determined under subsection 5.2(b)(ii)(C)(4) and (5) (except that for this purpose, subsection 5.2(b)(ii)(C)(4) and (5) shall be modified to provide that the reduction factor shall apply with respect to each month or partial month by which the Participant's Annuity Starting Date precedes his 55th birthday), provided that each of the following conditions is satisfied:

- (a) Eligibility Requirements. The Participant is assigned a salary grade below Grade 26 and has, prior to August 15, 1995, both attained age 50, and either (i) in the case of a Participant who is a "Highly Compensated Employee" (within the meaning of Code Section 414(q)), was hired by an Employer Company on or before August 15, 1975, or (ii) in the case of a Participant who is not a "Highly Compensated Employee," has completed at least five (5) Years of Service.
- (b) Election Requirements. An eligible Participant described in subsection 13.1(a) above must elect to retire and execute any related forms, releases or waivers prescribed for this purpose by the Company, during the period commencing on June 15, 1995, and ending on August 15, 1995. Any Participant who makes such an election must actually retire by September 1, 1995, unless an extension for a specified number of days is requested by his Employer Company.
- (c) Notwithstanding the foregoing, the following employees shall be eligible for the Special Early Retirement benefit described in this Section 13.1:
 - (i) employees of Roadnet Technologies, Inc. who were terminated as a result of the reduction in force occurring on March 1, 1995 and who satisfied the requirements of Section 13.1(a) as of March 1, 1995; and
 - (ii) employees of II Morrow, Inc. who were terminated as a result of the reduction in force occurring on February 2, 1995 and who satisfied the requirements of Section 13.1(a) as of February 2, 1995.

Section 13.2 Supplemental Retirement Benefit. A Participant (other than an Employee subject to a collective bargaining agreement and participating in this Plan, except to the extent so provided in the applicable collective bargaining agreement), who is actively employed by an Employer Company as of June 15, 1995, shall be eligible to receive a supplemental retirement benefit under the Plan following his retirement or termination of employment, provided that each of the following conditions is satisfied:

- (a) Eligibility Requirements. The Participant is assigned a salary grade below Grade 26 and is either (i) eligible to retire under the provisions of Section 4.2, 4.3 or

13.1 of the Plan, or (ii) a full-time management Employee who is employed at any division, unit, operation or facility of an Employer Company other than Region 22, including all districts therein, (Air Operations) or Region 20 - District 29 (Information Services, New Jersey).

- (b) Election Requirements. An eligible Participant described in subsection 13.2(a) above must elect to retire or voluntarily terminate employment and execute any related forms, releases or waivers prescribed for this purpose by the Company, during the period commencing on June 15, 1995, and ending on August 15, 1995. Any Participant who makes such an election must actually retire or terminate by September 1, 1995, unless an extension for a specified number of days is requested by his Employer Company.
- (c) Amount of Benefit. Any eligible Participant who satisfies the election requirements of subsection 13.2(b) above, shall be entitled to receive a supplemental retirement benefit at his Normal Retirement Date, the amount of which shall be determined as follows:
- (i) First, a weekly rate of basic salary or wages shall be determined based upon the rate of basic salary or the hourly wage rate in effect on the last day of the Participant's active employment. Such weekly rate of basic salary for a salaried Participant shall equal basic monthly salary divided by 4.33. Such weekly rate of basic wages for a Participant who is an hourly-paid Employee shall equal the product of the basic hourly wage rate and forty (40) hours, if the Participant is a full-time Employee, or twenty (20) hours if the Participant is a part-time Employee. For purposes of the foregoing, a part-time employee shall be defined to include those employees with an employment code of "K," "E" or "D" as of June 15, 1995.
- (ii) Second, the Participant's weekly rate of basic salary or wages shall be multiplied by the number of weeks with which he is credited as follows:
- (A) Base Credit. Each eligible Participant shall receive 4.33 weeks of credit, regardless of his length of service.
- (B) Additional Credit. In addition, each eligible Participant shall be credited with two (2) weeks for each full year of employment by an Employer Company, measured by each twelve (12) month anniversary date from date of hire, and excluding any fractional year, up to a maximum of forty (40) weeks of such additional credit.
- (iii) Third, for eligible Participants who are covered by the UPS Managers Incentive Plan, an amount equal to the product of (i) and (ii), where (i) is the product of (A) the eligible Participants weekly rate of basic salary or

- wages, (B) 4.33 and (C) 1.25 and (ii) is a fraction, the numerator of which is eight (8) and the denominator of which is twelve (12).
- (iv) Fourth, the sum of the amounts described in subsection 13.2(c)(ii) and (iii) above shall be increased each year by the percentage rate(s) of interest described in subsection 5.7(c), from the first day of the month following the last day on which the Participant was actively employed until his Normal Retirement Date.
 - (v) Fifth, the lump sum amount described in subsection 13.2(c)(iv) above shall be converted to a Single Life Only Annuity using, for conversion purposes, the 1971 Towers, Perrin, Forster and Crosby Forecast Mortality Table and the interest rate(s) described in subsection 5.7(c), provided, however, that for participants whose distributions commence on or before December 31, 1995, the interest rate will be the greater of the interest rate set forth in subsection 5.7(c) or such rate as was in effect as of January 1, 1995. Such Single Life Only Annuity (consisting of monthly payments commencing at Normal Retirement Date) shall hereafter be referred to as the "Supplemental Retirement Benefit."
- (d) Form of Benefit. If an eligible Participant is not married as of his Supplemental Retirement Benefit commencement date, the normal form of payment of such benefit will be a Single Life Only Annuity, commencing on his Normal Retirement Date. If an eligible Participant is married as of his Supplemental Retirement Benefit commencement date, the Normal Form of payment of his Supplemental Retirement Benefit will be a Qualified Joint and Survivor Benefit, commencing on his Normal Retirement Date, and the amount of his monthly Supplemental Retirement Benefit will be reduced in the manner described in subsection 1.1(b).
- (e) Alternate Benefit Elections. Each eligible Participant may elect, subject to the spousal consent provisions contained in Section 5.4(b), either (i) to receive his Supplemental Retirement Benefit in any of the forms permitted under Article V as soon as practicable following his termination of employment or as of an Early or Normal Retirement Date, if later, or (ii) in the form of an immediate single lump sum payment equal to the greater of (A) the actuarial equivalent present value of the monthly Supplemental Retirement Benefit, or (B) the sum of the amounts described in subsection 13.2(c)(ii) and (iii) above. (For purposes of the preceding sentence, actuarial equivalence will be determined by use of the mortality table referenced in Section 13.2(c)(v) and the rate(s) of interest described in subsection 5.7(c), provided, however, that for participants whose distributions commence on or before December 31, 1995, the interest rate will be the greater of the interest rate set forth in subsection 5.7(c) or such rate as was in effect as of January 1, 1995). Notwithstanding the foregoing, in the event that an eligible Participant's Supplemental Retirement Benefit is to be paid as an annuity, the actual form of annuity payment shall be that form which is in effect for the payment of the eligible Participant's Normal or Early Retirement Benefit, if any.

Section 13.3 Legal Compliance. Notwithstanding the foregoing, the eligibility of Participants who are “Highly Compensated Employees” (within the meaning of Code Section 414(q)) for the special benefits provided under this Article XIII (and/or the amount of such benefits) shall be limited to the extent required to satisfy the applicable nondiscrimination requirements of the Code.

THE UPS RETIREMENT PLAN
APPENDIX A
LOCALS NOT ENTITLED TO RETIREE MEDICAL BENEFITS

In accordance with Section 12.2(d) of the UPS Retirement Plan, the following is a list of locals of the A.F.L.-C.I.O, the International Association of Machinists and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America ("IBT") the members of which are entitled to Benefit Service towards retirement benefits hereunder, but not Medical Benefits under Articles XII of the Plan:

- 1) Southern Ohio district:
 - (i) IBT Local 92 (center clerks)
 - (ii) IBT Local 100 (center clerks)
 - (iii) IBT Local 651 (center clerks)
 - (iv) Office and Professional Employees International, A.F.L.-C.I.O., Local 98 (full-time clerical employees hired prior to December 31, 1985)

- 2) Central Ohio district:
 - (i) IBT Local 20 (center clerks)
 - (ii) IBT Local 40 (center clerks)
 - (iii) IBT Local 413 (center clerks)
 - (iv) IBT Local 637 (center clerks)
 - (v) IBT Local 908 (center clerks)
 - (vi) IBT Local 957 (center clerks)

- 3) Northern Ohio district:
 - (i) IBT Local 92 (center clerks)
 - (ii) IBT Local 348 (center clerks)
 - (iii) IBT Local 377 (center clerks)
 - (iv) IBT Local 407 (center clerks and Delivery Information center clerks)
 - (v) IBT Local 571 (center clerks)
 - (vi) International Association of Machinists, Local 1363 (part-time)

THE UPS RETIREMENT PLAN
APPENDIX B
FACTORS FOR RETIREES IN PAY STATUS AS OF SEPTEMBER 1, 1979

The following table sets forth factors, by year of retirement, death or disability, to be utilized pursuant to subparagraph 5.1(c)(iii)(B) of the Plan, to determine the benefit payable pursuant to paragraph 5.1(c) of the Plan.

| <u>Year</u> | <u>Applicable Factor</u> |
|-------------|--------------------------|
| 1961 | 2.00 |
| 1962 | 1.97 |
| 1963 | 1.93 |
| 1964 | 1.90 |
| 1965 | 1.85 |
| 1966 | 1.77 |
| 1967 | 1.70 |
| 1968 | 1.60 |
| 1969 | 1.47 |
| 1970 | 1.34 |
| 1971 | 1.25 |
| 1972 | 1.19 |
| 1973 | 1.07 |
| 1974 | .88 |
| 1975 | .73 |
| 1976 | .65 |
| 1977 | .56 |
| 1978 | .46 |
| 1979 | .32 |

THE UPS RETIREMENT PLAN
APPENDIX C
FACTORS FOR RETIREES IN PAY STATUS AS OF JANUARY 1, 1985

The following table sets forth factors, by year of retirement, death or disability, to be utilized pursuant to subparagraph 5.1(d)(iii)(B) of the Plan, to determine the benefit payable pursuant to Paragraph 5.1(d) of the Plan.

| <u>Year</u> | <u>Applicable Factor</u> |
|-------------|--------------------------|
| 1961 | 2.60 |
| 1962 | 2.56 |
| 1963 | 2.52 |
| 1964 | 2.48 |
| 1965 | 2.42 |
| 1966 | 2.34 |
| 1967 | 2.25 |
| 1968 | 2.13 |
| 1969 | 1.98 |
| 1970 | 1.83 |
| 1971 | 1.72 |
| 1972 | 1.64 |
| 1973 | 1.50 |
| 1974 | 1.28 |
| 1975 | 1.11 |
| 1976 | 1.01 |
| 1977 | .90 |
| 1978 | .79 |
| 1979 | .63 |
| 1980 | .46 |
| 1981 | .35 |
| 1982 | .29 |
| 1983 | .26 |
| 1984 | .23 |

Effective January 1, 1996:

**THE UPS RETIREMENT PLAN
APPENDIX D
ADDITIONAL MONTHLY RETIREMENT BENEFIT**

Pursuant to this Appendix D, the following list of Employees, identified by Social Security number, shall be entitled to receive the corresponding Additional Monthly Retirement Benefits, in accordance with the terms and conditions of Section V of the Plan.

[INFORMATION EXCLUDED]

Criteria used to determine the group of Employees eligible for, and the amount of, the Additional Monthly Retirement Benefits shall comply with all provisions of the Code including Code §401(a)(4) and §415.

**THE UPS RETIREMENT PLAN
APPENDIX E**

FORMER ROLLINS EMPLOYEES

Former Rollins Employees. Notwithstanding any contrary provision of this Plan, any Employee who was employed by Rollins Logistics, Inc. Rollins Dedicated Carriage Services, Inc. or Rollins Transportation Systems, Inc. (each, "Rollins") and is identified at the end of this Appendix E as a "transfer employee" pursuant to Section 5.7 of that certain Asset Purchase Agreement dated November 12, 1999 by and among Worldwide Dedicated Services, Inc., Rollins Truck Leasing Corp., Rollins Logistics, Inc. Rollins Dedicated Carriage Services, Inc. and Rollins Transportation Systems, Inc. shall receive credit for all service completed with Rollins or any person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with Rollins (a "Rollins Affiliate") or any predecessor to Rollins for purposes of the following:

- (a) eligibility requirements described in Section 2.1;
- (b) eligibility for a Deferred Vested Benefit as described in Section 4.4;
- (c) eligibility for an Early Retirement Benefit as described in Article V; and
- (d) eligibility for retiree medical benefits described in Article XII.

Under no circumstances will service with Rollins, a Rollins Affiliate or a predecessor of Rollins be counted as Benefit Service or for purposes of determining the amount of the Participant Contribution for or the amount of retiree medical benefits under Article XII

| Name | Rollins DOE | WDS DOE | Termination Date | Vested as of 8/02 |
|-------------------------------|-------------|---------|------------------|-------------------|
| [INFORMATION EXCLUDED] | | | | |

**THE UPS RETIREMENT PLAN
APPENDIX F-1**

RPA POINTS AND DDB AMOUNTS

This Appendix F-1 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

Employer Companies

The Employer Companies subject to this Appendix F-1 are as follows:

| <u>Name of Employer Company</u> | <u>Date of Participation</u> | <u>Date Participation Ceased</u> |
|---|------------------------------|--------------------------------------|
| United Parcel Service | | |
| Trailer Conditioners, Inc. | January 1, 2001 | |
| United Parcel Service Co. | January 1, 2001 | |
| United Parcel Service General Services Co. | January 1, 2001 | |
| UPS Fuel Services, Inc. (UPS Aviation Services, Inc. prior to January 1, 2003) | January 1, 2001 | |
| UPS International General Services Co. | January 1, 2001 | |
| UPS Procurement Services Corporation | January 1, 2001 | |
| UPS Worldwide Forwarding, Inc. | January 1, 2001 | |
| United Parcel Service, Inc. (Ohio) | January 1, 2001 | |
| BT Realty Holdings, Inc. | January 1, 2001 | |
| United Parcel Service, Inc. (NY) | January 1, 2001 | |
| BT Realty Holdings II, Inc. | January 1, 2001 | |
| UPS Latin America, Inc. | January 1, 2001 | |
| United Parcel Service of America, Inc. | January 1, 2001 | |

RPA Points

| | |
|---------------------------------|--------------------------------|
| Alternative Points: | 20 per year of Benefit Service |
| Alternative-PLUS Points: | 5 per year of Benefit Service |
| Integrated Points: | 12 per year of Benefit Service |
| Integrated-PLUS Points: | 4 per year of Benefit Service |

| | Annual DDB Amount per Year of Service* |
|--|--|
| Pre- Medicare Eligible Coverage | \$250 per Year |
| Medicare Eligible Coverage | \$42 per Year |

* Year of Service means a Year of Service with an Appendix F-1 Employer Company while it was an Appendix F-1 Employer Company.

**THE UPS RETIREMENT PLAN
APPENDIX F-2**

RPA POINTS AND DDB AMOUNTS

This Appendix F-2 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

Employer Companies

The Employer Companies subject to this Appendix F-2 are as follows:

| <u>Name of Employer Company</u> | <u>Effective Date of RPA Schedule</u> | <u>Date Participation Ceased</u> |
|---|---|--|
| UPS Capital Corporation | January 1, 2001 | |
| UPS Capital Insurance Agency, Inc. (Glenlake Insurance Agency, Inc. prior to August 12, 2002) | January 1, 2001 | |
| UPS Capital Insurance Agency, Inc. of California (Glenlake Insurance Agency, Inc. of California prior to August 13, 2002) | January 1, 2001 | |

RPA Points

| | |
|---------------------------------|--------------------------------|
| Alternative Points: | 12 per year of Benefit Service |
| Alternative-PLUS Points: | 5 per year of Benefit Service |
| Integrated Points: | 8 per year of Benefit Service |
| Integrated-PLUS Points: | 4 per year of Benefit Service |

Annual DDB
Amount per Year
of Service*

| | |
|---------------------------------------|-----|
| Pre-Medicare Eligible Coverage | \$0 |
|---------------------------------------|-----|

| | |
|-----------------------------------|-----|
| Medicare Eligible Coverage | \$0 |
|-----------------------------------|-----|

* Year of Service means a Year of Service with an Appendix F-2 Employer Company while it was an Appendix F-2 Employer Company.

**THE UPS RETIREMENT PLAN
APPENDIX F-3**

RPA POINTS AND DDB AMOUNTS

This Appendix F-3 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

Employer Companies

The Employer Companies subject to this Appendix F-3 are as follows:

| <u>Name of Employer Company</u> | <u>Effective Date of RPA Schedule</u> | <u>Date Participation Ceased</u> |
|---|---|---|
| Pax Logistics International, Ltd. | January 1, 2001 | |
| UPS Logistics Technologies, Inc. (f/k/a Roadnet Technologies, Inc.) | January 1, 2001 | |
| UPS Supply Chain Solutions, Inc. (f/k/a UPS Worldwide Logistics and including Diversified Trimodal, Inc. d/b/a merged 12/31/02) | January 1, 2001 | |
| Diversified Trimodal, Inc. d/b/a merged 12/31/02) | January 1, 2001 | December 31, 2002 (Through series of mergers became part of UPS Supply Chain Solutions, Inc.) |
| Worldwide Dedicated Services, Inc. | January 1, 2001 | |

RPA Points

| | |
|---------------------------------|-------------------------------|
| Alternative Points: | 5 per year of Benefit Service |
| Alternative-PLUS Points: | 4 per year of Benefit Service |
| Integrated Points: | 4 per year of Benefit Service |
| Integrated-PLUS Points: | 4 per year of Benefit Service |

| | Annual DDB Amount per Year of Service* |
|---|--|
| Pre-Medicare Eligible Coverage | \$0 |
| Medicare Eligible Coverage | \$0 |

* Year of Service means a Year of Service with an Appendix F-3 Employer Company while it was an Appendix F-3 Employer Company.

**THE UPS RETIREMENT PLAN
APPENDIX F-4**

RPA POINTS AND DDB AMOUNTS

This Appendix F-4 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

Employer Companies

The Employer Companies subject to this Appendix F-4 are as follows:

| <u>Name of Employer Company</u> | <u>Effective Date of RPA Schedule</u> | <u>Date Participation Ceased</u> |
|---|---|--|
| UPS Aviation Technologies, Inc. (f/k/a II Morrow. Sold to Garmin International, Inc. 8/22/03) | January 1, 2001 | August 22, 2003 |

RPA Points

| | |
|---------------------------------|-------------------------------|
| Alternative Points: | 5 per year of Benefit Service |
| Alternative-PLUS Points: | 4 per year of Benefit Service |
| Integrated Points: | 4 per year of Benefit Service |
| Integrated-PLUS Points: | 4 per year of Benefit Service |

| | Annual DDB Amount per Year of Service* |
|---------------------------------------|--|
| Pre-Medicare Eligible Coverage | \$0 |
| Medicare Eligible Coverage | \$0 |

* Year of Service means a Year of Service with an Appendix F-4 Employer Company while it was an Appendix F-4 Employer Company.

**THE UPS RETIREMENT PLAN
APPENDIX F-5**

RPA POINTS AND DDB AMOUNTS

This Appendix F-5 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

Employer Companies

The Employer Companies subject to this Appendix F-5 are as follows:

| <u>Name of Employer Company</u> | <u>Effective Date of RPA Schedule</u> | <u>Date Participation Ceased</u> |
|---------------------------------|---|--|
| UPS Customhouse Brokerage | January 1, 2001 | |

RPA Points

| | |
|---------------------------------|-------------------------------|
| Alternative Points: | 5 per year of Benefit Service |
| Alternative-PLUS Points: | 4 per year of Benefit Service |
| Integrated Points: | 4 per year of Benefit Service |
| Integrated-PLUS Points: | 4 per year of Benefit Service |

| | <u>Annual DDB Amount per Year of Service*</u> |
|---------------------------------------|---|
| Pre-Medicare Eligible Coverage | \$0 |
| Medicare Eligible Coverage | \$0 |

* Year of Service means a Year of Service with an Appendix F-5 Employer Company while it was an Appendix F-5 Employer Company.

**THE UPS RETIREMENT PLAN
APPENDIX F-6**

DDB AMOUNTS

This Appendix F-6 shall apply to each Participant who is employed by one or more of the Employer Companies listed below whose initial date of hire by such Employer Company was prior to January 1, 2002 and who retires on or after July 1, 2006.

Employer Companies

The Employer Companies subject to this Appendix F-6 are as follows:

| <u>Name of Employer Company</u> | <u>Effective Date of Participation</u> | <u>Date Participation Ceased</u> |
|--|--|--|
| UPS Ground Freight, Inc. | May 1, 2006 | |
| Overnite Transportation Company (for periods before May 1, 2006, changed name to UPS Ground Freight, Inc. May 1, 2006, including Motor Cargo Distribution Services, Inc. merged May 1, 2006) | January 1, 2006 | April 30, 2006 |
| Overnite Corporation (for periods before May 1, 2006) | January 1, 2006 | April 30, 2006 |
| Motor Cargo Industries, Inc. (including Motor Cargo, merged May 1, 2006) | January 1, 2006 | April 30, 2006 |

Annual DDB
Amount per Year of
Service¹

| | |
|---------------------------------------|--|
| Pre-Medicare Eligible Coverage | \$135 (Effective for all Years of Service with the Employer Companies subject to this Appendix F-6, except Years of Service with Motor Cargo prior to January 1, 2006 shall not be included) |
| Medicare Eligible Coverage | \$0 |

¹ **Year of Service means each year of service for vesting purposes completed with an Appendix F-6 Employer Company, without regard to whether it was an Employer Company when such service was completed.**

**THE UPS RETIREMENT PLAN
APPENDIX F-7**

PORTABLE ACCOUNT FORMULA

Employer Companies participating in Portable Account Formula Schedule A:

Trailer Conditioners, Inc.
United Parcel Service Co.
United Parcel Service General Services Co.
UPS Fuel Services, Inc. (UPS Aviation Services, Inc. prior to January 1, 2003)
UPS International General Services Co.
UPS Procurement Services Corporation
UPS Worldwide Forwarding, Inc.
United Parcel Service, Inc. (Ohio)
BT Realty Holdings, Inc.
United Parcel Service, Inc. (NY)
BT Realty Holdings II, Inc.
UPS Latin America, Inc.
United Parcel Service of America, Inc.
UPS Capital Corporation
UPS Capital Insurance Agency, Inc. (Glenlake Insurance Agency, Inc. prior to August 12, 2002)
UPS Capital Insurance Agency, Inc. of California (Glenlake Insurance Agency, Inc. of California prior to August 13, 2002)
UPS Ground Freight, Inc.
UPS Ground Freight, Inc. (formerly Overnite Transportation Company (for periods before May 1, 2006)
Overnite Corporation (for periods before May 1, 2006)
Motor Cargo Industries, Inc. (including Motor Cargo merged May 1, 2006)

Employer Companies participating in Portable Account Formula Schedule B:

Pax Logistics International, Ltd.
UPS Logistics Technologies, Inc. (f/k/a Roadnet Technologies, Inc.)
UPS Supply Chain Management, Inc. (f/k/a UPS Worldwide Logistics)
UPS Supply Chain Management, Inc. (including Diversified Trimodal, Inc. (d/b/a Martrac)
Worldwide Dedicated Services, Inc.
UPS Customhouse Brokerage

| Portable Account Points as of January 1 | Portable Account Formula Schedule A | Portable Account Formula Schedule B |
|--|--|--|
| Less than 35 | 5.0% | 2.5% |
| 35-54 | 6.0% | 3.0% |
| 55-74 | 7.0% | 4.0% |
| 75 or more | 8.0% | 5.0% |

**THE UPS RETIREMENT PLAN
APPENDIX G**

LIST OF EMPLOYER COMPANIES WITH UPS FREIGHT FORMULA

Motor Cargo
Overnite Transportation Company
Overnite Corporation
UPS Ground Freight, Inc.

**THE UPS RETIREMENT PLAN
APPENDIX H
EMPLOYER COMPANIES
EFFECTIVE JULY 1, 2006**

| <u>Company Name</u> | <u>Effective Date of Participation</u> | <u>Effective Date of Participation Cessation</u> |
|---|--|--|
| BT Realty Holdings II, Inc. | May 18, 1999 | |
| BT Realty Holdings, Inc. | May 12, 1999 | |
| Diversified Trimodal, Inc. (b/d/a Martrac) | January 1, 1980 | |
| Pax Logistics International, Ltd. | May 18, 1998 | |
| Trailer Conditioners, Inc. | March 22, 1982 | |
| UPS Capital Insurance Agency, Inc. (Glenlake Insurance Agency, Inc. prior to August 12, 2002) | July 29, 1998 | |
| UPS Capital Insurance Agency, Inc. of California (Glenlake Insurance Agency, Inc. of California prior to August 13, 2002) | August 10, 1999 | |
| United Parcel Service Co. | September 1, 1961 | |
| United Parcel Service General Services Co. | September 1, 1961 | |
| United Parcel Service of America, Inc. | September 1, 1961 | |
| United Parcel Service, Inc. (NY) | September 1, 1961 | |
| United Parcel Service, Inc. (Ohio) | September 1, 1961 | |
| UPS Aviation Technologies, Inc (f/k/a II Morrow) | December 29, 1986 | |
| UPS Capital Corporation | May 28, 1998 | |
| UPS Customhouse Brokerage | April 1, 1985 | |
| UPS Fuel Services, Inc. (UPS Aviation Services, Inc. prior to January 1, 2003) | February 7, 1989 | |
| UPS Ground Freight, Inc. | May 1, 2006 | |
| UPS International General Services Co. | August 12, 1998 | |
| UPS Latin America, Inc. | November 12, 1993 | |
| UPS Logistics Technologies, Inc. (f/k/a Roadnet Technologies, Inc.) | May 12, 1986 | |
| | | December 31, 2002 (Merged into UPS Supply Chain Management, Inc. December 31, 2002) Dissolved December 31, 2002 |
| | | Sold to Garmin International, Inc. August 22, 2003 |

| <u>Company Name</u> | <u>Effective Date of Participation</u> | <u>Effective Date of Participation Cessation</u> |
|---|--|--|
| UPS Procurement Services Corporation | September 9, 1997 | |
| UPS Supply Chain Management, Inc. (f/k/a UPS Worldwide Logistics) | December 18, 1992 | Merged into UPS Logistics Group, Inc. December 31, 2002 |
| UPS Truck Leasing, Inc. | September 11, 1981 | |
| UPS Worldwide Forwarding, Inc. | August 12, 1988 | |
| Worldwide Dedicated Services, Inc. | June 9, 1995 | |
| Motor Cargo | January 1, 2006 | Sold to Rollins Leasing Corp. January 1, 2000. |
| Overnite Transportation Company | January 1, 2006 | May 1, 2006 (merged with UPS Ground Freight, Inc. May 1, 2006) |
| Overnite Corporation | January 1, 2006 | May 1, 2006 (merged with UPS Ground Freight, Inc. May 1, 2006) |
| UPS Ground Freight, Inc. | May 1, 2006 | May 1, 2006 (merged with UPS Ground Freight, Inc. May 1, 2006) |
| UPS Logistics Group, Inc. | December 31, 2002 | |

**THE UPS RETIREMENT PLAN
APPENDIX I**

SPECIAL OPL RETIREMENT BENEFIT

Section 1 Special OPL Retirement Benefit. Notwithstanding any other provision in this Plan, the provisions in this Appendix I shall apply to the terms of the participation of any Grandfathered OPL Participant to the extent that such provisions are different from or supplement the provisions otherwise set forth in the Plan.

Section 2 Definitions.

- (a) "Compensation" generally has the same meaning set forth Article I of the Plan; however, for a Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to this Section, Compensation shall also include remuneration actually paid by OPL to such Grandfathered OPL Participant for the applicable year to the extent such remuneration was included as "compensation" under the OPL Plan.
- (b) "Employer Company" generally has the same meaning set forth in Article I of the Plan; however, solely with respect to a Grandfathered OPL Participant, OPL also shall be considered an Employer Company.
- (c) "Grandfathered OPL Participant" means a former participant in the OPL Plan who is listed below:

[INFORMATION EXCLUDED]

- (d) "Hour of Service" generally has the same meaning set forth Article I of the Plan; however, for a Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to this Section, an Hour of Service shall also include an hour of service with OPL and any employer that would be considered a single employer with OPL under Code §414(b), (c), (m) and (o) to the extent such hour of service was included as an "hour of service" under the OPL Plan.

Solely for purposes of entitlement to retiree medical benefits under Article XII of the Plan, including the determination of whether such Grandfathered OPL Participant is a Grandfathered Retired Participant, each Grandfathered OPL Participant shall be deemed to have an Hour of Service for each "hour of service" he was credited with under the OPL Plan.

- (e) "OPL" means the Overseas Partners Ltd, Overseas Partners Capital Corporation and any other employer that participated in the OPL Plan on March 1, 2002.
- (f) "OPL Minimum Benefit" means the protected minimum benefit described in Section 4 of this Appendix.

- (g) “OPL Plan” means the Overseas Partners Ltd. and Subsidiaries Retirement Plan, as amended and restated effective as of January 1, 2000, and as further amended through April 15, 2001.

Section 3 OPL RPA Point Service Assumption. A Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to Section 2 of this Appendix shall be subject to Appendix F-1 with respect to his RPA Point accrual until the later of January 1, 2001 or his actual reemployment commencement date with an Employer Company without regard to Section 2(b) of this Appendix. Beginning on the later of January 1, 2001 or his actual reemployment commencement date without regard to Section 2(b) of this Appendix, a Grandfathered OPL Participant will accrue RPA Points under the applicable Appendix covering the Employer Company with which he is employed.

Section 4 Grandfathered OPL Benefit.

- (a) OPL Benefits in Pay Status on March 1, 2002. With respect to any Grandfathered OPL Participant whose retirement benefit under the OPL Plan was in pay status on March 1, 2002, payment of such benefit shall continue under this Appendix for payments due on or after April 1, 2002 in the same amount and benefit form as set forth below, which is the benefit being paid from the OPL Plan on February 28, 2002:

OPL Benefits in Pay Status on March 1, 2002

| Participant | Monthly Benefit | Form |
|-------------|-----------------|------|
|-------------|-----------------|------|

[INFORMATION EXCLUDED]

OPL Minimum Accrued Benefit

| Participants | Total Monthly Benefit Accrued Benefit |
|--------------|---------------------------------------|
|--------------|---------------------------------------|

[INFORMATION EXCLUDED]

- (b) OPL Minimum Benefit. The accrued benefit of a Grandfathered OPL Participant shall never be less than the Grandfathered OPL Participant’s OPL Minimum Benefit, which is the OPL Minimum Accrued Benefit in Section 4(b)(i) adjusted by the applicable Grandfathered Actuarial Factors in Section 4(b)(ii) and, if applicable, the applicable early retirement reduction factors set forth in Section 5.2(b)(ii)(C)(4) of the Plan or the early commencement reduction factor set forth in Section 5.2(c)(ii)(A)(6)(b) of the Plan, each determined without regard to whether such Grandfathered OPL Participant has an Hour of Service as an Employee on or after January 1, 1992 and based upon such Grandfathered OPL Participant’s years of “benefit service” under the OPL Plan on February 28, 2002.
- (i) OPL Minimum Accrued Benefit. The OPL Minimum Accrued Benefit of a Grandfathered OPL Participant is set forth in Section 4(a) above, which is the Grandfathered OPL Participant’s monthly benefit under the OPL Plan payable at Normal Retirement Date in the Normal Form determined as if such Grandfathered OPL Participant had terminated employment

with UPS and OPL on the earlier of February 28, 2002 or the date he last actually terminated employment with UPS and OPL.

Termination of employment with UPS and OPL for the purpose of Section 4(b) of this Appendix means the termination of employment with all Employer Companies and Related Employers as well as OPL and all employers that would be considered a single employer with OPL under Code § 414(b), (c), (m) and (o).

(c) Grandfathered Actuarial Factors

- (i) Actuarial Equivalent. For purposes of determining a Grandfathered OPL Participant's OPL Minimum Benefit, the Actuarial Equivalent factors are as follows:
- (A) For the annuity benefit set forth in Section 4(b)(iii)(A), an interest rate of 7.5 percent and the 1983 GAM mortality table (blended 50 percent male, blended 50 percent female).
- (B) For the annuity benefit set forth in Section 4(b)(i),
- with respect to the Qualified Joint and Survivor Benefit, 90 percent of the Participant's monthly benefit payable in the Normal Form determined under Section 5.2(a), Section 5.2(b) or Section 5.2(c) increased (or decreased) by 0.5 percent for each year the Spouse's or beneficiary's age is greater (or less) than the Participant's age, with no minimum but to a maximum of 99 percent.
- with respect to the Single Life Annuity with 120-Month Guarantee, 95 percent of the Participant's monthly benefit payable in the Normal Form.
- (iii) Special Optional Forms of Benefit Limited to OPL Minimum Benefit
- (A) UPS Retirement Plan Termination. Subject to the rules set forth in Section 5.3 of the Plan, a Grandfathered OPL Participant, upon the termination of the UPS Retirement Plan, shall have the option to receive the Present Value of the Grandfathered OPL Participant's accrued benefit in the OPL Plan defined in Section 4(b)(i) determined as if such Grandfathered OPL Participant had terminated employment with UPS and OPL on the earlier of February 28, 2002 or the date he last actually terminated employment with UPS and OPL in a single cash lump sum payment or an immediate annuity which shall be the Actuarial Equivalent value of the benefit defined in Section 4(b)(i) determined as described above.
- (B) Present Value. For purposes of this Section, Present Value means the value of the Normal Form of benefit payment based the mortality table the Secretary of the Treasury prescribes, based on

the prevailing commissioners' standard table (described in Code § 807(d)(5)(A)) used to determine reserves for group annuity contracts issued on the date as of which present value is being determined (without regard to any other subparagraph of Code § 807(d)(5)) and, for benefits paid on or before March 31, 2003, the annual rate of interest on 30 year Treasury securities for the month before the date of distribution or the Applicable Interest Rate, whichever rate produces the greater amount, and, for benefits paid on and after April 1, 2003, the Applicable Interest Rate.

**UPS RETIREMENT PLAN
APPENDIX J**

**UPS FREIGHT/OVERNITE SUPPLEMENTAL BENEFIT SCHEDULE
EFFECTIVE JANUARY 1, 2006**

The provisions of this Appendix J will apply only to Grandfathered Overnite Participants and certain UPS Freight/Overnite Participants. References to Articles and Sections are to Articles and Sections of this Appendix J unless otherwise expressly indicated.

DEFINITIONS

Wherever used herein or in the main text of the Plan with respect to an Overnite Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix J or in the main text of the Plan, is not defined herein it will have the same meaning assigned to such term in the main text of the Plan.

“Active Participant” means as of any point in time, an Overnite Participant who at that point is or was eligible to accrue a benefit under either the Overnite Plan or this Plan, as applicable.

“Benefit Service” as defined in the main text of the Plan shall include

- (a) each full year of “credited service” completed on or before December 31, 2005; other than service that is disregarded under Section 9.02 of the Overnite Plan; and
- (b) for each Overnite Participant who completed at least one “hour of service” during his “computation period” for “credited service” that began in 2005, one year of Benefit Service.

The terms “credited service,” “computation period,” and “hour of service” have the meaning assigned to such terms in the Overnite Plan.

“Compensation” means for purposes of determining Final Average Compensation for benefits the Annuity Starting Date for which is on or after January 1, 2006 with respect to Plan Years beginning prior to January 1, 2006 included in such average, “Compensation” as defined in Treasury Regulation § 1.415-2(d)(2) paid by Overnite or an “affiliated company” (as defined in Section 2.03 of the Overnite Plan) to an Overnite Employee, including, any elective deferral (as defined in Code § 402(g)(3)) and any elective contribution or elective deferral that is excluded from gross income under Code §§ 125, 132(f)(4), 414(v)(2) or 457. Notwithstanding the foregoing, Compensation shall exclude amounts described in (1)-(6) below:

- (1) Contributions made by Overnite or an “affiliated company” to a plan of deferred compensation to the extent that, before the application of Code § 415 limitations to that plan, the contributions are not includable in the gross income of the Overnite Employee for the taxable year in which contributed, as described in Treasury § 1.415-2(d)(3)(i).

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- (2) Amounts realized from the exercise of a nonqualified stock option, as described in Treasury Regulation § 1.415-2(d)(3)(ii).
 - (3) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option, as described in Treasury Regulation § 1.415-2(d)(3)(iii).
 - (4) Other amounts which receive special tax benefits, as described in Treasury Regulation § 1.415-2(d)(3)(iv).
 - (5) Effective January 1, 2000, amounts paid from any plan of deferred compensation, including but not limited to the Executive Incentive Premium Exchange Program of Union Pacific Corporation and its Subsidiaries.
 - (6) Amounts paid from the Union Pacific Corporation 2001 Long-Term Incentive Plan, amounts attributable to any forgiveness of a loan under the Union Pacific Corporation Executive Stock Purchase Incentive Plan and any other amount payable for services performed or performance achieved for a period longer than one Plan Year.

“Disability Retirement Date” means for purposes of this Appendix, the first date prior to the earlier of Overnite Participant’s Normal Retirement Date or July 1, 2006 on which he has suffered a Total Disability and he has had a termination of employment due to such Total Disability; provided, however, that an Overnite Participant shall not have a Disability Retirement Date for purposes of this Appendix unless, at the time his Total Disability occurs, he is an Active Participant and has completed 10 or more Years of Vesting Service.

“Disabled Participant” means a UPS Freight/Overnite Participant who has a Total Disability.

“Overnite Employee” means (a) when used with reference to any Plan Year before 2006, a “covered employee” as defined in Section 2.16 of the Overnite Plan and (b) when used with reference to any Plan Year beginning on or after January 1, 2006, an Employee (as defined in the main text of the Plan, without regard to the second paragraph of such definition) employed by Overnite or UPS Ground Freight, Inc. (“UPS Freight”) who has an Hour of Service with Overnite or UPS Freight on or after January 1, 2006 and who is not a participant in or covered under any other qualified defined benefit plan to which Overnite currently makes contributions on his behalf.

“Overnite Participant” means depending on the context, an Overnite Employee who was a participant in the Overnite Plan or has satisfied the participation requirements of Article II of the main text of the Plan.

“Total Disability” or “Totally Disabled” means a disability due to bodily injury or physical or mental disease which renders an UPS Freight /Overnite Participant eligible for disability benefits under the federal Social Security Act.

“Year of Vesting Service” means the sum of:

- (a) each full year of “vesting service” completed on or before December 31, 2005, other than service that is disregarded under Section 9.02 of the Overnite Plan; and
- (b) for each Overnite Participant who completed at least one “hour of service” during his “computation period” for “vesting service” beginning in 2005, one year of service unless such service would be disregarded under Section 6.2 of the main text of the Plan.

AMOUNT AND PAYMENT OF BENEFITS

Minimum Accrued Benefit. Notwithstanding any provision in this Appendix or the main text of Plan to the contrary, but taking into account the break in service rules in Article IX of the Overnite Plan:

- (a) the Accrued Benefit of a Grandfathered Overnite Participant who was an Active Participant on December 31, 1988 shall not be less than his accrued benefit, determined as of December 31, 1988 under the terms of the Overnite Plan as in effect through December 31, 1988;
- (b) the Accrued Benefit of a Grandfathered Overnite Participant who was an Active Participant on December 31, 1993 shall not be less than his accrued benefit, determined as of December 31, 1993 under the terms of the Overnite Plan as in effect through December 31, 1993; and
- (c) the Accrued Benefit of a Grandfathered Overnite Participant shall not be less than his “accrued benefit” determined as of December 31, 2005 under the terms of the Overnite Plan as if he had had a termination of employment on such date.

Benefit Offset. The Overnite Plan required the benefit payable from such plan be offset by any benefit payable from another qualified defined benefit plan if the same service performed by the Participant is recognized as “benefit service” in both plans. If such benefit offset has been communicated to an affected Participant prior to the merger of the Overnite Plan into this Plan, the amount of the offset shall remain as calculated under the Overnite Plan. If the benefit offset amount has not been communicated to the Participant, the offset shall be calculated as determined in the Overnite Plan.

Optional Lump Sum Form of Benefit Payment. If a Grandfathered Overnite Participant had a Termination of employment with Overnite on or after March 28, 2005 but prior to January 1, 2006, such Grandfathered Overnite Participant may elect to receive his Accrued Benefit payable under Section 5.4(e) in a cash lump sum as soon as practicable after his termination of employment if the Present Value of such benefit is at least \$1,000 but does not exceed \$5,000.

Repayment of Lump Sum Distribution. An individual who received a lump sum distribution of his entire accrued benefit from the Overnite Plan prior to January 1, 2006 and is re-employed by an Employer Company on or after January 1, 2006 has the right to repay the Trustee the lump sum distribution he received, in accordance with Section 5.4(f) of the main text of the Plan provided his repayment right has not expired.

Disability Retirement Benefit. The Disability Retirement Benefit described in this Appendix shall apply only to an Overnite Participant who is determined to be Totally Disabled (as defined in this Appendix) as of any date prior to July 1, 2006. The Disability Retirement Benefit described in Section 5.5 of the main text of the Plan shall apply to any Overnite Participant who is determined to be Totally Disabled (as defined in Article I of the main text of the Plan) as of any date on or after July 1, 2006.

- (1) Each Overnite Participant who has a Disability Retirement Date shall be entitled to an immediate disability benefit commencing on the first day of the month coincident with or next following his Disability Retirement Date and ending on the date he ceases to be a Disabled Participant. Except to the extent the Disabled Participant is eligible for and elects to receive an Early Retirement Benefit in the interim, no Disability Retirement Benefit shall be paid to a Disabled Participant under this Appendix pending determination of the Total Disability by the Social Security Administration; provided, however, that the first payment made to a Disabled Participant under this Appendix following such determination of Total Disability shall include all amounts due the Disabled Participant for the period between the Disability Retirement Date and the date of the first payment.
- (2) A Disabled Participant shall cease to be such if and when:
 - (i) he reaches Normal Retirement Date;
 - (ii) he ceases to suffer from Total Disability; or
 - (iii) he dies.

When a Disabled Participant ceases to be such his current Disability Retirement Benefit (including any survivor benefit attributable to the elected form of payment) shall end, and (i) if he ceases to be a Disabled Participant because he ceases to suffer from a Total Disability prior to his Normal Retirement Date, he shall be entitled to a benefit under the provisions of the main text of the Plan or this Appendix, applied on the basis of his termination of employment due to his Total Disability and determined using his Final Average Compensation and actual years of Benefit Service as of such separation date, (ii) if he ceases to be a Disabled Participant on his Normal Retirement Date, he shall be entitled to the benefit described in Section (4) below, or (iii) if he ceases to be a Disabled Participant due to his death, death benefits shall be payable to his surviving Spouse or Domestic Partner, the monthly periodic payments under which shall equal the amount which would be payable under the survivor benefit portion of the qualified joint and survivor annuity (as defined in the Overnite Plan), if the Overnite Participant had:

- (i) a termination of employment on the date of his death (and did not thereafter return to service) or on the date of his actual termination of employment, if earlier;
- (ii) survived and retired with an immediate qualified joint and survivor annuity on the Annuity Starting Date elected by the Spouse, and
- (iii) died the following day.

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- (3) The immediate Disability Retirement Benefit payable to a Disabled Participant under this Appendix shall be an annual benefit, payable monthly in a Single Life Only Annuity equal to the Participant's Accrued Benefit determined using his Final Average Compensation as of his Disability Retirement Date and the number of years of Benefit Service (to a maximum of 30 years) the Participant would have had had he remained an Employee of an Employer Company until his Normal Retirement Date, without reduction for early commencement. Alternatively, a Disabled Participant may elect in accordance with the procedures in Section 5.4(b) to have his Disability Retirement Benefit paid in a Qualified Joint and Survivor Annuity or in a Joint and 50% Survivor Annuity that is the Actuarial Equivalent of the Single Life Only Annuity.
- (4) A Disabled Participant who ceases to be such solely because he has reached his Normal Retirement Date shall be entitled to receive his Accrued Benefit determined using his Final Average Compensation as of his Disability Retirement Date and the number of years of Benefit Service (to a maximum of 30 years) the Participant would have had had he remained an Employee of an Employer Company until his Normal Retirement Date.

**UPS RETIREMENT PLAN
APPENDIX K**

**MOTOR CARGO SUPPLEMENTAL BENEFIT SCHEDULE
EFFECTIVE JANUARY 1, 2006**

The provisions of this Appendix will apply only to Grandfathered Motor Cargo Participants and certain UPS Freight/Motor Cargo Participants. References to Articles and Sections are to Articles and Sections of this Appendix unless otherwise expressly indicated.

DEFINITIONS

Wherever used herein or in the main text of the Plan with respect to a Motor Cargo Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix or in the main text of the Plan, is not defined herein it will have the same meaning assigned to such term in the main text of the Plan.

DEFINITIONS

Wherever used herein or in the main text of the Plan with respect to a Motor Cargo Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix or in the main text of the Plan is not defined herein, it will have the same meaning assigned to such term in the main text of the Plan.

“Disabled Participant” means a UPS Freight/Motor Cargo Participant who terminated employment with all Employer Companies and Related Employers due to Total Disability.

“Benefit Service” as defined in the main text of the Plan shall include each “year of service” for benefit accrual purposes completed under the Motor Cargo Plan as of December 31, 2005.

“Hour of Service” means for Plan Years beginning before 2006, an “hour of service” as described in Section 1.27 of the Motor Cargo Plan.

“Motor Cargo Plan” means the Plan for Employees of Motor Cargo as in effect on December 31, 2005.

“Total Disability” or “Totally Disabled” means a disability due to bodily injury or physical or mental disease which renders a Motor Cargo Participant eligible for disability benefits under the federal Social Security Act.

“Year of Vesting Service” includes each full “year of service” (as defined in § 8.06 of the Motor Cargo Plan) completed on or before December 31, 2005, other than service that is disregarded under Section 8.08 of the Motor Cargo Plan.

AMOUNT AND PAYMENT OF BENEFITS

Commencement at Normal Retirement Age. A Grandfathered Motor Cargo Participant who has attained Normal Retirement Date may elect to commence payment of his Accrued Benefit even if he has not terminated employment with all Employer Companies and Related Employers. If a Grandfathered Motor Cargo Participant continues to work past the date benefits commence under this Section, the benefit shall be adjusted annually on or before April 1 following the date benefit commenced to reflect the additional benefits, if any, accrued in the immediately preceding Plan Year.

Optional Lump Sum Payment. A Motor Cargo Participant who terminated employment with Motor Cargo on or after March 28, 2005 but prior to January 1, 2006 may elect to receive his Accrued Benefit in a cash lump sum as soon as practicable after his or termination of employment if the Present Value of such benefit is at least \$1,000 but does not exceed \$5,000. If a Motor Cargo Participant's (other than a Grandfathered Motor Cargo Participant's) benefit is cashed out pursuant to this Section 5.4(e) or Section 6.1, service associated with such cash-out shall be disregarded for purposes of the Plan; provided, however, that such service shall be counted in determining the Employee's Year of Vesting Service and years of Benefit Service if, upon reemployment, the distribution is repaid by the Motor Cargo Employee to the Trustees in accordance with Section 5.4(f) of the main text of the Plan.

Disability Retirement Benefit. The Disability Retirement Benefit described in this Appendix shall apply only to a UPS Freight/Motor Cargo Participant who is determined to be Totally Disabled (as defined in this Appendix) as of any date prior to July 1, 2006. The Disability Retirement Benefit described in Section 5.5 of the main text of the Plan shall apply to any Motor Cargo Participant who is determined to be Totally Disabled (as defined in Article I of the main text of the Plan) as of any date on or after July 1, 2006.

Each Motor Cargo Participant who has completed at least 5 Years of Service and has a Total Disability before age 55 shall be entitled to an immediate Disability Retirement Benefit equal to 55% of the UPS Freight/Motor Cargo Participant's vested Accrued Benefit commencing on the first day of the month coincident with or next following his Total Disability and ending on the date he ceases to be a Disabled Participant. The Disability Retirement Benefit shall be paid in a Single Life Only.

A Disabled Participant shall cease to be such if and when:

- (i) he reaches Normal Retirement Age;
- (ii) he ceases to suffer from Total Disability; or
- (iii) he dies.

The Trustee may require a Motor Cargo Participant to submit evidence of his continued eligibility for a Disability Retirement Benefit on a semi-annual basis. In the event a Disabled

Participant refuses or fails to submit such evidence of continued disability, the Trustees will discontinue the disability benefit payments until the UPS Freight/Motor Cargo Participant does submit satisfactory evidence of his continued disability. No Disability Retirement Benefit shall be paid under this Appendix pending a determination of Total Disability by the Social Security Administration.

Minimum Benefit. Notwithstanding any other provision in this Appendix or the main text of the Plan, the Accrued Benefit of a Grandfathered Motor Cargo Participant who completed at least one "hour of service" (as defined in § 1.27 of the Motor Cargo Plan) on or after January 1, 1994 and prior to January 1, 2006, but who terminates employment before he is vested in accordance with Article VI, will be \$25. If a Motor Cargo Participant is eligible for a minimum benefit under this Appendix, such benefit shall be paid from the Plan as soon as administratively possible.

If the minimum benefit is not claimed within 6 months after the Grandfathered Motor Cargo Participant is notified of the minimum benefit by either certified or registered mail at his last known address, the minimum benefit will be forfeited.

VESTING

Each Grandfathered Motor Cargo Participant shall be fully vested in his Accrued Benefit upon:

- (a) attainment of his Normal Retirement Age;
- (b) completion of 5 Years of Service; or
- (c) his termination of employment due to death.

**UPS RETIREMENT PLAN
APPENDIX L**

SPECIAL ENHANCED BENEFIT FOR AVIATION TECHNOLOGIES PARTICIPANTS

Section 1 General. Notwithstanding any other provision in this Plan, the provisions in this Appendix shall apply to the terms of the participation of any Aviation Technologies Participants to the extent that such provisions are different from or supplement the provisions otherwise set forth in this Plan.

Section 2 Definitions.

“Aviation Technologies Participants” means each Participant who at the close of business on the Aviation Technologies’ Closing Date was an employee of UPS Aviation Technologies, Inc., (including those who are on leave, disability or other absence from active employment), was at least age 50 and had completed at least 15 Years of Service.

“Aviation Technologies’ Closing Date” means August 22, 2003 which was the Closing Date as defined in Section 2.3 of that certain Stock Purchase Agreement by and between United Parcel Service of America and Garmin International, Inc., dated as of July 24, 2003.

Section 3 Special Early Commencement Factor for Aviation Technologies Participants The early commencement reduction factor applicable to Aviation Technologies Participants under Section 5.2(b) shall be determined by substituting “one-quarter of one percent (0.25%)” wherever “one-half of one percent” (0.5%) appears in the text.

Section 4 Enhanced Retiree Medical for Aviation Technologies Participants For purposes of construing Article XII:

Retired Participant. The term “Retired Participant” shall include each Aviation Technologies Participant with at least one Year of Service as a Participant in this Plan (regardless of whether such Participant retired as an Employee and was thereupon immediately eligible to receive an Early or Normal Retirement Benefit hereunder).

Commencement of Benefits. Medical Benefits shall begin to be paid with respect to claims incurred by Retired Participants who are Aviation Technologies Participants, or their Covered Dependents, when such Retired Participants are no longer eligible for coverage under the UPS Insurance Plan (or a successor plan) or another group medical plan sponsored and maintained by an employer for active employees and their covered dependents. Notwithstanding any other provision of this Article, if a Retired Participant, or his Covered Dependent, is eligible for Medical Benefits under this Article and also eligible for medical benefits under another group medical insurance plan sponsored and maintained by an Employer Company for active employees and their covered dependents (for example, the UPS Insurance Plan (“Alternate Plan”)), then no Medical Benefits under this Article shall be paid. Payment of Medical Benefits under this Article shall

commence on the day following the day eligibility for benefits under the Alternate Plan ceases.

Section 5 UPS Aviation Technologies, Inc. Employees. Notwithstanding any contrary Plan provision, a Participant who is employed by UPS Aviation Technologies, Inc. on December 31, 2000 and who was a participant in the UPS Plan on that date shall receive a benefit from this Plan for his years of Benefit Service with UPS Aviation Technologies equal to the greater of the benefit described in Section 5.2 or the benefit such Participant would have earned under the UPS Plan based upon the formula in effect under the Plan immediately before such Participant became covered under this Plan.

**UPS RETIREMENT PLAN
APPENDIX N**

**MAXIMUM BENEFITS FOR PARTICIPANTS OTHER THAN INDEPENDENT
PILOTS ASSOCIATION**

Section 1. The limitations of this Appendix shall apply in limitation years beginning on or after July 1, 2007 for all Participants other than Participants subject to Appendix M, except as otherwise provided herein. Capitalized terms are defined in Section 6 hereof or, if not defined in Section 6, in the main body of the Plan. All Section references are to Sections of this Appendix N, except as otherwise provided.

Section 2. The Annual Benefit otherwise payable to a Participant under the Plan at any time shall not exceed the Maximum Permissible Benefit. If the benefit the Participant would otherwise accrue in a Limitation Year would produce an Annual Benefit in excess of the Maximum Permissible Benefit, the benefit shall be limited (or the rate of accrual reduced) to a benefit that does not exceed the Maximum Permissible Benefit.

Section 3. If the Participant is, or has ever been, a Participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the Employer or a Predecessor Employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Benefit. Where the Participant's Employer-provided benefits under all such defined benefit plans (determined as of the same age) would exceed the Maximum Permissible Benefit applicable at that age, the Employer shall limit such Participant's benefit accrual under this Plan.

Section 4. The application of the provisions of this article shall not cause the Maximum Permissible Benefit for any Participant to be less than the Participant's accrued benefit under all the defined benefit plans of the Employer or a Predecessor Employer as of the end of the last Limitation Year beginning before July 1, 2007 under provisions of the plans that were both adopted and in effect before April 5, 2007. The preceding sentence applies only if the provisions of such defined benefit plans that were both adopted and in effect before April 5, 2007 satisfied the applicable requirements of statutory provisions, regulations, and other published guidance relating to Code § 415 in effect as of the end of the last Limitation Year beginning before July 1, 2007, as described in Treasury Regulations § 1.415(a)-1(g)(4).

Section 5. The limitations of this article shall be determined and applied taking into account the rules in section 7.

Section 6. Definitions.

Section 6.1. Annual Benefit: A benefit that is payable annually in the form of a straight life annuity. Except as provided below, where a benefit is payable in a form other than a straight life annuity, the benefit shall be adjusted to an actuarially equivalent straight life annuity that begins at the same time as such other form of benefit and is payable on the first day of each month,

before applying the limitations of this article. For a Participant who has or will have distributions commencing at more than one annuity starting date, the Annual Benefit shall be determined as of each such annuity starting date (and shall satisfy the limitations of this article as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other annuity starting dates. For this purpose, the determination of whether a new starting date has occurred shall be made without regard to Treasury Regulations § 1.401(a)-20, Q&A 10(d), and with regard to § 1.415(b)-1(b)(1)(iii)(B) and (C).

No actuarial adjustment to the benefit shall be made for (a) survivor benefits payable to a surviving spouse under a qualified joint and survivor annuity to the extent such benefits would not be payable if the Participant's benefit were paid in another form; (b) benefits that are not directly related to retirement benefits (such as a qualified disability benefit, preretirement incidental death benefits, and postretirement medical benefits); or (c) the inclusion in the form of benefit of an automatic benefit increase feature, provided the form of benefit is not subject to Code § 417(e)(3) and would otherwise satisfy the limitations of this article, and the plan provides that the amount payable under the form of benefit in any Limitation Year shall not exceed the limits of this article applicable at the annuity starting date, as increased in subsequent years pursuant to Code § 415(d). For this purpose, an automatic benefit increase feature is included in a form of benefit if the form of benefit provides for automatic, periodic increases to the benefits paid in that form.

The determination of the Annual Benefit shall take into account social security supplements described in Code § 411(a)(9) and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), but shall disregard benefits attributable to employee contributions or rollover contributions.

Effective for distributions in plan years beginning after December 31, 2003, the determination of actuarial equivalence of forms of benefit other than a straight life annuity shall be made in accordance with section 6.1(a) or section 6.1(b).

(a) Benefit Forms Not Subject to Code § 417(e)(3) The straight life annuity that is actuarially equivalent to the Participant's form of benefit shall be determined under this section 6.1(a) if the form of the Participant's benefit is either (1) a nondecreasing annuity (other than a straight life annuity) payable for a period of not less than the life of the Participant (or, in the case of a qualified pre-retirement survivor annuity, the life of the surviving spouse), or (2) an annuity that decreases during the life of the Participant merely because of (a) the death of the survivor annuitant (but only if the reduction is not below 50% of the benefit payable before the death of the survivor annuitant), or (b) the cessation or reduction of Social Security supplements or qualified disability payments (as defined in Code § 401(a)(11)).

(i) Limitation Years beginning before July 1, 2007 For Limitation Years beginning before July 1, 2007, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same

form; and (II) a 5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan for that annuity starting date.

(ii) Limitation Years beginning on or after July 1, 2007. For Limitation Years beginning on or after July 1, 2007, the actuarially equivalent straight life annuity is equal to the greater of (1) the annual amount of the straight life annuity (if any) payable to the Participant under the Plan commencing at the same annuity starting date as the Participant's form of benefit; and (2) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using a 5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan for that annuity starting date.

(b) Benefit Forms Subject to Code § 417(e)(3) The straight life annuity that is actuarially equivalent to the participant's form of benefit shall be determined under this paragraph if the form of the Participant's benefit is other than a benefit form described in section 6.1(a). In this case, the actuarially equivalent straight life annuity shall be determined as follows:

(i) Annuity Starting Date in Plan Years Beginning After 2005 If the annuity starting date of the Participant's form of benefit is in a plan year beginning after 2005, the actuarially equivalent straight life annuity is equal to the greatest of (I) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; (II) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using a 5.5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the plan; and (III) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using the applicable interest rate specified in section 1.1(f) of the Plan and the applicable mortality table specified in section 1.1(g) of the Plan, divided by 1.05.

(ii) Annuity Starting Date in Plan Years Beginning in 2004 or 2005 If the annuity starting date of the Participant's form of benefit is in a plan year beginning in 2004 or 2005, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; and (II) a 5.5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan. If the annuity starting date of the Participant's benefit is on or after the first day of the first plan year beginning in 2004 and before December 31, 2004, benefits shall be calculated in accordance with the requirements of Notice 2004-78.

Section 6.2 Compensation: For purposes of Code § 415, Compensation is defined as wages, within the meaning of Code § 3401(a), and all other payments of compensation to an employee

by the Employer (in the course of the employer's trade or business) for which the Employer is required to furnish the employee a written statement under Code §§ 6041(d), 6051(a)(3), and 6052 (i.e., wages, tips and other compensation as reported on Form W-2). Compensation shall be determined without regard to any rules under Code § 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code § 3401(s)(2)).

Except as provided herein, Compensation for a Limitation Year is the Compensation actually paid or made available during such Limitation Year.

For Limitation Years beginning on or after July 1, 2007, compensation for a Limitation Year shall also include compensation paid by the later of 2/2 months after an employee's severance from employment with the employer maintaining the plan or the end of the Limitation Year that includes the date of the employee's severance from employment with the employer maintaining the plan if: (a) the payment is regular compensation for services during the employee's regular working hours, or compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a severance from employment, the payments would have been paid to the employee while the employee continued in employment with the employer; (b) the payment is for unused accrued bona fide sick, vacation or other leave that the employee would have been able to use if employment had continued; or (c) the payment is received by the employee pursuant to a nonqualified unfunded deferred compensation plan and would have been paid at the same time if employment had continued, but only to the extent includible in gross income.

Any payments not described above shall not be considered compensation if paid after severance from employment, even if they are paid by the later of 2/2 months after the date of severance from employment or the end of the Limitation Year that includes the date of severance from employment, except, payments to an individual who does not currently perform services for the employer by reason of qualified military service (within the meaning of Code § 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service.

Back pay, within the meaning of Code § 1.415(c)-2(g)(8), shall be treated as compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

For Limitation Years beginning after December 31, 1997, compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in Compensation but for an election under Code § 125(a), §402(e)(3), § 402(h)(1)(B), § 402(k), or § 457(b). For Limitation Years beginning after December 31, 2000, Compensation shall also include any elective amounts that are not includible in the gross income of the employee by reason of Code § 132(f)(4). For Limitation Years beginning after December 31, 2001, Compensation shall also include deemed § 125 compensation. Deemed § 125 compensation is an amount that is excludable under Code § 106 that is not available to a Participant in cash in lieu of group health coverage under a § 125 arrangement solely because the Participant is unable

to certify that he has other health coverage. Amounts are deemed § 125 compensation only if the employer does not request or otherwise collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

Section 6.3 Defined Benefit Compensation Limitation: 100 percent of a Participant's High Three-Year Average Compensation, payable in the form of a straight life annuity.

In the case of a Participant who has had a severance from employment with the Employer, the Defined Benefit Compensation Limitation applicable to the Participant in any Limitation Year beginning after the date of severance shall be automatically adjusted by multiplying the limitation applicable to the Participant in the prior Limitation Year by the annual adjustment factor under Code § 415(d) that is published in the Internal Revenue Bulletin. The adjusted compensation limit shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year.

In the case of a Participant who is rehired after a severance from employment, the Defined Benefit Compensation Limitation is the greater of 100 percent of the Participant's High Three-Year Average Compensation, as determined prior to the severance from employment, as adjusted pursuant to the preceding paragraph, if applicable; or 100 percent of the Participant's High Three-Year Average Compensation, as determined after the severance from employment under section 6.7.

Section 6.4 Defined Benefit Dollar Limitation: Effective for Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation is \$160,000, automatically adjusted under Code § 415(d), effective January 1 of each year, as published in the Internal Revenue Bulletin, and payable in the form of a straight life annuity. The new limitation shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year. The automatic annual adjustment of the Defined Benefit Dollar Limitation under § 415(d) shall apply to Participants who have had a separation from employment but have not yet commenced benefits. A Participant's Normal Retirement Benefit or Early Retirement Benefit, taking into account the Compensation limitation under Code § 401(a)(17) (the "Compensation limitation") shall, following the Annuity Starting Date, be adjusted upward as the result of any subsequent increase in the 415 limitations, provided however, that in no event shall such benefit exceed the Participant's Normal Retirement Benefit or Early Retirement Benefit, as the case may be, including the Compensation limitation.

Section 6.5 Employer: For purposes of this article, employer shall mean the Company (as defined in the main body of the Plan), and all members of a controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h)), all commonly controlled trades or businesses (as defined in Code § 414(c), as modified, except in the case of a brother-sister group of trades or businesses under common control, by Code § 415(h)), or affiliated service groups (as defined in Code § 414(m)) of which the adopting employer is a part, and any other entity required to be aggregated with the employer pursuant to Code § 414(o).

Section 6.6 Formerly Affiliated Plan of the Employer: A plan that, immediately prior to the cessation of affiliation, was actually maintained by the Employer and, immediately after the cessation of affiliation, is not actually maintained by the Employer. For this purpose, cessation of affiliation means the event that causes an entity to no longer be considered the Employer, such as the sale of a member controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h), to an unrelated corporation, or that causes a plan to not actually be maintained by the employer, such as transfer of plan sponsorship outside a controlled group.

Section 6.7 High Three-Year Average Compensation: The average compensation for the three consecutive years of service (or, if the Participant has less than three consecutive years of service, the Participant's longest consecutive period of service, including fractions of years, but not less than one year) with the Employer that produces the highest average. A year of service with the employer is the calendar year. In the case of a Participant who is rehired by the Employer after a severance from employment, the Participant's high three-year average compensation shall be calculated by excluding all years for which the Participant performs no services for and receives no compensation from the Employer (the break period) and by treating the years immediately preceding and following the break period as consecutive. A Participant's compensation for a year of service shall not include compensation in excess of the limitation under Code § 401(a)(17) that is in effect for the calendar year in which such year of service begins.

Section 6.8 Limitation Year: The calendar year. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

Section 6.9 Maximum Permissible Benefit: The lesser of the Defined Benefit Dollar Limitation or the Defined Benefit Compensation Limitation (both adjusted where required, as provided below).

(a) **Adjustment for Less Than 10 Years of Participation or Service:** If the Participant has less than 10 years of participation in the plan, the Defined Benefit Dollar Limitation shall be multiplied by a fraction — (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Participation in the plan, and (ii) the denominator of which is 10. In the case of a Participant who has less than ten Years of Service with the Employer, the Defined Benefit Compensation Limitation shall be multiplied by a fraction — (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Service with the Employer, and (ii) the denominator of which is 10.

(b) **Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62 or after Age 65** Effective for benefits commencing in Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation shall be adjusted if the annuity starting date of the Participant's benefit is before age 62 or after age 65. If the annuity starting date is before age 62, the Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(i), as modified by section 6.9(b)(iii). If the annuity starting date is after age 65, the

Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(ii), as modified by section 6.9(b)(iii).

(i) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in section 1.1(g) of the Plan.

II. Limitation Years Beginning on or After July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for the annuity starting date as specified in section 1.1(g) of the Plan (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(i)II and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the immediately commencing straight life annuity under the plan at age 62, both determined without applying the limitations of this article.

(ii) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement After Age 65

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's

annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in section 1.1(g) of the Plan.

II. Limitation Years Beginning On or After July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required), with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for that annuity starting date as specified in section 1.1(g) of the plan (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(ii)I.A and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the adjusted immediately commencing straight life annuity under the plan at age 65, both determined without applying the limitations of this article. For this purpose, the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date is the annual amount of such annuity payable to the Participant, computed disregarding the Participant's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing straight life annuity under the plan at age 65 is the annual amount of such annuity that would be payable under the plan to a hypothetical Participant who is age 65 and has the same accrued benefit as the Participant.

(iii) Notwithstanding the other requirements of this section 6.9(b), no adjustment shall be made to the Defined Benefit Dollar Limitation to reflect the probability of a Participant's death between the annuity starting date and age 62, or between age 65 and the annuity starting date, as applicable, if benefits are not forfeited upon the death of the Participant prior to the annuity starting date. To the extent benefits are forfeited upon death before the annuity starting date, such an adjustment shall be made. For this purpose, no forfeiture shall be treated as occurring upon the Participant's death if the plan does not charge Participants for providing a qualified preretirement survivor annuity, as defined in Code § 417(c), upon the Participant's death.

(c) Minimum benefit permitted: Notwithstanding anything else in this section to the contrary, the benefit otherwise accrued or payable to a Participant under this plan shall be deemed not to exceed the Maximum Permissible Benefit if:

(i) the retirement benefits payable for a Limitation Year under any form of benefit with respect to such Participant under this plan and under all other defined benefit plans (without regard to whether a plan has been terminated) ever maintained by the Employer do not exceed \$10,000 multiplied by a fraction – (I) the numerator of which is the Participant's number of Years (or part thereof, but not less than one year) of Service (not to exceed 10) with the employer, and (II) the denominator of which is 10; and

(ii) the Employer (or a Predecessor Employer) has not at any time maintained a defined contribution plan in which the Participant participated (for this purpose, mandatory employee contributions under a defined benefit plan, individual medical accounts under Code § 401(h), and accounts for postretirement medical benefits established under Code § 419A(d)(1) are not considered a separate defined contribution plan).

Section 6.10 Predecessor Employer: If the Employer maintains a plan that provides a benefit which the Participant accrued while performing services for a former employer, the former employer is a predecessor employer with respect to the Participant in the plan. A former entity that antedates the Employer is also a predecessor employer with respect to a Participant if, under the facts and circumstances, the Employer constitutes a continuation of all or a portion of the trade or business of the former entity.

Section 6.11 Severance from Employment: An employee has a severance from employment when the employee ceases to be an employee of the Employer maintaining the plan. An employee does not have a severance from employment if, in connection with a change of employment, the employee's new Employer maintains the plan with respect to the employee.

Section 6.12 Year of Participation: The Participant shall be credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (1) the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, and (2) the Participant is included as a Participant under the eligibility provisions of the plan for at least one day of the accrual computation period. If these two conditions are met, the portion of a year of participation credited to the Participant shall equal the amount of benefit accrual service credited to the Participant for such accrual computation period. A Participant who is permanently and totally disabled within the meaning of Code § 415(c)(3)(C)(i) for an accrual computation period shall receive a Year of Participation with respect to that period. In addition, for a Participant to receive a Year of Participation (or part thereof) for an accrual computation period, the plan must be established no later than the last day of such accrual computation period. In no event shall more than one Year of Participation be credited for any 12-month period.

Section 6.13 Year of Service: For purposes of section 6.7, the Participant shall be credited with a Year of Service (computed to fractional parts of a year) for each accrual computation period for which the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, taking into account only service with the employer or a predecessor employer.

Section 7. Other Rules.

Section 7.1. Benefits Under Terminated Plans If a defined benefit plan maintained by the Employer has terminated with sufficient assets for the payment of benefit liabilities of all plan Participants and a Participant in the plan has not yet commenced benefits under the plan, the benefits provided pursuant to the annuities purchased to provide the Participant's benefits under the terminated plan at each possible annuity starting date shall be taken into account in applying the limitations of this article. If there are not sufficient assets for the payment of all Participants' benefit liabilities, the benefits taken into account shall be the benefits that are actually provided to the Participant under the terminated plan.

Section 7.2. Benefits Transferred From the Plan If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the transferred benefits are not treated as being provided under the transferor plan (but are taken into account as benefits provided under the transferee plan). If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan that is not maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the transferred benefits are treated by the Employer's plan as if such benefits were provided under annuities purchased to provide benefits under a plan maintained by the Employer that terminated immediately prior to the transfer with sufficient assets to pay all Participants' benefit liabilities under the plan. If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan in a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the amount transferred is treated as a benefit paid from the transferor plan.

Section 7.3. Formerly Affiliated Plans of the Employer A formerly affiliated plan of an Employer shall be treated as a plan maintained by the Employer, but the formerly affiliated plan shall be treated as if it had terminated immediately prior to the cessation of affiliation with sufficient assets to pay Participants' benefit liabilities under the plan and had purchased annuities to provide benefits.

Section 7.4. Plans of a Predecessor Employer If the Employer maintains a defined benefit plan that provides benefits accrued by a Participant while performing services for a Predecessor Employer, the Participant's benefits under a plan maintained by the Predecessor Employer shall be treated as provided under a plan maintained by the employer. However, for this purpose, the plan of the Predecessor Employer shall be treated as if it had terminated immediately prior to the event giving rise to the Predecessor Employer relationship with sufficient assets to pay

Participants' benefit liabilities under the plan, and had purchased annuities to provide benefits; the Employer and the Predecessor Employer shall be treated as if they were a single employer immediately prior to such event and as unrelated employers immediately after the event; and if the event giving rise to the predecessor relationship is a benefit transfer, the transferred benefits shall be excluded in determining the benefits provided under the plan of the Predecessor Employer.

Section 7.5. Special Rules. The limitations of this article shall be determined and applied taking into account the rules in Treasury Regulations § 1.415(f)-1(d), (e) and (h).

Section 7.6. Aggregation with Multiemployer Plans.

(a) If the Employer maintains a multiemployer plan, as defined in Code § 414(f), and the multiemployer plan so provides, only the benefits under the multiemployer plan that are provided by the Employer shall be treated as benefits provided under a plan maintained by the Employer for purposes of this article.

(b) Effective for Limitation Years ending after December 31, 2001, a multiemployer plan shall be disregarded for purposes of applying the compensation limitation of sections 6.3 and 6.9(a) to a plan which is not a multiemployer plan.

UPS RETIREMENT PLAN

APPENDIX M
FOR THE INDEPENDENT PILOTS ASSOCIATION

The provisions of this Appendix M will apply to that period of employment during which an individual is an Employee as defined in this Appendix M.

All Section references used in this Appendix M are to Sections of this Appendix M, not the main text of the Plan.

Further, the provisions of each Benefit Schedule supplement the corresponding provisions in this Appendix M, unless otherwise expressly indicated. For example, the provisions of Article IV of a Benefit Schedule supplement the provisions of Article IV of the main text of this Appendix M.

Except as otherwise provided, this Appendix M to the UPS Retirement Plan is initially effective January 1, 2008 and is amended and restated effective as of January 1, 2010.

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ARTICLE I
DEFINITIONS

Wherever used herein or in the attached Benefit Schedules, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

Section 1.1 Actuarial Equivalent. Refer to Benefit Schedules.

Section 1.2 Actuary. The term "Actuary" means the individual actuary or firm of actuaries selected by the Committee to provide actuarial services in connection with the administration of the Plan.

Section 1.3 Applicable Interest Rate. Refer to Benefit Schedules.

Section 1.4 Applicable Mortality Table. Refer to Benefit Schedules.

Section 1.5 Board of Directors. The term "Board of Directors" shall mean the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc.

Section 1.6 Break in Service. The term "Break in Service" means a Plan Year during which an Employee does not complete more than 500 Hours of Service.

Section 1.7 Code means the Internal Revenue Code of 1986 as amended.

Section 1.8 Collective Bargaining Agreement. The term "Collective Bargaining Agreement" shall mean the Collective Bargaining Agreement in force between the Employer and the Independent Pilots Association, with any modification or amendment thereto, which serves as the basis for coverage of Employees and their participation in this Plan.

Section 1.9 Committee or Administrative Committee means the Administrative Committee of the Plan, the establishment and responsibilities of which are set forth in Article XI, Administration. The Committee shall be and is the Plan Administrator, the agent for service of process on or with respect to the Plan and a named fiduciary with respect to this Plan.

Section 1.10 Construction. Wherever required herein, the masculine gender shall include the feminine gender and the singular shall include the plural, and the plural shall include the singular.

Section 1.11 Covered Employment. Refer to Benefit Schedules.

Section 1.12 Deferred Vested Benefit. The term "Deferred Vested Benefit" means the benefit described in Section 4.5.

Section 1.13 Disability Benefit. The term "Disability Benefit" means the benefit described in Section 4.8.

Section 1.14 Early Commencement Age. The term “Early Commencement Age” means the age specified in the definition of Early Retirement Date.

Section 1.15 Early Retirement Benefit. The term “Early Retirement Benefit” means the benefit described in Section 4.2.

Section 1.16 Early Retirement Date. Refer to Benefit Schedules.

Section 1.17 Effective Date of Amendment. The “Effective Date of Amendment” is January 1, 1976.

Section 1.18 Effective Date. The “Effective Date” of this Appendix M is January 1, 2008. This Appendix M was amended and restated effective January 1, 2010.

Section 1.19 Employee. The term “Employee” means a person who is classified on the payroll of an Employer as an employee of that Employer who (i) is not a participant in or covered under any other qualified Plan to which his Employer currently makes contributions on his behalf, and (ii) is employed in an area of the United States served by an Employer prior to July 1, 1975, in a capacity in which he is represented for purposes of collective bargaining by a Union, or (iii) is employed and has been so employed for a continuous period of one year in an area of the United States not served by an Employer prior to July 1, 1975, in a capacity similar to that of those classifications of employees employed elsewhere in the United States who are represented for purposes of collective bargaining by a Union, or (iv) is employed by an Employer which has adopted this Plan, with the approval of the Board of Directors, and has agreed to cover the Employee under this Plan and agreed to be bound by the terms and conditions of the Plan and Trust Agreement.

Notwithstanding the foregoing, any individual who becomes an Employee for the first time as a result of employment with an Employer which first elected to participate in this Plan as of January 1, 1985, or later, shall not be considered an Employee until such individual has completed one Vesting Year during or after the first Plan Year for which the Employer has agreed to participate.

The term Employee shall not include an individual employed as a leased employee, as that term is defined in Code § 414(n)(2).

Under no circumstances will an individual who performs services for an Employer, but who is not classified on the payroll as an employee of the Employer, for example, an individual performing services for an Employer under a leasing arrangement, be treated as an Employee even if such individual is treated as an “employee” of an Employer as a result of common law principals or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer is retroactively reclassified as an employee of an Employer for any reason, such reclassified individual shall not be treated as an Employee for any period prior to the actual date (and not the effective date) of such reclassification unless the Employer determines that retroactive reclassification is necessary to correct a payroll classification error.

Section 1.20 Employer. The term “Employer” shall mean United Parcel Service of America, Inc., and any domestic subsidiary or domestic affiliate that adopts the Plan and this

Section 1.21 ERISA. The term “ERISA” means Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended.

Section 1.22 Hour of Service. The term “Hour of Service” means each hour for which an Employee is paid or entitled to be paid for the performance of duties for an Employer; each hour for which an Employee is paid or entitled to be paid by an Employer for periods during which no duties are performed due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty which gives rise to reemployment rights under Federal law, or leave of absence; and each hour for which back pay is awarded or agreed to by an Employer if not already credited under this sentence. Notwithstanding any of the foregoing, no more than 501 Hours of Service will be credited to an Employee for any single continuous period during which the Employee performs no duties, credit will not be given for a period for which duties are not performed if payment is made under a plan maintained solely to comply with applicable workmen’s compensation, unemployment or disability insurance laws, and no credit shall be given for a payment which solely reimburses an Employee for medical or medically related expenses incurred by the Employee. A payment shall be deemed to be made by or due from the Employer whether made by or due from the Employer directly or indirectly through a trust fund, insurer or other entity to which the Employer contributes or pays premiums, regardless of whether such contributions are for the benefit of particular Employees or are on behalf of a group of Employees in the aggregate. Hours of Service shall be credited under the terms of Department of Labor Regulations, § 2530.200b-2 and -3.

Section 1.23 Joint and Survivor Annuity. Refer to Benefit Schedules

Section 1.24 Normal Retirement Age. Refer to Benefit Schedules.

Section 1.25 Normal Retirement Benefit. The term “Normal Retirement Benefit” means the benefit described in Section 4.1.

Section 1.26 Normal Retirement Date. Refer to the applicable Benefit Schedule.

Section 1.27 Other Plan Benefits Offset. Refer to the applicable Benefit Schedule.

Section 1.28 Participant. The term “Participant” shall mean an Employee who has met the eligibility requirements of Section 2.1 and has begun participation under the Plan; and who has not had a Break in Service or other change in status such that would terminate his participation.

Section 1.29 Plan. The term “Plan” means the UPS Retirement Plan.

Section 1.30 Plan Year. The term “Plan Year” means the calendar year.

Section 1.31 Postponed Retirement Benefit. The term “Postponed Retirement Benefit” means the benefit described in Section 4.3.

Section 1.32 Postponed Retirement Date. The term “Postponed Retirement Date” means the first day of any calendar month after a Participant’s Normal Retirement Date.

Section 1.33 Present Value. Refer to the applicable Benefit Schedule.

Section 1.34 Qualified Joint and Survivor Annuity. The term “Qualified Joint and Survivor Annuity” is defined in Section 4.8.

Section 1.35 Qualified Preretirement Joint and Survivor Annuity. The term “Qualified Preretirement Joint and Survivor Annuity” is defined in Section 4.12(b).

Section 1.36 REACT Effective Date. The term “REACT Effective Date” shall mean the first day of the Plan Year commencing on or after the earlier of (a) the date the last collective bargaining agreement relating to the Plan, as of August 23, 1984, terminates (determined without any regard to any extension of any such collective bargaining agreement agreed to after August 23, 1984) or (b) January 1, 1987.

Section 1.37 Related Employer. The term “Related Employer” shall mean (a) any other corporation on and after the date that it, together with the Employer, is a member of a controlled group of corporations as described in Code § 414(b); (b) any other trade or business (whether or not incorporated) on and after the date that it and the Employer are under common control as described in Code § 414(c); and (c) any organization (whether or not incorporated) on and after the date that it, together with the Employer, is a member of an affiliated group of employers as described in Code § 414(m).

Solely for the purposes of Section 4.10 “Related Employer” shall have the same meaning as described above however in making the determination that an entity is a member a controlled group under Code § 1563(a)(1) (which both Code § 414(b) and (c) refer to) the phrase “more than fifty percent” shall be substituted for the phrase “at least eighty percent.”

Section 1.38 Retirement Benefit. Refer to the applicable Benefit Schedule.

Section 1.39 Service Credit. Refer to the applicable Benefit Schedule.

Section 1.40 Single Life Only Annuity. The term “Single Life Only Annuity” means the Monthly Accrued Benefit expressed in the form of a monthly benefit continuing for the life of the Participant only. The last payment of a Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.

Section 1.41 Trust Agreement. The term “Trust Agreement” shall mean the trust agreements establishing the UPS Retirement Plan Trust, as restated effective January 1, 1976, including any future amendments and modifications thereof, which Trust Agreement forms a part of this Plan.

Section 1.42 Trust Agreement or Trust Agreements. The terms “Trust Agreement” or “Trust Agreements” means the trust agreements establishing the UPS Retirement Plan Trust, including any future amendments and modifications thereof.

Section 1.43 Trustee means the corporations or individuals so designated by the Board of Directors to hold assets of the Plan for the purposes of the Plan.

Section 1.44 Union. The term "Union" shall mean the Independent Pilots Association or local, or lodge of such union that has a Collective Bargaining Agreement with the Employer in which the Independent Pilots Association or the local, or lodge thereof and the Employer have agreed that some or all of the Employees in the bargaining unit shall be covered by this Plan.

Section 1.45 UPS Retirement Plan or Plan. The term "UPS Retirement Plan or "Plan" shall mean the UPS Retirement Plan as described herein, together with any amendments or modifications thereof.

Section 1.46 Vesting Year.

(a) Except as provided in paragraph (b) below, the term "Vesting Year" means each calendar year commencing on or after the Effective Date of Amendment in which a Participant completes or has completed not less than 1000 Hours of Service with the Employer, and each calendar year commencing prior to the Effective Date of Amendment in which a Participant completed not less than 1801 Hours of Service with the Employer. Vesting Years shall also include employment with any member of an affiliated group of which the Employer is a part.

(b) Effective for Participants in the Plan on or after August 1, 1987, and Participants in the Plan prior to that date who are employed by the Employer (or by a member of an affiliated group of which the Employer is a part) as of August 1, 1987 and earn at least one Hour of Service on or after that date (whether or not as active participants in this Plan for whom the Employer makes, as of such date, contributions to this Plan), the term "Vesting Year" means any calendar year commencing on or after January 1, 1976 in which a Participant completes or has completed not less than 750 Hours of Service with the Employer, and each year commencing prior to January 1, 1976 in which a Participant completes not less than 1801 Hours of Service with the Employer. For this purpose, employment with any member of an affiliated group of which the Employer is a part shall be counted in determining a Participant's Vesting Years. Notwithstanding the foregoing, the provisions of this paragraph (b) are not effective for Participants who are U.S. Virgin Islands Employees, UPS Aviation Technologies Employees or employees of UPS Truck Leasing, Inc.

(c) For the purpose of determining the number of Vesting Years of a Participant, the following rules apply: If a Participant's service with an Employer is broken by the Participant failing to complete more than 500 Hours of Service with the Employer during any one calendar year, the following rules shall apply to determine that Participant's vested interest for that year and prior and succeeding years in which he completes at least 1,000 Hours of Service with the Employer (750 Hours of Service for Participants, other than U.S. Virgin Islands Employees, UPS Aviation Technologies Employees or employees of UPS Truck Leasing, Inc., who are employed by the Employer on or after August 1, 1987).

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- (i) Effective for Employees who terminate employment with the Employer and all Related Employers on or after January 1, 2000, Vesting Years prior to the Break in Service shall not be taken into account if the Participant has no vested right under the Plan and the number of his consecutive one-year Breaks in Service equals or exceeds the greater of (A) the aggregate number of his prior Vesting Years (excluding Vesting Years not required to be taken into account by reason of any prior Breaks in Service), or (B) six. For periods after the REACT Effective Date and with respect to any Employee who terminates prior to January 1, 2000, “five” shall be substituted for “six” in clause (B) of the immediately preceding sentence. If the condition of clause (A) or clause (B), as applicable, is satisfied, the Employee will be treated as a new Employee for purposes of this definition. This definition shall not be construed to require any service to be taken into account for the purpose of the vesting rules if, as of the day before the REACT Effective Date, such service would have been disregarded as a result of the Break in Service rules in effective prior to the REACT Effective Date.
 - (ii) Effective for any Employee who terminates employment with the Employer and all Related Employers prior to January 1, 2000, Vesting Years prior to the Break in Service shall not be taken into account if the Participant has no vested right under the Plan and the number of his consecutive one-year Breaks in Service equals or exceeds the greater of (A) the aggregate number of his prior Vesting Years (excluding Vesting Years not required to be taken into account by reason of any prior Break in Service), or (B) five. This definition shall not be construed to require any service to be taken into account for the purpose of the vesting rules if, as of the day before the REACT Effective Date, such service would have been disregarded as a result of a Break in Service rules in effective prior to the REACT Effective Date.

Section 1.47 Year of Service. The term “Year of Service” means a Plan Year during which an Employee completes 1000 or more Hours of Service or 750 or more Hours of Service for Participants (other than U.S. Virgin Islands Employees, UPS Aviation Technologies Employees or employees of UPS Truck Leasing, Inc.) who are employed by the Employer on or after August 1, 1987.

Section 1.48 Year of Service Credit or year of Service Credit. The term “Year of Service Credit” or “year of Service Credit” means the years and months of Service Credit under Article III or the applicable Benefit Schedule.

ARTICLE II
ELIGIBILITY FOR PARTICIPATION

Section 2.1 Eligibility Requirements.

Effective for persons who are Employees and who are employed by the Employer (or by a member of an affiliated group of which the Employer is a part) and earn at least one Hour of Service on or after January 1, 2008 (whether or not as an Employee), the participation of any such Employee eligible to become a Participant (as described in the applicable Benefit Schedule) shall commence as of the earliest January 1 or July 1 on or after January 1, 2008 as of which he has both attained age 21 and completed not less than 750 Hours of Service with an Employer or a Related Employer in the twelve-month period following his date of employment or in any subsequent Plan Year.

Notwithstanding the foregoing, any Employee who is covered by a collective bargaining agreement which does not provide for his inclusion in this Appendix M shall not be eligible to commence participation or continue actively to participate in this Appendix M; nor shall any Employee who is an active participant on whose behalf contributions are being made by an Employer under any other qualified pension or retirement plan (other than any other cash or deferred plan described in Code § 401(k) to which the Employer makes a contribution on a Participant's behalf after July 1, 1998) maintained by an Employer be eligible to commence participation or to continue actively to participate in this Plan.

Any person who leaves the Employer's service after becoming eligible to participate shall again become a Participant immediately upon his return to the Employer's service, unless he has no vested right under the Plan and the number of his consecutive one year Breaks in Service equals or exceeds the greater of (i) the aggregate number of his prior Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Break in Service), or (ii) six. For periods after the REACT Effective Date and with respect to any Employee who terminates prior to January 1, 2000, "five" shall be substituted for "six" in clause (ii) of the immediately preceding sentence. If the condition of clause (i) or clause (ii), as applicable, is satisfied, the Employee will be treated as a new Employee for purposes of this Section 2.1. This Section 2.1 shall not be construed to require any service to be taken into account for the purposes of the eligibility provisions of this Section 2.1 if, as of the day before the REACT Effective Date, such service would have been disregarded as a result of the Break in Service rules in effect prior to the REACT Effective Date.

ARTICLE III
ACCUMULATION OF SERVICE CREDIT FOR PURPOSES OTHER
THAN VESTING AND ELIGIBILITY I.E. FOR ACCRUAL OF BENEFITS, ETC.

Refer to Article III of the applicable Benefit Schedule

ARTICLE IV
BENEFIT ELIGIBILITY AND AMOUNTS

If a Participant is eligible for more than one Retirement Benefit for a period of Covered Employment, such Participant's Retirement Benefit shall be the Retirement Benefit that provides the largest monthly dollar amount payable as of the date his benefit is scheduled to commence with respect to such period of Covered Employment.

Section 4.1 Normal Retirement Benefit. Refer to Section 4.3 of the applicable Benefit Schedule.

Section 4.2 Early Retirement Benefit. Refer to Section 4.5 of the applicable Benefit Schedule.

Section 4.3 Postponed Retirement Benefit. Refer to Section 4.4 of the applicable Benefit Schedule.

Section 4.4 Deferred Vested Benefit. Refer to Section 4.6 of the applicable Benefit Schedule.

Section 4.5 Cashout of Small Benefits. Refer to the applicable Benefit Schedule.

Section 4.6 Zero Vested Participant. Refer to the applicable Benefit Schedule.

Section 4.7 Other Plan Benefits Offset. Except as to retirements occurring prior to March 1, 1975, and except as otherwise covered under a reciprocal agreement, the Retirement Benefit shall be reduced by the amount of any benefit the Participant receives or is entitled to receive from any non-government pension or retirement plan (other than a defined contribution plan) to which the Employer made contributions on behalf of the Participant and under which the same period of service with the Employer is taken into account to calculate Retirement Benefits also is taken into account in calculating benefits under that plan. If a reduction in benefits is also called for in another plan or plans sponsored and maintained by the Employer by reason of the benefits payable to a Participant under this Plan, the reduction in benefits shall be made only in the benefits payable under the plan in which the Participant last participated, and if he participated in more than one other such plan, then the reduction shall be made in the reverse order of participation with no reduction in the benefits payable under the plan in which the Participant first participated.

If the Participant receives one form of benefit under this Plan and another form of benefit under any such other plan, any reduction shall be based on actuarially equivalent forms of benefit. If the other benefit is a defined contribution plan benefit, the "reduction based on actuarially equivalent forms of benefit" means that the Present Value of the benefit payable under this Plan shall be reduced by the Present Value of the benefit payable from the defined contribution plan as of the date benefits are scheduled to commence.

Section 4.8 Normal and Optional Forms of Payment.

(a) Normal Form. If a Participant is entitled to receive a Retirement Benefit, such benefit shall be paid in the normal form unless he elects a different form of benefit in accordance with Section 4.8(b). The normal form of benefit for a married Participant is a Qualified Joint and Survivor Annuity (as described below). The normal form of benefit for a single Participant is the Single Life Only Annuity which is based on the life of the Participant.

The Qualified Joint and Survivor Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity. Under the Qualified Joint and Survivor Annuity, the Participant shall be paid his pension for his lifetime; and his spouse as of the date his Retirement Benefit commences who survives the Participant, shall be entitled to receive a lifetime survivorship benefit following the Participant's death in a monthly amount equal to 50% of the monthly amount which had been payable to the Participant. The last payment of the Qualified Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his spouse has occurred.

(b) Optional Forms of Benefit. In lieu of the normal form described in Section 4.8(a), a Participant may elect in writing, at any time prior to receiving a first payment under this Section 4.8, to receive his Retirement Benefit in one of the optional benefit payment forms described in the applicable Benefit Schedule. Prior to January 1, 2005, the only optional benefit payment form was a Single Life Only Annuity for a married Participant. Each benefit payment form described in this Section 4.8(b) will be the Actuarial Equivalent of the Participant's Single Life Only Annuity.

(c) Form of Election. An election to waive the normal form of benefit described in Section 4.8(a) must be in writing in a form approved by the Committee and shall not be effective if the Participant is married unless:

(i) the spouse of the Participant consents to the election, and such consent

(1) is in writing,

(2) acknowledges the Participant's selection of an alternative form of benefit and/or beneficiary, which may not thereafter be changed without spousal consent unless the spouse's prior consent specifically permits the Participant to change the beneficiary without further consent by the spouse,

(3) acknowledges the effect of the election, and

(4) is witnessed by a notary public: or

(ii) it is established to the satisfaction of the Committee that the spouse's consent cannot be obtained because:

(1) the Participant has no spouse,

- (2) the Participant's spouse cannot be located, or
- (3) one of the conditions prescribed in Treasury Regulation is satisfied.

Notwithstanding the foregoing, no spousal consent shall be required if a Participant elects a joint and survivor annuity (as described in the applicable Benefit Schedule) and his spouse is his designated beneficiary.

(iii) Revocation of Election. A Participant may revoke an election made under this Section 4.8(c) at any time prior to the first payment of his Retirement Benefit. A spouse's consent to the waiver of the Qualified Joint and Survivor Annuity and to the specific beneficiary and optional form designations made by the Participant is irrevocable unless the Participant revokes his waiver election.

Section 4.9 Qualified Preretirement Joint and Survivor Annuity.

(a) In General. Each vested Participant who on or after August 23, 1984 has at least one Hour of Service or at least one hour of paid leave shall have the Qualified Joint and Survivor Annuity effective for the benefit of his spouse so that if he dies prior to his benefit commencement date his spouse will be entitled to receive a survivor benefit as of the following date:

(i) If the Participant dies on or after attaining his Early Retirement Date, as of the first day of the month coincident with or next following the date of the Participant's death; and

(ii) If the Participant dies before attaining his Early Retirement Date, as of the first day of the month coincident with or next following the earliest date the Participant would have been entitled to commence benefits based upon his Vesting Years.

(b) Amount of Qualified Preretirement Joint and Survivor Annuity. The benefit payable to the Participant's surviving spouse shall be equal to the amount which would have been payable to the Participant's spouse under the Qualified Joint and Survivor Annuity determined as follows:

(i) If the Participant dies on or after attaining his Early Commencement Age, as if the Participant had retired and commenced receiving benefits on the date immediately preceding his death; and

(ii) If the Participant dies before attaining his Early Commencement Age, as if the Participant had:

- (1) terminated employment on the date of his death;

- (2) survived to the earliest date benefits could have commenced to him based on his completed Vesting Years;
- (3) retired with an immediate Qualified Joint and Survivor Annuity at his Early Commencement Age; and
- (4) died on the day after the earliest date benefits could have commenced to him based on his completed Vesting Years.

In the case of a vested Participant who terminated employment with the Employer and all Related Employers before the date of such Participant's death, paragraph (1) above shall not apply.

Notwithstanding the forgoing, if a married vested Participant dies after electing the Joint and 100% Survivor Annuity with his spouse as beneficiary, but before payment of such benefit has begun, the Committee will adjust the Qualified Preretirement Joint and Survivor Annuity to reflect the greater survivor percentage.

In lieu of the Qualified Preretirement Joint and Survivor Annuity, before the first payment with respect to such benefit, the Committee shall pay to the surviving spouse, without such spouse's consent, the Present Value of the benefit if such Present Value is less than \$1,000 for payments made after March 1, 2005. For payments made before March 1, 2005, such Present Value does not exceed \$3,500 for Participants terminating employment before September 1, 1998 or \$5,000 for Participants terminating employment on or after September 1, 1998.

(c) One-Year Marriage Requirement.

(i) Before January 1, 2004. With respect to Participants who die before January 1, 2004, a Qualified Preretirement Joint and Survivor Annuity shall not be paid to a Participant's spouse unless the Participant and spouse had been married throughout the one-year period ending on the date of the Participant's death.

(ii) On or After January 1, 2004. With respect to Participants who die on or after January 1, 2004, the one year marriage requirement set forth in Section 4.9(c)(1) shall not apply.

Section 4.10 Preservation of Benefits and Maximum Benefits Anything to the contrary notwithstanding, a benefit computed under this ARTICLE IV shall be subject to the following:

(a) Maximum Benefit. For limitation years beginning on or after July 1, 2007, the maximum annual benefit payable shall be determined in accordance with the Maximum Benefits Addendum for Independent Pilots Association.

(i) General Limitation. The maximum annual benefit payable under this Plan shall not exceed the lesser of: \$160,000 as adjusted, effective January 1

of each year, under Code § 415(d) in such manner as the Secretary shall prescribe (the “dollar limitation”) or 100% of the Participant’s average compensation (as defined in Treasury Regulation§ 1.415-2(d)) paid for the three consecutive calendar years during which he was an active Participant in the Plan, and in which he received the greatest aggregate compensation from the Employer, subject to the following:

(1) If the Retirement Benefit is payable in any form other than a Single Life Only Annuity, a Qualified Joint and Survivor Annuity, or a joint and 50%, 75% or 100% survivor annuity (as described in the applicable Benefit Schedule with the spouse as the beneficiary, then the limitations of this subsection (1) shall be applied to the Single Life Only Annuity which is the actuarial equivalent of such benefit. The actuarially equivalent Single Life Only Annuity is equal to the greater of the annuity benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for adjusting benefits in the same form, and the annuity benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table. In determining the actuarially equivalent Single Life Only Annuity for a lump sum benefit, the Applicable Interest Rate will be substituted for 5 percent. No actuarial adjustment is required for the value of a Qualified Joint and Survivor Annuity or a joint and 50%, 75% or 100% survivor annuity (as described in the applicable Benefit Schedule) with the spouse as beneficiary, benefits that are not directly related to retirement benefits and the value of post-retirement cost-of-living increases made in accordance with Code § 415(d) and the regulations thereunder.

(2) If the Retirement Benefit of the Participant commences before age 62, such dollar limitation shall be adjusted so that it is the actuarial equivalent of an annual benefit of the dollar limitation beginning at age 62, reduced for each month by which benefits commence before the month in which the Participant attains age 62. The Retirement Benefit beginning prior to age 62 shall be determined as the lesser of the equivalent Retirement Benefit computed using the interest rate and mortality table (or other tabular factor) equivalence for an Early Retirement Benefit specified in the Plan, and the equivalent Retirement Benefit computed using a 5 percent interest rate and the Applicable Mortality Table. Any decrease in the adjusted defined benefit dollar limitation determined in accordance with this provision (B) shall not reflect any mortality decrement to the extent that benefits will not be forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.

(3) If the Retirement Benefit of a Participant commences after age 65, the defined benefit dollar limitation shall be adjusted so that it is the actuarial equivalent of a Retirement Benefit of such dollar limitation beginning at age 65. The actuarial equivalent Retirement Benefit

beginning after age 65 shall be determined as the lesser of the actuarial equivalent Retirement Benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for purposes of determining actuarial equivalence for a Postponed Retirement Benefit, and the equivalent Retirement Benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table.

(4) Subject to limitations imposed elsewhere in this Plan, an annual benefit of \$10,000 or less may be paid regardless of the limitations set forth in paragraph (1) if the benefit paid to the Participant from all defined benefit plans of the Employer does not exceed \$10,000 for the Plan Year or any prior Plan Year, and the Employer has not at any time maintained a defined contribution plan in which the Participant participated.

(5) If a Participant has less than 10 Years of Service with the Employer at the time the Participant begins to receive Retirement Benefits under the Plan, the average compensation limitation, as well as the \$10,000 benefit exception described in subparagraph (i)(4) above, must be reduced by multiplying such limitation by a fraction, the numerator of which is the number of Years of Service with the Employer as of and including the current limitation year, and the denominator of which is 10. In the case of the dollar limitation where the Participant has less than 10 years of participation in the Plan, such limitation shall be reduced by a fraction, the numerator of which is the number of years of participation in the Plan as of and including the current limitation year, and the denominator of which is 10.

(ii) Limitation Adjustment. The rate of a Participant's benefit accrual will be automatically frozen or reduced to a level necessary to prevent the limitations of this paragraph (a) from being exceeded.

(iii) Single Plan Rule. For purposes of this paragraph (a), all defined benefit plans of the Employer (whether or not terminated) shall be considered as one defined benefit plan.

(iv) Automatic Adjustment. The limitations imposed by this paragraph (b) shall be adjusted automatically when permitted or required by law.

(v) Limitation Year. For purposes of this paragraph (a), the limitation year is the calendar year.

(vi) Employer. For purposes of this paragraph (a), "Employer" means the Employer and all Related Employers.

(vii) Transitional Rules. The limitation under subsection (a)(1) for an employee who was a Participant in the UPS Pension Plan prior to the Plan Year beginning on or after the earlier of (a) the date on which the last of the collective

bargaining agreements relating to the Plan, as of September 3, 1982, terminates or (b) January 1, 1986, shall be the greater of (i) the limitation contained in such subsection or (ii) the Participant's accrued benefit, expressed as an annual benefit, as of the last plan year beginning before the earlier of: (a) the date on which the last of the collective bargaining agreements, as of September 3, 1982, terminates or (b) January 1, 1986. For purposes of this subparagraph (7), neither changes in the terms and conditions of this Plan nor cost of living adjustments occurring after July 1, 1982 shall be taken into account except for changes in the terms and conditions of the Plan made under a collective bargaining agreement reached before July 1, 1982, and ratified prior to September 3, 1982.

(b) Incorporation by Reference. Notwithstanding anything to the contrary in this Section 4.10, the limitations on maximum benefits payable from this Plan shall be in accordance with Code Section 415 and the regulations thereunder, which are incorporated into the Plan by reference.

Section 4.11 Effect of Collective Bargaining Agreement. The provisions of this Article IV and the applicable Benefit Schedule as they apply to each Participant shall be amended from time to time by any Collective Bargaining Agreement which governs participation in this Plan for such Participant and the terms of any such Collective Bargaining Agreement are incorporated herein by reference from the date such agreement becomes binding on the Employer.

ARTICLE V
BENEFIT PAYMENTS

Section 5.1 Limitations Regarding Time of Payment of Benefits

(a) General. Benefits shall be due commencing with the first full calendar month in which the Participant has fulfilled all of the conditions for entitlement to benefits, including the requirement for advance application as set forth in Section 6.1 and ending with the payment made in the month in which the death of the Participant occurs or at such later time provided in ARTICLE IV. No benefit shall be payable for any month in which nonoccupational weekly accident and sickness benefits are paid to the Participant. Unless the Participant elects otherwise, payments authorized under this ARTICLE V shall commence no later than the sixtieth (60th) day of the close of the Plan Year in which the Participant retires provided a proper application is filed.

(b) Required Minimum Distributions. Refer to Required Minimum Distribution Addendum.

Section 5.2 Designation of Beneficiary. Each Participant shall be given the opportunity to designate a primary beneficiary and a secondary contingent beneficiary or beneficiaries, in writing, in the form and manner required by the Committee, and such beneficiary or beneficiaries may be changed by such Participant in the same manner, but such designation shall not be considered made until received by the Committee or their designees on such form and unless it is received by the Committee prior to the Participant's death. The Committee shall be the sole judges of the effectiveness of the designation or change thereof.

Section 5.3 Duplication of Benefits. A Participant shall not be entitled to the payment of more than one type of benefit under this Plan at any one time. No designation of a beneficiary shall be effective to the extent that honoring such designation would conflict with the rights of the Participant's spouse under Section 4.9, and no such designation shall be effective to the extent that, in conjunction with spousal rights under Section 4.9 or as otherwise mandated by the Retirement Equity Act of 1984, it would require duplication of benefit payments.

Section 5.4 Incompetence or Incapacity of Participant. In the event it is determined that any Participant is unable to care for his affairs because of mental or physical incapacity, the Committee may pay the benefits due such Participant to this legal guardian, or guardians, or legal representatives or, in the absence of any of them, to any relative by blood or connection by marriage who is deemed by the Committee to be entitled thereto. Payment by the Committee to such legal representative or relative of the Participant shall operate to discharge the Committee from any liability to such Participant or to anyone representing him or his interest.

Section 5.5 Suspension of Benefits.

(a) If a Participant entitled to receive benefits (which shall be deemed to include the actual receipt of such benefits) should (1) return to Covered Employment, or (2) remain in Covered Employment after attaining age 65 (in administering the Plan the Committee has consistently interpreted age 65 in this context to mean normal retirement age as defined in each of the applicable Benefit Schedules), the payment of benefits to

said Participant shall be suspended for the period in which the Participant remains employed, but not beyond the required beginning date set forth in Section 5.1(b)(1). Benefit payments will be resumed no later than the first day of the third calendar month after the month in which the Participant ceases to be employed, provided the Participant has informed the Plan Administrator that he has ceased such employment.

(b) For purposes of this Section 5.5, a period of employment as to which benefits shall be suspended means any calendar month or a four or five week period ending in a calendar month, if the Participant completes at least forty hours of service (as defined in 29 CFR § 2530.200b-2(a)(1) and (2)) with the Employer or a Related Employer in such month or payroll period.

(c) Any Participant coming under this provision will be notified by first-class mail or personal delivery within the first calendar month or payroll period in which the plan withholds the payment of retirement benefits.

(d) Any Participant may request a determination of whether specific contemplated employment will be considered employment for purposes of this Section 5.5. Request for status determinations may be submitted in accordance with the claims procedures set forth in Section 11.4.

Section 5.6 Funding Based Limitations on Benefits and Benefit Accrual for the 2008 and 2009 Plan Years.

(a) General. The limitations of this Section 5.6 shall apply effective January 1, 2008 through December 31, 2009.

(b) Funding-Based Limitation on Unpredictable Contingent Event Benefits.

(i) If a Participant would be entitled to an Unpredictable Contingent Event Benefit payable with respect to an Unpredictable Contingent Event occurring during a Plan Year, such benefit shall not be paid if the AFTAP for such Plan Year:

(A) is less than sixty percent (60%), or

(B) sixty percent (60%) or more, but would be less than sixty percent (60%) if the ATFAP were redetermined applying an actuarial assumption that the likelihood of occurrence of such event during the Plan Year is one hundred percent (100%).

(ii) Section 5.6(b)(i) shall not apply with respect to a Plan Year if the Employer makes an additional contribution or provides security in accordance with Code § 436(b)(2) and 436(f) or to the extent Section 5.6(b)(i) is otherwise inapplicable in accordance with Code § 436(f).

(c) Limitations on Plan Amendments Increasing Liability for Benefits

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- (i) No Plan amendment that has the effect of increasing liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable shall take place in a Plan Year if the AFTAP for such Plan Year:
- (A) is less than eighty percent (80%), or
 - (B) is eighty percent (80%) or more, but would be less than eighty percent (80%) if the benefits attributable to the amendment were taken into account in determining the AFTAP.
- (ii) Section 5.6(c)(i) shall not apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Code §§ 436(b)(2) and 436(f) or to the extent Section 5.6(c)(i) is otherwise inapplicable in accordance with Code § 436(f), so that the amendment shall be permitted to take effect as of the later of the first day of the Plan Year or the effective date of the amendment.
- (d) Limitations on Accelerated Benefit Distributions.
- (i) Funding Percentage Less than Sixty Percent (60%) If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), the Plan shall not pay any Prohibited Payment after the valuation date for the Plan Year.
 - (ii) Bankruptcy. During any period in which the Plan sponsor is a debtor in a case under Title 11, United States Code, or similar Federal or State law, the Plan shall not pay any Prohibited Payment. The preceding sentence shall not apply on or after the date on which the enrolled actuary for the Plan certifies that the Plan's AFTAP for the Plan is not less than one hundred percent (100%).
 - (iii) Limited Payment if Percentage is at Least Sixty Percent (60%) but Less Than Eighty Percent (80%)
 - (A) General. If the Plan's AFTAP for a Plan Year is sixty percent (60%) or greater but less than eighty percent (80%), the Plan shall not pay any Prohibited Payment after the valuation date for the Plan Year to the extent the amount of the payment exceeds the lesser of (1) fifty percent (50%) of the amount of the payment which could be made without regard to Section 5.6(d) or (2) the present value (determined under guidance prescribed by the PBGC, using the interest and mortality assumptions under Code § 417(e)) of the maximum guarantee with respect to the Participant under ERISA § 4022.
 - (B) One-Time Application. In the case of a Participant with respect to whom a Prohibited Payment (or series of Prohibited Payments

under a single optional form of benefit) is made pursuant to Section 5.6(d)(iii)(A), no additional Prohibited Payment shall be made with respect to that Participant during any period of consecutive Plan Years to which the limitations under Sections 5.6(d)(i) or 5.6(d)(ii) apply.

(e) Limitation on Benefit Accruals for Severe Funding Shortfalls

- (i) General. If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), benefit accruals under the Plan shall cease as of the valuation date for the Plan Year. If the Plan is required to cease benefit accruals under the preceding sentence, then the Plan shall not be amended in a manner that would increase the liabilities of the Plan by reason of an increase in benefits or establishment of new benefits.
- (ii) Exemption. Section 5.6(e)(i) shall not apply with respect to a Plan Year, effective as of the first day of the Plan Year, if the Company makes an additional contribution or provides security in accordance with Code §§ 436(b)(2) and 436(f) or to the extent Section 5.6(e)(i) is otherwise inapplicable in accordance with Code § 436(f).
- (iii) 2009 Plan Year. For the 2009 Plan Year, Section 5.6(e)(i) shall be applied by substituting the Plan's AFTAP for the preceding Plan Year for the Plan's AFTAP for the Plan Year, but only if the AFTAP for the preceding Plan Year is greater.

(f) Definitions. For purposes of this Section 5.6, the following terms have the following meanings:

- (i) "AFTAP" means the "Adjusted Funding Target Attainment Percentage," as described in Code § 436(j)(2).
- (ii) "Prohibited Payment" means (1) any payment, in excess of the monthly amount paid under a single life annuity (plus any social security supplements described in the last sentence of Code § 411(a)(9)), to a Participant or beneficiary whose annuity starting date (as defined in Code § 417(f)(2)) occurs during any period a limitation under Section 5.6(d)(i) or (ii) is in effect, (2) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, and (3) any other payment specified by regulations. A prohibited payment shall not include the payment of a benefit which under Code § 411(a)(11) may be immediately distributed without the consent of the Participant.
- (iii) "Unpredictable Contingent Event" means a plant shutdown (whether full or partial) or similar event, or an event (including the absence of an event) other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death or disability.

- (iv) "Unpredictable Contingent Event Benefit" means any benefit payable solely by reason of an Unpredictable Contingent Event.

Section 5.7 Funding Based Limitations on Benefits and Benefit Accrual for 2010 and later Plan Years

(a) General. The limitations of this Section 5.7 shall apply effective January 1, 2010.

(b) Funding-Based Limitation on Unpredictable Contingent Event Benefits.

- (i) If a Participant would be entitled to an Unpredictable Contingent Event Benefit payable with respect to an Unpredictable Contingent Event occurring during a Plan Year, such benefit shall not be paid if the AFTAP for such Plan Year:
- (A) is less than sixty percent (60%), or
 - (B) sixty percent (60%) or more, but would be less than sixty percent (60%) if the ATFAP were redetermined applying an actuarial assumption that the likelihood of occurrence of such event during the Plan Year is one hundred percent (100%).
- (ii) Section 5.7(b)(i) shall not apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Treasury Regulation§ 1.436-1(f) or to the extent Section 5.7(b)(i) is otherwise inapplicable in accordance with Treasury Regulation§ 1.436-1(f).

(c) Limitations on Plan Amendments Increasing Liability for Benefits

- (i) No Plan amendment that has the effect of increasing liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable shall take place in a Plan Year if the AFTAP for such Plan Year:
- (A) is less than eighty percent (80%), or
 - (B) is eighty percent (80%) or more, but would be less than eighty percent (80%) if the benefits attributable to the amendment were taken into account in determining the AFTAP.
- (ii) Section 5.7(c)(i) shall not apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Treasury Regulation§ 1.436-1(f) or to the extent Section 5.7(b)(i) is otherwise inapplicable in accordance with Treasury Regulation§ 1.436-1(f), so that the amendment shall be permitted to take

effect as of the later of the first day of the Plan Year or the effective date of the amendment.

(d) Limitations on Accelerated Benefit Distributions.

- (i) Funding Percentage Less than Sixty Percent (60%) If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), a Participant or beneficiary shall not be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment, with an Annuity Starting Date on or after the applicable Section 436 Measurement Date.
- (ii) Bankruptcy. During any period in which the Plan sponsor is a debtor in a case under Title 11, United States Code, or similar Federal or State law, no Participant or beneficiary shall be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment. The preceding sentence shall not apply to payments made within a Plan Year with an Annuity Starting Date that occurs on or after the date on which the enrolled actuary for the Plan certifies that the Plan's AFTAP for that Plan Year is not less than one hundred percent (100%).
- (iii) Limited Payment if Percentage is at Least Sixty Percent (60%) but Less Than Eighty Percent (80%)
 - (A) General. If the Plan's AFTAP for a Plan Year is sixty percent (60%) or greater but less than eighty percent (80%), no Participant or beneficiary shall be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment, with an Annuity Starting Date on or after the Applicable Section 436 Measurement Date. The preceding sentence shall not apply if the Present Value of the portion of the benefit that is being paid in a Prohibited Payment (as described in Treasury Regulation§ 1.436-1(d)(3)(iii)(B)) does not exceed the lesser of (1) fifty percent (50%) of the Present Value of the benefit payable in the optional form of benefit that includes the Prohibited Payment or (2) one hundred percent (100%) of the PBGC maximum benefit guarantee amount (as described in Treasury Regulation§ 1.436-1(d)(3)(iii)(C)).
 - (B) Bifurcation Rules. If an optional form of benefit that is otherwise available under the terms of the Plan is not available as of the Annuity Starting Date because of the application of Section 5.7(d)(3)(A), then the Participant or beneficiary shall be permitted to elect to (1) receive the unrestricted portion of the optional form of benefit (determined under the rules of Treasury Regulation§ 1.436-1(d)(3)(iii)(D)) at that Annuity Starting Date,

determined by treating the unrestricted portion of the benefit as if it were the Participant's or beneficiary's entire benefit under the Plan, (2) commence benefits with respect to the Participant's or beneficiary's entire benefit under the Plan in any other optional form of benefit available under the Plan at the same Annuity Starting Date that satisfies Treasury Regulation§ 1.436-1(d)(3)(i), or (3) defer commencement of the payments to the extent described in Treasury Regulation§ 1.436-1(d)(5). If the Participant or beneficiary elects payment of the unrestricted portion of the benefit (determined under the rules of Treasury Regulation§ 1.436-1(d)(3)(iii)(D)) under Section 5.7(d)(iii)(B)(1), then the Participant or beneficiary shall be entitled to elect payment of the remainder of the Participant's or beneficiary's benefits under the Plan in any optional form of benefit at that Annuity Starting Date otherwise available under the Plan that would not have included a Prohibited Payment if that optional form applied to the entire benefit of the Participant or beneficiary.

- (C) One-Time Application. In the case of a Participant with respect to whom a Prohibited Payment (or series of Prohibited Payments under a single optional form of benefit) is made pursuant to Section 5.7(d)(iii)(A), no additional Prohibited Payment shall be made with respect to that Participant during any period of consecutive Plan Years to which the limitations under Sections 5.7(d) apply.

(e) Limitation on Benefit Accruals for Severe Funding Shortfalls

- (i) General. If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), benefit accruals under the Plan shall cease as of the applicable Section 436 Measurement Date. If the Plan is required to cease benefit accruals under the preceding sentence, then the Plan shall not be amended in a manner that would increase the liabilities of the Plan by reason of an increase in benefits or establishment of new benefits.
- (ii) Exemption. Section 5.7(e)(i) shall not apply with respect to a Plan Year, effective as of the first day of the Plan Year, if the Company makes an additional contribution or provides security in accordance with Treasury Regulation§ 1.436-1(f) or to the extent Section 5.7(b)(i) is otherwise inapplicable in accordance with Treasury Regulation§ 1.436-1(f).

(f) Special Rules of Operation for Periods Prior to and After Certification

- (i) Periods Prior to Certification During Which a Presumption Applies. For any period during which a presumption under Code § 436(h) and Treasury Regulation § 1.436-1(h)(1), (2) or (3) applies to the Plan, the limitations under Sections 5.7(b), (c), (d) and (e) shall be applied to the Plan as if the

AFTAP for the year were the presumed AFTAP determined under the rules of Code § 436(h) and Treasury Regulation § 1.436-1(h)(1), (2) or (3), as applicable, updated to take into account certain Unpredictable Contingent Event Benefits and plan amendments in accordance with Code § 436 and Treasury Regulation § 1.436-1(g).

- (ii) Periods After Certification of AFTAP. Section 5.7(f)(i) shall no longer apply for a Plan Year on and after the date an enrolled actuary for the Plan issues a certification of the AFTAP of the Plan for the current Plan Year, provided that the certification is issued before the first day of the tenth (10th) month of the Plan Year. For example, the limitations on Prohibited Payments under Section 5.7(d) shall apply for distributions with Annuity Starting Dates on and after the date of such certification using the certified AFTAP of the Plan for the Plan Year. Similarly, the prohibitions on accruals under Section 5.7(e) as a result of the enrolled actuary's certification that the AFTAP of the Plan for the Plan Year is less than sixty percent (60%) shall be effective as of the date of the certification, and any prohibition on accruals shall cease to be effective on the date the enrolled actuary issues a certification that the AFTAP for the Plan for the Plan Year is at least sixty percent (60%).

(g) Definitions. For purposes of this Section 5.7, the following terms have the following meanings:

- (i) "AFTAP" means the "Adjusted Funding Target Attainment Percentage," as described in Code § 436(j)(2) and Treasury Regulation § 1.436-1(j)(1).
- (ii) "Annuity Starting Date" has the meaning described in Treasury Regulation § 1.436-1(j)(2).
- (iii) "Prohibited Payment" means (1) any payment for a month that is in excess of the monthly amount paid under a straight life annuity (plus any social security supplements described in the last sentence of Code § 411(a)(9)), to a Participant or beneficiary whose annuity starting date occurs during any period a limitation under Section 5.7(d) is in effect, (2) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, (3) any transfer of assets and liabilities to another Plan maintained by the Company (or by any member of the Company's controlled group) that is made in order to avoid or terminate the application of the benefit limitations under Code § 436, and (4) any other amount that is identified as a Prohibited Payment in IRS revenue rulings and procedures, notices, and other guidance published in the Internal Revenue Bulletin. A prohibited payment shall not include the payment of a benefit which under Code § 411(a)(11) may be immediately distributed without the consent of the Participant.

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- (iv) “Section 436 Measurement Date” has the meaning described in Treasury Regulation § 1.436-1(j)(8).
 - (v) “Unpredictable Contingent Event” means a plant shutdown (whether full or partial) or similar event, or an event (including the absence of an event) other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death or disability.
 - (vi) “Unpredictable Contingent Event Benefit” means any benefit or increase in benefits to the extent the benefit or increase would not be payable but for the occurrence of an Unpredictable Contingent Event.

ARTICLE VI
APPLICATIONS AND PROOF

Section 6.1 Application. Each Participant or former Participant shall make written application to the Committee, or their designated representative, for the benefits, if any, to which he is entitled under this Plan at least sixty (60) days, but not more than ninety (90) days, in advance of the first day of the month on which the benefits applied for are to be paid, on a form or forms to be provided by the Employer for this purpose. The Committee may require each applicant for retirement benefits to submit such information as may reasonably be required for the proper administration of the Plan. Except for good cause shown, or unless the delay is due to the failure of the Committee to furnish the necessary information to the Employee at his last known address as indicated on the Employer's records, failure to submit such an application within the time prescribed shall result in the forfeiture of any benefits that would have been payable, had the application been timely filed, prior to the date on which such an application is delivered to the Committee. When any Participant elects any of the options provided by the Plan, he must make such election on a properly completed pension application form and in the manner within the time prescribed above.

Section 6.2 Information and Proof. Every Participant shall furnish, at the request of the Committee, any information or proof reasonably required for the administration of the Plan or for the determination of any matter that the Committee may legitimately have before them. The falsity of any statement material to an application or the furnishing of fraudulent information or proof shall be sufficient reason for the recapture, by means of suspension or discontinuance of benefits, or otherwise, of any excess benefit, if any, paid under this Plan.

Section 6.3 Action of Committee. The Committee shall be the sole judges of:

- (a) the standard of proof required in any case
- (b) the application and interpretation of this Plan
- (c) the correctness of the computation of Service Credit.

The decision of the Committee with respect to any of the foregoing shall be final and binding on all parties, subject to the claims procedure set forth in Section 11.4. Wherever in the Plan the Committee are given discretionary powers, the Committee shall exercise such powers in a uniform and non-discriminatory manner.

Section 6.4 Employer Records. For purposes of this Plan and the Trust Agreement established as a part thereof, the records of the Employer with respect to Service Credit, Covered Employment, termination of service, military service, and any and all other matters pertaining to the employment and participation of an Employee in this Plan shall be controlling.

ARTICLE VII
FUNDING OF BENEFITS

Section 7.1 Funding Method and Policy. The Employers shall contribute to the Plan with respect to each Plan Year an amount sufficient to satisfy their obligations hereunder and the minimum funding standard, which shall be considered met if at the end of each Plan Year, the Plan insofar as it relates to each Employer does not have an accumulated funding deficiency, as defined in ERISA § 302. Additional amounts may be contributed, in the Employer's discretion.

The funding method shall be contributions from the Employers and the funding policy shall be such as is consistent with the objectives of the Plan.

Section 7.2 Establishment of Funding Standard Account. The Committee hereby establishes a funding standard account which shall be maintained in accordance with ERISA § 302. Each Employer shall contribute to the Plan with respect to each Plan Year an amount sufficient to prevent the occurrence of an accumulated funding deficiency insofar as it is concerned. The Committee shall notify each Employer of the existence of an accumulated funding deficiency but failure to so notify the Employer shall not relieve the Employer from their obligations hereunder. The Committee shall take whatever action is appropriate to prevent an accumulated funding deficiency, including making application for a variance from the minimum funding standard or an extension of amortization periods, or establishing an alternative minimum funding standard in accordance with ERISA §§ 303, 304 and 305.

Section 7.3 Payment of Contributions. An Employer may pay its contribution for any Plan Year on any date or dates, provided, however, that the total amount of the Employer's contribution for any Plan Year shall be paid in full not later than the last day for timely filing of its Federal income tax return for the year with respect to which the contribution is made, including extensions thereof granted by the Internal Revenue Service. In determining when to make its contributions as aforesaid, the Employer shall be mindful of the quarterly contribution rules described in Code § 412(m).

Section 7.4 Forfeitures. Forfeitures arising under this Plan, if any, shall be applied to reduce Employer contributions and shall not be used or applied to increase the benefits any Employee would otherwise be entitled to receive hereunder.

Section 7.5 Contributions by Employer. All contributions to this Plan to fund the benefits described in the Benefit Schedules shall be made only by the Employers.

Section 7.6 Permissible Contributions and Irrevocability. Any amounts contributed by the Employer pursuant to this Article VII may be contributed by the Employer in cash or other property. In no such event and under no circumstances shall such contributions, or any part thereof, revert to or be recoverable by the Employer until all obligations under this Plan have been fully satisfied as provided in Section 7.3, except as follows:

- (a) in the case of a contribution, or any part thereof, made under a mistake of fact, the Employer may recover such contribution within one year of payment; and

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- (b) because all contributions are conditioned on deductibility, in the event that a contribution cannot be deducted by the Employer pursuant to Code § 404, the Employer shall recover such contribution, to the extent disallowed, within one year after the disallowance of the deduction.

The amount which may be returned to the Employer is the excess of: (a) the amount contributed by the Employer over (b) the amount that would have been contributed by the Employer had there not occurred a mistake of fact or a mistake in determining the deduction. Earnings attributable to the excess contribution may not be returned to the Employer, but losses attributable thereto must reduce the amount to be so returned.

ARTICLE VIII
[RESERVED]

ARTICLE IX
[RESERVED]

ARTICLE X
AMENDMENT, TERMINATION; MERGER

Section 10.1 Right to Amend or Terminate. The Employers hope, and expect, to continue this Plan and the funding of benefits hereunder indefinitely; but such continuance is not assumed as a contractual obligation and, in order to protect both Participants and the Employers against unforeseen contingencies, the Employers expressly reserve the right, by action of their boards of directors, to discontinue contributions to this Plan or to terminate this Plan at any time with respect to its Participants, without the consent of any party. The right to amend this Plan in any respect or particular is vested exclusively in the Board of Directors which right is not conditional on the consent or approval of any other Employer. Additionally, any amendment or modification may be made retroactive, if necessary or appropriate to qualify or maintain the Plan as a qualified Plan within the meaning of Code § 401(a), and to qualify or maintain the Trust as tax exempt under Code § 501(a), and the regulations issued thereunder. Notice of any amendment or modification of the Plan may be given by posting, by mail, or by such other means as may be acceptable under ERISA.

Section 10.2 Withdrawal of Employer. Any Employer, by action of its board of directors, may withdraw from the Plan at any time.

Section 10.3 Liquidation of Trust Fund. Upon termination or partial termination of the Plan, each affected Participant's benefits, determined prior to the date of termination, shall become fully vested and non-forfeitable, to the extent funded and to the extent such benefit is not restricted pursuant to the provisions of Section 10.9 herein. The assets of the Trust Fund, shall be allocated among Participants and beneficiaries, after payment of administration expenses of the Plan, in the following order of priority as modified by the provisions of Treasury Regulations § 1.414(l)-1(f) or (h) if a special schedule of benefits (as defined in the regulations) is in effect as a result of a plan merger within the five year period prior to the date of termination:

(a) Benefits Payable Three Years Prior to Termination First, to provide benefits that become payable three or more years before the date of termination of the Plan, or that would have become payable had the Participant retired immediately prior to the beginning of such three year period, provided that

(i) the benefit payable to a Participant or beneficiary (or that could have been payable) shall be based on the provisions of the Plan in effect during the five year period prior to the date of termination of the Plan; and further provided that,

(ii) the lowest benefit payable during such three year period shall be considered the benefit payable for purposes of this category (a).

(b) Other Benefits Eligible for Termination Insurance. Second, to the extent that a benefit has not been provided in category (a), the remaining assets shall be allocated to provide any benefit provided under the Plan for Participants and beneficiaries to the extent guaranteed by the Pension Benefit Guaranty Corporation pursuant to Title IV of ERISA.

(c) Other Benefits. To the extent that a benefit under the Plan has not been provided in the foregoing categories, the assets of the Plan shall be allocated to provide all other non-forfeitable benefits under the Plan and, finally, to provide all other benefits under the Plan.

If the assets of the Trust Fund applicable to any of the above categories are insufficient to provide full benefits for all persons in such group, the benefits otherwise payable to such persons shall be allocated pro rata on the basis of the present value of benefits as of the termination date. The Actuary shall calculate the allocation of the assets of the Trust Fund in accordance with the above priority categories, and certify his calculations to the Committee. Each of the above classes shall be divided into subclasses, giving first preference within the class to those Participants over 65 and those beneficiaries receiving benefits; second preference to Participants over 60 years of age; third preference to Participants over 55 years of age; fourth preference to Participants under 55 years of age having a deferred vested benefit; and fifth preference to all others. The Committee may establish additional subclasses within the classes set forth in subsection (a), (b), and (c).

Section 10.4 Finality of Payment. Prior to making any distribution under the terms of Section 10.3, the Committee shall satisfy itself that this procedure complies with applicable law and shall obtain such waivers and authorizations from Participants and beneficiaries as it deems advisable.

Section 10.5 Non-diversion of Assets. Except as provided in Section 7.6 hereof, regarding return of contributions no part of the assets of the Trust, by reason of any amendment or otherwise, shall at any time be used for, or diverted to, purposes other than for the exclusive benefit of Participants, former Participants, or their beneficiaries, and for the payment of administrative expenses under the Plan, or as will cause, or permit the assets of the Trust to revert to, or become the property of an Employer at any time prior to the satisfaction of all liabilities under the Plan. When all such liabilities have been satisfied, any assets remaining will revert to the Employers.

Section 10.6 Committee Functions during Termination. If the Plan is terminated, the Committee in office at the time of such termination shall continue to act with its full powers hereunder until the completion of the allocation and distribution of the assets of the Trust Fund as in this Article X provided; and a majority of the members of the Committee then in office shall have the power to fill any vacancies occurring in the Committee after such termination by resignation, death, or otherwise. In the event the Committee within a reasonable time after such termination shall not have provided for such allocation and distribution, the Board of Directors shall succeed to all powers and duties of the Committee and shall provide for such allocation and distribution of the assets of the Trust Fund.

Section 10.7 Notice of Termination. Notice of termination of the Plan, in whole or in part, shall be deemed adequately given if an Employer of the Committee mails written notice of the same to the latest address on file of each Participant or beneficiary who is affected by such termination; or by such other means as may be acceptable under ERISA.

Section 10.8 Merger and Consolidation of Plan, Transfer of Assets In the case of any merger or consolidation with, or transfer of assets and liabilities to, any other plan, provisions shall be made so that each Participant in the Plan on the date thereof (if the Plan then terminated) would receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately prior to the merger, consolidation or transfer if the Plan had been terminated.

Section 10.9 Discontinuance of Plan Within Ten Years of Amendment In the event that the Plan is discontinued by any Employer within ten (10) years after any amendment to the Plan which increases the benefits payable under the Plan, or if the full current costs (including current service contributions and interest on any unfunded liability for the initial cost of retroactive increases in benefits not covered by current service contributions) are not met by such Employer during such ten (10) year period, the contributions which may be used to provide benefits for any one of the twenty-five (25) most highly compensated employees on the effective date of such amendment, whose anticipated retirement annuity based upon the rate of compensation as of that date would be more than \$1,500 per year, until such full current costs are funded for the first time, shall not exceed the greatest of:

- (a) The total contributions which would have been applied to provide a retirement annuity for any such employee if the Plan prior to such amendment had continued without change;
- (b) \$20,000; or
- (c) The amount which would have been provided by contributions under the Plan prior to such amendment if the Plan had been terminated the day before the effective date of such amendment, plus an amount computed by multiplying the number of years during which current costs beginning with the effective date of such amendment are met by (i) 20% of any such employee's annual compensation or (ii) \$10,000, whichever is less.

Any excess reserves resulting from the application of the foregoing provisions of this Section shall be used and applied toward the funding of the benefits due to other Participants in the Plan who are employees of such Employer, in accordance with the provisions of the Plan.

If the Plan is in full force and effect and the full current costs have been met, the foregoing conditions shall not restrict the current payment of full benefits called for by the Plan to any Participant. The limitations of this Section shall be inapplicable to the extent the Commissioner of Internal Revenue or his duly authorized representative may later rule that the limitations are no longer necessary for the Plan to meet the requirements for qualifications under the Internal Revenue Code.

If this Plan is not terminated within the period specified above, the benefits, if any, which have been withheld from a Participant in accordance with this Section shall be turned over to the Participant or his representative at the end of said period or as soon thereafter as the full current costs of the Plan attributable to the said period have been met for the first time.

If this Plan is terminated within any of the said periods or thereafter, but before the full current costs of the Plan attributable to any of the said periods have been met for the first time, then any benefits which have been withheld from a Participant in accordance with this Section shall, upon termination of this Plan, be distributed as provided in Section 10.3, except that no part of such funds shall be distributed or used to fund benefits for any Participant who is affected by the limitations of this Article.

ARTICLE XI
ADMINISTRATION

Section 11.1 Establishment of Administrative Committee. The Plan shall be operated and administered by an Administrative Committee consisting of not less than three (3) members ("named fiduciaries"), who shall be appointed by the Board of Directors. The Administrative Committee shall be the Plan Administrator as that term is used in ERISA, agent for service of process on or with respect to the Plan and a named fiduciary with respect to the Plan. Committee members may be removed at any time by the Board of Directors and may resign at any time, such resignation to be effective when accepted by the Board of Directors. All vacancies shall be filled by the Board of Directors. The Committee may appoint from their number such committees, which may include individuals not members of the Committee, with such powers as they shall determine; may authorize one (1) or more of their number, or any agent, to execute or deliver any instrument, or to make any payment in their behalf; and may employ legal counsel (who shall not be an employee of an Employer), actuaries, agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. The Committee shall meet at least once during each calendar quarter. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee at a meeting shall be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by all of the members of the Committee.

The Committee, acting as agent for the Employer, may from time to time appoint additional named fiduciaries with respect to the Plan for the purpose of facilitating the investment of Plan's assets and each named fiduciary appointed by the Committee shall have such powers, duties, obligations and responsibilities as the Committee shall prescribe in its appointment.

Section 11.2 Delegation of Specific Responsibilities. The members of the Committee may agree in a writing signed by each member to allocate to any one of their number or to other persons (including corporations) any of the responsibilities with which they are charged pursuant hereto, including the appointment of an investment manager to manage the investments of the Trust Fund, provided the responsibilities and duties so delegated are definitively set forth so that the person to whom the delegation is made is clearly aware of such duties and responsibilities. If such delegation is made to a person not a member of the Committee, that person or, in the case of a corporation, its responsible officer, shall acknowledge the acceptance and understanding of such duties and responsibilities.

Section 11.3 Power to Establish Regulations. The Committee shall establish rules and regulations for the administration of the Plan and the Committee. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and decide any matters arising in the administration and operation of the Plan, and any interpretations or decisions so made shall be conclusive and binding on all persons; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Employees and Participants similarly situated.

Section 11.4 Claims Procedure.

- (a) All claims for benefits hereunder shall be directed to the Committee or to a member of the Committee designated for that purpose. Within ninety (90) days following receipt of a claim for benefits, the UPS Corporate Benefits Department manager responsible for the day-to-day operation of the Plan (the "Initial Reviewer") shall determine whether the claimant is entitled to benefits under the Plan, unless additional time is required for processing the claim. In this event, the Initial Reviewer shall, within the initial ninety (90)-day period, notify the claimant that additional time is needed, explain the reason for the extension, and indicate when a decision on the claim will be made. If prior to the end of the initial thirty (30)-day extension, the Initial Reviewer determines that, due to matters beyond the control of the Plan, a decision cannot be made within the extension period, the period may be further extended for up to an additional thirty (30) days, provided that the Initial Reviewer notifies the claimant prior to the expiration of the first thirty (30)-day extension of the circumstances requiring the extension and the date as of which the Plan expects to make a decision. The claimant shall have forty-five (45) days within which to provide the specified information unless the Initial Reviewer gives a longer period in the notification of the extension.
- (b) A denial by the Initial Reviewer of a claim for benefits shall be stated in writing and delivered or mailed to the claimant. Such notice shall set forth the specific reasons for the denial, written in a manner calculated to be understood by the claimant. The notice shall include specific reference to the Plan provisions on which the denial is based and a description of any additional material or information necessary to perfect the claim, an explanation of why this material or information is necessary, and the steps to be taken if the claimant wishes to submit his claim for review, a description of the Plan's review procedures, and the time limits applicable to such procedures, and a statement of the claimant's right to bring a civil action under ERISA § 502(a) following an adverse benefit determination upon review.
- (c) The Committee shall afford a reasonable opportunity to any claimant whose request for benefits has been denied for a review of the decision denying the claim. The review must be requested by written application to the Committee within sixty (60) days following receipt by the claimant of written notification of denial of his claim. Pursuant to this review, the claimant or his duly authorized representative may review any documents, records and other information which are pertinent to the denied claim and submit issues and comments in writing. A claimant may also submit documents, records and other information relating to his claim, without regard to whether such information was submitted in connection with his original benefit claim.
- (d) A decision on the claimant's appeal of the denial of benefits shall ordinarily be made by the Committee at the next regularly scheduled meeting that immediately follows the receipt of the request for review, unless the request for review is

received within 30 days of such meeting date. In that case, the review will occur at the second regularly scheduled meeting following the Plan's receipt of the request for review. If an extension of time is required because of special circumstances, the Committee will provide the claimant with written notice of the extension describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. A benefit determination will be made no later than the third regularly scheduled meeting of the Committee following the Plan's receipt of the request for review.

The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, specific reference to the Plan provisions on which the decision is based, and a statement that the claimant or his authorized personal representative may review any documents and records relevant to the claim determination, a statement describing further voluntary appeals procedures, if any, and a statement of the claimant's right to bring civil action under ERISA § 502(a).

Section 11.5 Forfeiture in Case of Unlocatable Participant or Beneficiary. If the Committee is unable to pay benefits to any Participant or beneficiary who is entitled to benefits hereunder when such benefits are due because the identity or whereabouts of such person cannot be ascertained, the Committee shall proceed as follows:

- (a) As soon as administratively possible after the Committee has determined that a Participant or beneficiary cannot be paid due to the circumstances stated above, the Committee shall submit the last known address, and any other information the Committee deems appropriate, to a locator service in accordance with IRS procedures.
- (b) If the locator service provides the Committee with a new address for the Participant or beneficiary, the Committee shall mail the benefit payment to the new address as soon as administratively possible after such new address is known. If the locator service fails to identify a new address for the Participant or beneficiary, all amounts held for his benefit shall be forfeited as of the last day of the Plan Year in which the locator service notifies the Committee that it cannot locate the individual. Upon forfeiture, all liability for payment of the benefit shall thereupon terminate. In any such case, the funds released as a result of such forfeiture shall be dealt with as provided in Section 7.4. However, if an individual subsequently makes what the Committee determines to be a valid and proper claim to the Committee for such amounts, the account or accounts will be restored and will be distributable without interest in accordance with the terms of this Plan.

Section 11.6 Liability of the Committee. The Committee and the members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan solely in the interests of the Plan's Participants and their beneficiaries, and for the exclusive purpose of providing benefits thereto in accordance with the terms of the Plan and to defray the reasonable administration expenses thereof. In all such actions or omissions the Committee and

each member thereof shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims; provided, however, that no member shall be responsible for the actions or omissions of a member or any other party that is a fiduciary with respect to this Plan, other than himself, which are not in conformity hereto, unless such member knowingly participates in or knowingly conceals such conduct which he knows to be in breach of this standard, his own conduct has enabled the other member or other fiduciary to be in breach of this standard, or he has knowledge of such breach by another member or other fiduciary and fails to make reasonable efforts under the circumstances to remedy such breach.

Section 11.7 Fiduciary Responsibility Insurance; Bonding. If the Employer has not done so, the Committee may direct the purchase of appropriate insurance on behalf of the Plan and the Plan's fiduciaries, including the members of the Committee, to cover liability or losses occurring by reason of the acts or omissions of a fiduciary; provided, however, that to the extent purchased by the Plan such insurance must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary duty or obligation by such fiduciary. The cost of such insurance shall be borne by the Fund, unless the insurance is provided by and paid for by the Employer. The Committee shall also obtain a bond covering all the Plan's fiduciaries, to be paid from the assets of the Trust Fund.

Section 11.8 Meetings of Committee. The Committee shall hold meetings at least once during each calendar quarter upon such notice, at such place or places, and at such time or times as it may determine from time to time. Notice of a meeting may be waived in writing.

Section 11.9 Compensation of Committee. The members of the Committee may receive reasonable compensation for their services as the Board of Directors may from time to time determine. Such compensation and all other expenses of the Committee, including the compensation of officers, actuaries or counsel, agents or others that the Committee may employ, shall be paid out of the Trust Fund, unless paid by the Employer. Notwithstanding the foregoing, any Committee member who is employed on a full-time basis by an Employer shall receive no compensation, but may be reimbursed for expenses incurred.

Section 11.10 Reliance by Committee. Board of Directors and Committee members shall be fully protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any actuary, accountant, legal counsel (other than an employee of an Employer), or physician, and all action so taken or suffered shall be conclusive upon all Participants and beneficiaries, and any other person claiming under the Plan.

Section 11.11 Books and Records. The Committee shall keep appropriate books and records.

Section 11.12 Disbursements. The Committee shall determine the manner in which the Trust Fund shall be disbursed under the terms of the Plan and Trust Agreement.

Section 11.13 Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration. The fiduciaries hereunder, including the trustee, the Employers, the Board of

Directors and the Committee, shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan or the Trust Agreement. In general, the Employers shall have the sole responsibility for making the contributions necessary to provide benefits under the Plan as specified in Article V, and the Board of Directors shall have the sole authority to appoint and remove the trustee, members of the Committee and to amend or terminate, in whole or in part, this Plan or the Trust, except as otherwise provided. The Committee shall have the sole responsibility for the appointment and removal of any Investment Manager which may be provided for under the Trust and the administration of this Plan, which responsibility is specifically described in this Plan and the Trust. Subject to any direction from the Committee, the Trustee shall have the responsibility for the administration of the Trust and the management of the assets held under the Trust, all as specifically provided in the Trust. Each fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust, as the case may be, authorizing or providing for such direction, information or action. Furthermore, each fiduciary may rely upon any such direction, information or action of another fiduciary as being proper under this Plan or the Trust, and is not required under this Plan or the Trust to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust that each fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust and shall not be responsible for any act or failure to act of another fiduciary. No fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

Section 11.14 Withholding of Income Tax.

(a) Notification of Withholding of Federal Income Tax. All Participants and beneficiaries entitled to receive benefits under the Plan shall be notified of the Plan's obligation to withhold federal income tax from any benefits payable pursuant to the terms of the Plan. Such notice shall be in writing, be given at the times set forth in subsection (b) and contain the information set forth in subsection (c) of this Section.

(b) Time of Notice. The notice described in subsection (a) shall be provided not earlier than six months before such payment is to be made and not later than the time the Participant or beneficiary is furnished with his or her claim for benefits application.

(c) Content of the Notice. The notice required by subsection (a) shall, at a minimum:

(i) with respect to any distribution which is an eligible rollover distribution within the meaning of Code § 3405(c)(3) (other than an eligible rollover distribution of less than \$200 which is exempt from withholding under regulations prescribed by the Secretary of the Treasury), advise the payee that there shall be withheld from such distribution an amount equal to 20 percent thereof (or such other amount as may from time to time be prescribed by the Code, or the Secretary of the Treasury or his delegate), unless the payee directs the Committee to transfer such distribution as a direct rollover to an eligible retirement plan, within the meaning of Section 11.15 hereof, in accordance with such procedures as the Committee may prescribe (a "transfer direction"),

(ii) with respect to any distribution which is not an eligible rollover distribution within the meaning of Code § 3405(c)(3):

(1) advise the payee of his or her right to elect not to have withholding apply to any payment or distribution and explain the manner in which such election may be made, and include or indicate the source of any forms necessary to make the election;

(2) advise the payee of his or her right to revoke such an election at any time;

(3) advise the payee that any election remains effective until revoked;

(4) advise the payee that penalties may be incurred under the estimated tax payment rules if the payee's payments of estimated tax are not adequate and sufficient tax is not withheld from payments under this Plan; and

(5) advise the payee that the election not to have federal income tax withheld from benefits is prospective only and that any election made after a payment or distribution to the payee is not an election with respect to such payment or distribution.

(d) Effective Date of Election. Any transfer direction, election or revocation of any election by a payee shall become effective immediately upon receipt by the Committee of the transfer direction, election or revocation. Thereafter, the Committee shall, unless otherwise provided by applicable law, regulation or other guidance by the Secretary of the Treasury or his delegate, withhold federal income tax in accordance or consistent with the instructions filed by the payee.

(e) Failure to Make Election.

(i) In the case of an eligible rollover distribution, if the payee fails to provide the Committee with a transfer direction, the Committee shall withhold an amount equal to 20% of the amount of the distribution (or such other amount as may be from time prescribed by the Code, or the Secretary of the Treasury or his delegate).

(ii) In the case of a distribution which is not an eligible rollover distribution, if the payee fails to provide the Committee with a withholding certificate, the Committee shall withhold, in the case of a periodic distribution, the amount which would be required to be withheld from such payment if such payment were a payment of wages by an employer to an employee for the appropriate payroll period, determined as if the payee were a married person claiming three withholding allowances. In the case of a nonperiodic distribution, 10% of the amount of the distribution shall be withheld.

(f) Coordination with Internal Revenue Code and Regulations Notwithstanding the foregoing, the Committee shall discharge their withholding and notice obligations in accordance with the Code and regulations and such other guidance with respect thereto as may be promulgated from time to time by the Secretary of the Treasury or his delegate.

Section 11.15 Direct Rollover

(a) With respect to any distribution of \$200 or more described in Article IV which constitutes an eligible rollover distribution within the meaning of Code § 401(a)(31)(C), the distributee thereof shall, in accordance with procedures established by the Committee, be afforded the opportunity to direct that such distribution be transferred directly to the trustee of an eligible retirement plan (a "direct rollover"). For purposes of the foregoing sentence, an "eligible retirement plan" is (1) a qualified trust within the meaning of Code § 402 which is a defined contribution plan the terms of which permit the acceptance of rollover distributions, (2) an individual retirement account or annuity within the meaning of Code § 408 (other than an endowment contract), or (3) an annuity plan within the meaning of Code § 403(a), which is specified by the distributee in such form and at such time as the Committee may prescribe, and effective for distributions made after December 31, 2001, an (4) an annuity contract within the meaning of in Code § 403(b), (5) an eligible retirement plan within the meaning of Code § 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for the amounts transferred into such plan from this Plan and (6) effective for distributions made after December 31, 2009, an individual retirement plan described in Code § 408A (a "Roth IRA"). The definition of "eligible retirement plan" shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relations order, within the meaning of Code § 414(p).

Notwithstanding any contrary provision in this Addendum M, effective for distributions made after December 31, 2009, a beneficiary who is not the Participant's or the former Participant's surviving spouse and who is not the Participant's or former Participant's spouse or former spouse who is an alternate payee under a qualified domestic relations order, shall in accordance with procedures established by the Committee, be afforded the opportunity to have any portion of a distribution paid in a direct trustee-to-trustee transfer to an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), or a Roth IRA, each of which is established for the purpose of receiving such distribution on behalf of such beneficiary and is treated as an inherited individual retirement account or individual retirement annuity (within the meaning of Code § 408(d)(3)(C)) for purposes of Code § 402(c)(11) (each, an "Inherited IRA"). The minimum distribution rules of Code § 401(a)(9) as described in the Required Minimum Distribution Addendum to Appendix M shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

(b) Notwithstanding the foregoing, if the distributee elects to have his eligible rollover distribution paid in part to him and part as a direct rollover:

(A) The direct rollover must be in an amount of \$500 or more; and

(B) A direct rollover to two or more eligible retirement plans shall not be permitted.

(c) The Committee shall, within a reasonable period of time prior to making an eligible rollover distribution from this Plan, provide a written explanation to the distributee of the direct rollover option described above, as well as the provisions under which such distribution will not be subject to tax if transferred to an eligible retirement plan within 60 days after the date on which the distributee received the distribution.

Section 11.16 USERRA. Notwithstanding anything in this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Code § 414(u).

Effective for Plan Years beginning after December 31, 2006, in the case of a Participant who dies while performing qualified military service (as defined in Code § 414(u)), the Participant's beneficiary shall be entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed and then terminated employment on account of death.

ARTICLE XII
GENERAL PROVISIONS

Section 12.1 **Prohibition Against Attachment**

- (a) None of the benefits payable hereunder shall be subject to the claims of any creditor of any Participant or beneficiary nor shall the same be subject to attachment, garnishment or other legal or equitable process by any creditor of the Participant or beneficiary, nor shall any Participant or beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of such benefits.
- (b) If any Participant or beneficiary under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, the interest of such person in such benefit shall, in the discretion of the Committee, cease and terminate, and in that event the Committee may direct the Trustee to hold or apply the same or any part thereof to or for the benefit of such Participant or beneficiary, his spouse, Domestic Partner, children, or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.
- (c) Exception to general prohibition against attachment for Qualified Domestic Relations Orders.
 - (i) **General rule.** The restrictions of subsection (a) and subsection (b) of this Section 12.1 will not be violated by either (A) the creation of a right to payments from this Plan by reason of a Qualified Domestic Relations Order or (B) the making of such payments.
 - (ii) **Definition of Qualified Domestic Relations Order.** For purposes of this subsection (c), the term “Qualified Domestic Relations Order” means any judgment, decree, or order (including approval of a property settlement agreement), made pursuant to a State domestic relations law (including a community property law), which relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child, or other dependent of a Participant (an “Alternate Payee”) and which:
 - (A) creates or recognizes the right of an Alternate Payee to, or assigns to any Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under this Plan;
 - (B) clearly specifies (i) the name and last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order, (ii) the amount or percentage of the Participant’s benefits to be paid by the Plan to each Alternate Payee, or the manner in which such amount or percentage is to be determined, (iii) the number of payments or

period to which such order applies, and (iv) that the order applies to this Plan;

- (C) does not require this Plan to provide any type or form of benefit, or any option, not otherwise provided under this Plan, unless, in the case of any payment before a Participant has separated from service, the order requires payment of benefits to an Alternate Payee (i) on or after the date the Participant attains (or would have attained) the earliest age on which he could elect to receive retirement benefits under the Plan, (ii) as if the Participant had retired on the date such payment is to begin under such order (but taking into account only the present value of the benefits actually accrued and not taking into account the present value of any employer subsidy for early retirement), and (iii) in any form in which such benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the Alternate Payee and his subsequent spouse);
- (D) does not require this Plan to provide increased benefits (determined on the basis of actuarial equivalence); and
- (E) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another order previously determined to be a Qualified Domestic Relations Order.

Section 12.2 Facility of Payment. If any Participant or beneficiary shall be physically or mentally incapable of receiving or acknowledging receipt of any payment due under the terms of the Plan, the Committee may direct the Trustee to make any such payment to a legal representative or, if no legal representative shall have been appointed for him, to any person or institution maintaining such Participant or beneficiary, and the payment to such person or institution in good faith shall constitute a valid and complete discharge for such payment.

Section 12.3 Payment to Minor Beneficiary. If the beneficiary of any Participant shall be a minor and no guardian shall have been appointed for him, the Committee may direct the Trustee to retain any payment due under the Plan for his benefit until he attains majority. Such amount, as authorized by the Committee, may be held in cash, deposited in bank accounts, or invested or reinvested in direct obligations of the United States, and the income thereon may be accumulated and invested, or the income and principal may be expended and applied directly for the maintenance, education and support of such minor without the intervention of any guardian and without application to any court.

Section 12.4 No Rights of Employment. The Plan shall not confer upon any Employee or Participant any right of employment, nor shall any provision of the Plan interfere with the right of an Employer to discharge any Employee.

Section 12.5 Payments Only From Trust Fund. Except as otherwise required by law, no liability shall attach to the Employers for payment of any benefits or claims hereunder and every Participant or beneficiary or person claiming under them shall have recourse only to the Trust Fund for payment of any benefit hereunder and the rights of such persons are hereby expressly limited accordingly.

Section 12.6 Applicable Law. All provisions of the Plan, including definitions, shall be construed according to the laws of the State of Georgia, except to the extent preempted by Federal law.

Section 12.7 Titles. Titles of Articles and Sections are inserted for convenience only and shall not affect the meaning or construction of the Plan.

Section 12.8 Counterparts. This Plan may be executed by the Employers in various counterparts to this document, each of which shall be deemed to be an original but all shall be deemed to be one document.

Section 12.9 No Access to Books and Records. Nothing herein or in the Trust Agreement shall give any Participant or beneficiary or any other person the right or privilege to examine or have access to the books or records of any Employer or of the Committee or the trustee; nor shall any such person have any right, legal or equitable, against any Employer or against any director, officer, employee, agent or representative thereof or against the trustee or the Committee, except as herein expressly provided or permitted by law.

Section 12.10 Procedures for Qualified Domestic Relations Orders. The Committee shall develop and implement procedures (a) for determining whether an order received by the Plan is a "Qualified Domestic Relations Order" within the meaning of subsection (c) of Section 12.1, (b) for administering distributions under such orders, and (c) for holding amounts which would be payable under such orders pending the determination described in subsection (a) of this Section 12.10.

BENEFIT SCHEDULE I FOR INDEPENDENT PILOTS ASSOCIATION (UPPLAN)

This Benefit Schedule I shall apply to (1) each Eligible Employee who has an Hour of Covered Employment on or after March 17, 1998 but not on or after August 31, 2006, (2) each Eligible Employee who is not actively working, but who is on the seniority list on March 17, 1998 including anyone who is disabled (within the meaning of Section 3.5) and who does not have an Hour of Covered Employment on or after August 31, 2006 and (3) each former Employee who died on or after January 1, 1996 and before March 17, 1998 while employed in a classification that would have been considered an Eligible Employee classification if this Benefit Schedule had been in effect at his death.

The provisions of this Benefit Schedule I will apply only to that period of employment during which an Employee is an Eligible Employee. An Eligible Employee shall not accrue benefits under any provisions of the Plan (other than this Benefit Schedule) during the period that he is covered under this Benefit Schedule I.

References to Articles and Sections are to Articles and Sections of this Benefit Schedule I unless otherwise expressly indicated.

ARTICLE I **DEFINITIONS**

Wherever used herein, capitalized terms shall have the meaning set forth below or in the main body of this Appendix M for the Independent Pilots Association unless otherwise clearly required by the context.

SECTION 1.1. - 2006 Collective Bargaining Agreement. The term “2006 Collective Bargaining Agreement” means the collective bargaining agreement between the Independent Pilots Association and United Parcel Service Co. ratified on August 31, 2006.

SECTION 1.2. - Actuarial Equivalent. The term “Actuarial Equivalent” means a benefit of equivalent value calculated using the 1983 Group Annuity Mortality Table for males for Participants and the 1983 Group Annuity Mortality Table for females for beneficiaries and an interest rate of 7% compounded annually. Notwithstanding the foregoing, if the optional form of benefit is subject to the requirements of Treasury Regulation § 1.417(e)-1(d), or any successor regulation, the benefit of equivalent value will be the amount determined using the Applicable Interest Rate (determined as if the benefit commencement date is the date of distribution) and the Applicable Mortality Table, as applicable.

SECTION 1.3 - Applicable Interest Rate. The term “Applicable Interest Rate” means the “applicable interest rate” as described in Code § 417(e)(3) for the “lookback month” preceding the “stability period” that includes the date the distribution is made, provided that for distributions made during Plan Years commencing in 2008 through 2011, the applicable interest rate or rates shall be determined taking into account the transition rules under Code § 417(e)(3)(D)(ii) and (iii).

The term “lookback month” means the fifth month preceding the first day of the stability period containing the date of distribution.

The term “stability period” means the calendar year in which the distribution is made.

SECTION 1.4. - Applicable Mortality Table. The term “Applicable Mortality Table” means the “applicable mortality table” prescribed by the Secretary of the Treasury for purposes of Code § 417(e)(3).

SECTION 1.5. - Compensation. The term “Compensation” means for each calendar year, all earnings by an Eligible Employee as a result of the payment of his pay period guarantee for such calendar year, inclusive of any contributions or deferrals excludible from income under Code §§ 125 or 402(h), and for 1996 and 1997, any additional payments on guarantee that the Participant actually receives in accordance with the Retroactive Compensation Agreement made in connection with the Collective Bargaining Agreement ratified March 17, 1998. Compensation for any calendar year shall be limited to \$150,000 per year or such lesser limit as may be imposed by Code § 401(a)(17) or any successor statute limiting compensation taken into account under the Plan; however, for any Participant who attains Normal Retirement Age before December 31, 2003, Compensation shall be limited only by Code § 401(a)(17) or any successor statute limiting compensation taken into account under the Plan. Solely for avoiding a double proration, within the meaning of Department of Labor Regulations, § 2530.204-2(d), to the extent that a Participant is credited with less than a full year of Service Credit for a calendar year, then the Participant’s Compensation taken into account for such year shall be annualized by dividing such Compensation by the number of months of Service Credit earned by the Participant for such calendar year and multiplying the result by 12.

SECTION 1.6. - Covered Employment. The term “Covered Employment” means employment by an Employer as an Eligible Employee on or after January 1, 1988 but not on or after August 31, 2006.

SECTION 1.7. - Crewmember. The term “Crewmember” means a flight engineer, second officer, first officer or captain.

SECTION 1.8. - Early Retirement Date. The term “Early Retirement Date” means the first day of the month coincident with or next following the attainment of 55 years of age and the completion of five Vesting Years.

SECTION 1.9 - Eligible Employee. The term “Eligible Employee” means an individual employed by the Employer who (a) is not a participant in or covered under any other qualified defined benefit plan to which his Employer currently makes contributions on his behalf, (b) is represented for purposes of collective bargaining by the Independent Pilots Association and (c) is employed as a Crewmember.

Under no circumstances will an individual who performs services for an Employer, but who is not classified on the payroll as an employee of the Employer, for example, an individual performing services for an Employer under a leasing arrangement, be treated as an Eligible

Employee even if such individual is treated as an employee of an Employer as a result of common law principles, coemployment principles or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer is retroactively reclassified as an employee of an Employer for any reason, such reclassified individual shall not be treated as an Eligible Employee for any period prior to, on or after the date of such reclassification except as provided for in the Collective Bargaining Agreement or if such individual is not covered by a Collective Bargaining Agreement, except as determined by the Committee.

SECTION 1.10. - Final Average Earnings. The term "Final Average Earnings" shall mean the Participant's average Compensation for the five complete calendar years during the last ten complete calendar years of his Covered Employment during which his Compensation was the highest. For a Participant who retires on his Postponed Retirement Date, the term "Final Average Earnings" shall be the greater of the Final Average Earnings he would have had if he had retired at age 60 or his Final Average Earnings at his Postponed Retirement Date.

SECTION 1.11. - Hour of Covered Employment. The term "Hour of Covered Employment" means each Hour of Service in Covered Employment.

SECTION 1.12. - Normal Retirement Age. The term "Normal Retirement Age" means the later to occur of (a) the Participant's attainment of age 60 or (b) the date the Participant completes one Vesting Year.

SECTION 1.13. - Normal Retirement Date. The term "Normal Retirement Date" means the first day of the calendar month coincident with or next following the Participant's attainment of Normal Retirement Age.

SECTION 1.14. - Present Value. The term "Present Value" means the single sum amount of such benefit based on the Applicable Interest Rate and the Applicable Mortality Table.

SECTION 1.15. - Retirement Benefit. The term "Retirement Benefit" means with respect to each Participant his/her Normal Retirement Benefit (as described in Section 4.3), Early Retirement Benefit (as described in Section 4.5), Postponed Retirement Benefit (as described in Section 4.4) or Deferred Vested Benefit (as described in Section 4.6).

SECTION 1.16. - Service Credit. The term "Service Credit" shall mean the years and months of credit for work in Covered Employment as defined in this Benefit Schedule I which are accumulated and maintained for employees in accordance with the provisions of Article III.

ARTICLE II

ELIGIBILITY FOR PARTICIPATION

An Eligible Employee shall become a Participant in accordance with Section 2.1 of the main text of this Appendix M based on his employment with the Employer or any Related Employer; from his initial date of employment. An Eligible Employee and an inactive Eligible

Employee on the seniority list on March 17, 1998 who satisfied the age and service requirements as of March 17, 1998 shall become a Participant as of that date.

Each former Eligible Employee who died while an Eligible Employee on or after January 1, 1996 and before March 17, 1998 shall be treated as a vested Participant for purposes of the Qualified Joint and Survivor (Husband and Wife) Preretirement Survivor Benefit under Section 4.9.

ARTICLE III
ACCUMULATION OF SERVICE CREDIT FOR PURPOSES OTHER THAN
VESTING AND ELIGIBILITY i.e., FOR ACCRUAL OF BENEFITS, ETC.

SECTION 3.1. - Credit for Periods of Covered Employment after 1987 and before 1992 For periods of Covered Employment after 1987 and prior to 1992, each Participant shall accumulate Service Credit in monthly units based on his days of Covered Employment in accordance with the following schedule:

| <u>Days of Covered Employment In Each Plan Year</u> | <u>Monthly Units of Service Credits</u> |
|---|---|
| Less than 15 days | -0- |
| 15-30 | 1 month |
| 31-45 | 2 months |
| 46-60 | 3 months |
| 61-75 | 4 months |
| 76-90 | 5 months |
| 91-106 | 6 months |
| 107-121 | 7 months |
| 122-136 | 8 months |
| 137-151 | 9 months |
| 152-167 | 10 months |
| 168-183 | 11 months |
| 184 or more | 12 months |

For years 1988 through 1991, Eligible Employees will be credited with either 15 or 16 days as applicable, for each month in which they received their guarantee. For any month in which the Eligible Employee received only a portion of his guarantee, the 15 or 16 days will be prorated.

In addition, for the years 1988 through 1991, the credit for up to 501 hours for paid leaves described in the definition of Hour of Service shall be applied on a daily basis, giving credit for paid leaves for up to 95 days per Plan Year.

SECTION 3.2. - Credit for Periods of Covered Employment During 1992 For periods of Covered Employment during 1992, a Participant shall accumulate Service Credit in monthly units based on his Hours of Covered Employment during each Plan Year in accordance with the following schedule:

| <u>Hours of Covered Employment In Plan Year</u> | <u>Monthly Units of Service of Credits</u> |
|---|--|
| Less than 65 hours | -0- |
| 65-129 | 1 month |
| 130-194 | 2 months |
| 195-277 | 3 months |
| 278-360 | 4 months |
| 361-443 | 5 months |
| 444-526 | 6 months |
| 527-609 | 7 months |
| 610-692 | 8 months |
| 693-775 | 9 months |
| 776-858 | 10 months |
| 859-941 | 11 months |
| 942 or more | 12 months |

Credit for up to 501 hours for paid leaves described in the definition of Hour of Service shall apply fully to Plan Year 1992 without regard to the total number of guaranteed hours.

SECTION 3.3. - Credit for Periods of Covered Employment After 1992 For periods of Covered Employment completed after 1992, each Participant shall accumulate Service Credit in monthly units based on his Hours of Covered Employment during each Plan Year in accordance with the following schedule:

| <u>Hours of Covered Employment In Each Plan Year</u> | <u>Monthly Units of Service Credits</u> |
|--|---|
| Less than 81 hours | 0 |
| 81-162 | 1 month |
| 163-243 | 2 months |
| 244-324 | 3 months |
| 325-405 | 4 months |
| 406-487 | 5 months |
| 488-568 | 6 months |
| 569-649 | 7 months |
| 650-730 | 8 months |
| 731-812 | 9 months |
| 813-893 | 10 months |
| 894-974 | 11 months |
| 975 or more | 12 months |

SECTION 3.4. - Disability Accrual. A Participant who becomes disabled following the completion of his probationary period as a Crewmember shall accrue years and months of Service Credit (not to exceed 30 years of Service Credit) as if he remained in active employment until Normal Retirement Age or if he elects early retirement, his Early Retirement Date. Such

accrual shall cease as of the earlier of (i) the last day of the month immediately prior to the Participant recovering from the disability or retiring or (ii) the end of the calendar year in which he obtains other gainful employment. If a disabled Participant retires, his Final Average Earnings shall be based on his Compensation paid during his active employment prior to becoming disabled. For purposes of this Section, the term "disabled" means the Participant loses the right to exercise the privileges of his medical certificate for reasons other than alcohol or drug use and the term "other gainful employment" means employment during which a disabled Participant earns the greater of (i) \$30,000 a calendar year or (ii) one-third of his annual Compensation at the time he became disabled.

ARTICLE IV
BENEFIT ELIGIBILITY AND AMOUNTS

SECTION 4.1. - General. The amount of the Retirement Benefit payable to an Eligible Employee shall be the amount described in this Article IV of this Benefit Schedule I.

SECTION 4.2. - Monthly Single-Life Benefit. Each Participant's Monthly Single-Life Benefit shall equal 1/12th of A times B less C, where

A = the greater of (i) one percent of his Final Average Earnings or (ii) \$1,500;

B = his number of full and fractional years of Service Credit, not to exceed 30 years of Service Credit; and

C = his Social Security Offset described in Section 4.7.

SECTION 4.3. - Normal Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on his Normal Retirement Date, his Normal Retirement Benefit payable as of his Normal Retirement Date shall equal his Monthly Single-Life Benefit as determined in Section 4.2 as of his Normal Retirement Date, reduced by the Other Plan Benefits Offset described below.

SECTION 4.4. - Postponed Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Normal Retirement Date, his Postponed Retirement Benefit payable as of his Postponed Retirement Date shall equal the greatest of (a) his Monthly Single-Life Benefit as determined in Section 4.2 as of his Postponed Retirement Date, reduced by the Other Plan Benefits Offset described below, (b) the benefit he would have received if he had retired on his Normal Retirement Date or (c) the benefit he would have received if he had retired on his/her Early Retirement Date.

SECTION 4.5. - Early Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Early Retirement Date but before his Normal Retirement Date, his Early Retirement Benefit shall equal his Monthly Single- Life Benefit as determined in Section 4.2 as of his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset as described below. A Participant's Early Retirement Benefit shall be payable as of his Normal Retirement Date or, if he so elects, as of his Early Retirement Date. If the Participant's benefit is paid before he

reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the commencement of his benefit precedes his Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.6. - Deferred Vested Benefit. A Participant shall be fully vested upon the completion of one Vesting Year. A Participant shall receive credit for vesting purposes for employment from his initial date of employment with an Employer or a Related Employer. A Participant's Deferred Vested Benefit shall equal his Monthly Single-Life Benefit as determined in Section 4.2 based on his years of Service Credit earned prior to his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset described below. A Participant's Deferred Vested Benefit shall be payable as of his Normal Retirement Date or, if he has completed five Vesting Years and so elects, as of the first day of the month coincident with or next following his attainment of 55 years of age. If the Participant's benefit is paid before he reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the beginning of the benefit precedes the Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.7. - Social Security Offset. The monthly benefit payable to a Participant shall be reduced by A times the lesser of B or C where

A = the ratio of the Participant's years of Service Credit (not to exceed 30) to 30;

B = 50% of the monthly social security primary insurance benefit that would be payable to the Participant at age 65; and

C = 50% of the amount determined under Section 4.2 before the reduction for the Social Security Offset.

The reduction shall commence at the age at which unreduced social security primary insurance benefits are first payable to the Participant or, if later, when the Participant actually retires. For purposes of calculating the Participant's social security benefit, (a) the Participant's wages prior to his first full calendar year of employment with the Employer will be estimated by projecting the Participant's compensation for his first full calendar year of employment backward at 7% per year to the later of the year in which the Participant attained age 21 or 1951 and (b) in the event the Participant separates from service with the Employer and all Related Employers before his Normal Retirement Age, his post termination wages will be estimated assuming he will continue to receive compensation at the same rate in effect on the date he separates from service with the Employer and all Related Employers until he attains Normal Retirement Age. If the Participant separates from service with the Employer and all Related Employers before his Normal Retirement Age, the social security benefit will be calculated based on the law in effect on the date he separates from service with the Employer and all Related Employers. If the Participant dies before he begins receiving benefits under the Plan, any survivor benefit payable to his surviving spouse will be calculated based on the social security benefit that the Participant would have been entitled to receive at age 65 if he had lived to that date, using the assumptions described above.

SECTION 4.8. - Other Plan Benefits Offset. The Other Plan Benefits Offset is the reduction described in Section 4.7 of the main text of this Appendix M; provided that benefits under any defined contribution plan shall not be considered a "retirement plan to which the Employer made contribution on behalf of the Participant or under which service with the Employer is counted in calculating benefits" for purposes of that Section. Further, any such retirement plan is referred to in this Section as an "Other Plan."

(a) Retirement Benefits Payable in Annuity Form. If the Retirement Benefit is payable in an annuity form, the amount of the reduction shall be determined and subtracted from the Retirement Benefit as of the later of the date as of which Retirement Benefits commence under the Plan or the earliest date such Participant could begin receiving benefits under such Other Plan (the "Determination Date"). Thus, if a Participant is not eligible for a benefit under an Other Plan when he begins receiving benefits under this Plan, his Retirement Benefit will not be reduced until the earliest date he could have begun receiving a benefit under the Other Plan. The amount of the reduction shall be equal to the Single Life Only Annuity that would have been payable under the Other Plan as of the Determination Date or, if the Single Life Only Annuity is not available under such Other Plan, the Single Life Only Annuity which is the Actuarial Equivalent of the normal form of benefit that would have been payable under such Other Plan as of the Determination Date. If a Participant begins receiving a benefit under an Other Plan before the Determination Date, the amount of the reduction will be actuarially adjusted.

(b) Retirement Benefit Payable in Lump Sum. If the Retirement Benefit is payable in a lump sum, the Present Value of the benefit payable under this Plan shall be reduced by the Present Value of the benefit actually paid to such Participant or payable to him under such Other Plan.

(c) Estimation. If the Committee determines that it is not reasonably practicable to obtain the actual amount of the benefit payable to or on behalf of a Participant under an Other Plan in sufficient time to make payment of his/her benefit under this Plan, the Committee may estimate the amount of the Other Plan benefit using such methods as they in their discretion deem appropriate. If the Committee estimates the Other Plan benefit, they shall use their best efforts to obtain the actual amount of the Other Plan benefit and adjust the benefit being paid from this Plan accordingly. In the event that the estimated Other Plan benefit is less than the actual Other Plan benefit, the Committee shall reduce the payments under this Plan immediately to reflect the amount of the difference and may recover any previous overpayments from this Plan by deducting such overpayments from future benefit payments due under this Plan or by such other methods as the Committee deems appropriate. In the event that the estimated Other Plan benefit is larger than the actual Other Plan benefit, the Committee shall increase the payments under this Plan immediately to reflect the amount that of such difference and shall make an additional payment equal to the amount that would have been received if the Plan had used the actual Other Plan benefit from the commencement of payment.

SECTION 4.9. - Qualified Joint and Survivor (Husband and Wife) Preretirement Survivor Benefit If a vested Participant dies prior to receiving a benefit under this Appendix M, the Participant's surviving spouse will be entitled to a survivor benefit under Section 4.9 of the

main text of this Appendix M, determined without regard to whether the Participant and his spouse had been married for at least one year prior to the Participant's death.

SECTION 4.10. - Payment of Retirement Benefit. The benefits shall be paid in the form of a Single Life Only Annuity (for unmarried Participants) or the Qualified Joint and Survivor Annuity (for married Participants) unless the Participant properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity (as such waiver is described in Section 4.8(c) of the main text of this Appendix M) and selects an optional benefit form described in Article V.

SECTION 4.11. - Lump Sum Payment. Notwithstanding any contrary provision, if the Present Value of the Retirement Benefit payable to a Participant or the Present Value of the survivor benefit payable to a Participant's surviving spouse under Section 4.8 of the main text of this Appendix M is less than \$1,000, payment of such Present Value shall be made in a lump sum as soon as administratively practicable following the Participant's separation from service with the Employer and all Related Employers, without the Participant's, or if the Participant is deceased, the surviving spouse's, consent, in lieu of all other benefits under the Plan. If the Present Value of such benefit is at least \$1,000 but not greater than \$3,500, the Committee may pay such Present Value to the Participant or if the Participant is deceased, to the surviving spouse, in a lump sum in lieu of all other benefits under the Plan with the consent of the Participant or the surviving spouse, following the Participant's separation from service with the Employer and all Related Employers or, in the case of a survivor benefit, the Participant's death. If the Present Value of a Participant's nonforfeitable Retirement Benefit under this Plan is zero as of the date the Participant separates from service with the Employer and all Related Employers, such Participant shall be deemed to have received a distribution of such nonforfeitable benefit when the Participant separates from service.

If the Participant's Retirement Benefit is cashed out pursuant to this Section 4.11, service with respect to which the distribution of the Present Value was made shall be disregarded for purposes of the Plan, provided, however, that such service shall be counted in determining the Employee's Vesting Years and years of Service Credit if, upon reemployment, the distribution is repaid by the Employee to the Trust Fund, together with interest at 5% or such other rate as may in the future be established or otherwise made effective by regulation or administration action implementing ERISA §§ 204(c)(2)(C) and 204(e).

SECTION 4.12. - Maximum Benefit. For limitation years beginning on or after July 1, 2007, the maximum annual benefit payable shall be determined in accordance with the maximum Benefits Appendix for Independent Pilots Association. Notwithstanding Section 4.10 of the main text of this Appendix M or any contrary provision of the main text of this Appendix M, the limitations on maximum benefits payable from this Appendix M shall be in accordance with Code § 415, including, particularly, Code § 415(b)(9), and the regulations thereunder, which are incorporated into this Appendix M by reference.

SECTION 4.13. - Special Increase for Participants Reaching Normal Retirement Age After December 31, 2003. Notwithstanding the limitations of Section 1.10, as soon as practicable after August 31, 2006 (the "Ratification Date") (a) the Compensation of each Affected Participant shall be redetermined such that his Compensation for a calendar year is

limited only by Code § 401(a)(17); (b) such Affected Participant's Final Average Earnings shall be recalculated using the Compensation determined in (a); and (c) such Affected Participant's Retirement Benefit shall be increased effective as of the first day of the month after the Ratification Date to reflect any increase in his Final Average Earnings as a result of the recalculation in (b) and shall be paid as soon as administratively practicable. The increase described in (c) shall be prospective only and benefits paid before the Ratification Date shall not be increased. An Affected Participant is any Participant (i) who reached Normal Retirement Age after December 31, 2003 and before the Ratification Date and (ii) whose Compensation for any calendar year was limited to \$150,000 as a result of Section 1.10.

ARTICLE V
OPTIONAL BENEFIT FORMS

SECTION 5.1. - General. In addition to the Single Life Only Annuity, the following optional forms are available to a Participant who properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity:

(a) Joint and Survivor Annuity. The benefit under a Joint and Survivor Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity based on the life of the Participant. Under the Joint and Survivor Annuity, the Participant shall be paid his pension for his lifetime; and his designated beneficiary as of the date of the Participant's retirement, if surviving at the Participant's death, shall be entitled to receive thereafter a lifetime survivorship benefit in a monthly amount equal to a percentage (50%, 66 2/3%, 75%, or 100%, as selected by the Participant) of the monthly amount which had been payable to the Participant. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his designated beneficiary has occurred. A Participant may not elect to receive payment of his Retirement Benefit in the form of a Joint and Survivor Annuity if he has a non-spousal beneficiary and such beneficiary is younger than the Participant by more than the maximum number of years specified in the following table based on their ages on their birthdays in the calendar year in which benefit payments commence:

| <u>Annuity Form</u> | <u>Maximum Number of Years</u> |
|------------------------------------|--------------------------------|
| Joint and 100% Survivor Annuity | 10 years |
| Joint and 75% Survivor Annuity | 19 years |
| Joint and 66 2/3% Survivor Annuity | 25 years |

(b) Period Certain and Continuous Annuity. The benefit under a Period Certain and Continuous Annuity shall be the Actuarial Equivalent of a Monthly Single-Life Benefit based on the life of the Participant. Under the Period Certain and Continuous Annuity, the Participant shall be paid his pension for his lifetime; and if the Participant dies before receiving a specified number of monthly payments (120, 180, 240, as selected by the Participant ("guaranteed payments")), the Participant's designated beneficiary shall be entitled to receive thereafter a monthly guaranteed payment equal to the payment which had been payable to the Participant until all of the monthly payments have been made from the Plan to the Participant

and his designated beneficiary. The last payment of the Period Certain and Continuous Annuity shall be made as of the first day of the month in which occurs the later of the death of the Participant or the last of the guaranteed monthly payments has been made. Each Participant who selects this option shall designate a beneficiary in writing, in the form and manner required by the Committee, and such beneficiary may be changed by such Participant in the same manner, but such designation shall not be considered made until received by the Committee or its designees on such form and unless it is received by the Committee prior to the Participant's death. The Committee shall be the sole judges of the effectiveness of the designation or change thereof. If a Participant fails to designate a beneficiary or his designated beneficiary fails to survive the Participant, the Participant's designated beneficiary shall be deemed to be his surviving spouse, if any; or if there is no surviving spouse, his surviving children, in equal shares; or if there are no surviving children, his estate. If a beneficiary dies before all payments are made under this optional form, the remaining payments shall be made in a lump sum or in installments as the Committee shall direct to the beneficiary designated by such beneficiary or, if there is no such designation, to such beneficiary's estate.

(c) Level Income Option. The benefit under a Level Income Option shall be the Actuarial Equivalent of a Monthly Single-Life Benefit based on the life of the Participant. Under the Level Income Option, the Participant shall be paid a higher benefit until age 62 or 65, as selected by the Participant, and a reduced benefit after age 62 or 65, as applicable, to provide a more level income over the Participant's lifetime, taking into account the social security primary insurance benefits the Participant is expected to receive at the selected age. The last payment of the Level Income Option shall be made as of the first day of the month in which the death of the Participant occurs.

BENEFIT SCHEDULE II FOR INDEPENDENT PILOTS ASSOCIATION

This Benefit Schedule II shall apply to (1) each Eligible Employee who has an Hour of Covered Employment on or after August 31, 2006, (2) each Eligible Employee who is accruing Service Credit (or who would be accruing Service Credit but for the attainment of Normal Retirement Age) under Section 3.3, Disability Accrual, on or after August 31, 2006, (3) each 2003 Retired Participant and (4) each former Employee who died during the month of July 2006 while employed in a classification that would have been considered an Eligible Employee classification if this Benefit Schedule II had been in effect at his death.

The provisions of this Benefit Schedule II will apply only to that period of employment during which an Employee is an Eligible Employee. An Eligible Employee shall not accrue benefits under any provisions of the Plan (other than this Benefit Schedule II) during the period that he is covered under this Benefit Schedule II.

References to Articles and Sections are to Articles and Sections of this Benefit Schedule II unless otherwise expressly indicated.

**ARTICLE I
DEFINITIONS**

Wherever used herein, the following capitalized terms shall have the meaning set forth below or in the main body of this Appendix M for the Independent Pilots Association unless otherwise clearly required by the context.

SECTION 1.1. - 2003 Retired Participant. - The term "2003 Retired Participant" means a Participant who separated from service in 2003 pursuant to the voluntary separation package offered by the Employer.

SECTION 1.2. - 2006 Collective Bargaining Agreement. - The term "2006 Collective Bargaining Agreement" means the Collective Bargaining Agreement between the Independent Pilots Association and United Parcel Service Co. ratified on August 31, 2006.

SECTION 1.3. - 2006 Participant. The term "2006 Participant" means each Participant who will reach Normal Retirement Age on or before December 31, 2013.

SECTION 1.4. - Actuarial Equivalent. The term "Actuarial Equivalent" means a benefit of equivalent value calculated using the 1983 Group Annuity Mortality Table for males for Participants and the 1983 Group Annuity Mortality Table for females for beneficiaries and an interest rate of 7% compounded annually. Notwithstanding the foregoing, if the optional form of benefit is subject to the requirements of Treasury Regulation § 1.417(e)-1(d), or any successor regulation, the benefit of equivalent value will be the amount determined using the Applicable Interest Rate (determined as if the benefit commencement date is the date of distribution) and the Applicable Mortality Table, as applicable.

SECTION 1.5. - Applicable Interest Rate. The term "Applicable Interest Rate" means the "applicable interest rate" as described in Code § 417(e)(3) for the "lookback month" preceding the "stability period" that includes the date the distribution is made, provided that for distributions paid during Plan Years commencing in 2008 through 2011, the applicable interest rate or rates shall be determined taking into account the transition rules under Code § 417(e)(3)(D)(ii) and (iii).

The term "lookback month" means the fifth month preceding the first day of the stability period containing the date of distribution.

The term "stability period" means the calendar year in which the distribution is made.

SECTION 1.6. - Applicable Mortality Table. The term "Applicable Mortality Table" means the "applicable mortality table" prescribed by the Secretary of the Treasury for purposes of Code § 417(e)(3).

SECTION 1.7. - Bidline Credit - The term "Bidline Credit" means the amount of credit generated by a Crewmember's scheduled activities for a bid period (as defined in the 2006 Collective Bargaining Agreement), including scheduled flights, layovers, deadhead time or other duties assigned by the Employer.

SECTION 1.8. - Bypassed Captain. The term "Bypassed Captain" means a Crewmember who has been bypassed for a Captain position as described in Section 14.E.3 of the 2006 Collective Bargaining Agreement and who is included on the list of bypassed Captains maintained by the Employer.

SECTION 1.9. - Bypassed Crewmember. The term "Bypassed Crewmember" means a Second Officer who has been bypassed for the First Officer position as described in Section 14.E.3 of the 2006 Collective Bargaining Agreement and who is included on the list of bypassed First Officers maintained by the Employer.

SECTION 1.10. - Captain. The term "Captain" means a pilot who is in command of the aircraft and its crew while on duty, who is responsible for the manipulation of, or who manipulates the controls of the aircraft, including take-off and landing of such aircraft, and who is properly qualified to serve as such, and holds a current effective airman's certificate authorizing him to serve as such pilot.

SECTION 1.11. - Compensation. The term "Compensation" means a Participant's compensation as reflected on Form W-2, including amounts deferred under Code §§ 125, 129 and 401(k) and excluding:

- (a) per diem payments;
- (b) grievance awards (other than the following: (A) as a part of a Crewmember's Guarantee or Bidline Credit, (B) an award of Premium Pay for Revisions or (C) an award of Late Arrival Pay);

- (c) amounts paid to a Crewmember as a result of the application of Code § 415(c);
- (d) payments in the nature of compensation from an insurance carrier, from a state unemployment or worker's compensation fund, or from any health and welfare or other benefit program or plan maintained by an Employer or a Related Employer.
- (e) disability payments from an insurance carrier, a state disability insurance fund, this Plan or any other disability plan maintained by an Employer or a Related Employer;
- (f) foreign service differentials or other supplemental payments made by an Employer or Related Employer to a Crewmember working outside his or her country of citizenship on account of such foreign service;
- (g) payment or reimbursement by an Employer or Related Employer for relocation expenses incurred by a Crewmember or his or her family;
- (h) the value of employee fringe benefits provided by an Employer or Related Employer, including but not limited to the payment of life insurance premiums, whether or not the value of such fringe benefits is includable in the employee's taxable income;
- (i) payments made under deferred compensation plans or programs;
- (j) Employer or Related Employer contributions to any pension, profit-sharing or stock bonus plan; and
- (k) Employer or Related Employer contributions to any welfare benefit plan.

Compensation for any calendar year shall be limited to the lesser of (i) \$300,000 per year or (ii) such limit as may be imposed by Code § 401(a)(17) or any successor statute limiting compensation taken into account under the Plan. Solely for avoiding a double proration, within the meaning of Department of Labor Regulations, § 2530.204-2(d), to the extent that a Participant is credited with less than a full year of Service Credit for a calendar year, then the Participant's Compensation taken into account for such year shall be annualized by dividing such Compensation by the number of months of Service Credit earned by the Participant for such calendar year and multiplying the result by 12.

Effective January 1, 2009, a Participant receiving a differential wage payment (as described in Code § 414(u)(12)) shall be treated as an employee of the Employer making the differential wage payment for purposes of this Plan and the differential wage payment shall be treated as Compensation.

SECTION 1.12. - Covered Employment. The term "Covered Employment" means employment by an Employer as an Eligible Employee on or after January 1, 1988.

SECTION 1.13. - Crewmember. The term "Crewmember" means a Professional Flight Engineer, Second Officer, First Officer, Captain, or Bypassed Crewmember.

SECTION 1.14. - Early Retirement Date. The term "Early Retirement Date" means the first day of the month coincident with or next following the attainment of 55 years of age and the completion of five Vesting Years.

SECTION 1.15. - Eligible Employee. The term "Eligible Employee" means an individual employed by the Employer who (a) is not a participant in or covered under any other qualified defined benefit plan to which his Employer currently makes contributions on his behalf, (b) is represented for purposes of collective bargaining by the Independent Pilots Association and (c) is employed as a Crewmember.

Under no circumstances will an individual who performs services for an Employer, but who is not classified on the payroll as an employee of the Employer, for example, an individual performing services for an Employer under a leasing arrangement, be treated as an Eligible Employee even if such individual is treated as an employee of an Employer as a result of common law principles, coemployment principles or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer is retroactively reclassified as an employee of an Employer for any reason, such reclassified individual shall not be treated as an Eligible Employee for any period prior to, on or after the date of such reclassification except as provided for in the Collective Bargaining Agreement or if such individual is not covered by a Collective Bargaining Agreement, except as determined by the Committee.

SECTION 1.16. - Final Average Earnings. The term "Final Average Earnings" means the Participant's average Compensation for the five complete calendar years during the last ten complete calendar years of his Covered Employment during which his Compensation was the highest. For a Participant who retires on his Postponed Retirement Date, the term "Final Average Earnings" shall be the greater of the Final Average Earnings he would have had if he had retired at age 60 or his Final Average Earnings at his Postponed Retirement Date.

SECTION 1.17. - First Officer. The term "First Officer" means a pilot who is next in command after the Captain of the aircraft, whose duty is to assist or relieve the Captain in the manipulation of the flight controls of an aircraft while underway, including take-off and landing of such aircraft, and who is properly qualified to serve as and who holds a current effective airman's certificate authorizing him to serve as such First Officer.

SECTION 1.18. - Guarantee. The term "Guarantee" means (i) the 75 hours of guaranteed pay that a Crewmember receives per pay period if he is available for duty.

SECTION 1.19. - Hour of Covered Employment. The term "Hour of Covered Employment" means each Hour of Service in Covered Employment.

SECTION 1.20. - Late Arrival Pay. The term "Late Arrival Pay" means the pay described in Article 13.E.4 and 5 of the 2006 Collective Bargaining Agreement.

SECTION 1.21. - Normal Retirement Age. The term "Normal Retirement Age" means the later to occur of (a) the Participant's attainment of age 60 or (b) the date the Participant completes one Vesting Year.

SECTION 1.22. - Normal Retirement Date. The term "Normal Retirement Date" means the first day of the calendar month coincident with or next following the Participant's attainment of Normal Retirement Age.

SECTION 1.23. - Premium Pay. The term "Premium Pay" means the pay described in Article 13.E.4 of the 2006 Collective Bargaining Agreement.

SECTION 1.24. - Present Value. The term "Present Value" means the single sum amount of such benefit based on the Applicable Interest Rate and the Applicable Mortality Table.

SECTION 1.25. - Professional Flight Engineer. The term "Professional Flight Engineer" means a certified flight engineer who was hired and designated as such by the Employer and whose duties include responsibility for assuring the airworthy condition of the aircraft on which he is to serve before departure, including recognition and correction of malfunctions, and for enroute ground maintenance and/or supervision thereof as well as those duties of the Second Officer. A Professional Flight Engineer shall hold a current effective airman's certificate authorizing him to serve as a Flight Engineer in his current equipment, and an Airframe and Powerplant Mechanics's Certificate.

SECTION 1.26. - Retirement Benefit. The term "Retirement Benefit" means with respect to each Participant his/her Normal Retirement Benefit, Early Retirement Benefit, Postponed Retirement Benefit, or Deferred Vested Benefit.

SECTION 1.27. - Second Officer. The term "Second Officer" means a pilot who is third in command of the aircraft, after the Captain and the First Officer, whose duty is to perform the duties of a Second Officer as specified by the Employer, and who holds a currently effective airman's certificate authorizing him to serve as such, and who holds at least a current effective Commercial Airman's Certificate and Instrument Rating.

SECTION 1.28. - Service Credit. The term "Service Credit" shall mean the years and months of credit for work in Covered Employment which are accumulated and maintained for employees in accordance with the provisions of Article III.

ARTICLE II
ELIGIBILITY FOR PARTICIPATION

An Eligible Employee shall become a Participant in accordance with Section 2.1 of the main text of this Appendix M based on his employment with the Employer or any Related Employer; from his initial date of employment.

ARTICLE III
ACCUMULATION OF SERVICE CREDIT FOR PURPOSES OTHER THAN VESTING AND ELIGIBILITY i.e., FOR ACCRUAL OF BENEFITS, ETC.

SECTION 3.1 - Credit for Periods of Covered Employment for Plan Years Before January 1, 2004 Each Participant covered shall accumulate one full year of Service Credit for each Plan Year in which he has at least one Hour of Covered Employment.

SECTION 3.2 - Credit for Periods of Covered Employment Beginning On or After January 1, 2004 Each Participant shall accumulate Service Credit in monthly units based on his Hours of Covered Employment in accordance with the following table:

| <u>Hours of Covered Employment In Each Plan Year</u> | <u>Monthly Units of Service Credit</u> |
|--|--|
| Less than 81 | 0 |
| 81-162 | 3 months |
| 163-243 | 4 months |
| 244-324 | 5 months |
| 325-405 | 6 months |
| 406-487 | 7 months |
| 488-568 | 8 months |
| 569-649 | 9 months |
| 650-730 | 10 months |
| 731-812 | 11 months |
| 813 or more | 12 months |

SECTION 3.3 - Disability Accrual. A Participant who becomes disabled following the completion of his probationary period as a Crewmember shall accrue years and months of Service Credit (not to exceed 30 years of Service Credit) as if he remained in active employment until Normal Retirement Age or if he elects early retirement, his Early Retirement Date. Such accrual shall cease as of the earlier of (i) the last day of the month immediately prior to the Participant recovering from the disability or retiring or (ii) the end of the calendar year in which he obtains other gainful employment. If a disabled Participant retires, his Final Average Earnings shall be based on his Compensation paid during his active employment prior to becoming disabled. For purposes of this Section, the term "disabled" means the Participant loses the right to exercise the privileges of his medical certificate for reasons other than alcohol or drug use and the term "other gainful employment" means employment during which a disabled

Participant earns the greater of (i) \$30,000 a calendar year or (ii) one-third of his annual Compensation at the time he became disabled.

ARTICLE IV
BENEFIT ELIGIBILITY AND AMOUNTS

SECTION 4.1. - General. The amount of the Retirement Benefit payable to an Eligible Employee shall be the amount described in this Article IV of this Benefit Schedule II.

SECTION 4.2. - Monthly Single-Life Benefit. The Monthly Single-Life Benefit shall equal 1/12th of:

(a) General. Each Participant (other than a 2006 Participant or a 2003 Retired Participant) shall have a Monthly Single-Life Benefit equal to one percent (1%) of his Final Average Earnings times his number of full and fractional years of Service Credit (not to exceed 30 years of Service Credit).

(b) 2006 Participants and 2003 Retired Participants. Each 2006 Participant and each 2003 Retired Participant shall have a Monthly Single-Life Benefit equal to A times B, where

A = the greater of (i) one percent (1%) of his Final Average Earnings or (ii) the dollar amount determined under the following table depending on the highest rank attained by the Participant during his Covered Employment:

| <u>Rank</u> | <u>Dollar Amount</u> |
|--|----------------------|
| Captain or Bypassed Captain | \$ 3,000 |
| First Officer, Professional Flight Engineer or a Bypassed Crewmember | \$ 2,400 |
| Second Officer | \$ 2,100 |

B = his number of full and fractional years of Service Credit (not to exceed 30 years of Service Credit).

For each 2006 Participant, the Monthly Single-Life Benefit formula described in this Section 4.2(b) shall apply from his Normal Retirement Date or his Postponed Retirement Date. For each 2003 Retired Participant the monthly accrued benefit calculated under this Benefit Schedule shall be increased effective as of August 31, 2006 to equal the Monthly Single-Life Benefit described in this Section 4.2(b). Such increase shall be prospective only and no amount shall be paid to increase the monthly accrued benefit paid before August 31, 2006.

(c) Minimum Benefit - Notwithstanding Sections 4.2(a) and (b), the Monthly Single-Life Benefit for each Participant who participated in Benefit Schedule I shall never be less than his Monthly Single-Life Benefit accrued under Benefit Schedule I as of August 30, 2006.

SECTION 4.3. - Normal Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on his Normal Retirement Date, his Normal Retirement Benefit payable as of his Normal Retirement Date shall equal his Monthly Single-Life Benefit as determined in Section 4.2 as of his Normal Retirement Date, reduced by the Other Plan Benefits Offset described below.

SECTION 4.4. - Postponed Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Normal Retirement Date, his Postponed Retirement Benefit payable as of his Postponed Retirement Date shall equal the greatest of (a) his Monthly Single Life Benefit as determined in Section 4.2 as of his Postponed Retirement Date, reduced by the Other Plan Benefits Offset described below, (b) the benefit he would have received if he had retired on his Normal Retirement Date or (c) the benefit he would have received if he had retired on his/her Early Retirement Date.

SECTION 4.5. - Early Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Early Retirement Date but before his Normal Retirement Date, his Early Retirement Benefit shall equal his Monthly Single-Life Benefit as determined in Section 4.2 as of his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset as described below. A Participant's Early Retirement Benefit shall be payable as of his Normal Retirement Date or, if he so elects, as of his Early Retirement Date. If the Participant's benefit is paid before he reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the commencement of his benefit precedes his Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.6. - Deferred Vested Benefit. A Participant shall be fully vested upon the completion of one Vesting Year. A Participant shall receive credit for vesting purposes for employment from his initial date of employment with an Employer or a Related Employer. A Participant's Deferred Vested Benefit shall equal his Monthly Single Life as determined in Section 4.2 based on his years of Service Credit earned prior to his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset described below. A Participant's Deferred Vested Benefit shall be payable as of his Normal Retirement Date or, if he has completed five Vesting Years and so elects, as of the first day of the month coincident with or next following his attainment of 55 years of age. If the Participant's benefit is paid before he reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the beginning of the benefit precedes the Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.7. - Other Plan Benefits Offset. The Other Plan Benefits Offset is the reduction described in Section 4.7 of the main text of this Appendix M; provided that benefits under any defined contribution plan shall not be considered a "retirement plan to which the Employer made contribution on behalf of the Participant or under which service with the

Employer is counted in calculating benefits” for purposes of that Section. Further, any such retirement plan is referred to in this Section as an “Other Plan.”

(a) Retirement Benefits Payable in Annuity Form. If the Retirement Benefit is payable in an annuity form, the amount of the reduction shall be determined and subtracted from the Retirement Benefit as of the later of the date as of which Retirement Benefits commence under the Plan or the earliest date such Participant could begin receiving benefits under such Other Plan (the “Determination Date”). Thus, if a Participant is not eligible for a benefit under an Other Plan when he begins receiving benefits under this Plan, his Retirement Benefit will not be reduced until the earliest date he could have begun receiving a benefit under the Other Plan. The amount of the reduction shall be equal to the Monthly Single-Life Benefit that would have been payable under the Other Plan as of the Determination Date or, if the Monthly Single-Life Benefit is not available under such Other Plan, the Monthly Single-Life Benefit which is the Actuarial Equivalent of the normal form of benefit that would have been payable under such Other Plan as of the Determination Date. If a Participant begins receiving a benefit under an Other Plan before the Determination Date, the amount of the reduction will be actuarially adjusted.

(b) Retirement Benefit Payable in Lump Sum. If the Retirement Benefit is payable in a lump sum, the Present Value of the Retirement Benefit payable under this Plan shall be reduced by the Present Value of the benefit actually paid to such Participant or payable to him under such Other Plan.

(c) Estimation. If the Committee determines that it is not reasonably practicable to obtain the actual amount of the benefit payable to or on behalf of a Participant under an Other Plan in sufficient time to make payment of his benefit under this Plan, the Committee may estimate the amount of the Other Plan benefit using such methods as they in their discretion deem appropriate. If the Committee estimates the Other Plan benefit, they shall use their best efforts to obtain the actual amount of the Other Plan benefit and adjust the benefit being paid from this Plan accordingly. In the event that the estimated Other Plan benefit is less than the actual Other Plan benefit, the Committee shall reduce the payments under this Plan immediately to reflect the amount of the difference and may recover any previous overpayments from this Plan by deducting such overpayments from future benefit payments due under this Plan or by such other methods as the Committee deems appropriate. In the event that the estimated Other Plan benefit is larger than the actual Other Plan benefit, the Committee shall increase the payments under this Plan immediately to reflect the amount that of such difference and shall make an additional payment equal to the amount that would have been received if the Plan had used the actual Other Plan benefit from the commencement of payment.

SECTION 4.8. - Qualified Joint and Survivor (Husband and Wife) Preretirement Survivor Benefit If a vested Participant dies prior to receiving a benefit under this Appendix M, the Participant’s surviving spouse will be entitled to a survivor benefit under Section 4.9 of the main text of this Appendix M, determined without regard to whether the Participant and his spouse had been married for at least one year prior to the Participant’s death.

SECTION 4.9. - Payment of Retirement Benefit. The benefits shall be paid in the form of a Single Life Only Annuity (for unmarried Participants) or the Qualified Joint and Survivor Annuity (for married Participants) unless the Participant properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity (as such waiver is described in Section 4.8(c) of the main text of this Appendix M) and selects an optional benefit form described in Article V.

SECTION 4.10. - Lump Sum Payment. Notwithstanding any contrary provision, if the Present Value of the benefit payable to a Participant or the Present Value of the survivor benefit payable to a Participant's surviving spouse under Section 4.8 of the main text of this Appendix M is less than \$1,000, payment of such Present Value shall be made in a lump sum as soon as administratively practicable following the Participant's separation from service with the Employer and all Related Employers, without the Participant's, or if the Participant is deceased the surviving spouse's, consent, in lieu of all other benefits under the Plan. If the Present Value of such benefit is at least \$1,000 but not greater than \$3,500, the Committee may pay such Present Value to the Participant or if the Participant is deceased, to the surviving spouse, in a lump sum in lieu of all other benefits under the Plan with the consent of the Participant or the surviving spouse, following the Participant's separation from service with the Employer and all Related Employers or in the case of a survivor benefit, the Participant's death. If the Present Value of a Participant's nonforfeitable benefit under this Plan is zero as of the date the Participant separates from service with the Employer and all Related Employers, such Participant shall be deemed to have received a distribution of such nonforfeitable benefit when the Participant separates from service.

If the Participant's benefit is cashed out pursuant to this Section 4.10, service with respect to which the distribution of the present value was made shall be disregarded for purposes of the Plan, provided, however, that such service shall be counted in determining the Employee's Vesting Years and years of Service Credit if, upon reemployment, the distribution is repaid by the Employee to the Committee, together with interest at 5% or such other rate as may in the future be established or otherwise made effective by regulation or administration action implementing ERISA §§ 204(c)(2)(C) and 204(e).

SECTION 4.11. - Maximum Benefit. For limitation years beginning on or after July 1, 2007, the maximum annual benefit payable shall be determined in accordance with the Maximum Benefits Appendix for Independent Pilots Association. Notwithstanding Section 4.10 of the main text of this Appendix M or any contrary provision of the main text of this Appendix M or this Benefit Schedule, the limitations on maximum benefits payable from this Appendix M shall be in accordance with Code § 415, including, particularly, Code § 415(b)(9), and the regulations thereunder, which are incorporated into this Benefit Schedule by reference.

ARTICLE V

OPTIONAL BENEFIT FORMS

SECTION 5.1. - General. In addition to the Single Life Only Annuity, the following optional forms are available to a Participant who properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity:

(a) Joint and Survivor Annuity. The benefit under a Joint and Survivor Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity based on the life of the Participant. Under the Joint and Survivor Annuity, the Participant shall be paid his pension for his lifetime; and his designated beneficiary as of the date of the Participant's retirement, if surviving at the Participant's death, shall be entitled to receive thereafter a lifetime survivorship benefit in a monthly amount equal to a percentage (50%, 66²/₃%, 75%, or 100%, as selected by the Participant) of the monthly amount which had been payable to the Participant. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his designated beneficiary has occurred. A Participant may not elect to receive payment of his Retirement Benefit in the form of a Joint and Survivor Annuity if he has a non-spousal beneficiary and such beneficiary is younger than the Participant by more than the maximum number of years specified in the following table based on their ages on their birthdays in the calendar year in which benefit payments commence:

| <u>Annuity Form</u> | <u>Maximum Number of Years</u> |
|---|--------------------------------|
| Joint and 100% Survivor Annuity | 10 years |
| Joint and 75% Survivor Annuity | 19 years |
| Joint and 66 ² / ₃ % Survivor Annuity | 25 years |

(b) Period Certain and Continuous Annuity. The benefit under a Period Certain and Continuous Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity based on the life of the Participant. Under the Period Certain and Continuous Annuity, the Participant shall be paid his pension for his lifetime; and if the Participant dies before receiving a specified number of monthly payments (120, 180, 240, as selected by the Participant ("guaranteed payments")), the Participant's designated beneficiary shall be entitled to receive thereafter a monthly guaranteed payment equal to the payment which had been payable to the Participant until all of the monthly payments have been made from the Plan to the Participant and his designated beneficiary. The last payment of the Period Certain and Continuous Annuity shall be made as of the first day of the month in which occurs the later of the death of the Participant or the last of the guaranteed monthly payments has been made. Each Participant who selects this option shall designate a beneficiary in writing, in the form and manner required by the Committee, and such beneficiary may be changed by such Participant in the same manner, but such designation shall not be considered made until received by the Committee or its designees on such form and unless it is received by the Committee prior to the Participant's death. The Committee shall be the sole judges of the effectiveness of the designation or change thereof. If a Participant fails to designate a beneficiary or his designated beneficiary fails to survive the Participant, the Participant's designated beneficiary shall be deemed to be his surviving spouse, if any; or if there is no surviving spouse, his surviving children, in equal shares; or if there are no surviving children, his estate. If a beneficiary dies before all payments are made under this optional form, the remaining payments shall be made in a lump sum or in installments as the Committee shall direct to the beneficiary designated by such beneficiary or, if there is no such designation, to such beneficiary's estate.

(c) Level Income Option. The benefit under a Level Income Option shall be the Actuarial Equivalent of a Monthly Single-Life Benefit based on the life of the Participant. Under the Level Income Option, the Participant shall be paid a higher benefit until age 62 or 65,

as selected by the Participant, and a reduced benefit after age 62 or 65, as applicable, to provide a more level income over the Participant's lifetime, taking into account the social security primary insurance benefits the Participant is expected to receive at the selected age. The last payment of the Level Income Option shall be made as of the first day of the month in which the death of the Participant occurs.

REQUIRED MINIMUM DISTRIBUTION ADDENDUM

Section 1. General Rules.

1.1. Precedence and Effective Date. The requirements of this Required Minimum Distribution Addendum shall apply to any distribution of a Participant's interest and will take precedence over any inconsistent provisions of this Plan. Unless otherwise specified, the provisions of this Addendum apply to calendar years beginning after December 31, 2002.

1.2. Requirements of Regulations Incorporated. All distributions required under this Appendix M shall be determined and made in accordance with Code § 401(a)(9), including the incidental death benefit requirement in Code § 401(a)(9)(G), and the regulations thereunder.

1.3. Limits on Distribution Periods. As of the first Distribution Calendar Year, distributions to a Participant if not made in a single sum may only be made over one of the following periods:

- (a) the life of the Participant,
- (b) the joint lives of the Participant and a Designated Beneficiary,
- (c) a period certain not extending beyond the joint life and last survivor expectancy of the Participant and a Designated Beneficiary.

1.4. Defined Terms. Capitalized terms not defined herein will have the same meaning assigned to those terms in the main text of the Plan or Appendix M, as applicable.

Section 1. Time and Manner of Distribution.

2.1. Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, no later than the Participant's Required Beginning Date. If a Participant continues to work past the date benefits are required to commence under this Section, his benefit shall be adjusted annually to reflect the additional benefits, if any, accrued in the immediately preceding Plan Year. Such adjustment shall be made on or before each April 1 retroactive to January 1 of the year in which the adjustment is made.

2.2. Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

- (a) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.

(b) If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, then, except as provided in the adoption agreement, distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(c) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse are required to begin, this Section 2.2, other than Section 2.2(a), will apply as if the surviving spouse were the Participant.

For purposes of this Section 2.2 and Section 5, unless Section 2.2(d) applies, distributions are considered to begin on the Participant's Required Beginning Date. If Section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under Section 2.2(a). If distributions under an annuity meeting the requirements of this Addendum commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under Section 2.2(a)), the date distributions are considered to begin is the date distributions actually commence.

2.3. Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections 3, 4 and 5 of this Addendum. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Code § 401(a)(9) and § 1.401(a)(9) of the regulations. Any part of the Participant's interest which is in the form of an individual account described in Code § 414(k) will be distributed in a manner satisfying the requirements of Code § 401(a)(9) and Treasury Regulations § 1.401(a)(9) of the regulations that apply to individual accounts.

Section 3. Determination of Amount to be Distributed Each Year

3.1. General Annuity Requirements. If the Participant's interest is to be paid in the form of annuity distributions under the Plan, payments under the annuity shall satisfy the following requirements:

- (a) the annuity distributions will be paid in periodic payments made at uniform intervals not longer than one year;

-
- (b) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Section 4 or 5;
- (c) once payments have begun over a period, the period will be changed only in accordance with Section 6 of this article;
- (d) payments will either be nonincreasing or increase only as follows:
- (1) by an annual percentage increase that does not exceed the percentage increase in an Eligible Cost-Of-Living Index for a 12-month period ending in the year during which the increase occurs or a prior year;
 - (2) by a percentage increase that occurs at specified times and does not exceed the cumulative total of annual percentage increases in an Eligible Cost-Of-Living Index since the Annuity Starting Date, or if later, the date of the most recent percentage increase;
 - (3) by a constant percentage of less than 5 percent per year, applied not less frequently than annually;
 - (4) as a result of dividend or other payments that result from Actuarial Gains, provided:
 - (i) Actuarial Gain is measured not less frequently than annually,
 - (ii) the resulting dividend or other payments are either paid no later than the year following the year for which the actuarial experience is measured or paid in the same form as the payment of the annuity over the remaining period of the annuity (beginning no later than the year following the year for which the actuarial experience is measured),
 - (iii) the Actuarial Gain taken into account is limited to Actuarial Gain from investment experience,
 - (iv) the assumed interest rate used to calculate such Actuarial Gains is not less than 3 percent, and
 - (v) the annuity payments are not increased by a constant percentage as described in (3) of this Section 3.1(d);
 - (5) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit, but only if there is no longer a survivor benefit because the beneficiary whose life was being used to determine the distribution period described in Section 4 dies or is no longer the Participant's

beneficiary pursuant to a qualified domestic relations order within the meaning of Code § 414(p):

(6) to provide a final payment upon the Participant's death not greater than the excess of the actuarial present value of the Participant's accrued benefit (within the meaning of Code § 411(a)(7)) calculated as of the Annuity Starting Date using the Applicable Interest Rate and the Applicable Mortality Table (or, if greater, the total amount of employee contributions, if any) over the total of payments before the Participant's death;

(7) to allow a beneficiary to convert the survivor portion of a joint and survivor annuity into a single sum distribution upon the Participant's death; or

(8) to pay increased benefits that result from a Plan amendment.

3.2. Amount Required to be Distributed by Required Beginning Date and Later Payment Intervals The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Section 2.2(a) or (b)) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.

3.3. Additional Accruals After First Distribution Calendar Year Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such benefit accrues.

Section 4. Requirements For Annuity Distributions That Commence During Participant's Lifetime.

4.1. Joint Life Annuities Where the Beneficiary Is Not the Participant's Spouse If the Participant's interest is being distributed in the form of a joint and survivor annuity for the joint lives of the Participant and a nonspouse beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the Participant, using the table set forth in Treasury Regulations § 1.401(a)(9)-6, Q&A 2(c)(2), in the manner described in Q&A 2(c)(1), of the regulations, to determine the applicable percentage. If the form of distribution combines a joint and survivor annuity for the joint lives of the Participant and a nonspouse beneficiary and a period certain annuity the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.

4.2. Period Certain Annuities. Unless the Participant's spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Treasury Regulations § 1.401(a)(9)-9, Q&A-2, for the calendar year that contains the Annuity Starting Date. If the Annuity Starting Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Treasury Regulations § 1.401(a)(9)-9, Q&A-2, plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Annuity Starting Date. If the Participant's spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Section 4.2, or the joint life and last survivor expectancy of the Participant and the Participant's spouse as determined under the Joint and Last Survivor Table set forth in Treasury Regulations § 1.401(a)(9)-9, Q&A-3, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the calendar year that contains the Annuity Starting Date.

Section 5. Requirements For Minimum Distributions After the Participant's Death

5.1. Death After Distributions Begin. If the Participant dies after distribution of his or her interest begins in the form of an annuity meeting the requirements of this article, the remaining portion of the Participant's interest will continue to be distributed over the remaining period over which distributions commenced.

5.2. Death Before Distributions Begin.

(a) Participant Survived by Designated Beneficiary. Except as provided in the adoption agreement, if the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Section 2.2(a) or (b), over the life of the Designated Beneficiary or over a period certain not exceeding:

(i) unless the Annuity Starting Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death: or

(ii) if the Annuity Starting Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year that contains the Annuity Starting Date.

(b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire

interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) Death of Surviving Spouse Before Distributions to Surviving Spouse Begin If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving spouse is the Participant's sole Designated Beneficiary, and the surviving spouse dies before distributions to the surviving spouse begin, this Section 5 will apply as if the surviving spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Section 2.2(a).

Section 6. Changes to Annuity Payment Period.

6.1. Permitted Changes. An annuity payment period may be changed only in association with an annuity payment increase described in Section 3.1(d) of this Addendum or in accordance with Section 6.2.

6.2. Reannuitization. An annuity payment period may be changed and the annuity payments modified in accordance with that change if the conditions in Section 6.3 are satisfied and:

(a) the modification occurs when the Participant retires or in connection with a Plan termination;

(b) the payment period prior to modification is a period certain without life contingencies; or

(c) the annuity payments after modification are paid under a qualified joint and survivor annuity over the joint lives of the Participant and a Designated Beneficiary, the Participant's spouse is the sole Designated Beneficiary, and the modification occurs in connection with the Participant becoming married to such spouse.

6.3. Conditions. The conditions in this Section 6.3 are satisfied if:

(a) the future payments after the modification satisfy the requirements of Code § 401(a)(9), Treasury Regulations § 1.401(a)(9), and this Appendix M (determined by treating the date of the change as a new Annuity Starting Date and the actuarial present value of the remaining payments prior to modification as the entire interest of the Participant);

(b) for purposes of Code § 415 and § 417, the modification is treated as a new Annuity Starting Date;

(c) after taking into account the modification, the annuity (including all past and future payments) satisfies the requirements of Code § 415 (.determined at the original Annuity Starting Date, using the interest rates and mortality tables applicable to such date); and

(d) the end point of the period certain, if any, for any modified payment period is not later than the end point available to the employee at the original Annuity Starting Date under Code § 401(a)(9) and this Appendix M.

Section 7. Payments to a Surviving Child.

7.1. Special rule. For purposes of this Addendum, payments made to a Participant's surviving child until the child reaches the age of majority (or dies if earlier) shall be treated as if such payments were made to the surviving spouse to the extent the payments become payable to the surviving spouse upon cessation of the payments to the child.

7.2. Age of majority. For purposes of this Section, a child shall be treated as having not reached the age of majority if the child has not completed a specified course of education and is under the age of 26. In addition, a child who is disabled within the meaning of Code § 72(m)(7) when the child reaches the age of majority shall be treated as having not reached the age of majority so long as the child continues to be disabled.

Section 8. Definitions.

8.1. Actuarial Gain. The difference between an amount determined using the actuarial assumptions (i.e., investment return, mortality, expense, and other similar assumptions) used to calculate the initial payments before adjustment for any increases and the amount determined under the actual experience with respect to those factors. Actuarial Gain also includes differences between the amount determined using actuarial assumptions when an annuity was purchased or commenced and such amount determined using actuarial assumptions used in calculating payments at the time the Actuarial Gain is determined.

8.2. Designated Beneficiary. The individual who is designated by the Participant (or the Participant's surviving spouse) as the beneficiary of the Participant's interest under the Plan and who is the Designated Beneficiary under Code § 401(a)(9) and Treasury Regulations § 1.401(a)(9)-4.

8.3. Distribution Calendar Year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Section 2.2.

8.4. Eligible Cost-Of-Living Index. An index described in paragraphs (b)(2), (b)(3) or (b)(4) of Treasury Regulations § 1.401(a)(9)-6, Q&A-14.

8.5. Life Expectancy. Life Expectancy as computed by use of the Single Life Table in Treasury Regulations § 1.401(a)(9)-9, Q&A-1.

8.6. Required Beginning Date. The Required Beginning Date of a Participant is April 1 of the calendar year following the later of the calendar year in which the Participant attains age 70 1/2 or the calendar year in which the Participant retires, except that benefit distributions to a 5-Percent Owner must commence by April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2.

8.7. 5-Percent Owner. A Participant is treated as a 5-Percent Owner for purposes of this Amendment if the Participant is a 5-percent Participant as defined in Code § 416 at any time during the Plan year ending with or within the calendar year in which such owner attains age 70 1/2. Once distributions have begun to a 5-Percent Owner under this Amendment, they must continue to be distributed, even if the Participant ceases to be a 5 -percent owner in a subsequent year.

Section 9. Transition Rule. F-3 and F-3A of § 1.401(a)(9)-1 of the 1987 proposed regulations, A-1 of § 1.401(a)(9)-6 of the 2001 proposed regulations, § 1.401(a)(9)-6T of the temporary regulations, or a reasonable and good faith interpretation of the requirements of Code § 401(a)(9) (as elected by the employer) apply in lieu of the requirements of Sections 3, 4 and 6 of this Addendum for purposes of determining minimum required distributions for calendar years 2003, 2004, and 2005.

UPS RETIREMENT PLAN

MAXIMUM BENEFITS ADDENDUM FOR
INDEPENDENT PILOTS ASSOCIATION

Section 1. The limitations of this Addendum shall apply in limitation years beginning on or after July 1, 2007 to benefits payable under Appendix M, except as otherwise provided herein. Capitalized terms are defined in Section 6 hereof or, if not defined in Section 6, in the main body of this Appendix M. All Section references are to Sections of this Addendum, except as otherwise provided.

Section 2. The Annual Benefit otherwise payable to a Participant under the Plan at any time shall not exceed the Maximum Permissible Benefit. If the benefit the Participant would otherwise accrue in a Limitation Year would produce an Annual Benefit in excess of the Maximum Permissible Benefit, the benefit shall be limited (or the rate of accrual reduced) to a benefit that does not exceed the Maximum Permissible Benefit.

Section 3. If the Participant is, or has ever been, a Participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the Employer or a Predecessor Employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Benefit. Where the Participant's Employer-provided benefits under all such defined benefit plans (determined as of the same age) would exceed the Maximum Permissible Benefit applicable at that age, the Employer shall limit such Participant's benefit accrual under this Plan.

Section 4. The application of the provisions of this article shall not cause the Maximum Permissible Benefit for any Participant to be less than the Participant's accrued benefit under all the defined benefit plans of the Employer or a Predecessor Employer as of the end of the last Limitation Year beginning before July 1, 2007 under provisions of the plans that were both adopted and in effect before April 5, 2007. The preceding sentence applies only if the provisions of such defined benefit plans that were both adopted and in effect before April 5, 2007 satisfied the applicable requirements of statutory provisions, regulations, and other published guidance relating to Code § 415 in effect as of the end of the last Limitation Year beginning before July 1, 2007, as described in Treasury Regulations § 1.415(a)-1(g)(4).

Section 5. The limitations of this article shall be determined and applied taking into account the rules in section 7.

Section 6. Definitions.

Section 6.1. Annual Benefit: A benefit that is payable annually in the form of a straight life annuity. Except as provided below, where a benefit is payable in a form other than a straight life annuity, the benefit shall be adjusted to an actuarially equivalent straight life annuity that begins at the same time as such other form of benefit and is payable on the first day of each month, before applying the limitations of this article. For a Participant who has or will have distributions commencing at more than one annuity starting date, the Annual Benefit shall be

determined as of each such annuity starting date (and shall satisfy the limitations of this article as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other annuity starting dates. For this purpose, the determination of whether a new starting date has occurred shall be made without regard to Treasury Regulations § 1.401(a)-20, Q&A 10(d), and with regard to Treasury Regulations § 1.415(b)-1(b)(1)(iii)(B) and (C).

No actuarial adjustment to the benefit shall be made for (a) survivor benefits payable to a surviving spouse under a qualified joint and survivor annuity to the extent such benefits would not be payable if the Participant's benefit were paid in another form; (b) benefits that are not directly related to retirement benefits (such as a qualified disability benefit, preretirement incidental death benefits, and postretirement medical benefits); or (c) the inclusion in the form of benefit of an automatic benefit increase feature, provided the form of benefit is not subject to Code § 417(e)(3) and would otherwise satisfy the limitations of this article, and the plan provides that the amount payable under the form of benefit in any Limitation Year shall not exceed the limits of this article applicable at the annuity starting date, as increased in subsequent years pursuant to Code § 415(d). For this purpose, an automatic benefit increase feature is included in a form of benefit if the form of benefit provides for automatic, periodic increases to the benefits paid in that form.

The determination of the Annual Benefit shall take into account social security supplements described in Code § 411(a)(9) and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), but shall disregard benefits attributable to employee contributions or rollover contributions.

Effective for distributions in plan years beginning after December 31, 2003, the determination of actuarial equivalence of forms of benefit other than a straight life annuity shall be made in accordance with section 6.1(a) or section 6.1(b).

(a) Benefit Forms Not Subject to Code § 417(e)(3) The straight life annuity that is actuarially equivalent to the Participant's form of benefit shall be determined under this section 6.1(a) if the form of the Participant's benefit is either (1) a nondecreasing annuity (other than a straight life annuity) payable for a period of not less than the life of the Participant (or, in the case of a qualified pre-retirement survivor annuity, the life of the surviving spouse), or (2) an annuity that decreases during the life of the Participant merely because of (a) the death of the survivor annuitant (but only if the reduction is not below 50% of the benefit payable before the death of the survivor annuitant), or (b) the cessation or reduction of Social Security supplements or qualified disability payments (as defined in Code § 401(a)(11)).

(i) Limitation Years beginning before July 1, 2007. For Limitation Years beginning before July 1, 2007, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; and (II) a 5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan for that annuity starting date.

(ii) Limitation Years beginning on or after July 1, 2007. For Limitation Years beginning on or after July 1, 2007, the actuarially equivalent straight life annuity is equal to the greater of (1) the annual amount of the straight life annuity (if any) payable to the Participant under the Plan commencing at the same annuity starting date as the Participant's form of benefit; and (2) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using a 5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan for that annuity starting date.

(b) Benefit Forms Subject to Code § 417(e)(3). The straight life annuity that is actuarially equivalent to the participant's form of benefit shall be determined under this paragraph if the form of the Participant's benefit is other than a benefit form described in section 6.1(a). In this case, the actuarially equivalent straight life annuity shall be determined as follows:

(i) Annuity Starting Date in Plan Years Beginning After 2005 If the annuity starting date of the Participant's form of benefit is in a plan year beginning after 2005, the actuarially equivalent straight life annuity is equal to the greatest of (I) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; (II) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using a 5.5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the plan; and (III) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using the applicable interest rate specified in section 1.1(f) of the Plan and the applicable mortality table specified in section 1.1(g) of the Plan, divided by 1.05.

(ii) Annuity Starting Date in Plan Years Beginning in 2004 or 2005 If the annuity starting date of the Participant's form of benefit is in a plan year beginning in 2004 or 2005, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; and (II) a 5.5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan. If the annuity starting date of the Participant's benefit is on or after the first day of the first plan year beginning in 2004 and before December 31, 2004, benefits shall be calculated in accordance with the requirements of Notice 2004-78.

Section 6.2 Compensation: For purposes of Code § 415, Compensation is defined as wages, within the meaning of Code § 3401(a), and all other payments of compensation to an employee by the Employer (in the course of the employer's trade or business) for which the Employer is required to furnish the employee a written statement under Code §§ 6041(d), 6051(a)(3), and

6052 (i.e., wages, tips and other compensation as reported on Form W-2). Compensation shall be determined without regard to any rules under Code § 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code § 3401(s)(2)).

Except as provided herein, Compensation for a Limitation Year is the Compensation actually paid or made available during such Limitation Year.

For Limitation Years beginning on or after July 1, 2007, compensation for a Limitation Year shall also include compensation paid by the later of 2¹/₂ months after an employee's severance from employment with the employer maintaining the plan or the end of the Limitation Year that includes the date of the employee's severance from employment with the employer maintaining the plan if: (a) the payment is regular compensation for services during the employee's regular working hours, or compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a severance from employment, the payments would have been paid to the employee while the employee continued in employment with the employer; (b) the payment is for unused accrued bona fide sick, vacation or other leave that the employee would have been able to use if employment had continued; or (c) the payment is received by the employee pursuant to a nonqualified unfunded deferred compensation plan and would have been paid at the same time if employment had continued, but only to the extent includible in gross income.

Any payments not described above shall not be considered compensation if paid after severance from employment, even if they are paid by the later of 2¹/₂ months after the date of severance from employment or the end of the Limitation Year that includes the date of severance from employment, except, payments to an individual who does not currently perform services for the employer by reason of qualified military service (within the meaning of Code § 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service.

Back pay, within the meaning of Code § 1.415(c)-2(g)(8), shall be treated as compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

For Limitation Years beginning after December 31, 1997, compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in Compensation but for an election under Code § 125(a), §402(e)(3), § 402(h)(1)(B), § 402(k), or § 457(b). For Limitation Years beginning after December 31, 2000, Compensation shall also include any elective amounts that are not includible in the gross income of the employee by reason of Code § 132(f)(4). For Limitation Years beginning after December 31, 2001, Compensation shall also include deemed Code § 125 compensation. Deemed Code § 125 compensation is an amount that is excludable under Code § 106 that is not available to a Participant in cash in lieu of group health coverage under a Code § 125 arrangement solely because the Participant is unable to certify that he or she has other health coverage. Amounts are deemed Code § 125 compensation only if the employer does not request or otherwise collect

information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

Section 6.3 Defined Benefit Compensation Limitation: 100 percent of a Participant's High Three-Year Average Compensation, payable in the form of a straight life annuity.

In the case of a Participant who has had a severance from employment with the Employer, the Defined Benefit Compensation Limitation applicable to the Participant in any Limitation Year beginning after the date of severance shall be automatically adjusted by multiplying the limitation applicable to the Participant in the prior Limitation Year by the annual adjustment factor under Code § 415(d) that is published in the Internal Revenue Bulletin. The adjusted compensation limit shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year.

In the case of a Participant who is rehired after a severance from employment, the Defined Benefit Compensation Limitation is the greater of 100 percent of the Participant's High Three-Year Average Compensation, as determined prior to the severance from employment, as adjusted pursuant to the preceding paragraph, if applicable; or 100 percent of the Participant's High Three-Year Average Compensation, as determined after the severance from employment under section 6.7.

Section 6.4 Defined Benefit Dollar Limitation: Effective for Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation is \$160,000, automatically adjusted under Code § 415(d), effective January 1 of each year, as published in the Internal Revenue Bulletin, and payable in the form of a straight life annuity. The new limitation shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year. The automatic annual adjustment of the Defined Benefit Dollar Limitation under Code § 415(d) shall apply to Participants who have had a separation from employment but have not yet commenced benefits. The Defined Benefit Dollar Limitation in effect for the year in which a Participant commences benefit payments shall remain in effect, and shall not be adjusted under Code § 415(d), for any benefit accrued prior to the date benefit payments commence.

Section 6.5 Employer: For purposes of this article, employer shall mean the Company (as defined in the main body of the Plan), and all members of a controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h)), all commonly controlled trades or businesses (as defined in Code § 414(c), as modified, except in the case of a brother-sister group of trades or businesses under common control, by Code § 415(h)), or affiliated service groups (as defined in Code § 414(m)) of which the adopting employer is a part, and any other entity required to be aggregated with the Employer pursuant to Code § 414(o).

Section 6.6 Formerly Affiliated Plan of the Employer: A plan that, immediately prior to the cessation of affiliation, was actually maintained by the Employer and, immediately after the cessation of affiliation, is not actually maintained by the Employer. For this purpose, cessation of affiliation means the event that causes an entity to no longer be considered the Employer, such

as the sale of a member controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h), to an unrelated corporation, or that causes a plan to not actually be maintained by the employer, such as transfer of plan sponsorship outside a controlled group.

Section 6.7 High Three-Year Average Compensation: The average compensation for the three consecutive years of service (or, if the Participant has less than three consecutive years of service, the Participant's longest consecutive period of service, including fractions of years, but not less than one year) with the Employer that produces the highest average. A year of service with the employer is the calendar year. In the case of a Participant who is rehired by the Employer after a severance from employment, the Participant's high three-year average compensation shall be calculated by excluding all years for which the Participant performs no services for and receives no compensation from the Employer (the break period) and by treating the years immediately preceding and following the break period as consecutive. A Participant's compensation for a year of service shall not include compensation in excess of the limitation under Code § 401(a)(17) that is in effect for the calendar year in which such year of service begins.

Section 6.8 Limitation Year: The calendar year. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

Section 6.9 Maximum Permissible Benefit: The lesser of the Defined Benefit Dollar Limitation or the Defined Benefit Compensation Limitation (both adjusted where required, as provided below).

(a) Adjustment for Less Than 10 Years of Participation or Service: If the Participant has less than 10 years of participation in the plan, the Defined Benefit Dollar Limitation shall be multiplied by a fraction — (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Participation in the plan, and (ii) the denominator of which is 10. In the case of a Participant who has less than ten Years of Service with the Employer, the Defined Benefit Compensation Limitation shall be multiplied by a fraction — (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Service with the Employer, and (ii) the denominator of which is 10.

(b) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62 or after Age 65 Effective for benefits commencing in Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation shall be adjusted if the annuity starting date of the Participant's benefit is before age 62 or after age 65. If the annuity starting date is before age 62, the Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(i), as modified by section 6.9(b)(iii). If the annuity starting date is after age 65, the Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(ii), as modified by section 6.9(b)(iii).

(i) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in section 1.1(g) of the Plan.

II. Limitation Years Beginning on or After July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for the annuity starting date as specified in section 1.1(g) of the Plan (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(i)II and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the immediately commencing straight life annuity under the plan at age 62, both determined without applying the limitations of this article.

III. Special Rule for Commercial Airline Pilots. Pursuant to Code § 415(d)(9), no age adjustment shall be made to the Defined Benefit Dollar Limitation for early commencement on or after age 60 for a Participant if the Participant is a commercial airline pilot, the Participant separates from service upon or after attaining age 60, and as of the time of the Participant's retirement, regulations prescribed by the Federal Aviation Administration require an individual to separate from service as a commercial airline pilot after attaining any age occurring on or after age 60 and before age 62.

(ii) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement After Age 65

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in section 1.1(g) of the Plan.

II. Limitation Years Beginning On or After July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required), with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for that annuity starting date as specified in section 1.1(g) of the Plan (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(ii)I.A and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the adjusted immediately commencing straight life annuity under the plan at age 65, both determined without applying the limitations of this article. For this purpose, the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date is the annual amount of such annuity payable to the Participant, computed disregarding the Participant's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing straight life annuity under the plan at age 65 is the annual amount of such annuity that would be payable under the plan to a hypothetical Participant who is age 65 and has the same accrued benefit as the Participant.

(iii) Notwithstanding the other requirements of this section 6.9(b), no adjustment shall be made to the Defined Benefit Dollar Limitation to reflect the probability of a Participant's death between the annuity starting date and age 62, or between age 65 and the annuity starting date, as applicable, if benefits are not forfeited upon the death of the Participant prior to the annuity starting date. To the extent benefits are forfeited upon death before the annuity starting date, such an adjustment shall be made. For this purpose, no forfeiture shall be

treated as occurring upon the Participant's death if the plan does not charge Participants for providing a qualified preretirement survivor annuity, as defined in Code § 417(c), upon the Participant's death.

(c) **Minimum benefit permitted:** Notwithstanding anything else in this section to the contrary, the benefit otherwise accrued or payable to a Participant under this plan shall be deemed not to exceed the Maximum Permissible Benefit if:

(i) the retirement benefits payable for a Limitation Year under any form of benefit with respect to such Participant under this plan and under all other defined benefit plans (without regard to whether a plan has been terminated) ever maintained by the Employer do not exceed \$10,000 multiplied by a fraction – (I) the numerator of which is the Participant's number of Years (or part thereof, but not less than one year) of Service (not to exceed 10) with the employer, and (II) the denominator of which is 10; and

(ii) the Employer (or a Predecessor Employer) has not at any time maintained a defined contribution plan in which the Participant participated (for this purpose, mandatory employee contributions under a defined benefit plan, individual medical accounts under Code § 401(h), and accounts for postretirement medical benefits established under Code § 419A(d)(1) are not considered a separate defined contribution plan).

Section 6.10 Predecessor Employer: If the Employer maintains a plan that provides a benefit which the Participant accrued while performing services for a former employer, the former employer is a predecessor employer with respect to the Participant in the plan. A former entity that antedates the Employer is also a predecessor employer with respect to a Participant if, under the facts and circumstances, the Employer constitutes a continuation of all or a portion of the trade or business of the former entity.

Section 6.11 Severance from Employment: An employee has a severance from employment when the employee ceases to be an employee of the Employer maintaining the plan. An employee does not have a severance from employment if, in connection with a change of employment, the employee's new Employer maintains the plan with respect to the employee.

Section 6.12 Year of Participation: The Participant shall be credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (1) the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, and (2) the Participant is included as a Participant under the eligibility provisions of the plan for at least one day of the accrual computation period. If these two conditions are met, the portion of a year of participation credited to the Participant shall equal the amount of benefit accrual service credited to the Participant for such accrual computation period. A Participant who is permanently and totally disabled within the meaning of Code § 415(c)(3)(C)(i) for an accrual computation period shall receive a Year of Participation with respect to that period. In addition, for a Participant to receive a Year of Participation (or part thereof) for an accrual computation period, the plan must be established no later than the last day

of such accrual computation period. In no event shall more than one Year of Participation be credited for any 12-month period.

Section 6.13 Year of Service: For purposes of section 6.7, the Participant shall be credited with a Year of Service (computed to fractional parts of a year) for each accrual computation period for which the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, taking into account only service with the employer or a predecessor employer.

Section 7. Other Rules.

Section 7.1. Benefits Under Terminated Plans If a defined benefit plan maintained by the Employer has terminated with sufficient assets for the payment of benefit liabilities of all plan Participants and a Participant in the plan has not yet commenced benefits under the plan, the benefits provided pursuant to the annuities purchased to provide the Participant's benefits under the terminated plan at each possible annuity starting date shall be taken into account in applying the limitations of this article. If there are not sufficient assets for the payment of all Participants' benefit liabilities, the benefits taken into account shall be the benefits that are actually provided to the Participant under the terminated plan.

Section 7.2. Benefits Transferred From the Plan If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant to Treasury Regulations § 1.411(d)-4, Q&A-3(c) the transferred benefits are not treated as being provided under the transferor plan (but are taken into account as benefits provided under the transferee plan). If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan that is not maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the transferred benefits are treated by the Employer's plan as if such benefits were provided under annuities purchased to provide benefits under a plan maintained by the Employer that terminated immediately prior to the transfer with sufficient assets to pay all Participants' benefit liabilities under the plan. If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan in a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the amount transferred is treated as a benefit paid from the transferor plan.

Section 7.3. Formerly Affiliated Plans of the Employer. A formerly affiliated plan of an Employer shall be treated as a plan maintained by the Employer, but the formerly affiliated plan shall be treated as if it had terminated immediately prior to the cessation of affiliation with sufficient assets to pay Participants' benefit liabilities under the plan and had purchased annuities to provide benefits.

Section 7.4. Plans of a Predecessor Employer. If the Employer maintains a defined benefit plan that provides benefits accrued by a Participant while performing services for a Predecessor Employer, the Participant's benefits under a plan maintained by the Predecessor Employer shall

be treated as provided under a plan maintained by the employer. However, for this purpose, the plan of the Predecessor Employer shall be treated as if it had terminated immediately prior to the event giving rise to the Predecessor Employer relationship with sufficient assets to pay Participants' benefit liabilities under the plan, and had purchased annuities to provide benefits; the Employer and the Predecessor Employer shall be treated as if they were a single employer immediately prior to such event and as unrelated employers immediately after the event; and if the event giving rise to the predecessor relationship is a benefit transfer, the transferred benefits shall be excluded in determining the benefits provide under the plan of the Predecessor Employer.

Section 7.5. Special Rules. The limitations of this article shall be determined and applied taking into account the rules in Treasury Regulations § 1.415(f)-1(d), (e) and (h).

Section 7.6. Aggregation with Multiemployer Plans.

(a) If the Employer maintains a multiemployer plan, as defined in Code § 414(f), and the multiemployer plan so provides, only the benefits under the multiemployer plan that are provided by the Employer shall be treated as benefits provided under a plan maintained by the Employer for purposes of this article.

(b) Effective for Limitation Years ending after December 31, 2001, a multiemployer plan shall be disregarded for purposes of applying the compensation limitation of sections 6.3 and 6.9(a) to a plan which is not a multiemployer plan.

ADDENDUM A
VOLUNTARY JOB PROTECTION
MEMORANDUM OF UNDERSTANDING
DATED APRIL 29, 2009, AS AMENDED
BENEFIT ENHANCEMENTS

This Addendum A shall apply to each Participant who has an Hour of Covered Employment on or after May 24, 2009 and on or before December 31, 2009 ("Eligible Participant")

References to Articles and Sections are to Articles and Sections of Benefit Schedule II for Independent Pilots Association of the UPS Retirement Plan Appendix M for the Independent Pilots Association unless otherwise expressly indicated.

1. In addition to the Credit for Periods of Covered Employment provided in Section 3.3, each Eligible Participant who takes a Voluntary Leave of Absence under the terms of the MOU ("VLOA") shall receive a Monthly Unit of Service Credit for each month in which he is on a VLOA. In no event shall such an Eligible Participant (a) receive more than one (1) Monthly Unit of Service Credit for the same calendar month or (b) receive more than one (1) year of Service Credit for the same calendar year.
2. An Eligible Participant who (a) has five (5) or more Vesting Years, (b) attains at least age of fifty-five (55) but does not attain Normal Retirement Age prior to August 31, 2009 and (c) retires pursuant to the MOU on or after his Early Retirement Date with benefits commencing on or after June 1, 2009 and before August 31, 2009, shall not have his Early Retirement Benefit actuarially reduced as set forth in the last sentence of Section 4.5.
3. An Eligible Participant who (a) attains Normal Retirement Age by August 1, 2009 and (b) retires pursuant to the MOU on his Normal Retirement Date on or after June 1, 2009 and on or before August 1, 2009 shall receive one (1) additional year of Service Credit.
4. An Eligible Participant who (a) has five (5) or more Vesting Years, (b) attains the age of fifty-five (55) on or after September 1, 2009 and on or before December 31, 2009 and (c) retires pursuant to the MOU on the first day of the month coincident with or next following his fifty-fifth (55th) birthday shall not have his Early Retirement Benefit actuarially reduced as set forth in the last sentence of Section 4.5.
5. An Eligible Participant who (a) attains the age of sixty (60) on or after August 1, 2009 and on or before December 31, 2009 and (b) retires pursuant to the MOU on the first day of the month coincident with or next following his sixtieth (60th) birthday shall receive one (1) additional year of Service Credit.
6. For purposes of this Addendum A, the following terms and phrases have the following meanings: The term "MOU" means the Memorandum of Understanding

between United Parcel Service Co. and the Independent Pilots Association dated April 29, 2009, as amended. The phrase “retire pursuant to the MOU” means that the Eligible Participant has fulfilled all of the conditions for entitlement to Early Retirement Benefits or Normal Retirement Benefits and has elected pursuant to Section 5.1 of the main text of Appendix M that payment of such benefits commence as of the first day of a calendar month during the applicable period described in 2 above or the date specified in 3, 4 or 5 above.

AMENDMENT NUMBER ONE
TO THE
UPS SAVINGS PLAN
AMENDMENT AND RESTATEMENT
EFFECTIVE AS OF DECEMBER 31, 2008

WHEREAS, United Parcel Service of America, Inc. (the "Company") and its affiliated corporations maintain the UPS Savings Plan (the "Plan") amended and restated effective as of December 31, 2008;

WHEREAS, the Board of Directors of the Company reserved the right in Section 14.1 of the Plan to amend, modify or change the Plan from time to time; and

WHEREAS, this amendment to the Plan is adopted to suspend the SavingsPLUS Contribution effective for pre-tax contributions and Roth contributions made after January 31, 2009.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors of United Parcel Service of America, Inc. by Section 14.1 of the UPS Savings Plan, such plan is hereby amended, effective January 31, 2009, by amending Section 4.1, SavingsPLUS Contribution, to insert a new paragraph (e) at the end of such Section, as follows:

(e) Suspension of SavingsPLUS Contributions. Effective January 31, 2009, the SavingsPLUS Contribution is suspended indefinitely. There shall be No SavingsPLUS Contribution made with respect to Pre-Tax Contributions made after January 31, 2009 and the SavingsPLUS Contribution made with respect to Pre-Tax Contributions made before February 1, 2009 shall not be based on Eligible Compensation paid on or after February 1, 2009. No SavingsPLUS Contribution will be made with respect to Catch-up Contributions recharacterized as Pre-Tax Contributions for Plan Years following 2008. The SavingsPLUS Contribution attributable to Pre-Tax Contributions made on or after January 1, 2009 and prior to February 1, 2009 shall be made to the Plan in accordance with Section 4.3.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action taken by its Board of Directors has caused this Amendment Number One to be adopted.

ATTEST:

UNITED PARCEL SERVICE OF AMERICA, INC.

/s/ Teri P. McClure
Teri P. McClure
Secretary

/s/ D. Scott Davis
Scott Davis
Chairman

Date: January 26, 2009

Date: January 26, 2009

AMENDMENT NUMBER TWO
TO THE
UPS SAVINGS PLAN
AMENDMENT AND RESTATEMENT
EFFECTIVE AS OF DECEMBER 31, 2008

WHEREAS, United Parcel Service of America, Inc. (the "Company") and its affiliated corporations maintain the UPS Savings Plan (the "Plan") amended and restated effective as of December 31, 2008;

WHEREAS, the Board of Directors of the Company reserved the right in Section 14.1 of the Plan to amend, modify or change the Plan from time to time;

WHEREAS, the Plan was amended and restated effective December 31, 2008 to merge the UPS Qualified Stock Ownership Plan ("QSOP") into the Plan and provide for other general Plan revisions; and

WHEREAS, the Board of Directors of United Parcel Service of America, Inc. desires to further amend the Plan to (i) clarify the hierarchy of investment options when distribution are made from the Plan, (ii) clarify that periodic installment payments, hardship loans and hardship withdrawals are not available from either the UPS Stock Fund or the Self-Managed Account, (iii) clarify the procedures for account distribution and deferral after termination of employment (iv) add a hardship withdrawal option due to federal tax levy, (v) revise several provisions in anticipation of a favorable determination letter application, and (vi) revise several provisions for changes in Puerto Rico law.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors of United Parcel Service of America, Inc. by Section 14.1 of the UPS Savings Plan ("Plan"), the Plan is hereby amended as follows:

1. Section 1.19, Eligible Compensation, is hereby amended, effective January 1, 2009, to insert a new paragraph at the end of such Section, as follows:

Effective January 1, 2009, a Participant receiving a differential wage payment (as described in Section 414(u)(12) of the Code) shall be treated as an employee of the Employer making the differential wage payment for purposes of this Plan and the differential wage payment shall be treated as Eligible Compensation.

2. Section 1.30, Fair Market Value, is hereby amended, effective November 9, 2009, to read as follows:

Section 1.30 Fair Market Value - means:

- (a) for any asset other than UPS Stock, the fair market value of that asset as determined by the Trustee holding the asset,
- (b) For UPS Stock

(1) For any purpose other than determining the value of UPS Stock upon liquidation, the fair market value of a share of the Class B common stock of United Parcel Service, Inc. ("Class B Stock"), as determined in accordance with the following provisions:

(i) if shares of Class B Stock are listed on any established stock exchange or a national market system, the reported closing price for a share of Class B Stock as reported by such stock exchange or national market system with respect to its normal trading session or such other source as the Board deems reliable; or

(ii) if shares of Class B Stock are not listed on any established stock exchange or a national market system, the fair market value of a share of Class B Stock as determined by the Board in its sole and absolute discretion.

(2) For purposes of determining the value of UPS Stock upon liquidation on any trading day,

(i) If the UPS Stock is liquidated at a time when shares of Class B Stock are listed on any established stock exchange or a national market system, the average sales price of the UPS Stock sold by the Plan on that day; or

(ii) If the UPS Stock is liquidated at a time when shares of Class B Stock are not listed on any established stock exchange or a national market system, the fair market value of a share of Class B Stock as determined by the Board in its sole and absolute discretion.

3. Section 3.1(d), Puerto Rico, is hereby amended, effective January 1, 2009, to read as follows:

(d) Puerto Rico. Subject to the rules and limitations in this Section 3.1(d) and in Article 5, except as otherwise provided, each Participant who is an Eligible Employee and who is treated by an Employer as a Puerto Rico tax resident ("Puerto Rico Employee") may make the following contributions:

(1) Pre-Tax Contributions through authorizing the pre-tax payroll deduction of:

(i) from 1% to 35% (in 1% increments) of his or her Puerto Rico Eligible Compensation for each pay period;

(ii) 1% to 100%, in 1% increments, of his or her half month bonus;

(iii) 1% to 100%, in 1% increments, of his or her discretionary days pay off.

Notwithstanding the forgoing, effective January 1, 2008, a Puerto Rico Participant may not contribute Pre-Tax Contributions under this

Section 3.1(d)(1) in excess of the following (as adjusted by Puerto Rico law):

| <u>Plan Year</u> | <u>Contribution Limit</u> |
|------------------|---------------------------|
| 2008 | \$ 8,000 |
| 2009 and 2010 | \$ 9,000 |
| 2011 and 2012 | \$ 10,000 |
| 2013 and beyond | \$ 12,000 |

(2) Effective August 22, 2007, each Puerto Rico Participant who will attain age 50 or older before the close of the Plan Year shall be eligible to make Catch-Up Contributions in 1% increments from 1% to 10% of his or her Puerto Rico Eligible Compensation in accordance with, and subject to the limitations of Puerto Rico law. Catch-Up Contributions shall be treated as Pre-Tax Contributions for purposes of Sections 3.5, 3.6, 3.7, 6.2 and Article VII. Catch-Up Contributions shall be credited to a Puerto Rico Participant's Pre-Tax Contribution Account unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a separate subaccount.

(3) Each Puerto Rico Employee who has an Employment Commencement Date, Reemployment Commencement Date, or otherwise becomes eligible to participate or resumes eligibility to participate on or after January 1, 2008, shall be subject to the deemed Pre-Tax Contribution election provisions of Section 3.1(b), Deemed Election based on his or her Puerto Rico Eligible Compensation.

An election under this Section 3.1 must be made via VRU or in accordance with such other procedures prescribed by the Committee or its designee. A Participant may make an election to begin making Pre-Tax Contributions on any business day that coincides with or follows the date he or she becomes a Participant. A Participant's initial payroll deduction contribution election will be effective for the first pay period beginning after his or her election is processed and will continue while the Participant is an Eligible Employee until the Participant changes his or her election in accordance with Section 3.4 or suspends his or her contributions in accordance with Section 3.5.

The Committee has the right at any time unilaterally to reduce prospectively the amount or percentage of Pre-Tax Contributions elected by any Participant who is a Highly Compensated Employee or by all Highly Compensated Employees as a group if it determines that reduction is appropriate in light of the limitations under Section 5.4.

4. Section 4.1(a)(1)(iii) is hereby amended, effective December 31, 2008, to read as follows:

(iii) For each Employer Company listed in Appendix 4.1(a)(1)(C),

(A) For each Participant with an Employment Commencement Date prior to January 1, 2008, 100% of his or her Pre-Tax Contributions that do not exceed 3% of his or her Eligible Compensation for such Plan Year, and

(B) For each Participant with an Employment Commencement Date or Reemployment Commencement Date on or after January 1, 2008 or who is transferred from ineligible to Eligible Employee status on or after January 1, 2008, 100% of his or her Pre-Tax Contributions that do not exceed 3 1/2% of his or her Eligible Compensation for such Plan Year;

5. Section 4.1(a)(1)(v) is hereby amended, effective December 31, 2008, to read as follows:

(v) For each Employer Company listed in Appendix 4.1(a)(1)(E),

(A) For each Participant with an Employment Commencement Date prior to January 1, 2008, 50% of his or her Pre-Tax Contributions that do not exceed 7% of his or her Eligible Compensation for such Plan Year, and

(B) For each Participant with an Employment Commencement Date or Reemployment Commencement Date on or after January 1, 2008 or is transferred from ineligible to Eligible Employee status on or after January 1, 2008, 100% of his or her Pre-Tax Contributions that do not exceed 3 1/2% of his or her Eligible Compensation for such Plan Year;

6. Section 5.4(d)(1), Refund of Excess Contributions, is hereby amended, effective January 1, 2009, to read as follows:

(1) Refund of Excess Contributions Excess Contributions (adjusted for investment gain or loss) will be refunded no later than the last day of the immediately following Plan Year to Highly Compensated Employees on whose behalf the Excess Contributions were made. Refunds will be made on the basis of the amount of Pre-Tax Contributions for such Plan Year starting with the Highly Compensated Employee with the greatest dollar amount of Pre-Tax Contributions, first from his or her unmatched Pre-Tax Contributions and thereafter from his or her Pre-Tax Contributions that are matched, and such refunds will be made first pro-rata from Investment Options other than the UPS Stock Fund and then, if necessary, from the UPS Stock Fund. The Excess Contributions that would otherwise be refunded will be reduced (in accordance with the Code § 401(k) regulations) by any refund made to the Highly Compensated Employee under Section 5.3. In the case of a Highly Compensated Employee who is an eligible employee in more than one plan of an Affiliate to which elective contributions are made, the amount of the Excess Contributions refunded to the Highly Compensated Employee for any Plan Year must not exceed the amount of his or her Pre-Tax Contributions actually contributed to the Plan for the Plan Year.

7. The second sentence of Sections 5.4(d)(2) and 5.5(d)(2), both entitled Determination of Investment Gain or Loss, are hereby amended, effective January 1, 2006, by deleting the phrase "effective only for the 2006 Plan Year" and inserting in its place the phrase "effective only for the 2006 and 2007 Plan Years".

8. Section 5.5(d)(1), Distribution or Forfeiture of Excess Aggregate Contributions, is hereby amended, effective January 1, 2009, to read as follows:

(1) Distribution or Forfeiture of Excess Aggregate Contributions

Notwithstanding any other provision of this Plan, Excess Aggregate Contributions made for any Plan Year (adjusted for investment gains and losses) will be distributed from the Accounts of Highly Compensated Employees no later than the last day of the immediately following Plan Year.

The Excess Aggregate Contributions will be distributed on behalf of each Highly Compensated Employee, starting with the Highly Compensated Employee who has the largest sum of those contributions and ending when the Excess Aggregate Contributions are distributed. The Excess Aggregate Contributions will first be reduced by distributing After-Tax Contributions and then by distributing SavingsPLUS Contributions and such distributions will be made first pro-rata from Investment Options other than the UPS Stock Fund and then, if necessary, from the UPS Stock Fund.

In the case of a Highly Compensated Employee who is an eligible employee in more than one plan of an Affiliate to which employee and matching contributions are made, the amount of the Excess Aggregate Contributions refunded to the Highly Compensated Employee for any Plan Year must not exceed the amount of his or her After-Tax Contributions and SavingsPLUS Contributions actually contributed to the Plan for the Plan Year.

9. Section 5.5(c)(1) is hereby amended, effective January 1, 2002, to read as follows:

(1) For Plan Years beginning on or after January 1, 2002, the multiple use test described in Treas. Reg. 1.401(m)-2 and Section 5.5(c)(2) below shall not apply.

10. The first paragraph of Section 7.2(a), Investment Election, and Section 7.3, Investment Allocation of Future Contributions, are hereby amended, by inserting the following sentence at the end of such paragraph and Section:

Notwithstanding the forgoing, contributions may not be invested directly in the Self-Managed Account; however, a Participant may direct the transfer of contributions and other amounts invested in another Investment Option into the Self-Managed Account pursuant to Section 7.4.

11. Section 7.4, Transfer of Account Balances Between Investment Options is hereby amended, effective November 9, 2009, to read as follows:

Section 7.4 Transfer of Account Balances Between Investment Options

(a) General. Each Participant may elect to transfer the balances in his or her Account among the Investment Options at any time. Such election shall be made via the VRU, or in accordance with such other procedures as shall be prescribed by the Committee or its designee from time to time, and shall be effective as soon as practicable following receipt thereof, subject to limitations, if any, of the investment vehicles selected. If a transfer authorization does not result in the allocation of one hundred percent (100%) of the Participant's Account or if it is incorrect in any

other respect, the transfer authorization will not be processed by the Committee or its designee and the prior investment allocation will continue in effect. Notwithstanding anything to the contrary in this subparagraph, amounts credited to any subaccount must remain credited to that subaccount until distribution from the Plan, unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a different subaccount.

(b) Self-Managed Account Transfers. A Participant's initial transfer into the Self-Managed Account must equal or exceed \$2,500. Any subsequent transfer into the Self-Managed Account must equal or exceed \$1,000. A transfer to the Self-Managed Account shall be permitted only if a Participant has \$500 or more invested in Investment Options, other than the Self-Managed Account, immediately following such transfer. A Participant may not transfer any portion of the Roth Contribution Account into a Self-Managed Account.

12. Section 7.10, Voting and Tender Rights of UPS Shares, is hereby amended, effective December 31, 2008, to delete the phrase "Section 7.1(b)(4)" and replace it with the phrase "Section 7.1(b)(3)".

13. Sections 9.2 through Section 9.4 are hereby amended, effective December 31, 2008, to read as follows:

Section 9.2 Request for Distribution upon Severance from Employment. A Participant who has a Severance from Employment may request a distribution of his or her Account in one of the distribution forms described in Section 9.5. Following such request, payment of the Account will begin as soon as practicable (but, generally, no earlier than thirty (30) days) after his or her request for payment.

Unless the Participant otherwise elects or the Participant's consent is not required under this Section 9.2, payment of a Participant's Account will be made no later than the sixtieth (60th) day after the close of the Plan Year in which the latest of the following events occurs:

- (a) the date on which the Participant attains age sixty-two (62), which is the normal retirement age under the Plan; or
- (b) the Participant has a Severance from Employment.

A Participant's consent to distribution is not required if the value of his or her Account is less than \$1,000, and a cash lump sum distribution will automatically be made to such a Participant as soon as practicable following his or her Severance from Employment, without his or her consent.

Section 9.3 Automatic Deferral of Payment. A Participant who does not request a distribution of his or her Account under Section 9.2 (other than a Participant whose consent is not required) will be deemed to have elected to defer payment of his or her Account (which deemed election will be in lieu of a written

election that conforms to the requirements of Code § 401(a)(14) and regulations promulgated thereunder) until the earlier of:

(a) the date of such Participant's death, or

(b) the later of (1) the date such Participant attains age seventy and one-half (70½) or (2) his or her Severance from Employment.

Such date is referred to as the "Latest Deferral Date".

If the Latest Deferral Date occurs prior to January 1, 2010, any amount remaining in the Account on the Latest Deferral Date (including amounts invested in the Self-Managed Account and the UPS Stock Fund) shall be paid in a cash lump sum as soon as administratively practicable following the Latest Deferral Date.

If the Latest Deferral Date occurs on or after January 1, 2010 as a result of the Participant's death, any amount remaining in the Account on such date (including amounts invested in the Self-Managed Account and the UPS Stock Fund) shall be paid in a cash lump sum as soon as administratively practicable following such date.

If the Latest Deferral Date occurs on or after January 1, 2010, for a reason other than the Participant's death and the Participant has not received a distribution from the Plan that will satisfy the requirements of Code § 401(a)(9) for such year, a minimum distribution that conforms to Section 9.4 shall automatically be made from the Plan.

Section 9.4 Required Beginning Date under Code § 401(a)(9).

Notwithstanding any contrary Plan provision, for Plan Years beginning on or after January 1, 1997 a Participant's Account will be paid to him or her no later than April 1 of the calendar year following (a) the calendar year in which he or she reaches age seventy and one-half (70½) or (b) if later, for a Participant who is not a five percent (5%) owner (as defined in Code § 416), the calendar year in which he or she has a Severance from Employment.

Effective January 1, 2003, distributions under Article IX shall conform to the minimum distribution requirements of Code § 401(a)(9) in accordance with Appendix 9.4 to the Plan and the Code § 401(a)(9) Regulations that were published in the Federal Register on April 17, 2002. However, the provisions of Appendix 9.4 shall not be interpreted to defer a payment that would otherwise be made under Article IX or to permit installment distributions that would not be permissible under Section 9.5(b).

Effective January 1, 2010, distributions under Article IX shall conform to the minimum distribution requirements of Code § 401(a)(9) in accordance with Appendix 9.4. The distribution required by Code § 401(a)(9) may, at the election of the Participant or Beneficiary, be the minimum distribution required by Code § 401(a)(9). If a Participant or Beneficiary is required to receive a minimum distribution for a Plan Year but such Participant or Beneficiary does not provide the information required to determine the exact amount of such distribution, the

Committee will establish procedures for completing distributions required by Code § 401(a)(9).

14. Section 9.5(b), Special Installment Option, is hereby amended, effective December 31, 2008, to read as follows:

(b) Special Installment Option. A Participant who has a Severance from Employment shall be eligible to receive all or a portion of his or her Account in the form of a monthly installment distribution only if (1) he or she has at the time monthly installment payments commence at least twenty-thousand dollars (\$20,000) credited to his or her Account, excluding any amounts that are invested in a Self-Managed Account or the UPS Stock Fund and (2) has an account established at a financial institution that can accept wire transfers of monthly installment payments. A Participant shall select in accordance with procedures prescribed by the Committee or its designee the number of monthly installment payments that he or she wants to receive; provided, however, a Participant must select a minimum of twelve (12) monthly installment payments and each monthly installment payment must be at least fifty dollars (\$50). Each monthly installment payment shall be equal to the balance credited to the Participant's Account (excluding any amounts which are invested in a Self-Managed Account or the UPS Stock Fund) as of the last business day of the month prior to the date of payment divided by the number of then remaining installment payments. Only the spouse of a Participant may, as Beneficiary, elect to continue to receive monthly installment payments following the death of the Participant; any other Beneficiary shall receive the balance of the Participant's Account in a lump sum payment in accordance with Section 9.6(d).

Notwithstanding any other provision, (i) if the amount of a monthly installment becomes less than fifty dollars (\$50), installment payments will cease immediately and no further payments will be made from the Account until the Participant (or a deceased Participant's spouse) requests a lump sum distribution and (ii) any balance remaining in a Participant's Account upon his or her seventieth (70th) birthday shall be paid out in a cash lump sum in accordance with Section 9.3.

A Participant (or spouse of a deceased Participant) who begins receiving installment payments may elect to terminate such installments at any time, and make a new election of monthly installments at any time, provided the requirements of this Section 9.5(b) are independently satisfied with respect to each such new election.

Prior to January 1, 2007, monthly installment distributions were available if, in addition to (1) and (2) above, the Participant had a Severance from Employment on or after attaining age fifty-five (55) and completing at least ten (10) years of service (as described in Section 1.39), from his or her Employment Commencement Date or most recent Reemployment Commencement Date with such employer.

15. Section 9.5, Distribution Form, is hereby amended, effective December 31, 2008, by inserting a new Section 9.5(c) Source of Distribution, at the end of such Section, to read as follows:

(c) Source of Distribution. Distributions shall be made in accordance with procedures established by the Committee and, unless otherwise requested by the Participant, shall be made first from that portion of his or her Account other than the Self-Managed Account or the UPS Stock Fund, second from the UPS Stock Fund and third from the Self-Managed Account.

16. Section 9.8(c), Hardship Withdrawals, is hereby amended, effective January 1, 2010, to read as follows:

(c) Hardship Withdrawals. Prior to age fifty-nine and one-half (59 1/2), a Participant may withdraw any portion of his or her Pre-Tax Contribution Account or, if applicable, any subaccount for pre-tax contributions under a Merged Account (other than earnings on the Pre-Tax Contributions or pre-tax contributions under a Merged Plan held in the respective subaccount) in the event of financial hardship and a hardship withdrawal will be granted if, and to the extent that, the Committee determines that the withdrawal is "necessary" to satisfy an "immediate and heavy financial need" as determined in accordance with this Section 9.8(c). Amounts invested in the UPS Stock Fund shall not be available for hardship withdrawal.

(1) Financial Need. An "immediate and heavy financial need" means one or more of the following:

- (i) expenses for unreimbursed medical care described in Code § 213(d) incurred by the Participant, the Participant's spouse or dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B)) and amounts necessary for those individuals to obtain the medical care,
- (ii) the purchase of a principal residence for the Participant (excluding mortgage payments),
- (iii) the payment of tuition and related educational fees, including room and board, for the next twelve (12) months of post secondary education for the Participant or the Participant's spouse, children or dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B)),
- (iv) the prevention of the eviction of the Participant from his or her principal residence or the foreclosure on the mortgage of the Participant's principal residence,
- (v) payment for burial or funeral expenses for the Participant's deceased parent, spouse, children or dependents (as defined in Code § 152, without regard to Code § 152(d)(1)(B)),

(vi) expenses for the repair or damage to the Participant's principal residence that qualify for the casualty deduction under Code § 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income), or

(vii) the satisfaction of a federal tax levy on the Account of the Participant under the Plan pursuant to Code § 6331.

(2) Withdrawal Necessary to Satisfy Need A hardship withdrawal will be deemed to be "necessary" to satisfy a financial need only if both of the following conditions are satisfied:

(i) The withdrawal will not exceed the amount of the need and any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the withdrawal.

(ii) The Participant has obtained all distributions and withdrawals (other than hardship withdrawals) from any employee stock ownership plan under Code § 404(k), and all nontaxable loans currently available from all plans maintained by the Affiliates. However, a Participant will not be required to obtain a loan if the effect of the loan would be to increase the amount of the need.

(3) Suspension of Contributions and Adjusted Limits If any portion of the hardship withdrawal comes from the Participant's Pre-Tax Contribution Account, the following restrictions apply to the extent applicable:

(i) For the six (6) month period following the date of the withdrawal, the Participant cannot make any Pre Tax Contributions or After Tax Contributions under this Plan or elective deferrals or employee contributions under any other plans maintained by the Employer and any of its Affiliates. For this purpose, "other plans" means all qualified and nonqualified plans of deferred compensation, including a stock option, stock purchase or other similar plan, but excluding a health or welfare benefit plan (even if it is part of a cafeteria plan described in Code § 125). With respect to a hardship withdrawal made before January 1, 2003, this provision shall be applied by substituting "12-month period" for "6-month period."

(ii) For hardship withdrawals made before January 1, 2003, for the calendar year immediately following the calendar year in which the withdrawal occurs, the Participant's Pre Tax Contributions under this Plan and elective deferrals under all other plans maintained by the Affiliates cannot exceed the dollar limitation under Code § 402(g) for that calendar year (as described in Section 5.3) reduced by the amount of the Participant's Pre Tax

Contributions and elective deferrals under those other plans for the calendar year in which the withdrawal occurs.

(4) Procedures. Any hardship withdrawal election must describe in detail the nature of the hardship and the amount needed as a result of the hardship and must include any additional information that the Committee requests consistent with this Section 9.8(c), including but not limited to, personal financial records.

(5) Special Rules related to Federal Tax Levy Hardship Withdrawals Notwithstanding any other contrary provision of this § 9.8, the following special rules shall apply only to a federal tax levy hardship withdrawal described in § 9.8(c)(1)(vii):

(i) either the Participant, the Internal Revenue Service or an individual with authority to act on behalf of the Internal Revenue Service may request such a withdrawal at any time (including anytime after the Participant reaches age fifty-nine and one-half (59 1/2),

(ii) in addition to the Pre-Tax Contribution Account available under the first paragraph of this Section 9.8, the request may also apply to all, or any portion, of a Participant's After-Tax Contribution Account, Rollover Contribution Account and Savings *PLUS* Account (including the Self-Managed Account and the UPS Stock Fund),

(iii) the hardship distribution shall be made directly to the U. S. Treasury or other entity specifically identified in the federal tax levy.

Finally, the hardship withdrawal rules in this Section 9.8(c)(1)(i) through (vi) are intended to satisfy the safe harbor requirements in the Code § 401(k) regulations, and the Committee has the power to implement written procedures to modify these rules and to adopt additional rules to the extent permissible under those regulations.

17. Section 9.13, Eligible Rollover Distribution, is hereby amended, effective January 1, 2008, to read as follows:

Section 9.13 Eligible Rollover Distribution.

(a) General. Notwithstanding any provision of this Plan to the contrary that would otherwise limit a Distributee's election under this Section 9.13, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution of two hundred dollars (\$200) or more transferred to an Eligible Retirement Plan or to an individual retirement plan described in Code § 408A (a "Roth IRA") specified by the Distributee in a Direct Rollover.

(b) Definitions.

(1) Eligible Rollover Distribution. An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include:

(i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's Beneficiary, or for a specified period of ten (10) years or more;

(ii) any distribution to the extent that distribution is required under Code § 401(a)(9);

(iii) any distribution of Pre-Tax Contributions or pre-tax contributions under a Merged Account pursuant to Section 9.8(c) on account of hardship; and

(iv) effective for distributions made before January 1, 2002, the portion of any distribution that is not includible in gross income.

Effective for distributions made after December 31, 2001, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion which consists of after-tax contributions may be paid only to an individual retirement annuity described in Code § 408(a) or Code § 408(b), to a Roth IRA or to a qualified defined contribution plan described in Code § 401(a) or 403(a) or an annuity contract described in Code § 403(b) that agrees to account separately for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such portion which is not so includible.

Effective for Plan Years beginning on or after January 1, 2007, after-tax employee contributions may be paid to an annuity contract described in Code § 403(b) that agrees to account separately for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such portion which is not so includible.

(2) Eligible Retirement Plan. An Eligible Retirement Plan is an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), an annuity plan described in Code § 403(a), a qualified trust described in Code § 401(a) and, effective for distributions made after December 31, 2001, an annuity contract described in Code § 403(b) or an eligible plan under Code §

457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan in order to be an Eligible Retirement Plan. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p).

(3) Distributee. A Distributee includes the Participant, the Participant's surviving spouse and the Participant's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p).

(4) Direct Rollover. A Direct Rollover is a payment by this Plan to the Eligible Retirement Plan specified by the Distributee.

(5) Additional Limitations. Notwithstanding the foregoing,

(i) if the Distributee elects to have his or her Eligible Rollover Distribution paid in part to him or her and paid in part as a Direct Rollover, the Direct Rollover must be in an amount of two hundred dollars (\$200) or more; and

(ii) a Direct Rollover to more than one Eligible Retirement Plan will not be permitted.

(6) Nonspouse Beneficiary Direct Rollover. Effective January 1, 2007, a Beneficiary who is not (i) the Participant's surviving spouse or (ii) the Participant's spouse or former spouse designated as an alternate payee under a qualified domestic relations order, as defined in Code § 414(p), may elect, at the time and in the manner prescribed by the Committee to have any portion of his or her distribution from the Plan paid in a direct trustee-to-trustee transfer to an individual retirement account described in Code § 408(a) or an individual retirement annuity described in Code § 408(b), or effective January 1, 2008, a Roth IRA, each of which is established for the purpose of receiving such distribution on behalf of such Beneficiary and is treated as an inherited individual retirement account or individual retirement annuity (within the meaning of Code § 408(d)(3)(C)) for purposes of Code § 402(e)(11) (each, an "Inherited IRA"). The minimum distribution rules of Code § 401(a)(9) as described in Section 9.4 shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

18. The first sentence of Section 10.1(a), Hardship Loans, is hereby amended, effective December 31, 2008, to read as follows:

Hardship loans from a person's Account under this Plan are available in accordance with this Section 10.1; provided, however, that the portion of a person's Account allocated to his or her Savings *PLUS* Account, Roth

Contributions Account or invested in the Self-Managed Account or UPS Stock Fund shall not be available for hardship loans.

19. Section 10.1(c)(3)(i) is hereby amended, effective December 31, 2008, to read as follows:

(i) Fifty percent (50%) of that person's vested portion of his or her Account (excluding any amounts in such person's Savings *PLUS* Account, Roth Contribution Account, Self-Managed Account, UPS Stock Fund and subject to any special consent requirements under Appendix 14.3) at the time the loan is made, or:

20. Section 10.1(c)(6)(i) is hereby amended, effective December 31, 2008, to read as follows:

(i) Any loan made to a Participant or Beneficiary under this Section 10.1 shall be secured by an amount equal to the lesser of (A) the outstanding principal and interest due under such loan or (B) fifty percent (50%) of his or her total vested interest in his or her Account (excluding any amounts in such person's Savings *PLUS* Account or Roth Contribution Account).

21. Article XII, Expenses, is hereby amended, to read as follows:

All reasonable and proper expenses of the Plan and the Trust Funds (within the meaning of ERISA § 403(c)(1) and § 404(a)(1)(A)), including (1) the compensation of each Investment Manager and the Trustees, (2) the expenses related to the Plan's administration and (3) any taxes that may be levied or assessed against the Trustees on account of the Trust Funds will be paid from the Trust Funds, unless the payment of the expense would constitute a "prohibited transaction" within the meaning of ERISA § 406 or Code § 4975. Charges for processing distributions, rollovers and loans ("Distribution Expenses") will be allocated directly to the Account of each Participant or Beneficiary who has requested a distribution, rollover or loan. The charges for Distribution Expenses shall be established by the Committee from time to time and may vary depending on the type of distribution, rollover or loan requested by the Participant or Beneficiary. All expenses (other than Distribution Expenses) shall be paid from forfeitures or to the extent forfeitures are insufficient, shall be allocated among all of the Accounts on a per capita basis. The Employer Companies, however, will have the right to pay all or any part of any expenses and to be reimbursed from the Trust Funds for any expenses paid by them that are properly payable from the Trust Funds. Any expenses that cannot be paid from the Trust Funds will be paid by the Employer Companies.

22. Section 15.9, USERRA, is hereby amended, effective January 1, 2007, by inserting a new paragraph at the end of such Section to read as follows:

Effective January 1, 2007, in the case of a Participant who dies while performing qualified military service (as defined in Section 414(u) of the Code), his or her Beneficiary shall be entitled to any additional benefits (other than benefit accruals

relating to the period of qualified military service) provided under the Plan had the Participant resumed and then terminated employment on account of death.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action taken by its Board of Directors has caused this Amendment Number Two to be adopted.

ATTEST:

UNITED PARCEL SERVICE OF AMERICA, INC.

/s/ Teri P. McClure

Teri P. McClure
Secretary

Date: December 18, 2009

/s/ D. Scott Davis

Scott Davis
Chairman

Date: December 18, 2009

**AMENDMENT NUMBER 1
TO THE
UPS EXCESS COORDINATING BENEFIT PLAN**

WHEREAS, United Parcel Service of America, Inc. ("UPS") established this UPS Excess Coordinating Benefit Plan ("Plan") to provide to certain highly compensated and management employees of UPS or its affiliated companies who are participants in the Retirement Plan those retirement benefits cannot be paid from the Retirement Plan as a result of the limitations imposed by Sections 401(a)(17) and 415 of the Code;

WHEREAS, UPS amended and restated this Plan effective as of January 1, 2009 to satisfy Section 409A of the Code;

WHEREAS, Section 7.1 of the Plan provides that UPS reserves the right to amend the Plan; and

WHEREAS, UPS desires to amend the Plan so that the normal form of benefit payment for a Participant with a Domestic Partner is the same as that for a married Participant.

NOW THEREFORE, BE IT RESOLVED that Section 3.3(a)(1) of the Plan be amended effective as of January 1, 2009 by deleting such section in its entirety and replacing it with a new Section 3.3(a)(1) to read as follows:

Annuity Form. Subject to Section 3.3(a)(2), the Coordinating Final Average Pay Benefit shall be paid in a Single Life Only Annuity if the Participant is not married on the date as of which benefits commence, in a Qualified Joint and Survivor Annuity if the Participant is married on the date as of which benefits commence, and in a 50% Joint and Survivor Annuity with the Participant's Domestic Partner if the Participant has a Domestic Partner on the date as of which benefits commence. Alternatively, a Participant may elect to receive a Single Life Only Annuity, a Joint and Survivor Annuity or a Single Life Annuity with 120-Month Guarantee; provided such election is made on or before the Participant's Separation from Service. The form of annuity shall be irrevocable after the Participant's Separation from Service.

IN WITNESS WHEREOF, United Parcel Service of America, Inc. based upon action by the Board of Directors has caused this Amendment No. 1 to be executed this 2nd day of June, 2009.

ATTEST:

UNITED PARCEL SERVICE OF AMERICA, INC.

By: /s/ Teri P. McClure
Teri P. McClure

By: /s/ D. Scott Davis
D. Scott Davis

**UNITED PARCEL SERVICE, INC.
DISCOUNTED EMPLOYEE STOCK PURCHASE PLAN
AS AMENDED AND RESTATED
EFFECTIVE OCTOBER 1, 2002**

AMENDMENT NUMBER TWO

Pursuant to authority granted to the Board of Directors of United Parcel Service, Inc., the Executive Committee of the Board acting on behalf of the Board has adopted the following amendments to the United Parcel Service, Inc. Discounted Employee Stock Purchase Plan (the "Plan") pursuant to Section 15 thereof, to reduce the discount from 10% to 5% and to change the date for determining the amount of the discount to the last day of the Purchase Period effective for shares purchased in Purchase Periods beginning on or after April 1, 2009:

1. Section 3.6, Option Price, is amended to read as follows:
Option Price means for each Purchase Period 95% of the Stock Sales Price on the last day of such Purchase Period.
2. Section 9(a), General Rule, is amended to substitute "95%" for "90%".
3. Except as otherwise expressly amended herein, the terms and conditions of the Plan as in effect immediately before February 2, 2009 shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned certifies that United Parcel Service, Inc., based upon action by the Executive Committee of the Board dated March 27, 2009, has caused this Plan Amendment Number Two to be executed.

UNITED PARCEL SERVICE, INC.

/s/ Teri P. McClure

Teri P. McClure

Senior Vice President, General Counsel

and Corporate Secretary

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
Ratio of Earnings to Fixed Charges

| | Year Ended December 31, | | | | |
|---|-------------------------|----------------|--------------|----------------|----------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Earnings: | | | | | |
| Earnings before income taxes and accounting changes | \$3,366 | \$5,015 | \$431 | \$6,510 | \$6,075 |
| Add: Interest expense | 445 | 442 | 246 | 211 | 172 |
| Add: Interest factor in rental expense | 207 | 278 | 296 | 304 | 281 |
| Total earnings | <u>\$4,018</u> | <u>\$5,735</u> | <u>\$973</u> | <u>\$7,025</u> | <u>\$6,528</u> |
| Fixed charges: | | | | | |
| Interest expense | \$ 445 | \$ 442 | \$246 | \$ 211 | \$ 172 |
| Interest capitalized | 37 | 48 | 67 | 48 | 32 |
| Interest factor in rental expense | 207 | 278 | 296 | 304 | 281 |
| Total fixed charges | <u>\$ 689</u> | <u>\$ 768</u> | <u>\$609</u> | <u>\$ 563</u> | <u>\$ 485</u> |
| Ratio of earnings to fixed charges | <u>5.8</u> | <u>7.5</u> | <u>1.6</u> | <u>12.5</u> | <u>13.5</u> |

SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.
As of December 31, 2009

| Name of Subsidiary | Jurisdiction of Organization |
|--|------------------------------|
| BT Property Holdings, Inc. | Delaware |
| BT Realty II, Inc. | Maryland |
| BT Realty, Inc. | Maryland |
| C.C. & E.I., L.L.C. | Delaware |
| United Parcel Service Co. | Delaware |
| United Parcel Service General Services Co. | Delaware |
| UPS Limited | United Kingdom |
| United Parcel Service of America, Inc. | Delaware |
| United Parcel Service, Inc. | Ohio |
| UPINSCO, Inc. | Virgin Islands |
| United Parcel Service Canada Ltd. | Canada |
| UPS Capital Business Credit | Connecticut |
| UPS Capital Corporation | Delaware |
| United Parcel Service Deutschland Inc. | Delaware |
| UPS Ground Freight, Inc. | Virginia |
| UPS Supply Chain Solutions, Inc. | Delaware |
| UPS Worldwide Forwarding, Inc. | Delaware |
| UPICO Corporation | Delaware |
| UPS Europe SA | Belgium |
| UPS SCS, Inc. (Canada) | Canada |
| UPS SCS GmbH & Co OHG | Germany |

The names of particular subsidiaries are omitted pursuant to Item 601(b)(21)(ii) of Regulation S-K.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-147737, 333-08369-01, 333-108272, and 333-11232 of United Parcel Service, Inc. on Form S-3 and in Registration Statement Nos. 333-93213, 333-34054, 333-61112, and 333-70708 of United Parcel Service, Inc. on Form S-8 of our reports dated February 26, 2010, relating to the consolidated financial statements of United Parcel Service, Inc. and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 10-K of United Parcel Service, Inc. for the year ended December 31, 2009.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 26, 2010

CERTIFICATE OF CHIEF EXECUTIVE OFFICER

I, D. Scott Davis, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ D. SCOTT DAVIS

D. Scott Davis

Chairman and Chief Executive Officer

February 26, 2010

CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, Kurt P. Kuehn, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ KURT P. KUEHN

Kurt P. Kuehn
Chief Financial Officer

February 26, 2010

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman and Chief Executive Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ D. SCOTT DAVIS

D. Scott Davis
Chairman and Chief Executive Officer

February 26, 2010

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Financial Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ KURT P. KUEHN

Kurt P. Kuehn
Chief Financial Officer

February 26, 2010